

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

1Q20 Results Affected by the Start of the Sanitary Contingency



RECOMMENDATION	UNDER REVISION
2020E Target Price (MXN\$)	UR
Current Price (MXN\$)	\$ 6.00
Expected Dividend (MXN\$)	\$ 0.00
Potential Return	UR
Market Cap (MXN\$ Mn)	2,052
EV/ EBITDA 2020E	6.0x
P/E 2020E	3.4x
P/BV (current)	0.4x

Opinion and Recommendation

CADU's 1Q20 results were affected by the start of the pandemic and client caution, which generated reductions in revenues, EBITDA and net profit of 20.1%, 36.6% and 51.6%, respectively. This happened despite the fact that the average price per unit increased 13.4% to MXN\$659 thousand. The company put under revision its guidance for the year.

We believe that CADU has taken the appropriate measures to face the prevailing situation, which included: i) in a holders meeting of the CADU18 and CADU19 notes, it obtained an extension of the CADU18 notes' capital payments corresponding to the May to December 2020 period, and it was granted a covenant compliance waiver for these two financial instruments; ii) the company will not pay dividends in 2020 and 2021; iii) it obtained an extension in the payment of principal and interest with various financial institutions; and, iv) it adopted precautionary measures to cut non-essential expenses. The company mentioned in its press release that these measures guarantee it the necessary resources to focus on the activities it plans to carry out during the remainder of 2020 and throughout 2021.

1Q20 Results

CADU's 1Q20 total revenues stood at MXN\$758 million, down 20.1% YoY. This included a 23.9% decrease in housing revenues, and a 95.3% fall in construction services, which were partially offset by a strong growth in land sales.

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Social interest revenues contracted 31.4% due to the closing of operations during the last two weeks of March, which are the most important of the quarter, affecting the performance of the Cancun and Playa del Carmen developments. In addition, Guadalajara

registered an inventory depletion since the previous year. Residential segment revenues fell 74.6% due to a high comparison base as the company recorded sales corresponding to the 4Q18 in 1Q19. Middle segment revenues grew 19.4% thanks to the titling of the Mexico-Tacuba development.

The average price per unit was MXN\$659 thousand in 1Q20, up 13.4%. This included a significant 90.8% increase in residential, +26.0% in the middle segment and +6.6% in social interest.

Cost of sales was down 20.1% and continued to represent 67.5% of total revenues. However, SG&A expenses rose 16.2%, equivalent to 17.2% of total revenues in 1Q20, from 11.8% in 1Q19. EBITDA declined 36.6% to MXN\$146 million. The EBITDA margin contracted 5 percentage points to 19.3%. Net profits fell 51.6% to MXN\$86 million, as a result of the lower operating performance.

CADU registered a 3.56x net debt to EBITDA ratio at the end of 1Q20, which compares with 2.44x in 1Q19. The company faces maturities amounting to MXN\$746 million during the current year and another MXN\$437 million during the next twelve months. On the other hand, the company registered a MXN\$419 million cash balance at the end of the current quarter.

The working capital cycle was 997 days in the quarter, from 795 days in 1Q19, primarily due to an increase in inventory days as client caution increased during the health contingency. CADU generated a MXN\$213 million negative free cash flow in 1Q20, compared to a negative MXN\$94 million figure in 1Q19.

Stockholders' equity rose 2.8% despite the fact that the company made a MXN\$334 million adjustment in its 4Q19 net profits, of which MXN\$220 million corresponded to the cancellation of Parcel 186 sale and the remainder MXN\$114 million to the deferred taxes provision.

Reopening of the Economy

CADU has available inventories in all the segments. However, the company will focus mainly on social interest since it considers that the support from housing agencies and development banks will be aimed mainly to that segment.

CADU is currently reactivating the low-cost housing developments in Cancun and Playa del Carmen, and middle, residential and residential plus housing in Cancun. The titling of the Mexico-Tacuba project started this year, which is expected to contribute significantly to this year's revenues. In addition, the company is initiating new social interest projects in Tulum, Querétaro and Jalisco. These measures will help CADU to take advantage of the recovery that the sector will likely experience during the second half of the year.

Conference Call Highlights

CADU mentioned that its operations were closed from mid-March to May. The Quintana Roo's state activities have improved recently since it is at orange light. The current hotel occupancy is at 15-17%, but it is expected to reach 60% by year-end.

Most of the MXN\$1,183 million maturities during the next twelve months are revolving lines. In addition, the company has MXN\$2 billion of available land which can be provided as guarantee, has available lines of credit and is structuring additional lines of credit.

(Figures in Millions of MXN\$)

INCOME STATEMENT			
	1Q20	1Q19	Change
Revenues	758	949	-20.1%
Operating Profit	116	196	-41.0%
<i>Operating Margin</i>	15.3%	20.7%	
EBITDA	146	231	-36.6%
<i>EBITDA Margin</i>	19.3%	24.3%	
Financial Gains	3	3	-16.3%
Financial Cost	-16	-8	116.6%
Pre-Tax Profit	102	192	-46.8%
Income Tax & Profit Sharing	-16	-15	10.1%
<i>Tax & Profit Sharing Rate</i>	16.1%	7.8%	
Profit Before Minorities	86	177	-51.6%
Minority Interest	-1	-11	-89.7%
Net Profit	85	166	-49.1%
EPS	P\$ 0.25	P\$ 0.49	-49.1%
BALANCE SHEET			
	1Q20	1Q19	Change
TOTAL ASSETS	10,278	9,512	8.0%
Current Assets	9,962	9,392	6.1%
Cash & Temp. Inv.	419	766	-45.3%
Accounts Receivable	417	494	-15.7%
Inventories	7,852	7,353	6.8%
LT Assets	315	120	163.9%
P, P & E	59	87	-31.8%
Deffered Tax Assets	107	0	N.A.
Other LT Assets	124	33	279.7%
TOTAL LIABILITIES	5,355	4,726	13.3%
ST Liabilities	1,626	1,297	25.3%
LT Liabilities	3,729	3,429	8.8%
TOTAL CAPITAL	4,923	4,786	2.8%
Stockholder's Equity	4,783	4,672	2.4%
Minority Interest	140	115	22.1%
CASH FLOW STATEMENT			
	1Q20	1Q19	Change
PRE-TAX PROFIT	86	177	-51.6%
Pre-Tax Cash Flow	130	275	-52.8%
Working Capital Changes	-346	-373	-7.1%
Operating Cash Flow	-216	-97	122.5%
Investment Cash Flow	3	3	-16.3%
Financing Cash Flow	141	186	-23.9%
Net Incr. (Decr.) in Cash & Temp. Inv.	-72	92	-178.5%
Beg. of Period Cash and Temp. Inv.	491	674	-27.1%
End of Period Cash and Temp. Inv.	419	766	-45.3%

Source: BMV

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