

QUÁLITAS: 4Q19 PREVIEW

BUY

2020E Target Price (MXN\$)	\$ 95.00
Current Price (MXN\$)	\$ 78.71
Min / Max (L12M)	\$ 44.01 - 85.35
Expected Dividend (MXN\$)	\$ 0.85
Expected Return	21.8%
Market Cap (MXN\$ Mn)	33,452
Outstanding Shares (Mn)	425.0
Float	43.1%
6-month ADTV (MXN\$ Mn)	\$ 62.6

Opinion and Recommendation

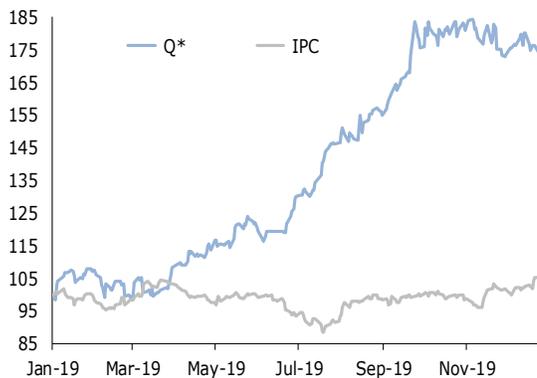
We expect QUÁLITAS to present positive results in 4Q19 with a favorable growth in premiums written and earned, a stable combined index and a higher ROE. We believe that any additional short-term adjustment in the price of QUÁLITAS shares represents a long-term investment opportunity. We continue with a BUY recommendation with a MXN\$95.0 per share target price.

4Q19 estimates

We expect QUÁLITAS's 4Q19 premiums written to increase 8.3% YoY, driven by the company's successful sales efforts and its wide distribution network, coupled with low insurance penetration as a percentage of GDP. We believe that these factors continued to compensate for lower new car sales which was generated by the macroeconomic weakness. The main driver of premiums written will be the individual segment (+ 15% YoY), followed by the financial (+ 8% YoY) and the fleets (+ 3% YoY) segments. We also project a 29% YoY increase in foreign subsidiaries.

We believe that the company's cost and expense structure will remain virtually unchanged with an 87.5% combined ratio in 4Q19, in line with 87.3% in the same period of the previous year. We estimate an acquisition ratio of 21.0% in 4Q19, from 20.8% the previous year, as a result of higher commissions paid in the financial segment. The operating ratio will likely be 5.5% in 4Q19, from 4.2% in 4Q18, due to the continuous expansion of the distribution network. This will be partially offset by an improvement in the loss ratio to 61.0% in 4Q19, compared with 62.3% in 4Q18, due to more favorable weather conditions, as well as a lower number of thefts and a higher recovery rate.

We expect financial gains of MXN\$589 million in the current quarter, with a 342% YoY rise due to the still high interest rates of government bonds (these instruments accounted for 50% of the investment portfolio in 3Q19). This should result in a net profit of MXN\$1,035 million in 4Q19, up 56.4% YoY. The ROE will be 44.4% in 4Q19, from 28.5% the previous year.



Quálitás will hold its conference call next 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:// https://www.webcaster4.com/Webcast/Page/1164/32808](https://www.webcaster4.com/Webcast/Page/1164/32808).

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