

QUALITAS: 1Q20 RESULTS

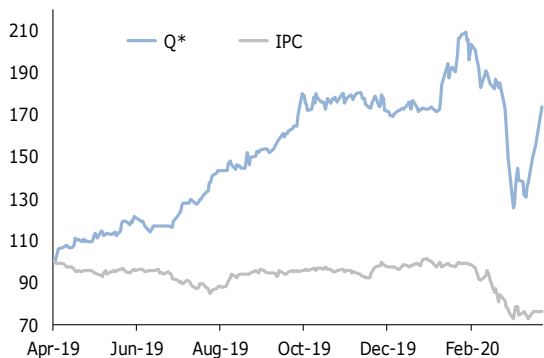
Very Positive 1Q20 Results, Exceeding our Projections and Consensus

BUY

2020E Target Price (MXN\$)	\$ 100.00
Current Price (MXN\$)	\$ 76.86
Min / Max (L12M)	\$ 45.61 - 99.12
Expected Dividend (MXN\$)	\$ 1.70
Expected Return	32.3%
Market Cap (MXN\$ Mn)	31,743
Outstanding Shares (Mn)	413.0
Float	43.1%
6-month ADTV (MXN\$ Mn)	\$ 59.8

Opinion and Recommendation:

- QUÁLITAS 1Q20 results were extremely positive as they exceeded our projections and consensus by far. Premiums written premiums rose 14.5% YoY and the combined index was 80.2%, a historically low level, which boosted the operating result by 90.3% YoY. In addition, net profit increased 20.4% YoY, its second highest historical level, and the L12M ROE reached 43.8%, despite lower financial gains.
- We expect a positive short-term reaction and we are reiterating our BUY recommendation with an MXN\$100.0 target price. The valuation of QUÁLITAS shares seems very attractive to us with an estimated P/E of 6.3x and a P/VL of 2.1x.
- QUÁLITAS announced the payment of a MXN\$1.70 cash dividend from next May 11th, the creation of a MXN\$1.4 billion reserve buyback reserve and the cancellation of 12 million shares, which we believe is also positive news.

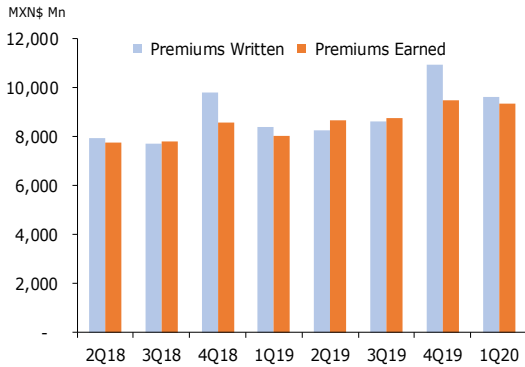


1Q20 Results

Premiums written were up 14.5% YoY to MXN\$9,605 million as result of an 8.8% growth in the traditional segment, +22.5% in financial institutions and +46.5% in foreign subsidiaries, which was partially offset by a 82.3% drop in others. Premiums earned grew 16.2% YoY to MXN\$9,346 million. QUÁLITAS' premium portfolio comprised 78.4% of annual premiums and 21.6% of multi-year premiums in 1Q20, compared to a 71.1/28.9% mix in 1Q18.

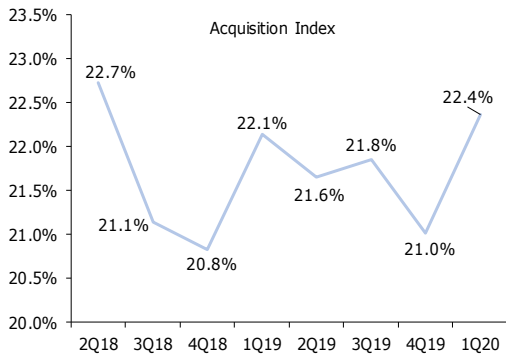
The number of insured units rose 2.3% YoY to 4.3 million despite the fact that auto sales contracted 10.9% in the past three months. We believe that QUÁLITAS continues to be favored by its extensive distribution network and state-of-the-art technology. In Mexico and El Salvador, insured units increased 2.1% and 2.7%, respectively. In Costa Rica, the United States, and Peru, the growth was 8.2%, 9.3%, and 19.3%, respectively. The cost and expense structure improved significantly, mainly due to a 9 percentage points reduction in the loss ratio to 51.9%. This indicator benefited from a 16.2% drop in the number of thefts at the industry level, and -19.3% in the case of QUÁLITAS, coupled with a greater recovery of stolen vehicles.

