

# QUALITAS: 2Q19 RESULTS

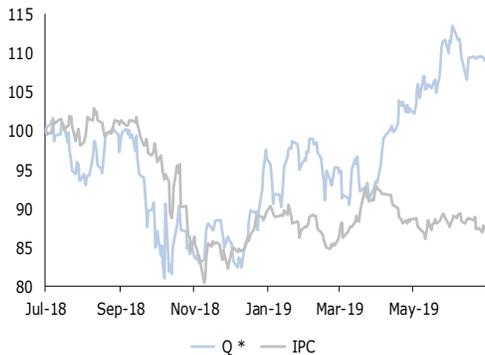
## Excellent 2Q19 Results Which Exceeded our Expectations; Upgrading to BUY

### BUY

2019E Target Price (MXN\$)	\$ 63.00
Current Price (MXN\$)	\$ 53.79
Max / Min (L12M)	\$ 39.75 - 56.21
Expected Dividend (MXN\$)	\$ 0.00
Expected Return	17.1%
Market Cap (MXN\$ Mn)	22,861
Outstanding Shares (Mn)	425.0
Float	43.1%
ADTV (MXN\$ Mn)	\$ 21.10

### Opinion and Recommendation:

- **Quálitas reported excellent 2Q19 results which greatly exceeded our expectations. Despite the reduction of new cars sales in Mexico, the company recorded higher premiums issued and earned. In addition, the cost control initiatives were very successful, aided in part by lower robberies and higher recoveries. L12M ROE was 38.6%, one of the highest in the insurance sector internationally.**
- **After this report, we are revising upwards our forecasts, and raising our recommendation to BUY and our 2019E target price to MXN\$63.0 per share. Quálitas' shares trade at a P/BV of 2.1x and an 2019E P/E of only 5.1x, which we find very attractive taking into account the company's solid fundamentals and outlook.**



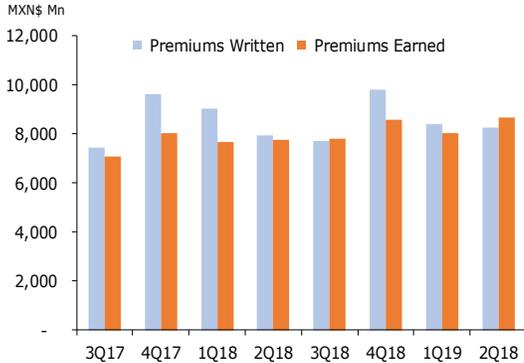
### 2Q19 Results

Quálitas' premiums issued reached MXN\$8,256 million in 2Q19, which represented a 4.1% YoY increase. Premiums earned were MXN\$8,642 million, up 11.6% YoY. The favorable performance of premiums issued was mainly due to the fact that the number of insured units exceeded 4.1 million in 2Q19, with a 4.5% rise compared to 2Q18. Worth nothing that all segments grew, led by El Salvador (+ 31.5% YoY), tourists (+ 17.3% YoY), motorcycles (+ 16.7% YoY) and the US (+ 12.5% YoY). In addition, the performance of the car and truck segments accelerated with respect to 1Q19.

By business line, premiums issued rose 18.0% YoY in individual and 21.6% YoY in fleets. This was partially offset by a 16.3% YoY fall in financial institutions as a consequence of Quálitas' strategy of focusing on the most profitable channels. The company expects the contraction in financial institutions to start stabilizing during the coming quarters. Annual policies accounted for 87.5% in 2Q19, from 64% in 2Q17.

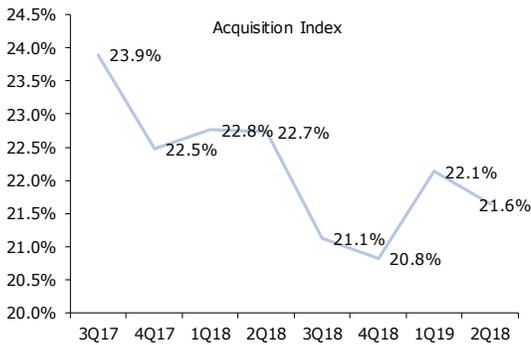
The acquisition cost fell 0.6% annually due mainly to Quálitas' lower participation in the financial institutions segment. The acquisition index improved to 21.6% in 2Q19, compared to 22.7% in 2Q18.

## QUÁLITAS: Quarterly Results



The claims cost decreased 1.9% YoY due to a lower number of events. Vehicle theft decreased 5.7% at the industry level and 15.7% at Quálitas, while the company's recoveries were 5% higher. The claims index was 59.3% in 2Q19, the lowest in the last two years. It included a non-recurring benefit of MXN\$100 million derived from a reduction in the minimum capital required.

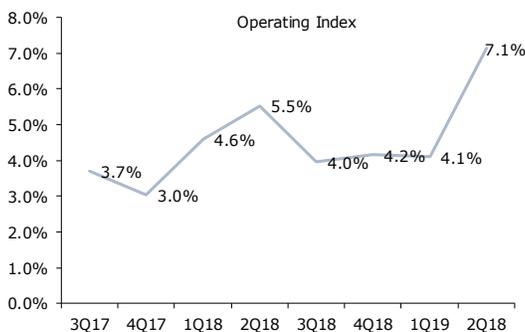
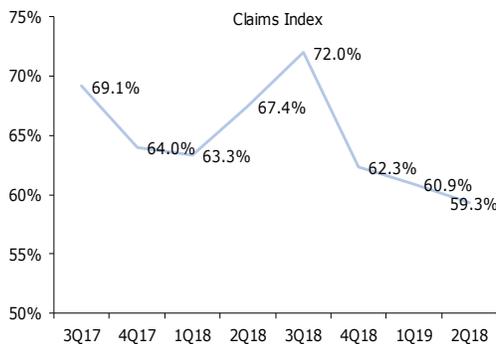
However, operating expenses advanced 34.4% YoY due to an increase in the profit sharing as well as fees paid to regional directors linked to the issuance and collection of premiums. The operating index was 7.1% in the current quarter, compared with 5.5% in 2Q18.



The combined index improved to 88.1% in 2Q19, from 95.7% in 2Q18. The operating result was up 285.0% YoY to MXN\$1,158 million in 2Q19.

The comprehensive financing result was 2.5% higher YoY. The return on investment was 6.7% in the current quarter. As a result of the excellent performance of accrued premiums and the improved cost structure, the company recorded a net profit of MXN\$1,303 million in 2Q19, up 105.2% YoY. The L12M ROE was 38.6%, one of the highest in the international insurance sector.

The solvency margin was 313% with respect to the regulatory capital requirement.



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