

Corpovael, S.A.B. de C.V. (BMV: CADU A) Significant Sequential Recovery in 3Q20, In Line With Expectations



RECOMMENDATION	BUY
2020E Target Price (MXN\$)	\$ 9.50
Current Price (MXN\$)	\$ 5.95
Expected Dividend (MXN\$)	\$ 0.00
Potential Return	59.7%
Market Cap (MXN\$ Mn)	2,019
EV/ EBITDA 2020E	7.9x
P/E 2020E	5.3x
P/BV (current)	0.4x

Opinion and Recommendation

We consider that CADU's results were positive as they showed a strong sequential recovery due to the gradual reopening of the Mexican economy. In addition, the company generated a significant amount of positive free cash flow and was able to reduce its debt during the quarter.

After this report, we reiterate our BUY recommendation with a MXN\$9.50 price target. We believe that CADU's results will continue to improve gradually over the next few quarters.

3Q20 Results

CADU's total revenues reached MXN\$822 million in 3Q20 (above our MXN\$811 million projection), up 56.7% QoQ and 8.4% above the 1Q20 level, although with a 29.7% YoY drop (which was much lower than the 57.8% YoY decline in 2Q20). The company presented a very significant sequential recovery in all segments, including middle-residential with + 80.0%, social interest + 60.9%, and middle interest + 58.1%. The social interest (VU) grew 21.0% and the residential + 9.1%.

CADU placed 989 units in 3Q20, well above the 644 houses that the company sold in 2Q20 and slightly below the 1,070 units of 1Q20. The middle-interest, middle-residential, and residential segments contributed 51% of volume in the current quarter, compared to 26% a year earlier.

The average price per unit grew 56.3% YoY to MXN\$817 thousand due to the company's strategy of concentrating on the highest levels, partially offset by the discounts it had to apply in the middle and middle-residential segments. However, the average price remained practically unchanged compared to 2Q20.

The promotional strategy resulted in a 3Q20 gross margin of 18.6%, practically unchanged with that of 2Q20 but below the 33.2% of 3Q19. For its part, EBITDA grew more than 100% QoQ, reaching MXN\$110 million in 3Q20 (in line with our projection). The EBITDA margin was 13.3% in the current quarter, much higher than the 10.2% in 2Q20, supported by higher revenues.

Net profit was MXN\$15 million in 3Q20, below the 2Q20 level of MXN\$26 million due to the aforementioned promotional strategy that the company carried out.

The working capital cycle was 1,194 days in 3Q20, practically in line with the 1,178 days in 2Q20. It was higher than the 877 days of 3Q19 due to the prevailing macroeconomic situation, which has delayed the purchase decisions of potential clients.

The company generated positive cash flow of MXN\$281 million in 3Q20 as a result of higher housing sales and the cash preservation strategies that it has carried out, including the temporary extension of the capital payments of the Cebures CADU 18, the decision to not pay dividends in 2020 and 2021 and the deferral of principal and / or interest payments with various financial institutions. These measures boosted the cash position to MXN\$575 million in 3Q20 (from MXN\$511 million in 2Q20), the highest level since 2Q19.

CADU pay down debt amounting to MXN\$152 million during the quarter. The average weighted cost of debt was 7.89%, while 100% of the debt is in pesos at a variable rate. The company faces maturities of MXN\$272 million in 4Q20 and MXN\$974 million during the next 12 months.

CADU has a focus on sustainability as it has adhered to the UN global pact. It has build 21,145 green homes under the "EcoCasa" program, which has been certified by the "Climate Bond Initiative" (CBI). This positions the company as the main green-homes developer in the country.

(Figures in Millions of MXN\$)

INCOME STATEMENT	3Q20	3Q19	Change	Acum 2020	Acum 2019	Change
Revenues	822	1,170	-29.7%	2,104	3,404	-38.2%
Operating Profit	14	254	-94.4%	157	718	-78.2%
Operating Margin	1.7%	21.7%		7.5%	21.1%	
EBITDA	110	297	-63.0%	310	839	-63.0%
EBITDA Margin	13.4%	25.4%		14.7%	24.6%	
Financial Gains	4	3	18.4%	11	14	-25.7%
Financial Cost	-17	-7	127.2%	-45	-23	94.7%
Pre-Tax Profit	1	250	-99.5%	122	709	-82.8%
Income Tax & Profit Sharing	14	-36	-138.3%	4	-90	-104.6%
Tax & Profit Sharing Rate	n.a.	14.4%		-3.4%	12.7%	
Profit Before Minorities	15	214	-93.0%	126	619	-79.6%
Minority Interest	0	-11	-104.0%	-4	-34	-87.0%
Net Profit	15	203	-92.4%	122	585	-79.2%
EPS	P\$ 0.05	P\$ 0.59	-92.3%	P\$ 0.36	P\$ 1.71	-79.2%
BALANCE SHEET	3Q20	3Q19	Change	Acum 2020	Acum 2019	Change
TOTAL ASSETS	10,090	9,563	5.5%	10,090	9,563	5.5%
Current Assets	9,961	9,423	5.7%	9,961	9,423	5.7%
Cash & Temp. Inv.	575	376	53.1%	575	376	53.1%
Accounts Receivable	385	396	-2.6%	385	396	-2.6%
Inventories	7,558	7,573	-0.2%	7,558	7,573	-0.2%
LT Assets	129	139	-7.2%	129	139	-7.2%
P, P & E	49	84	-41.2%	49	84	-41.2%
Other LT Assets	31	55	-44.6%	31	55	-44.6%
TOTAL LIABILITIES	5,127	4,659	10.1%	5,127	4,659	10.1%
ST Liabilities	1,790	1,342	33.4%	1,790	1,342	33.4%
LT Liabilities	3,337	3,317	0.6%	3,337	3,317	0.6%
TOTAL CAPITAL	4,963	4,904	1.2%	4,963	4,904	1.2%
Stockholder's Equity	4,837	4,766	1.5%	4,837	4,766	1.5%
Minority Interest	126	138	-8.2%	126	138	-8.2%
CASH FLOW STATEMENT	3Q20	3Q19	Change	Acum 2020	Acum 2019	Change
PRE-TAX PROFIT	15	214	-93.0%	126	619	-79.6%
Pre-Tax Cash Flow	-163	236	-169.0%	368	766	-52.0%
Working Capital Changes	441	-208	-311.8%	-111	-802	-86.2%
Operating Cash Flow	278	28	903.9%	257	-36	-819.3%
Investment Cash Flow	4	3	18.4%	11	14	-25.7%
Financing Cash Flow	-218	-257	-15.2%	-184	-277	-33.6%
Net Incr. (Decr.) in Cash & Temp. Inv.	64	-226	-128.2%	84	-299	-128.0%
Beg. of Period Cash and Temp. Inv.	511	602	-15.1%	511	602	-15.1%
End of Period Cash and Temp. Inv.	575	376	53.1%	575	376	53.1%

Source: BMV

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