QUÁLITAS: 1Q20 Results



In addition, the number of claims decreased 29% annually during the last two weeks of March due to the health contingency.

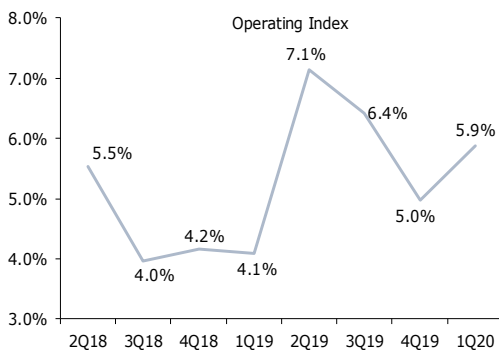
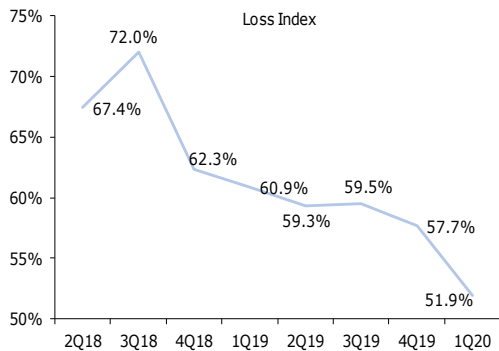
The acquisition ratio advanced slightly to 22.4% due to a higher premium issuance through financial institutions, which require higher commissions. The operating index was up 1.8 percentage points to 5.9% as a result of a 40% increase in the profit-sharing reserve. The combined index was 80.2% in 1Q20, well below 87.1% in the same period of the previous year. The operating result registered a significant 90.3% YoY increase as a result.



Comprehensive financing result decreased 91.4% YoY to MXN\$59 million due to the volatility in the stock market. Despite this, net income grew 20.4% YoY, closing the quarter at MXN\$1,440 million. L12M ROE was 43.8% in 1Q20, from only 33.0% in 1Q19.

QUÁLITAS had a MXN\$11,534 million solvency margin, which represented a solvency margin percentage of 526%.

QUÁLITAS will hold its conference call tomorrow, Wednesday, April 22 at 9:00 AM Mexico City time (10:00 AM EST). The dial-in for Mexico is 01 800 522 0034, the United States and Canada: (877) 407 8035, and International: (201) 689 8035. No password required. There will also be a webcast at the following link: <https://www.webcaster4.com/Webcast/Page/1164/34273>.



QUÁLITAS: 1Q20 Results

(Figures in MXN\$ Mn)	1Q20	1Q20E	Diff.	1Q19	Change
Premiums Written	9,605	8,793	9.2%	8,387	14.5%
Net Premiums Written	9,436	8,755	7.8%	8,350	13.0%
Premiums Earned	9,346	8,505	9.9%	8,043	16.2%
Acquisition Cost	-2,110	-1,926	9.6%	-1,848	14.2%
Loss Cost	-4,854	-5,273	-7.9%	-4,898	-0.9%
Technical Result	2,381	1,306	82.4%	1,297	83.7%
Net Operating Expenses	-564	-361	56.4%	-344	64.2%
Underwriting Result	1,817	947	92.0%	955	90.3%
Comprehensive Financing Result	59	79	-25.6%	681	-91.4%
Pre-Tax Profit	1,876	1,025	82.9%	1,636	14.7%
Tax Reserve	-435	-273	59.7%	-439	-0.8%
Net Profit Before Minorities	1,440	753	91.3%	1,197	20.4%
Minority Interest	-1	-0	108.6%	-1	56.4%
Net Profit After Minorities	1,439	752	91.3%	1,196	20.4%
EPS	\$ 3.39	\$ 1.77	91.3%	\$ 2.78	21.8%
FINANCIAL RATIOS	1Q20	1Q20E	Diff.	1Q19	Diff.
Acquisition Index	22.4%	22.0%	37	22.1%	23
Loss Index	51.9%	62.0%	-1,006	60.9%	-896
Operating Index	5.9%	4.1%	177	4.1%	178
Combined Index	80.2%	88.1%	-792	87.1%	-695
Adjusted Combined Ratio	80.6%	88.9%	-833	88.2%	-759
Underwriting Result	19.4%	11.1%	831	11.9%	757
Tax Rate	23.2%	26.6%	-337	26.8%	-363
ROE	43.8%	39.9%	388	33.0%	1,082
ROA	9.2%	8.4%	77	5.4%	380

Source: Quálitas, BMV

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