

QUÁLITAS: 2Q20 PREVIEW

BUY

2020E Target Price (MXN\$)	\$ 100.00
Current Price (MXN\$)	\$ 89.40
Min / Max (L12M)	\$ 53.14 - 102.22
Expected Dividend (MXN\$)	\$ 1.70
Expected Return	13.8%
Market Cap (MXN\$ Mn)	36,922
Outstanding Shares (Mn)	413.0
Float	43.1%
6-month ADTV (MXN\$ Mn)	\$ 82.9

Opinion and Recommendation

We expect the health contingency to affect the performance of QUALITAS' 2Q20 written premiums. However, this will be partially offset by a lower loss ratio. In addition, financial gains will improve sequentially.

We still like QUÁLITAS due to its solid fundamentals and a low valuation with an estimated P/E of only 7.6x, which represents a discount to its international peers.

2Q20 Preview

The health emergency will generate a 14.6% reduction in written premiums to MXN\$7,047 million. Financial institutions will be the most impacted segment with a 45% decline in written premiums as a consequence of a 55% fall in new car sales in the quarter.

The lower circulation of vehicles, the reduction in robberies and a greater number of recoveries will lead to a 52.0% loss ratio in 2Q20, from 59.3% in 2Q19. In addition, the acquisition ratio will be down to 21.1%, compared to 21.6% of the previous year, due to the aforementioned decline in premiums sold through financial institutions, which charge higher commissions. This will result in a 79.2% combined ratio in the current quarter, from 88.1% in the same period last year.

QUÁLITAS has implemented a more conservative policy regarding its investment portfolio by focusing on fixed income instruments. For this reason, financial gains will amount to MXN\$262 million in 2Q20, which will be lower than the MXN\$620 million in 2Q19, but represent a significant improvement against the MXN\$59 million gain that the company registered in 1Q20.

We estimate a MXN\$1,235 million net profit in 2Q20, down 5.2% YoY. ROE will stand at 41.1% in 2Q20, compared to 38.5% in 2Q19.



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