

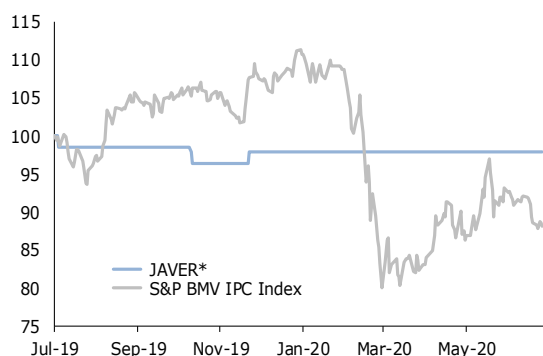
JAVER: 2Q20 RESULTS

Positive Results With Higher-Than-Expected Revenues, Profitability and Free Cash Flow; Raised to BUY

BUY	
2020E Target Price (MXN\$)	\$ 20.00
Current Price (MXN\$)	\$ 16.48
Max / Min (L12M)	\$ 16.23 - 16.48
Expected Dividend (MXN\$)	\$ 0.00
Expected Return	21.4%
Market Cap (MXN\$ Mn)	4,610
Enterprise Value (MXN\$ Mn)	7,604
Outstanding Shares (Mn)	279.8
Float	34.1%
ADTV (MXN\$ Mn)	\$ 0.03

Opinion and Recommendation:

- We consider that JAVER's 2Q20 results were positive mainly due to the fact that the company was able to offset the volume drop as a result of Covid-19 with a very successful expense reduction policy, which boosted its EBITDA by 4.4%. In addition, the free cash flow skyrocketed 180.3% due to the rationalization of investments in land reserves. These results far exceeded our projections.
- JAVER faced the adverse environment in a favorable way as it generated 58% of its volume through digital channels.
- The company did not provide an updated guide for the rest of the year due to the prevailing conditions. However, we expect its results to gradually accelerate in the coming quarters due to the opening of the construction sector from June.
- After these quarterly results, we are raising our recommendation to BUY with a MXN\$20.00 per share target price.



Revenues

JAVER recorded 2Q20 revenues of MXN\$1,634.7 million, down 9.2% YoY, mainly due to a 14.6% decrease in the number of units sold to 3,205, which occurred as a result of the construction sector closure in April and May. This was partially offset by a 6.6% increase in the average housing price supported by a stronger mix.

The company continued to focus on medium and residential interest as volume of these two segments fell 5.3% and 15.1%, respectively, well below the 78.0% decrease in social interest. By type of financing, INFONAVIT represented 92.3% of the total units sold in 2Q20, slightly below 93.0% in 2Q19.

Profitability

Gross profit contracted 9.3% to MXN\$452.8 million, as a consequence of the sales reduction. The gross margin remained at 27.7%. The company implemented successful expense reduction measures, which brought down its administrative and sales expenses by 19.1% to MXN\$231.5 million. For this reason, EBITDA was up a higher-than-expected 4.4% to

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MXN\$249.7 million. The EBITDA margin improved 2 percentage points annually to 15.3%, the highest level since 4Q17.

Net Profits

JAVER registered a MXN\$46.0 million quarterly net profit, up 46.0% YoY, supported by the aforementioned fixed expenses efficiencies and lower exchange losses on the derivatives position.

Financial Situation

The net debt to EBITDA ratio was 2.87x at the end of 2Q20, compared to 2.77x in 2Q19 and 3.07x in 1Q20. JAVER has access to MXN\$300 million in bridge loan lines and MXN\$100 million in lease lines. The company is in compliance with the covenants of its syndicated loan.

Working Capital / Free Cash Flow

The working capital cycle increased to 330 days at the end of the current quarter, from 296 days in 2Q19, as a result of the investments the company carried out in projects that were delayed from 2019 to the current year. Two of such projects are pending regulatory approval.

Free cash flow grew 180.2% to MXN\$173.5 million thanks to the higher EBITDA level combined with a lower investment in land reserves. We consider this as an excellent strategy given the prevailing environment.

