

# VINTE: 1Q20 RESULTS

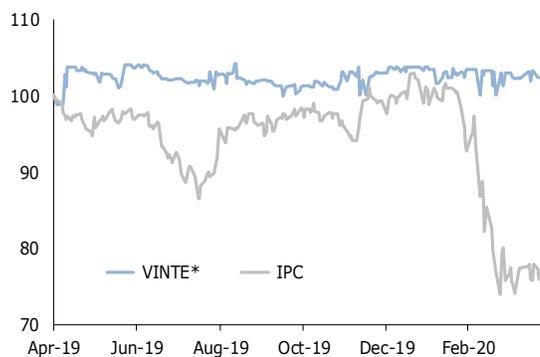
## To Focus on Free Cash Flow Generation in 2020; To Accelerate Growth in 2021

### BUY

|                             |                  |
|-----------------------------|------------------|
| 2020E Target Price (MXN\$)  | \$ 36.00         |
| Current Price (MXN\$)       | \$ 27.60         |
| Min / Max (L12M)            | \$ 26.25 - 28.71 |
| Expected Dividend (MXN\$)   | \$ 0.00          |
| Expected Return             | 30.4%            |
| Market Cap (MXN\$ Mn)       | 5,576            |
| Enterprise Value (MXN\$ Mn) | 7,984            |
| Ousting Shares (Mn)         | 202.0            |
| Float                       | 33.7%            |
| ADTV (MXN\$ Mn)             | \$ 0.16          |

### Opinion and Recommendation:

- VINTE's 1Q20 performance was affected by a high comparison base, the consolidation of Jardines Mayakoba, the start of operations in Monterrey and the prevailing macroeconomic situation. This more than offset the fact that the company continued to take advantage of its flexible business model, which boosted the L12M average unit price to MXN\$836 thousand, a historically high.
- VINTE has benefited from a higher demand through digital channels, with which its volume has remained virtually stable in April.
- In addition, it has focused on maintaining a solid balance sheet and, from April, on generating positive free cash flow, which we believe will help it face the macroeconomic slowdown. The company expects to grow at higher rates than originally expected during the 2021-2022 period and gain additional market share, which seems positive to us.
- Recently, VINTE received a letter of interest for the acquisition of a US\$20 million equity stake at a maximum price of MXN\$27.70 per share from a fund managed and operated by an European country focused on sustainable investments in companies that help meet the United Nation's Objectives of Sustainable Development (SDG). VINTE will use these resources to accelerate its sustainable growth, which we believe is positive news. The shareholder's meeting to approve such share subscription will take place next May 26th.



### Revenues

VINTE's 1Q20 revenues amounted to MXN\$688.8 million, down 11.3% YoY due to a high comparison base, the fact that some customers delayed their decisions to purchase homes and the company's decision to title units under very strict sanitary protocols. Housing sales declined 8.4% while equipment and commercial and residential lot sales fell 42.7%.

The number of units sold was down 11.6% to 817. This was partially offset by a 4.5% increase in the average price per unit to P\$841.2 thousand in the quarter as the company took

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advantage of its flexible business model. This price level was one of the highest in the last 17 quarters. The L12M price was P\$836 thousand, the highest in the company's history. By type of financing, INFONAVIT and FOVISSSTE accounted for 54% of homes in the current quarter, from 50% in 1Q19.

### Profitability

Gross profit decreased 11.8% to MXN\$223.8 million due to lower revenues at Playa del Carmen and the Jardines Mayakoba consolidation. The gross margin was 32.5% in 1Q20, from 32.7% in 1Q19. Administrative, sales and other expenses grew 17.1% for the same reasons explained above in addition to the beginning of operations of Monterrey. The company's EBITDA fell 25.8% to MXN\$126.9 million. The EBITDA margin contracted to 18.4% in 1Q20, from 22.0% in 1Q19.

### Net Profit

Net profits declined 31.9% to MXN\$73.8 million due to the lower operating performance, which was partially offset by a reduced tax reserve.

### Balance Sheet

The net debt to EBITDA ratio was 2.86x at the end of 1Q20, from 2.16x in 1Q19, as a consequence of the consolidation of Jardines Mayakoba's MXN\$314 million bridge loans. The cash position represented 12.2 weeks of cost of sales and financial expenses, which is above the company's policy of maintaining between 6-7 weeks, as it used some credit lines to further strengthen its liquidity position in order to face the Covid-19 pandemic. Debt is 100% denominated in Mexican pesos, 63% is at a fixed interest rate and 50% is sustainable.

### Free Cash Flow

VINTE generated negative free cash flow of MXN\$247 million due to the investments that it made to have units nearly finished before the partial closure of activities in the country which derived from the pandemic. This, in addition to the Jardines Mayakoba consolidation, boosted housing inventories by 29.4%. From April this year, the company is currently focusing on finishing the units which are more than 80% terminated.

### Measures against Covid-19

VINTE has taken the following measures to face the Covid-19 impact:

- Maintain a solid balance sheet. VINTE exercised some lines of credit during the quarter, with which its cash position exceeded MXN\$600 million. These represented 12.2 weeks of cost of sales and financial expenses, above its policy of maintaining between 6-7 weeks. In April, it no longer exercised any additional lines. The company will also cancel this year's dividend payment and will soon raise US\$20 million with the share subscription from an European fund;
- Focus on cash flow generation. VINTE is only selling existing inventories and is reducing its investments in new land reserves (it currently has a reserve of around 40,000 homes, enough for the next 7 years), urbanization, infrastructure and new developments, and is collecting its accounts receivable. As of April 1, the company had an inventory of around 2,000 homes which are 80% terminated and thus require a minimum investment. The company applied a similar strategy in 2009-2010 and 2014-2015, which allowed it to generate positive cash flow. As a result of this approach and the uncertain prevailing situation, VINTE withdrew its guidance for the year.

