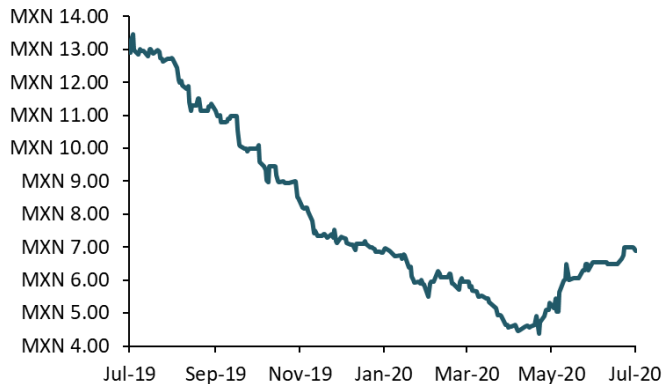


Corpovael, S.A.B. de C.V. (BMV: CADU A)

High Free Cash Flow Generation in 2Q20 Despite the Pandemic



RECOMMENDATION	BUY
2020E Target Price (MXN\$)	\$ 9.50
Current Price (MXN\$)	\$ 6.57
Expected Dividend (MXN\$)	\$ 0.00
Potential Return	44.6%
Market Cap (MXN\$ Mn)	2,052
EV/ EBITDA 2020E	6.7x
P/E 2020E	4.0x
P/BV (current)	0.5x

Opinion and Recommendation

CADU's results were affected by the pandemic, as the construction sector was closed since mid-March, and during April and May. As a result, the number of units that the company sold during the quarter fell 72.1% to 644. This situation generated reductions in revenues, EBITDA and net profits of 59.2%, 82.8% and 88.8%, respectively.

CADU registered MXN\$199 million in positive free cash, increased its cash position by MXN\$92 million and reduced its financial debt by MXN\$42 million during the quarter, which seemed excellent news to us.

We expect a gradual and sustained recovery in CADU's operating performance in the coming quarters as construction is an essential activity, so it will remain open. In addition, hotel occupancy in the State of Quintana Roo, which currently stands at 25%, is expected to reach 60% by the end of the year. This region is the most important for CADU since it represented 69% of its quarterly sales. Therefore, we continue with a BUY recommendation.

Revenues

CADU's total sales were MXN\$525 million in 2Q20, down 59.2% YoY. Housing sales declined 57.8% due to the temporary closure of the construction sector. Mexico City was the only region that presented higher sales in the current quarter as the México Tacuba project began the titling process and the company implemented commercial strategies in the Oasis development. In the current quarter, CADU did not record any sales of subsidized housing, compared to 18.2% of 2Q19 revenues. It is worth mentioning that the company reinforced its sales activity through digital channels and an aggressive promotional campaign.

July 24, 2020

Total volume contracted 72.1% to 644 units due to the impact of the pandemic. However, CADU gradually opened all its developments in Quintana Roo, CDMX and Guadalajara starting in June, which we believe will boost its volume and revenues.

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The reduction in the number of units was partially offset by a significant 51.6% improvement in the average price, which reached MXN\$811 thousand. This was due to a stronger mix, focused on the medium-residential and residential housing segments. In addition, prices in the social interest and used housing segment advanced 7.4% and 21.1%, respectively. However, prices of average, medium-residential and residential housing fell 10.3%, 15.4% and 5.4%, respectively.

Profitability

Gross profit was down 76.9% in 2Q20 due to the lower revenue level and the commercial initiatives that the company had to apply during the quarter. General expenses declined 44.6% thanks to extraordinary measures to face the health emergency. EBITDA decreased 82.8% to MXN\$54 million. The EBITDA margin stood at 10.2% in the current quarter, from 24.2% in 2Q19.

Net income was 88.8% lower as a result of the lower sales level and higher financial expenses. This was partially offset by a positive tax reserve.

Financial Structure

Cash reserves closed at MXN\$511 million, with a quarterly increase of MXN\$92 million. It was the highest level in the last four quarters, despite the fact that CADU reduced its debt by MXN\$42 million during the current quarter.

