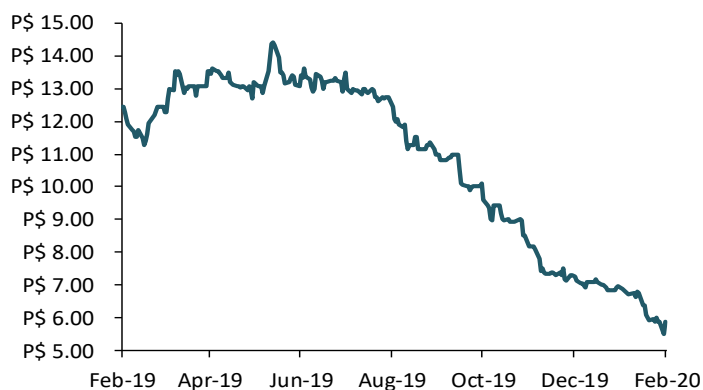


## Corpovael, S.A.B. de C.V. (BMV: CADU A)

### 4Q19: Housing Weakness Offset by the Sale of a Land Property



RECOMMENDATION	BUY
2020E Target Price (MXN\$)	\$ 8.00
Current Price (MXN\$)	\$ 5.90
Expected Dividend (MXN\$)	\$ 0.85
Potential Return	50.0%
Market Cap (MXN\$ Mn)	2,801
EV/ EBITDA 2019E	4.0x
P/E 2019E	2.8x
P/BV (current)	0.4x

#### Opinion and Recommendation

As we anticipated, the weakness of CADU's housing business in 4Q19 was partially offset by the sale of land property amounting to MXN\$303 million. This transaction boosted EBITDA in a significant way, despite the fact that revenues were lower.

CADU exceeded its 2019 guidance as its EBITDA and net income rose 9.1% and 6.9% respectively (vs. 3.5-5.0% in both cases), while its EBITDA margin reached 26.4% (vs. 24.0% E) and its net margin was 19.3% (vs. 17.9% E).

The company released its 2020 guidance which includes, in a conservative way, stable revenues EBITDA and net income compared to the previous year.

We recommend taking advantage of the previous weeks' correction in CADU's share price. The valuation of its shares seems extremely attractive at current levels as they trade at a forward EV/EBITDA of 4.0x, estimated P/E of 2.8x, and P/BV of 0.4x. In addition, if the company pays the same amount of dividends this year than during the previous year (MXN\$0.85/share), the dividend yield could reach 14.4% against the current market price.

#### 4Q19 Results

CADU revenues decreased -3.7% YoY (vs. + 4.1% E) in 4Q19 to MXN\$1,182 million. Housing revenues fell 24.8% YoY, which included a 22.4% YoY reduction in social interest due to the elimination of subsidies at the end of the previous year and the delay of customers, which are waiting for the "Unamos Créditos" program. In addition, sales of the middle and residential segments were down 27.6% YoY and 29.5% YoY, respectively, due to the prevailing macroeconomic situation, which has generated caution among potential customers.

Total units declined 24.4% YoY to 1,481. The average price remained practically unchanged at MXN\$589 thousand since the increases of 1.7% YoY in social interest and 7.8% YoY in the middle segment were offset by an 11.6% YoY drop in the residential segment.

Total costs decreased 11.9% YoY due to the lower sales level and a high profitability of the land property sale. This boosted the gross profit by 13.1% YoY. Expenses fell 27.2% YoY, which helped to reduce the expenses to sales ratio to 10.8% in 4Q19 from 14.3% in 4Q18.

EBITDA grew 29.6% YoY (vs. 32.8% E) to MXN\$370.9 million in 4Q19, driven by the aforementioned land sale. EBITDA margin improved to 31.5% in 4Q19 (vs. 29.8% E), from 23.4% in 4Q18.

Net income grew 8.2% YoY (vs. 1.2% E), reaching MXN\$267.6 million due to a higher-than-expected fiscal gain.

The net debt / EBITDA ratio rose to 2.66x in 4Q19 from 2.43x in 4Q18.

CADU's working capital cycle reached 911 days at the end of the current quarter, from the previous year's level of 781. The main reason was an increase in inventory days to 915 in 4Q19, from 878 in 4Q18. Despite this situation, the company generated positive free cash flow of MXN\$188 million in the quarter.

