

JAVER: 3Q19 RESULTS

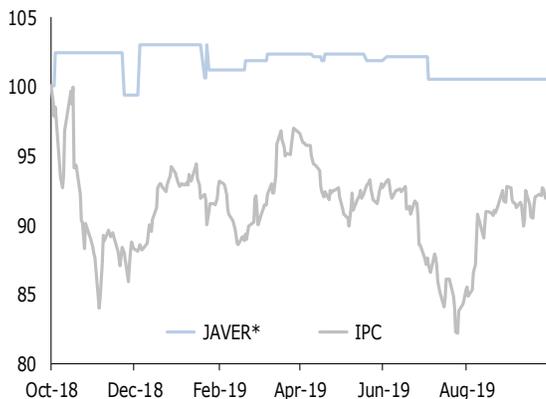
Clear Operating Recovery in 3Q19 and Debt Refinancing; Upgraded to BUY

BUY

2019E Target Price (MXN\$)	\$ 18.50
Current Price (MXN\$)	\$ 16.59
Max / Min (L12M)	\$ 15.91 - 17.00
Expected Dividend (MXN\$)	\$ 0.00
Expected Return	11.5%
Market Cap (MXN\$ Mn)	4,641
Enterprise Value (MXN\$ Mn)	7,407
Outstanding Shares (Mn)	279.8
Float	34.1%
ADTV (MXN\$ Mn)	\$ 0.04

Opinion and Recommendation:

- **JAVER's 3Q19 results exceeded our expectations and show a clear recovery against previous quarters.**
- **On November 14, JAVER will refinance its 9.875% Senior Notes due 2021 through a 5-year syndicated loan that it obtained from a group of domestic and foreign banks and institutional investors. We believe that this refinancing will help the company to extend its maturity profile, reduce the FX exposure and lower the interest rate it pays by around 100 bps., which will support its free cash flow generation.**
- **JAVER reduced its guidance of the year, it now expects an EBITDA growth of 0-2.0%, from the previous level of 2.5-5.0%. This implies an important recovery in 4Q19, taking into account that its EBITDA decreased 20.2% in 9M19. In addition, the company still expects to generate positive free cash flow during the current year (vs. a negative figure of MXN\$14 million in the 9M19).**
- **For these reasons and also due to the low valuation of JAVER's shares (2020 E EV/EBITDA of 5.2x and P/E of 10.8x), we are raising our recommendation to BUY, from HOLD.**



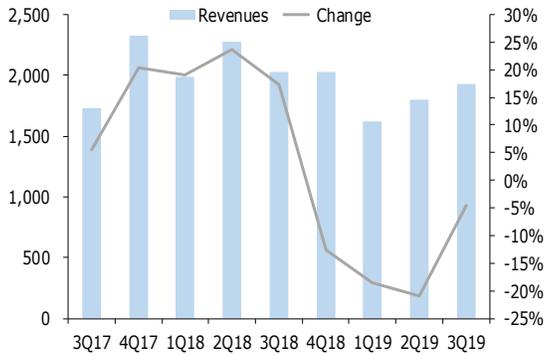
3Q19 Results

JAVER reported revenues of MXN\$1,933 million in 3Q19, down 4.6% YoY. This compares favorably against the reduction of 20.9% YoY in 2Q19 and 18.5% YoY in 1Q19.

The volume of homes sold contracted 7.5% YoY (vs. -29.5% YoY in 2Q19 and -26.3% in 1Q19) to 4,206 mainly due to the cancellation of subsidies on social interest housing at the end of the previous year. It is worth mentioning that 38.4% of the volume sold was subsidized during 3Q18. The company mentioned that it experienced certain delays in permit approvals in the State of Mexico and Quintana Róo, which limited the recovery in volume and income.

During 3Q19, JAVER opened three projects, a residential one in Quintana Róo, a medium level one in Jalisco and its second vertical project in Mexico City. The company expects to open another 6 projects during the last months of 2019.

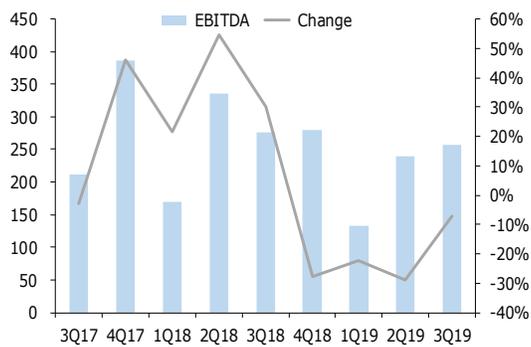
JAVER: Quarterly Results



JAVER's focus on higher-priced housing generated a 2.8% YoY increase in its average price, which reached MXN\$458,500. This indicator remained practically stable in social and medium interest and experienced a slight growth in the residential segment.

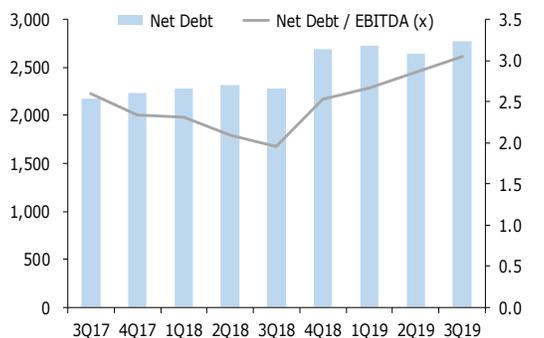
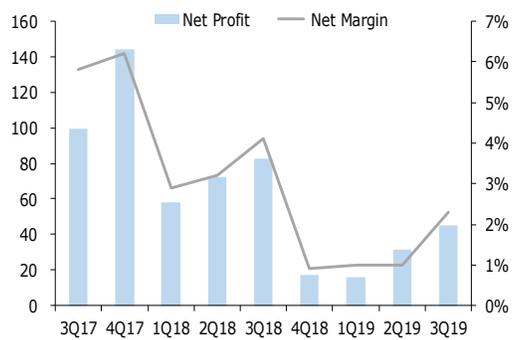
INFONAVIT, including COFINAVIT, represented 92.3% of JAVER's client financing compared to 92.8% in 3Q18.

Gross margin improved by 1 percentage point reaching 27.2% in 3Q19, thanks to the stronger sales mix and cost efficiencies. However, operating expenses rose 4.9% YoY due to the fixed expenses of certain projects that are about to open or that have presented approval delays. This caused the EBITDA margin to contract 0.5 percentage points to 13.1%. For this reason, the EBITDA suffered an 8.3% YoY reduction (vs. -28.9% YoY in 2Q19 and 22.2% YoY in 1Q19).



The comprehensive financing result was 46.7% higher YoY due to a greater amount of foreign exchange losses. As a result, JAVER recorded a net profit of MXN\$45.3 million in 3Q19, with a 45.0% YoY fall.

The working capital cycle was 308 days at the end of 3Q19, from 234 days in 3Q18. This was due to a greater acquisition of territorial reserves at the end of the previous year, which were developed during the current year, certain procedural delays and opening delays for the fourth quarter. The company generated a negative cash flow of MXN\$20.5 million in the quarter, with a significant improvement over the MXN\$88.7 million in the same period of the previous year. Despite this, it closed the quarter with a net debt to EBITDA ratio of 2.8x in the current quarter, in line with that of 2Q19.



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