The net debt to EBITDA ratio was 4.6x at the end of 2Q20, from 2.7x in 2Q19. The company faces short-term maturities of MXN\$936 million. These are revolving lines of credit mainly, with an automatic renewal.

Working Capital Cycle / Free Cash Flow

The working capital cycle reached 1,178 days at the end of 2Q20, from 827 days at the end of 2Q19 due to higher inventory days as a result of greater customer caution. Despite this situation, CADU generated a high free cash flow of MXN\$199 million in the current quarter.

(Figures in Millions of MXN\$)

INCOME STATEMENT	2Q20	2Q19	Change	Acum 2020	Acum 2019	Change
Revenues	525	1,285	-59.2%	1,282	2,234	-42.6%
Operating Profit	27	268	-90.1%	143	464	-69.3%
<i>Operating Margin</i>	<i>5.1%</i>	<i>20.9%</i>		<i>11.1%</i>	<i>20.8%</i>	
EBITDA	54	311	-82.8%	200	541	-63.1%
<i>EBITDA Margin</i>	<i>10.3%</i>	<i>24.2%</i>		<i>15.6%</i>	<i>24.2%</i>	
Financial Gains	4	8	-47.8%	7	11	-38.4%
Financial Cost	-12	-8	45.4%	-29	-16	79.5%
Pre-Tax Profit	19	267	-93.0%	121	459	-73.7%
Income Tax & Profit Sharing	7	-39	-117.6%	-10	-54	-82.3%
<i>Tax & Profit Sharing Rate</i>	<i>-36.9%</i>	<i>14.6%</i>		<i>7.9%</i>	<i>11.8%</i>	
Profit Before Minorities	26	228	-88.8%	111	405	-72.5%
Minority Interest	-4	-12	-68.6%	-5	-23	-78.5%
Net Profit	22	216	-89.9%	106	383	-72.2%
EPS	P\$ 0.06	P\$ 0.63	-89.9%	P\$ 0.31	P\$ 1.12	-72.2%
BALANCE SHEET	2Q20	2Q19	Change	Acum 2020	Acum 2019	Change
TOTAL ASSETS	10,208	9,621	6.1%	10,208	9,621	6.1%
Current Assets	9,960	9,480	5.1%	9,960	9,480	5.1%
Cash & Temp. Inv.	511	602	-15.1%	511	602	-15.1%
Accounts Receivable	378	403	-6.2%	378	403	-6.2%
Inventories	7,743	7,496	3.3%	7,743	7,496	3.3%
LT Assets	248	141	76.4%	248	141	76.4%
P, P & E	53	85	-37.8%	53	85	-37.8%
Other LT Assets	0	55	-100.0%	0	55	-100.0%
TOTAL LIABILITIES	5,260	4,897	7.4%	5,260	4,897	7.4%
ST Liabilities	1,356	1,407	-3.6%	1,356	1,407	-3.6%
LT Liabilities	3,903	3,490	11.8%	3,903	3,490	11.8%
TOTAL CAPITAL	4,948	4,724	4.7%	4,948	4,724	4.7%
Stockholder's Equity	4,805	4,597	4.5%	4,805	4,597	4.5%
Minority Interest	144	127	13.5%	144	127	13.5%
CASH FLOW STATEMENT	2Q20	2Q19	Change	Acum 2020	Acum 2019	Change
PRE-TAX PROFIT	26	228	-88.8%	111	405	-72.5%
Pre-Tax Cash Flow	401	255	57.2%	531	530	0.1%
Working Capital Changes	-206	-221	-7.0%	-552	-594	-7.1%
Operating Cash Flow	195	34	480.0%	-21	-63	-66.8%
Investment Cash Flow	4	8	-47.8%	7	11	-38.4%
Financing Cash Flow	-107	-206	-47.9%	34	-20	-269.9%
Net Incr. (Decr.) in Cash & Temp. Inv.	92	-164	-156.0%	20	-72	-127.4%
Beg. of Period Cash and Temp. Inv.	419	766	-45.3%	419	766	-45.3%
End of Period Cash and Temp. Inv.	511	602	-15.1%	511	602	-15.1%

Source: BMV

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