

QUALITAS: 3Q19 RESULTS

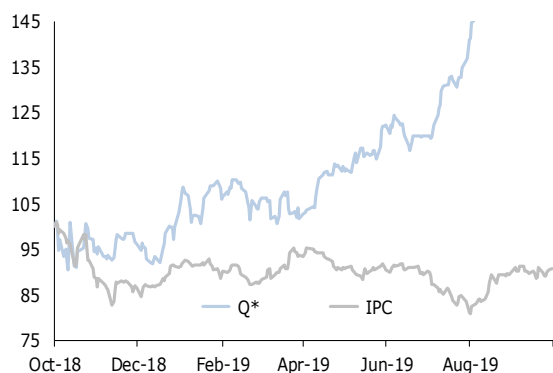
Oustanding 3Q19 Results; Introducing YE20 TP of MXN95.0

BUY

2020E Target Price (MXN\$)	\$ 95.00
Current Price (MXN\$)	\$ 75.94
Min / Max (L12M)	\$ 39.75 - 75.83
Expected Dividend (MXN\$)	\$ 0.85
Expected Return	26.2%
Market Cap (MXN\$ Mn)	32,275
Oustanding Shares (Mn)	425.0
Float	43.1%
ADTV (MXN\$ Mn)	\$ 39.28

Opinion and Recommendation:

- **As we broadly expected, QUÁLITAS presented an excellent performance in 3Q19, with double-digit growth in written premiums, a significant improvement in the combined index and high financial gains, which boosted the net income in a significant way (+ 143% YoY). We believe that these results will continue to support QUÁLITAS' share price in the short term.**
- **We are introducing a year-end 2020 target price of MXN\$95.0 and reiterating our BUY recommendation. We continue to believe that the valuation of QUÁLITAS' shares is very attractive with a 2020E P/E of only 6.3x. In addition, the company remains one of the world's most profitable insurers.**



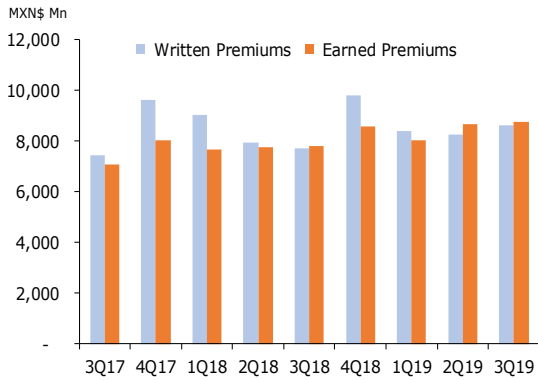
3Q19 Results

Premiums issued grew 11.5% YoY to MXN\$8,615 million, largely supported by a very favorable performance in the traditional segment, which registered a 13% YoY increase (individual +25% and fleets +2%). In addition, the financial institutions segment resumed growth (+7%), while the performance of foreign subsidiaries accelerated (+34%). It is worth mentioning that the mix of annual and multi-annual policies was 81/19% in the current quarter, compared with 55/45% four years ago. We believe that this strategy is appropriate since it gives the company greater flexibility to adjust its policies' prices during periods of high volatility.

The number of insured units was up 6% YoY to 4,224,062. The company added 114,130 units during the quarter. Despite lower sales of new cars and light trucks in the country, the number of insured cars and trucks grew 4% YoY and 7% YoY, respectively. The company also experienced a strong increase in tourists (+23%), motorcycles (+19%), El Salvador (+32%), Costa Rica (+7%) and the United States (+9%). In addition, Peru contributed more than 22 thousand units.

