

# QUALITAS: 4Q19 RESULTS

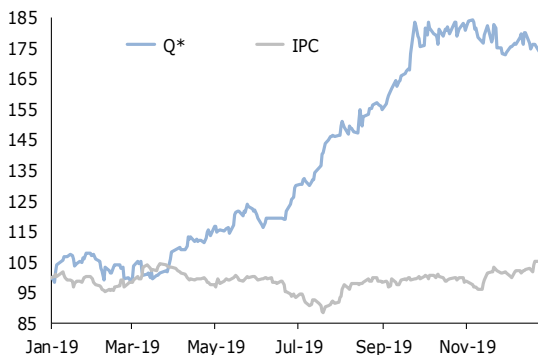
## Spectacular 4Q19 Results, Exceeding Our Expectations and the Guidance for the Year

### BUY

2020E Target Price (MXN\$)	\$ 100.00
Current Price (MXN\$)	\$ 79.51
Min / Max (L12M)	\$ 44.01 - 85.35
Expected Dividend (MXN\$)	\$ 0.85
Expected Return	26.8%
Market Cap (MXN\$ Mn)	33,792
Outstanding Shares (Mn)	425.0
Float	43.1%
6-month ADTV (MXN\$ Mn)	\$ 62.6

### Opinion and Recommendation:

- **QUÁLITAS once again reported spectacular 4Q19 results, which exceeded our expectations and the guidance for the year, driven by double-digit growth in premiums written and earned, a historically low loss ratio, a strict cost and expenses reduction policy, and high financial gains, which translated in a significant 182% YoY increase in net income with a L12M ROE of 47.3%. Therefore, we expect a positive short-term reaction in QUÁLITAS' share price.**
- **After these quarterly results, we are raising our year-end target price to MXN\$100.0, from MXN\$95.0, and reiterating our BUY recommendation.**



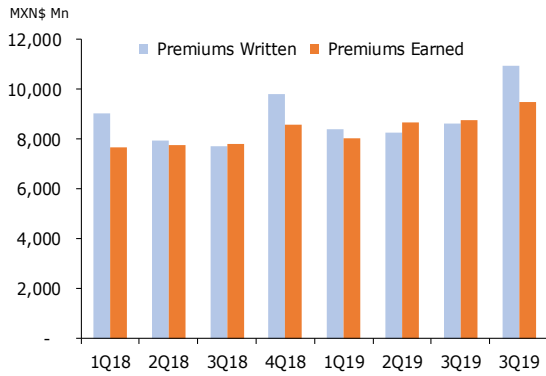
### 4Q19 Results

Premiums written rose 11.7% YoY in 4Q19, above our expectations of +8.3%, while premiums earned were up +10.6% YoY. The favorable performance of premiums written was due to a substantial 17.4% growth in the individual segment, +8.9% in fleets and +48.5% in foreign subsidiaries. The company benefited from a stronger pricing in special businesses during the last two quarters, which offset the reduction in new car sales. Annual policies, which allow the company to reprice between 3 and 4 times a year, represented 79.5% of total policies at the end of 2019, from 73.6% in 2018. On the other hand, the number of insured units advanced 8.9% YoY, exceeding 4.2 million. This compares with a 7.7% YoY drop in new car sales.

QUÁLITAS' cost and expense structure continued to improve in 4Q19, despite the low base of comparison. The combined ratio was 83.6% in 4Q19 (vs. 87.5% E), much lower than the 87.3% of the previous year. The loss ratio experienced a significant improvement to 57.7% in 4Q19 (vs. 61.0% E), compared with 62.3% in 4Q18, thanks to an 11% fall in car theft at the industry level and -20% in the case of QUÁLITAS. In addition, the company's recovery rate was 51%, which represented a 10-percentage point improvement.

This was partially offset by an acquisition ratio of 21.0% in 4Q19 (vs. 21.0% E), from 20.8% the previous year, as a result of higher commissions paid to agents and promoters. In addition, the operating ratio was 5.0% in 4Q19 (vs. 5.5% E),