Land Reserves

At the end of 2Q20, JAVER reported a land reserve of 74,114 units, which represents more than 5 years of sales, annualizing the volume sold in the first half of the current year. Such reserves include 68.2% of lots for medium housing, 25.5% for low interest and 6.3% for residential.

Measures During the Pandemic

INFONAVIT extended until August 31st the measures it implemented during Covid-19. Eligible beneficiaries who have lost their job or who have suffered a salary reduction may apply for 3-month unemployment insurance or request an extension for a similar period.

FOVISSSTE launched the "FOVISSSTE Para Todos" and "Tu Casa Te Espera" programs and will launch the "FOVISSSTE-INFONAVIT individual" program during the second half of the year.

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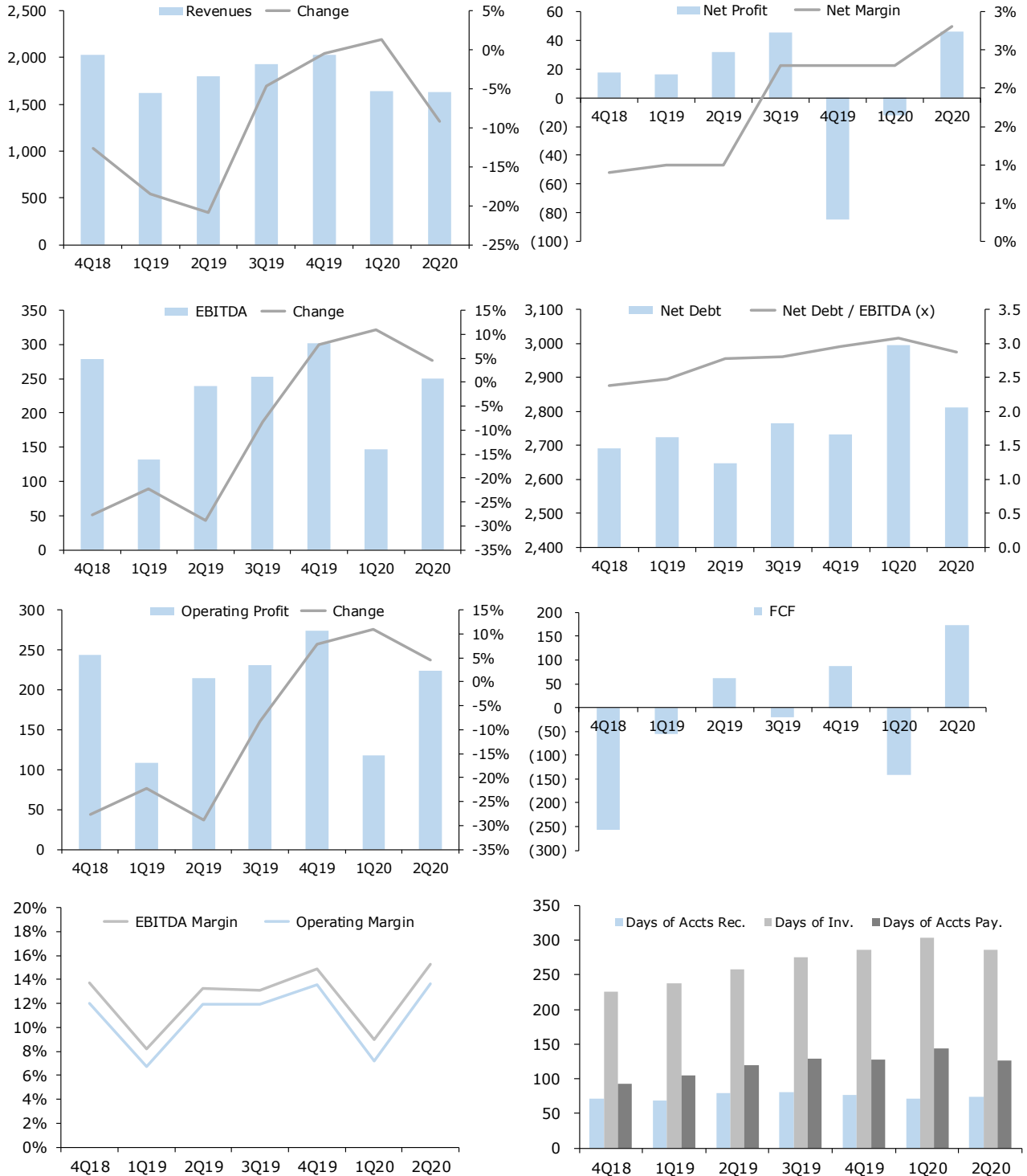
(Figures in Millions of MXN\$)

