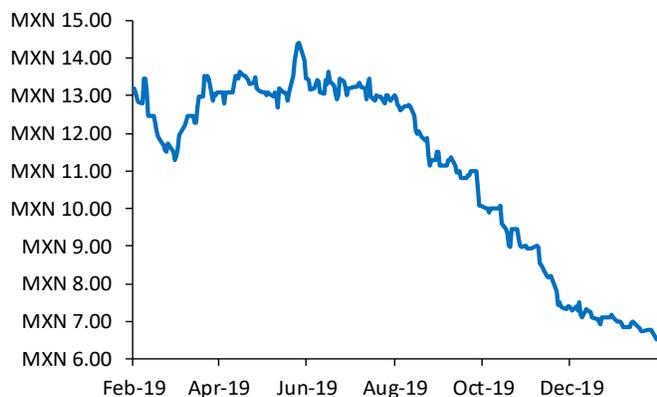


## Corpovael, S.A.B. de C.V. (BMV: CADU A)

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



RECOMMENDATION	BUY
2019E Target Price (MXN\$)	\$ 8.00
Current Price (MXN\$)	\$ 6.51
Expected Dividend (MXN\$)	\$ 0.85
Potential Return	35.9%
Market Cap (MXN\$ Mn)	2,801
EV/ EBITDA 2019E	4.2x
P/E 2019E	3.1x
P/BV (current)	0.5x

#### Opinion and Recommendation

We expect CADU to present weak results in the housing business in 4Q19, which will likely be offset by the sale of land property. The EBITDA margin will improve significantly, the leverage will fall and the company will generate positive free cash flow.

We reiterate our BUY recommendation on CADU as we expect the company's operating performance to improve during the next few quarters. The valuation of CADU's shares is very low since they are currently trading at a forward EV/EBITDA of 4.2x, a projected P/E of 3.1x and a P/BV of 0.5x. In addition, if the company pays the same dividend this year as the one distributed during the previous year (MXN\$0.85/share), the dividend yield could be 13.1% against the current market price.

#### 4Q19 Preview

We expect CADU to record total revenues of MXN\$1,277 million in 4Q19, up 4% YoY. In the housing business, we project revenues to decline 16% YoY mainly due to a 21% YoY reduction in the number of units but with a higher average price. The lower volume will take place mainly in the social interest segment, due to the cancellation of subsidies at the end of the previous year, and in the middle interest segment, as a result of the macroeconomic impact on the demand for units of more than MXN\$2.5-3.0 million. However, this will be partially offset by the sale of land property amounting to around MXN\$300 million. This transaction will boost CADU's EBITDA margin to 30% in the current quarter, from last year's 23.4%. For this reason, we also project a 33% YoY EBITDA growth. Net income will only rise 4% YoY due to a higher fiscal reserve.

We believe that the land sale will help improve the company's leverage to 2.6x at the end of 4Q19, from 3.0x in 3Q19.

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