

# JAVER: 4Q19 RESULTS

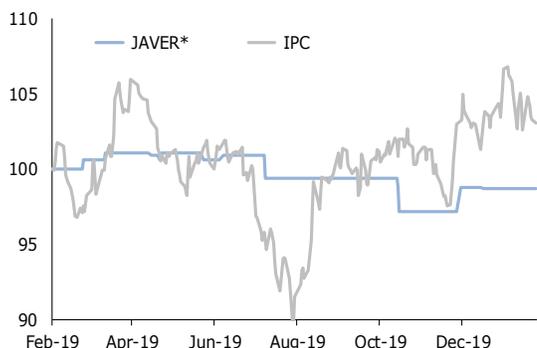
## Favorable 4Q19 Results and Excellent Guidance for 2020; We Reiterate BUY

### BUY

2020E Target Price (MXN\$)	\$ 20.00
Current Price (MXN\$)	\$ 16.48
Max / Min (L12M)	\$ 16.00 - 16.88
Expected Dividend (MXN\$)	\$ 0.00
Expected Return	21.4%
Market Cap (MXN\$ Mn)	4,610
Enterprise Value (MXN\$ Mn)	7,342
Outstanding Shares (Mn)	279.8
Float	34.1%
ADTV (MXN\$ Mn)	\$ 0.04

### Opinion and Recommendation:

- **JAVER's 4Q19 results seemed positive to us as they exceeded our expectations. In addition, revenues stabilized thanks to the company's focus on the medium interest segment, while EBITDA started to grow supported by a stronger revenue mix, as well as strict cost and expense controls. These two indicators had fallen during the previous four quarters.**
- **The company was able to refinance its Senior Notes with a longer maturity and a lower interest rate and generated positive free cash flow in both the quarter and the year.**
- **Despite these favorable results, JAVER did not reach its guidance for the year due to permit delays. However, it released an excellent 2020 guidance, which includes revenues of MXN\$8,500 million (+15%), with a 20% EBITDA growth and break-even free flow generation.**
- **We thus reiterate our BUY recommendation on JAVER and MXN\$20.0 year-end target price.**



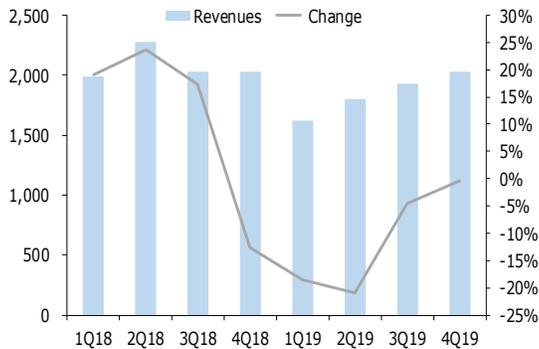
### 4Q19 Results

JAVER's 4Q19 revenues reached MXN\$2,024 million, basically unchanged compared to the previous year thanks to the company's focus on medium interest. This segment's sales grew 4.6% YoY, which was partially offset by the reductions of 22.0% YoY in social interest and -1.6% YoY in residential.

Units sold declined a slight 1.9% YoY in 4Q19, standing at 4,257. Middle interest segment volume rose 2.7% YoY. However, the number of social interest units fell 22.3% YoY as a result of the lack of subsidies, which represented 12% of units placed in 4Q18 and 30% in 2018. Meanwhile, residential segment volume contracted 6.2% YoY due to the macroeconomic situation. Infonavit loans accounted for 91.0% of total units, from 92.3% in 4Q18. Given the stronger sales mix, the average unit price improved 2.5% YoY, reaching MXN\$473,800.

Gross profit was up 4.0% YoY supported by the stronger sales mix, as well as cost efficiencies. This boosted the gross margin to 27.1% in 4Q19, from 25.9% in 4Q18. In addition, total expenses were down 1.3% YoY, which boosted the company's

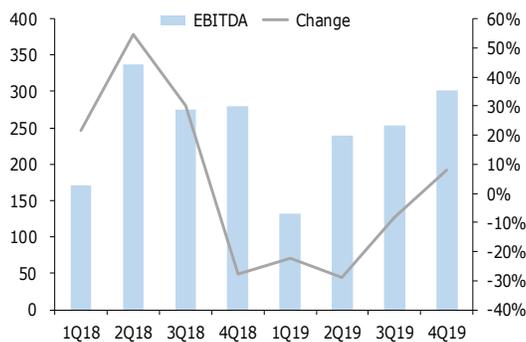
## JAVER: 4Q19 Results



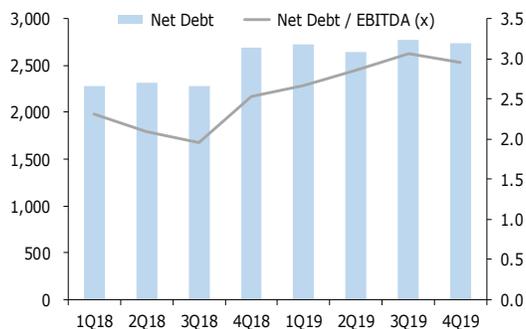
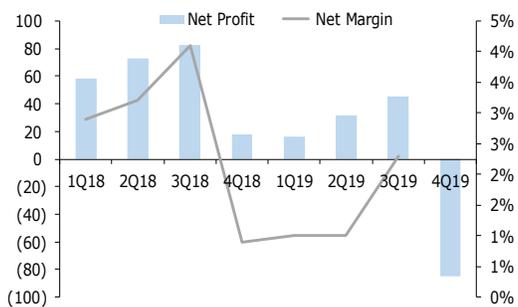
EBITDA by 7.9% YoY. As a result, the EBITDA margin expanded 110 basis points to 14.9%, the highest level since the end of 2017.

Despite the solid operating performance, JAVER recorded a quarterly MXN\$85 million net loss due to the extraordinary charges related to the cancellation of the Senior Notes, in combination with foreign exchange losses.

The company closed the quarter with a net debt to EBITDA ratio of 2.95x, slightly higher than the 2.80x in 3Q19. It is worth mentioning that JAVER was able to refinance its Senior notes maturing in 2021 through a 5-year syndicated loan amounting to MXN\$2,745 million and US\$21 million, which carries an interest rate of TIIE + 675 bp for the peso portion 3-month Libor + 650 bp for the US dollar portion. This interest rate was 120 basis points lower than that of the Senior Notes.



The working capital cycle increased by 50 days, reaching 318 days in the current quarter, as a result of heavy investments in the development of the land reserve acquired during the previous year. In addition, JAVER experienced certain delays in the required permits. Despite this situation, the company generated a MXN\$88 million positive free cash flow in the quarter, much higher than the negative MXN\$256 million free cash flow of the same period last year. In 2019, the company also generated a MXN\$74 million positive free cash flow, compared with the previous year's a negative MXN\$263 million figure.



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