

JAVER: 2Q19 RESULTS

Slow Performance in 2Q19 Due to Lower Subsidies; We Continue with a HOLD Recommendation

HOLD	
2019E Target Price (MXN\$)	\$ 18.50
Current Price (MXN\$)	\$ 16.85
Max / Min (L12M)	\$ 16.15 - 17.00
Expected Dividend (MXN\$)	\$ 0.00
Expected Return	9.8%
Market Cap (MXN\$ Mn)	4,691
Enterprise Value (MXN\$ Mn)	7,337
Outstanding Shares (Mn)	278.4
Float	34.1%
ADTV (MXN\$ Mn)	\$ 0.04

Opinion and Recommendation:

- JAVER presented a slow quarter as widely anticipated, as a result of: i) the elimination of subsidies that affected the volume of the social interest segment; and ii) an unfavorable comparison base since 10 developments with a volume of 2,000 units were sold out during the second half of 2018. However, the company was able to partially offset these effects by focusing more on the middle and residential segments which resulted in a higher average price and a stronger gross margin. JAVER generated positive free cash flow in the current quarter. After this report, we continue with our HOLD recommendation and target price of MXN\$18.50.**
- On the other hand, JAVER mentioned that will likely refinance its Senior Notes due 2021 during the next few weeks. We believe that this refinancing, and the fact that the company confirmed its guidance for the current year, which implies a significant improvement during the second half of the year, could be medium-term catalysts for the stock price.**



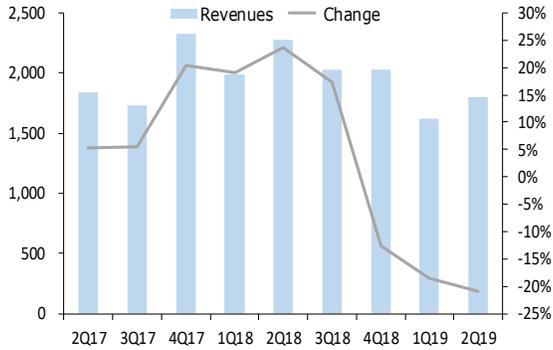
2Q19 Results

JAVER recorded revenues of MXN\$1.8 billion in 2Q19, with a 20.9% YoY reduction. Volume fell 29.5% YoY to 3,755 units mainly due to the lack of subsidies in the social interest segment. This led to a 15.5% YoY lower volume in that segment. The company did not sell any subsidized units during the current quarter, compared to 40.4% of total volume in 2Q18. Meanwhile, units sold in the middle segment registered an annual drop of 34.7%. This was partially offset by a 22.0% increase in the residential segment.

The average price was MXN\$476.8 thousand in 2Q19, with a solid 11.6% YoY growth as a result of an improved sales mix since JAVER focused more on the middle and residential segments.

INFONAVIT remained the main source of financing with 93.0% of the total units sold by JAVER, compared with 94.7% in the same period of the previous year. The banks had a greater participation because their financing focuses more on the residential segment.

JAVER: Quarterly Results



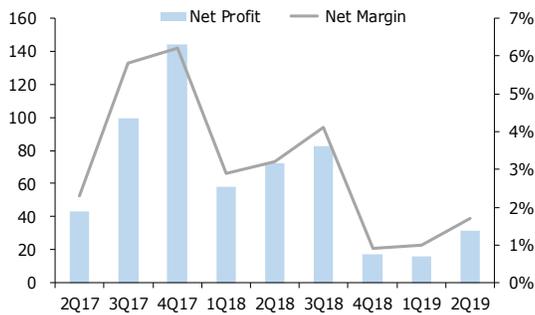
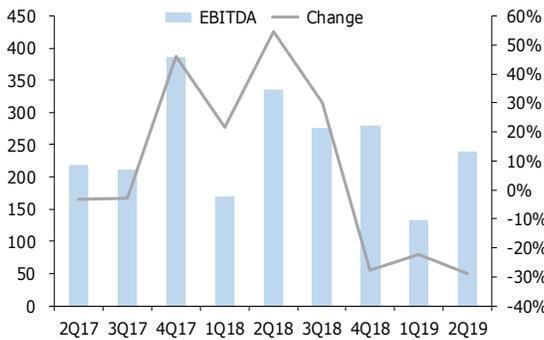
JAVER's gross margin expanded 1.4 percentage points to 27.7% due to the company's stronger revenue mix and cost reduction efforts. However, the EBITDA margin was 13.3% in 2Q19, compared with 14.8% in 2Q18. For this reason, the EBITDA decreased 28.9% YoY to MXN\$239 million.

Net income was MXN\$32 million in the current quarter, from a MXN\$73 million net profit in 2Q18. This was mainly due to the lower volume.

JAVER presented a positive MXN\$62 million free cash flow in 2Q19, which we consider as favorable considering the volume decline. In addition, this figure compared favorably against the negative MXN\$55 million free cash flow of 1Q19. The working capital cycle was 296 days in 2Q19, compared to 222 days in 2Q18 as a result of the investments in the development of the territorial reserve.

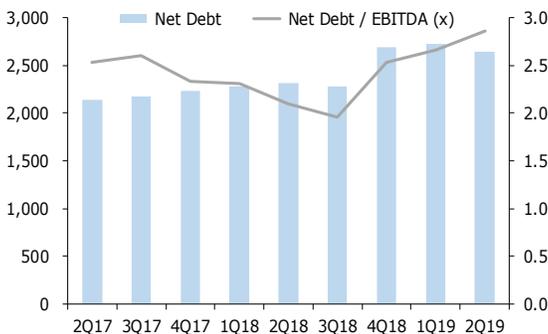
The net debt to EBITDA ratio was 2.77x in 2Q19, compared with 2.48x in 1Q19.

In 2Q19, JAVER launched 7 new projects, which included its incursion into the State of Guanajuato. In addition, the company expects to launch another 8 new projects during the second half of the year, of which 2 will be in the middle segment and 6 in the residential one.



The company reiterated its guidance of the year, which includes stable sales with an increase in EBITDA of between 2.5-5.0% and positive free cash flow. This implies that the operating performance could improve quite significantly during the second half of the year, which we believe is favorable news.

JAVER mentioned that a financial institution is working on a program to finance the sector of the population which is not affiliated to IMSS or INFONAVIT, with the support of several companies in the sector.



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