

QUALITAS: 3Q19 PREVIEW

BUY

2019E Target Price (MXN\$)	\$ 81.00
Current Price (MXN\$)	\$ 75.64
Min / Max (L12M)	\$ 39.75 - 68.39
Expected Dividend (MXN\$)	\$ 0.00
Expected Return	7.1%
Market Cap (MXN\$ Mn)	32,147
Outstanding Shares (Mn)	425.0
Float	43.1%
ADTV (MXN\$ Mn)	\$ 39.28

Opinion and Recommendation

We expect Qualitas to report favorable 3Q19 results with a solid growth in written premiums, a lower combined index and higher financial gains, which will boost the bottom line in a significant way. We believe that these results will continue to support Quálitas' share price in the short term. We reiterate our BUY recommendation and year-end MXN\$81.0 target price. The company will release its 3Q19 results on Thursday 17 after the market close.

3Q19 estimates

We project that Quálitas' written premiums will be up 8.6% YoY to MXN\$8,392 million as a result of a 15% YoY increase in the individual and fleet segments, and a 48% YoY rise at the international subsidiaries. This will be partially offset by a 5% YoY reduction in financial institutions, and a 52% YoY contraction in "others."

We believe that the cost and expenses structure will improve significantly with an 88.0% combined ratio in 3Q19, below last year's 97.1% level. This will be due mainly due to a 10 percentage points decrease in the loss ratio to 62.0%, supported by a lower number of claims, given better weather conditions during the quarter.

We estimate that financial gains will reach MXN\$563 million in 3Q19, compared to MXN\$489 million in 3Q18, driven by still high interest rates, which we believe will offset the weakness of the stock portfolio.

The excellent performance at both the operational level and the investment portfolio will likely translate into a MXN\$1,257 million net profit in 3Q19, up 132% YoY. We estimate that the ROE (L12M) will be 42.4% in 3Q19, from 34.0% in 3Q18.

Quálitas will hold its conference call next Friday, October 18 at 9:00 AM Mexico City time (10:00 AM EST). The dial-in is Mexico: (01 800) 5630 645; US and Canada: (888) 339 2688; International: (617) 847 3007; Code: 430 707 05. The webcats will take place at the same time in the following link: <https://www.webcaster4.com/Webcast/Page/1164/31868>.



Disclaimer

The current report was prepared by Miranda Global Research ("Miranda GR") for Vector 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 QUÁLITAS CONTROLADORA, S.A.B. DE C.V. for independent analyst services.