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- Digital sales. The sale process can be carried out in a complete digital way, including the visit to the developments. As a result, 54% of the affluence, 35% of reservations and 29% of signed contracts were carried out by this type of means during the last days of April (from 0%, 0% and 21%, respectively, during the same period of the previous year). Worth mentioning that the Chatbot sold 6 homes in April. This strategy allowed the company to sell a similar number of homes in April this year than during the same month of the previous year, which seems extremely positive to us.
- Accelerate growth in the 2021/2022 period. VINTE will take advantage of the current crisis to grow at higher rates than originally expected in the future and gain additional market share. It does not rule out carrying out acquisitions of certain developments or companies. We believe that VINTE will have sufficient resources to reach this objective given its focus on cash flow generation and the aforementioned share subscription. This strategy is very similar to the one that the company implemented in 2008 and 2013, with the big difference that INFONAVIT is more solid than ever. Furthermore, the construction of housing is at a minimum of 10 years and many competitors could be affected by the lack of financing.
- Cisco Webex system. In 2018, the company implemented this system to communicate the different developments and areas. In March, it carried out 186 internal videoconferences with up to 42 participants. In April there were 277 videoconferences including the Board of Directors meeting.

### **2Q20**

The company sold a very similar number of homes in April this year than during the same month of the previous year, supported by a higher digital activity. In addition, it has 1,178 reserved units at the beginning of the quarter, practically in line with the 1,187 at the beginning of this year. This figure is in addition to the 2,000 homes in the process of closing, which has the company very busy signing the sale contracts, the majority through Infonavit, Fovissste and commercial banks.

### **Other**

The Mexican Government increased the target of INFONAVIT and FOVISSSTE mortgages to MXN\$177 billion for the April to December 2020 period, which could represent a 27% rise.

VINTE certified 1,810 homes with the IFC / World Bank, out of a total of 3,900 that it plans to certify in the medium term. These homes generate savings of 740 tons of CO2 per year and efficiencies in energy, water and sustainable materials of 28%, 32% and 67%, respectively.

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(Figures in Millions of MXN\$)

| <b>INCOME STATEMENT</b>                | <b>1Q20</b>  | <b>1Q19</b>  | <b>Change</b> |
|--|--------------|--------------|---------------|
| Revenues                               | 689          | 776          | -11.3%        |
| Operating Profit                       | 96           | 145          | -33.6%        |
| <i>Operating Margin</i>                | <i>14.0%</i> | <i>18.7%</i> |               |
| EBITDA                                 | 127          | 171          | -25.7%        |
| <i>EBITDA Margin</i>                   | <i>18.4%</i> | <i>22.0%</i> |               |
| Pre-Tax Profit                         | 91           | 135          | -32.2%        |
| Profit Before Minorities               | 74           | 108          | -31.9%        |
| Minority Interest                      | -4           | -0           | n.a.          |
| Net Profit                             | 70           | 108          | -35.2%        |
| EPS                                    | P\$ 0.35     | P\$ 0.57     | -39.4%        |
| <b>BALANCE SHEET</b>                   | <b>1Q20</b>  | <b>1Q19</b>  | <b>Change</b> |
| TOTAL ASSETS                           | 8,440        | 6,602        | 27.8%         |
| Current Assets                         | 4,169        | 3,394        | 22.8%         |
| LT Assets                              | 4,271        | 3,208        | 33.1%         |
| TOTAL LIABILITIES                      | 4,786        | 3,661        | 30.8%         |
| ST Liabilities                         | 1,135        | 994          | 14.2%         |
| LT Liabilities                         | 3,651        | 2,666        | 36.9%         |
| TOTAL CAPITAL                          | 3,654        | 2,941        | 24.2%         |
| Stockholder's Equity                   | 3,569        | 2,941        | 21.3%         |
| Minority Interest                      | 85           | 0            | N.A.          |
| TOTAL DEBT                             | 2,973        | 2,273        | 30.8%         |
| NET DEBT                               | 2,373        | 1,705        | 39.1%         |
| Net Debt / EBITDA (x)                  | 2.9x         | 2.2x         |               |
| <b>CASH FLOW STATEMENT</b>             | <b>1Q20</b>  | <b>1Q19</b>  | <b>Change</b> |
| PRE-TAX PROFIT                         | 74           | 108          | -31.9%        |
| Pre-Tax Cash Flow                      | 119          | 152          | -21.6%        |
| Working Capital Changes                | -304         | -209         | 45.4%         |
| Operating Cash Flow                    | -185         | -57          | 224.5%        |
| Investment Cash Flow                   | -2           | -3           | -46.8%        |
| Financing Cash Flow                    | 535          | 98           | 446.9%        |
| Net Incr. (Decr.) in Cash & Temp. Inv. | 348          | 38           | 828.4%        |
| Beg. of Period Cash and Temp. Inv.     | 252          | 330          | -23.5%        |
| End of Period Cash and Temp. Inv.      | 600          | 367          | 63.5%         |

Source: BMV

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