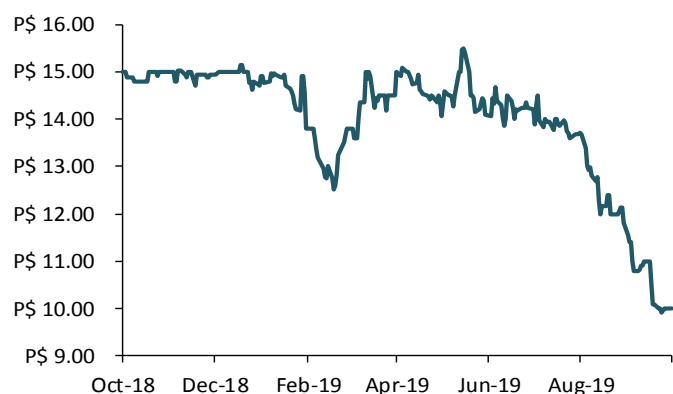


Corpovael, S.A.B. de C.V. (BMV: CADU A)

Slow 3Q19 Results, Slightly Above Our Expectations



RECOMMENDATION	BUY
2019E Target Price (MXN\$)	\$ 13.00
Current Price (MXN\$)	\$ 10.09
Expected Dividend (MXN\$)	\$ 0.00
Potential Return	28.8%
Market Cap (MXN\$ Mn)	3,420
EV/ EBITDA 2019E	5.5x
P/E 2019E	4.8x
P/BV (Actual)	0.7x

Opinion and Recommendation

CADU reported a slow 3Q19, although slightly above our projections, with declines in revenues, EBITDA and net income, which resulted from a lower demand for housing of medium and residential interest. The company maintained its guidance for the year.

We continue with a BUY recommendation as we expect the company's operating performance to improve during the coming quarters. In addition, the valuation of CADU's shares seems very attractive to us with a forward EV/EBITDA of 5.5x and a projected P/E of 4.8x, and a P/BV of only 0.7x. CADU remains one of the cheapest companies in the Mexican stock market.

3Q19 Results

CADU's total revenues decreased 12.5% YoY in 3Q19, reaching MXN\$1,170 million. This was largely due to a 10.3% reduction in YoY in housing income to MXN\$1,060 million, which included an 18.1% YoY fall in medium interest and a 48.9% YoY decline in residential housing given a higher caution of potential customers to acquire units of more than MXN\$3 million. This was offset by a slight 2.5% YoY rise in social interest, which benefited from the new Infonavit program focused on a higher amount of credit for lower income beneficiaries. The "other" revenues were down 29.5% YoY due to a lower amount of construction revenues.

October 24, 2019

Martin Lara
 +5255-6413-8563
 martin.lara@miranda-gr.com

CADU's average price was MXN\$523 thousand in 3Q19, 10.1% below the previous year. The residential segment experienced a 5.1% YoY decrease, while the middle segment advanced 14.6% YoY and the social interest segment was up 1.1% YoY. Total volume remained virtually unchanged at 2,029 units.

The gross margin improved to 33.2% in 3Q19, from 32.5% in 3Q18, thanks to the significant decrease in construction sales, which are less profitable, and higher land sales. However, operating expenses represented 11.5% of revenues in the current quarter, from 9.6% during the previous year, as a result of higher commissions at the "Allure" and "Blume" projects, as well as promotion and publicity expenses. EBITDA margin improved slightly to 25.4% in 3Q19. As a result, CADU's EBITDA contracted 12.1% YoY, closing at MXN\$298 million.

The company presented a net profit of MXN\$214 million with an 11.0% YoY fall due in large part to the lower operating performance.

The working capital cycle reached 877 days in 3Q19, from 697 days in 3Q18. Despite this, the company generated a positive MXN\$30 million free cash flow in 3Q19, compared to a negative figure of MXN\$103 million in 3Q18. The net debt to EBITDA ratio was 2.95x in 3Q19, from 2.13x in 3Q18.

(Figures in Millions of MXN\$)