(Figures in Millions of MXN\$)

INCOME STATEMENT	4Q19	4Q18	Change	Acum 2019	Acum 2018	Change
Revenues	1,182	1,227	-3.7%	4,585	4,626	-0.9%
Operating Profit	328	227	44.2%	1,046	940	11.2%
Operating Margin	27.7%	18.5%		22.8%	20.3%	
EBITDA	372	287	29.7%	1,210	1,110	9.0%
EBITDA Margin	31.5%	23.4%		26.4%	24.0%	
Financial Gains	1	10	-86.9%	16	35	-54.8%
Financial Cost	-13	-14	-8.4%	-37	-36	0.6%
Part. in Affiliated Companies	0	2	-100.0%	0	2	-100.0%
Pre-Tax Profit	316	225	40.6%	1,025	940	9.0%
Income Tax & Profit Sharing	-48	23	-313.4%	-138	-111	24.6%
Tax & Profit Sharing Rate	15.3%	-10.1%		13.5%	11.8%	
Profit Before Minorities	268	247	8.2%	887	830	6.9%
Minority Interest	-11	-18	-40.3%	-45	-51	-12.7%
Net Profit	257	229	12.1%	842	778	8.2%
EPS	P\$ 0.75	P\$ 0.67	12.1%	P\$ 2.46	P\$ 2.28	8.2%
ROE	18%	18%		18%	19%	
ROIC	10%	13%		10%	12%	
BALANCE SHEET	4Q19	4Q18	Change	Acum 2019	Acum 2018	Change
TOTAL ASSETS	10,031	9,393	6.8%	10,031	9,393	6.8%
Current Assets	9,893	9,249	7.0%	9,893	9,249	7.0%
Cash & Temp. Inv.	505	674	-25.2%	505	674	-25.2%
Accounts Receivable	558	437	27.6%	558	437	27.6%
Inventories	7,643	7,222	5.8%	7,643	7,222	5.8%
LT Assets	138	144	-4.3%	138	144	-4.3%
P, P & E	82	89	-7.1%	82	89	-7.1%
Intangible Assets	0	0	N.A.	0	0	N.A.
Deffered Tax Assets	0	0	N.A.	0	0	N.A.
Other LT Assets	55	55	0.2%	55	55	0.2%
TOTAL LIABILITIES	4,859	4,784	1.6%	4,859	4,784	1.6%
ST Liabilities	1,591	1,335	19.2%	1,591	1,335	19.2%
LT Liabilities	3,268	3,449	-5.3%	3,268	3,449	-5.3%
TOTAL CAPITAL	5,171	4,609	12.2%	5,171	4,609	12.2%
Stockholder's Equity	5,023	4,505	11.5%	5,023	4,505	11.5%
Minority Interest	149	104	43.1%	149	104	43.1%
TOTAL DEBT	3,726	3,371	10.6%	3,726	3,371	10.6%
NET DEBT	3,222	2,696	19.5%	3,222	2,696	19.5%
Net Debt / EBITDA (x)	2.7x	2.4x	23.4%	2.7x	2.4x	23.4%
CASH FLOW STATEMENT	4Q19	4Q18	Change	Acum 2019	Acum 2018	Change
PRE-TAX PROFIT	268	247	8.2%	887	830	6.9%
Pre-Tax Cash Flow	263	701	-62.5%	1,029	1,503	-31.5%
Working Capital Changes	-55	-877	-93.8%	-857	-1,695	-49.4%
Operating Cash Flow	208	-176	-217.9%	172	-192	-189.9%
Investment Cash Flow	1	10	-86.9%	16	32	-50.3%
Financing Cash Flow	-81	211	-138.2%	-358	227	-257.9%
Net Incr. (Decr.) in Cash & Temp. Inv.	129	45	188.5%	-170	67	-354.6%
FX Gain (Loss) In Cash and Temp. Inv.	0	0	N.A.	0	0	N.A.
Beg. of Period Cash and Temp. Inv.	376	788	-52.3%	376	788	-52.3%
End of Period Cash and Temp. Inv.	505	674	-25.2%	505	674	-25.2%

Source: BMV

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