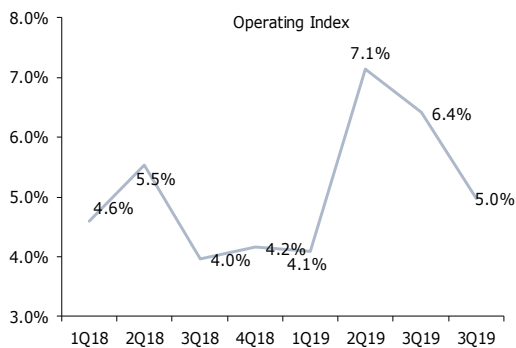
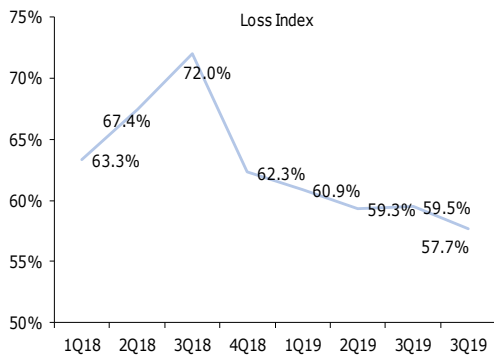
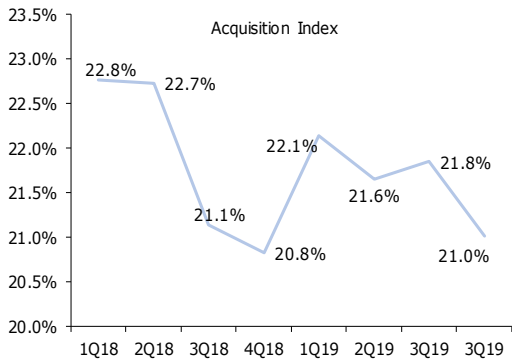
# QUÁLITAS: 4Q19 Results



from 4.2% in 4Q18, due to a greater profit sharing reserve and loss bonuses.

QUÁLITAS's financial gains reached MXN\$842 million in the current quarter (vs. MXN\$589 million E), up 532.0% YoY. The return on investments was 9.5% in the current quarter, well above the reference rate. As a result, the company closed the quarter with an impressive MXN\$1.5 billion net profit (vs. MXN\$1.0 billion E), up 182.4% YoY. The L12M ROE was 47.3%, against our expectation of 44.4%, and much higher than the 28.5% of the previous year.

QUÁLITAS will hold its conference call next tomorrow Thursday, January 30th 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: 563 798 96. There will also be a webcast at the same time in the following link: <https://www.webcaster4.com/Webcast/Page/1164/32808>.



## QUÁLITAS: 4Q19 Results

<b>(Figures in MXN\$ Mn)</b>	<b>4Q19</b>	<b>4Q18</b>	<b>Change</b>	<b>2019</b>	<b>2018</b>	<b>Change</b>
Premiums Written	10,939	9,797	11.7%	36,196	34,495	4.9%
Net Premiums Written	10,891	9,753	11.7%	35,991	34,183	5.3%
Premiums Earned	9,472	8,565	10.6%	34,899	31,810	9.7%
Acquisition Cost	-2,288	-2,031	12.6%	-7,780	-7,464	4.2%
Loss Cost	-5,462	-5,336	2.4%	-20,687	-21,048	-1.7%
Technical Result	1,722	1,198	43.8%	6,432	3,298	95.0%
Net Operating Expenses	-544	-407	33.7%	-2,029	-1,568	29.4%
Underwriting Result	1,179	794	48.4%	4,410	1,734	154.3%
Comprehensive Financing Result	842	133	532.0%	2,882	1,717	67.9%
Pre-Tax Profit	2,021	928	117.9%	7,292	3,451	111.3%
Tax Reserve	-487	-266	82.9%	-1,934	-1,023	89.0%
Net Profit Before Minorities	1,534	661	132.0%	5,358	2,428	120.7%
Minority Interest	-1	4	-123.4%	-4	-3	55.2%
Net Profit After Minorities	1,533	662	131.7%	5,354	2,426	120.7%
EPS	\$ 3.61	\$ 1.52	137.2%	\$ 12.57	\$ 5.51	128.2%
<b>FINANCIAL RATIOS</b>	<b>4Q19</b>	<b>4Q18</b>		<b>2019</b>	<b>2018</b>	
Acquisition Index	21.0%	20.8%		21.6%	21.8%	
Loss Index	57.7%	62.3%		59.3%	66.2%	
Operating Index	5.0%	4.2%		5.6%	4.5%	
Combined Index	83.6%	87.3%		86.5%	92.5%	
Adjusted Combined Ratio	87.6%	90.8%		87.4%	94.6%	
Underwriting Result	12.4%	9.3%		12.6%	5.5%	
Tax Rate	24.1%	28.7%		26.5%	29.6%	
ROE	47.3%	28.5%		47.3%	28.5%	
ROA	9.0%	4.5%		9.0%	4.5%	

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