INCOME STATEMENT	3Q19	3Q18	Change	Acum 2019	Acum 2018	Change
Revenues	1,170	1,337	-12%	3,404	3,399	0%
Operating Profit	254	294	-14%	718	713	1%
<i>Operating Margin</i>	<i>21.7%</i>	<i>22.0%</i>		<i>21.1%</i>	<i>21.0%</i>	
EBITDA	299	340	-12%	840	824	2%
EBITDA Margin	25.6%	25.4%		24.7%	24.2%	
Financial Gains	3	5	-37%	14	24	-41%
Financial Cost	-7	-7	-1%	-23	-22	7%
Part. in Affiliated Companies	0	0	N.A.	0	0	N.A.
Pre-Tax Profit	250	291	-14%	709	716	-1%
Income Tax & Profit Sharing	-36	-51	-30%	-90	-133	-33%
<i>Tax & Profit Sharing Rate</i>	<i>14.4%</i>	<i>17.6%</i>		<i>12.7%</i>	<i>18.6%</i>	
Profit Before Minorities	214	240	-11%	619	582	6%
Minority Interest	-11	-15	-24%	-34	-33	3%
Net Profit	203	225	-10%	585	549	7%
EPS	P\$ 0.59	P\$ 0.66	-10%	P\$ 1.71	P\$ 1.61	7%
BALANCE GENERAL	3Q19	3Q18	Change	Acum 2019	Acum 2018	Change
TOTAL ASSETS	9,563	8,618	11%	9,563	8,618	11%
Current Assets	9,423	8,536	10%	9,423	8,536	10%
Cash & Temp. Inv.	376	788	-52%	376	788	-52%
Accounts Receivable	396	551	-28%	396	551	-28%
Inventories	7,573	6,548	16%	7,573	6,548	16%
LT Assets	139	83	68%	139	83	68%
P, P & E	84	83	1%	84	83	1%
Intangible Assets	0	0	N.A.	0	0	N.A.
Deffered Tax Assets	0	0	N.A.	0	0	N.A.
Other LT Assets	55	0	N.A.	55	0	N.A.
TOTAL LIABILITIES	4,659	4,254	10%	4,659	4,254	10%
ST Liabilities	1,342	1,058	27%	1,342	1,058	27%
LT Liabilities	3,317	3,196	4%	3,317	3,196	4%
TOTAL CAPITAL	4,904	4,365	12%	4,904	4,365	12%
Stockholder's Equity	4,766	4,277	11%	4,766	4,277	11%
Minority Interest	138	88	57%	138	88	57%
TOTAL DEBT	3,702	3,171	17%	3,702	3,171	17%
NET DEBT	3,326	2,383	40%	3,326	2,383	40%
Net Debt / EBITDA (x)	3.0x	2.1x	82%	3.0x	2.1x	82%
ESTADO DE FLUJO DE EFVO.	3Q19	3Q18	Change	Acum 2019	Acum 2018	Change
PRE-TAX PROFIT	214	240	-11%	619	582	6%
Pre-Tax Cash Flow	236	189	25%	766	802	-4%
Working Capital Changes	-208	-297	-30%	-802	-817	-2%
Operating Cash Flow	28	-108	-126%	-36	-15	135%
Investment Cash Flow	3	5	-37%	14	21	-33%
Financing Cash Flow	-257	108	-338%	-277	16	-1846%
Net Incr. (Decr.) in Cash & Temp. Inv.	-226	5	-4700%	-299	22	-1455%
FX Gain (Loss) In Cash and Temp. Inv.	0	0	N.A.	0	0	N.A.
Beg. of Period Cash and Temp. Inv.	602	783	-23%	602	783	-23%
End of Period Cash and Temp. Inv.	376	788	-52%	376	788	-52%

Source: BMV

Disclaimer

The current report was prepared by Miranda Global Research ("Miranda GR") for CI, Casa de Bolsa, S.A. de C.V. The information is presented in summarized form and is not meant to be complete. There are no declarations or guarantees, expressed or implicit, in respect to the accuracy, impartiality or integrity of the information.

Miranda GR, in accordance to applicable legislation, has made sure that the presented personalized recommendation is reasonable to the client, as it has verified congruency between the client's profile and the profile of the financial product. Under no circumstance should it be understood that the fulfillment of the previously mentioned recommendation, guarantees the result or the success of the proposed strategies in the presented document.

The information included in this presentation was obtained from public and/or private sources. Projections or previsions included in this presentation, are a generalized recommendation and are based on subjective assumptions and estimations about events and circumstances that have not yet happened and are subjected to significant variations. Therefore, it is not possible to guarantee that any of the results included in the current report will happen in the future, in other words, it does not guarantee the result or the success of the posed strategies.

This report has been prepared solely with informational purposes. No declarations are made in respects to precision, sufficiency, veracity or accuracy of the information and opinions hereby included. Miranda GR will not answer (either because of negligence or for any other reason) for any damage or detriment derived or related to the use of this report or its content, or any connection to the report. Miranda GR is not responsible for the use or association with this report, including but not limited to, any declaration, expressed or implicit or guarantees or omissions included in this information.

This report is based on facts and/or events that have happened up to this date, consequently any future facts and/or events can impair the conclusions hereby expressed. Miranda GR does not assume any responsibility to update, review, rectify or invalidate this report based on any future occurrence.

The opinions related to this report eventually expressed by Miranda GR, should be considered only as suggestions/recommendations to better operate various topics related to the presentation.

This report and its contents are property of Miranda GR and cannot be reproduced or broadcast in part or in its entirety without the previous written consent of Miranda GR.

Miranda Global Research receives fees from Corpovael, S.A.B. de C.V. for independent analyst services.