INCOME STATEMENT	2Q20	2Q19	Change	Acum 2020	Acum 2020	Change
Revenues	1,635	1,801	-9.2%	3,274	3,418	-4.2%
Operating Profit	223	215	4.0%	341	323	5.5%
<i>Operating Margin</i>	<i>13.7%</i>	<i>11.9%</i>		<i>10.4%</i>	<i>9.5%</i>	
EBITDA	250	239	4.4%	397	371	6.8%
<i>EBITDA Margin</i>	<i>15.3%</i>	<i>13.3%</i>		<i>12.1%</i>	<i>10.9%</i>	
Pre-Tax Profit	79	58	36.6%	59	88	-33.2%
Income Tax & Profit Sharing	-33	-27	25.4%	-25	-40	-38.7%
<i>Tax & Profit Sharing Rate</i>	<i>42.0%</i>	<i>45.7%</i>		<i>42.0%</i>	<i>45.7%</i>	
Net Profit	46	32	46.0%	34	48	-28.6%
EPS	P\$ 0.16	P\$ 0.11	45.3%	P\$ 0.12	P\$ 0.17	-28.9%
BALANCE SHEET	2Q20	2Q19	Change	Acum 2020	Acum 2020	Change
TOTAL ASSETS	8,749	8,670	0.9%	8,749	8,670	0.9%
Current Assets	6,001	6,087	-1.4%	6,001	6,087	-1.4%
LT Assets	2,748	2,583	6.4%	2,748	2,583	6.4%
TOTAL LIABILITIES	6,779	6,657	1.8%	6,779	6,657	1.8%
ST Liabilities	2,044	1,967	3.9%	2,044	1,967	3.9%
LT Liabilities	4,735	4,690	1.0%	4,735	4,690	1.0%
NET DEBT	2,810	2,646	6.2%	2,810	2,646	6.2%
TOTAL CAPITAL	1,970	2,013	-2.1%	1,970	2,013	-2.1%
Net Debt / EBITDA (x)	2.9x	2.8x		2.9x	2.8x	
CASH FLOW STATEMENT	2Q20	2Q19	Change	Acum 2020	Acum 2020	Change
PRE-TAX PROFIT	46	32	46.0%	86	102	-15.6%
Non-Cash Items	0	0	N.A.	0	0	N.A.
Pre-Tax Cash Flow	252	257	-2.1%	412	366	12.5%
Working Capital Changes	56	-60	-194.3%	-105	-94	11.5%
Operating Cash Flow	308	197	56.1%	307	272	12.9%
Investment Cash Flow	0	-2	-124.0%	-2	-5	-65.4%
Financing Cash Flow	-165	-171	-3.3%	-317	-257	23.0%
Net Incr. (Decr.) in Cash & Temp. Inv.	143	23	520.1%	-9	4	-306.6%
FX Gain (Loss) In Cash and Temp. Inv.	-1	-2	-71.7%	2	-5	-145.1%
Beg. of Period Cash and Temp. Inv.	371	561	-33.9%	371	561	-33.9%
End of Period Cash and Temp. Inv.	514	584	-12.0%	514	584	-12.0%

Source: BMV

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(Figures in Millions of MXN\$)



Source: BMV

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