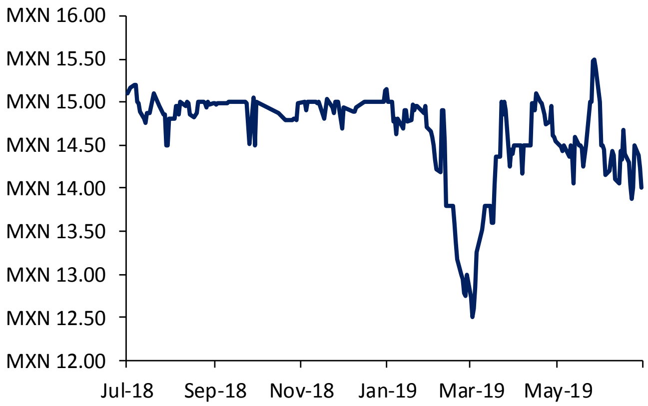
Corpovael, S.A.B. de C.V. (BMV: CADU A)

Favorable Results in the Housing Business; Above Our Expectations



RECOMMENDATION		BUY
12M Target Price (MXN$)	$	18.80
Expected Dividend (MXN$)	$	0.75
Current Price (MXN$)	$	14.00
Potential Return		39.6%
Market Cap. (MXN$ Mn)		4,788
EV/EBITDA 2019E		6.3x
P/E 2019E		6.2x
P/BV (Current)		1.1x

Opinion and Recommendation

CADU presented solid results in the housing business in 2Q19, which were above our projections, mainly due to strong growth in the residential segment. However, these results were offset by a sharp reduction in other businesses revenues due to an unfavorable comparison base, which resulted in lower total revenues and EBITDA in the current quarter. The company generated positive free cash flow.

We believe that the valuation of CADU's shares is very attractive as they currently trade at a forward EV/EBITDA 2019E of 6.3x, a projected P/E of 6.2x and a P/BV of 1.1x. We are reiterating our BUY recommendation with a target price of MXN$18.80 per share.

2Q19 Results

CADU's total revenues decreased 5.3% YoY (we projected -6.2%) to MXN$1,285 million due mainly to a 73.5% YoY reduction in other businesses as a result of an unfavorable comparison base. Last year, the company participated in a self-construction program with subsidies provided by the government to low-income people, which no longer exists.

However, housing sales rose 7.4% YoY (we expected + 6.1%) to MXN$1,236 million in 2Q19, mainly driven by the recognition of MXN$152 million revenues related to the Allure residential development, which had not been launched in 2Q18. From their part, sales of the social interest segment remained practically unchanged. This was partially offset by a 26.2% YoY fall in middle-income sales since potential buyers are taking longer to decide due to the prevailing macroeconomic situation.

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As a result of the stronger revenue mix, the average price was MXN$535 thousand in 2Q19, with a sharp 15.8% YoY increase. The average price in social interest rose 8.1% YoY to MXN$395 thousand. In the middle segment, it was up 2.9% YoY to MXN$2.45 million. The average price at the Allure development was MXN$15.16 million.

The volume of subsidized units decreased 49.2% YoY to 420 units.

Gross margin improved to 33.3% in 2Q19, from 30.8% in 2Q18, supported by the stronger sales mix and the reduction in construction revenues, which generate lower profitability than the housing business.

The incorporation of the residential projects, which implies higher commissions and more promotion and advertising expenses, boosted the administration and sales expenses to 12.4% of total revenues in the current quarter, from 9.9% in the same period of the previous year.

The EBITDA margin was 24.2% (we expected 23.1%) in 2Q19, in line with that of 2Q18. Therefore, the company's consolidated EBITDA decreased 5.3% YoY (we projected -10.1%) to MXN$311 million.

Net income was MXN$228 million in 2Q19, with an annual reduction of 2.9% (we anticipated -6.1%). This small drop was attributed to the aforementioned operating performance, partially compensated by a lower provision of taxes. ROE was 18.9%.

The net debt to EBITDA ratio was 2.7x at the end of 2Q19, compared with 1.9x at the end of 2Q18. Total debt experienced a 30.9% YoY rise in 2Q19 due to a higher amount of bridge loans and the issuance of the CADU 19 Cebures. The weighted average cost of debt was 11.56% in 2Q19. 100% of the debt was at a variable rate.

The working capital cycle was 827 days in 2Q19, compared to 653 days in 2Q18 as a result of higher inventories of work in progress and finished housing. Despite this, the company presented a positive free cash flow of MXN$41 million in 2Q19, which compares favorably against the positive free cash flow of MXN$33 million in 2Q18 and the negative free flow of MXN$94 million in 1Q19.

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