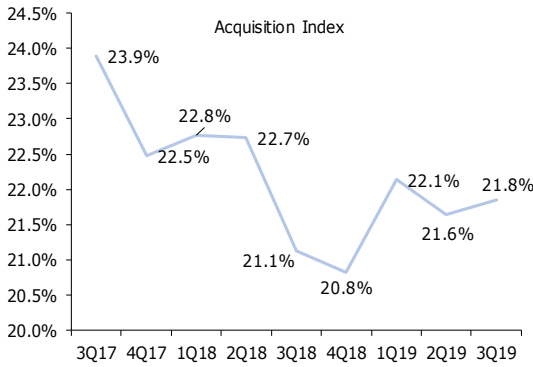
QUÁLITAS' claims ratio was 59.5% in 3Q19, with a spectacular improvement of 12.4 percentage points thanks to the decrease in the number of robberies and claims attended, as well as better weather conditions. However, this was partially offset by an increase of 72 bp to 21.8% in the acquisition index due

QUÁLITAS: 3Q19 Results



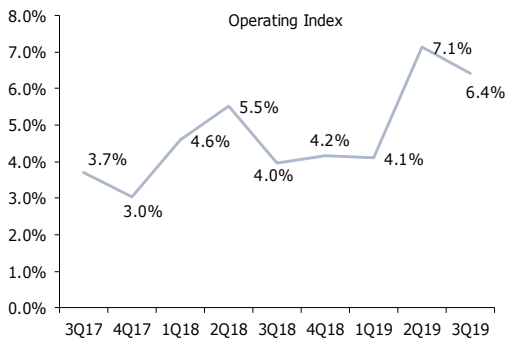
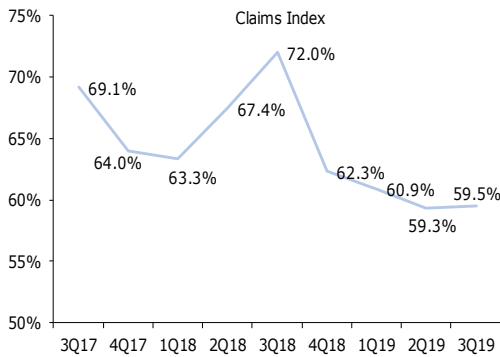
to higher payments to agents and promoters, as a result of the growth of the traditional segment. In addition, the company recorded an increase of 244 bp to 6.4% in the operating index due to a higher profit sharing provision in conjunction with an unfavorable comparison basis due to the release of an investment reserve during the past year. These factors resulted in a combined rate of only 87.8% in 3Q19, compared with 97.1% in 3Q18, well below the guidance for the year.

The integral financing result was MXN\$739 million in 3Q19, with a significant 51% YoY rise. The return on investments was 8.4% in the quarter, exceeding Banco de México's reference rate.



The company presented a MXN\$1,324 million net profit in 3Q19, up an impressive 143% YoY. The L12M ROE was 43.5% in 3Q19, well above the long-term target of 18-24%. It is worth mentioning that this indicator is one of the highest in the international insurance sector.

QUALITAS continued to expand its distribution network as it opened 12 new offices while 2 new service offices became ODQ's. The company now has 179 service offices, 243 ODQ's and 4 administrative offices.



QUÁLITAS: 3Q19 Results

(Figures in MXN\$ Mn)	3Q19	3Q18	Change	Acum 19	Acum 18	Change
Written Premiums	8,615	7,725	11.5%	25,258	24,698	2.3%
Net Written Premiums	8,555	7,694	11.2%	25,101	24,430	2.7%
Earned Premiums	8,742	7,822	11.8%	25,427	23,245	9.4%
Acquisition Cost	-1,869	-1,626	15.0%	-5,492	-5,433	1.1%
Claims Cost	-5,202	-5,629	-7.6%	-15,225	-15,711	-3.1%
Technical Income	1,670	567	194.4%	4,710	2,100	124.2%
Net Operating Expenses	-552	-307	80.0%	-1,485	-1,161	27.9%
Underwriting Result	1,118	260	329.1%	3,231	940	243.8%
Comprehensive Financing Result	739	489	51.1%	2,040	1,584	28.8%
Pre-Tax Profit	1,857	749	147.7%	5,270	2,523	108.9%
Taxes and Profit Sharing	-533	-208	155.9%	-1,447	-757	91.2%
Net Profit Before Minorities	1,324	541	144.6%	3,824	1,767	116.4%
Minority Interest	-1	-2	-39.8%	-3	-7	-54.8%
Net Profit After Minorities	1,322	543	143.6%	3,821	1,764	116.6%
EPS	\$ 3.08	\$ 1.25	146.4%	\$ 8.92	\$ 3.98	123.9%

Source: Quálitas, BMV

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