

JAVER: 3Q20 RESULTS

EBITDA Growth Accelerates to 14.2%, Positive Cash Flow of MXN\$235.9 Million and Lower Leverage

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:

- JAVER reported favorable 3Q20 results with a strong 14.2% EBITDA growth (which accelerated compared to the 4.4% rate in 2Q20) due to the company's strategy of reducing expenses, which offset the slight 2.3% revenue drop that took place as a result of a lower sales volume. In addition, the company generated positive free flow of MXN\$235.9 million and reduced its leverage slightly. These results were above our expectations.
- JAVER expects its EBITDA to grow between 5-7% during the current year with positive free cash flow generation despite the prevailing macroeconomic environment. We consider that this EBITDA projection is conservative, taking into account that this indicator has grown 9.7% YoY in the first 9 months of the year.
- This report reinforced our optimistic point of view about JAVER. We thus continue with our BUY recommendation and MXN\$20.0 target price after these quarterly results.



Revenues

JAVER's revenues contracted slightly by 2.3% YoY to MXN\$1,887.6 million (+2.9% above our projection), which was mainly due to the 12.8% volume drop to 3,668 units that was caused by the lag in inventory of finished products that the company has experienced since 2Q20. This situation was due to the delay in government procedures and a slow recovery in labor hiring. In fact, during the quarter the company opened a new development in the State of Mexico, which had experienced certain delays in processing since the end of last year. With this opening, it accumulates 7 new projects during the current year, the majority in the residential segment.

JAVER's sales mix continued to improve. The middle-income segment represented 88.2% of units sold in 3Q20, with a 9.3 percentage point improvement with respect to the previous year. In addition, the residential segment's contribution rose 1.3 percentage points to 10.1%. For its part, the participation of the social interest segment decreased by 10.6 percentage points to only 3.1%. Infonavit financing represented 90.7% of units sold compared to 92.3% in the same period of the previous year.

JAVER: 3Q20 Results

In our opinion, the company has adjusted itself very well to the new normal as its digital sales represented 60% of the total units sold. In addition, the sector continued to receive support from Infonavit, Fovissste and commercial banks.

As a result of JAVER's focus on middle and residential housing, the average price per unit was up 12.1% to MXN\$514.2 thousand. Middle segment home price grew 7.5% to MXN\$428.6 thousand, while the residential segment price rose 4.4% to MXN\$1.3 million. However, low-income housing price fell 1.2% to MXN\$273.9 thousand.

Profitability

The company's focus on higher-priced housing boosted the gross margin to 27.4% in 3Q20, from 27.2% in 3Q19. In addition, JAVER carried out an expense containment policy that helped it reduce its total expenses by 15.5% YoY in the quarter. As a result, its EBITDA grew 14.2% YoY (we expected +7.8%) to MXN\$288.7 million, above our projections. The EBITDA margin improved to 15.3% in 3Q20, from 13.1% in 3Q19.

Net Profit

JAVER reported net profits of MXN\$60.8 million (in line with our forecast) in the current quarter, up 34.2% YoY due to the solid operating performance, partially offset by a higher tax rate.

Working Capital Cycle / Free Cash Flow

The working capital cycle was 329 days at the end of 3Q20, higher than the 308 days of 3Q19, due to the investment in two projects in the State of Mexico that experienced processing delays. However, the working capital cycle has remained at the same level during the current year.

JAVER generated a positive MXN\$235.9 million free cash flow in the period, compared to a negative figure of MXN\$20.5 million in the previous year, thanks to lower investment in inventories and long-term land reserves, as well as a strong EBITDA growth. Worth mentioning that the company had generated MXN\$173.6 million in 2Q20.

Financial structure

JAVER registered a net debt to EBITDA ratio of 2.53x at the end of 3Q20, below 2.80x in 3Q19 and 2.87x in 2Q20.

We consider that JAVER's liquidity is high since the company ended the quarter with a cash position of MXN\$728.3 million (+ 73.7% YoY), supported by a higher free cash flow generation and the cash preservation measures that included the aforementioned expense reduction strategy as well as obtaining the deferral of interests for the quarter. In addition, it has access to bridge credit lines for MXN\$306.1 million and leases for MXN\$93.0 million.

JAVER: 3Q20 Results

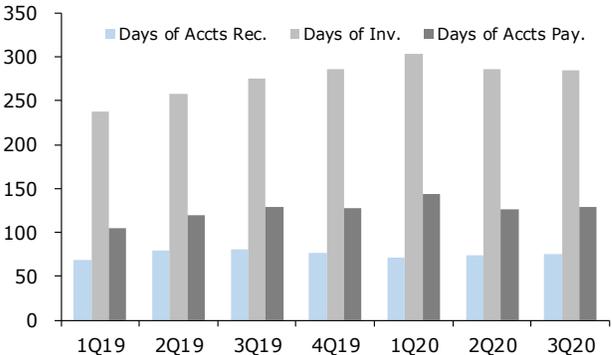
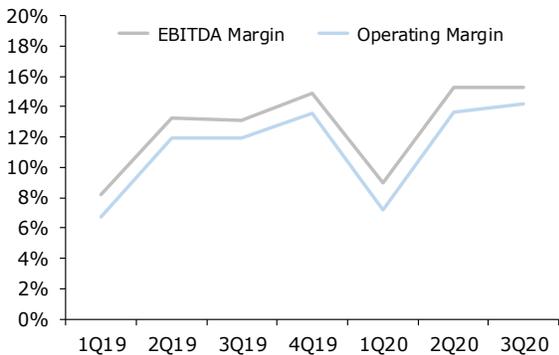
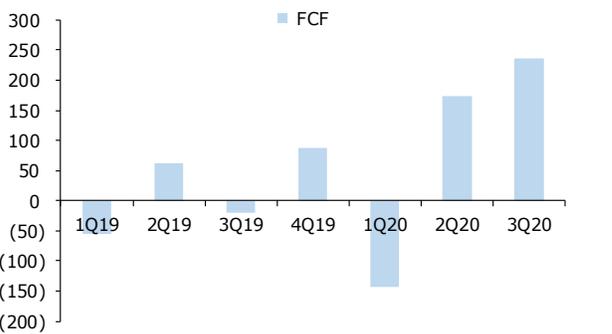
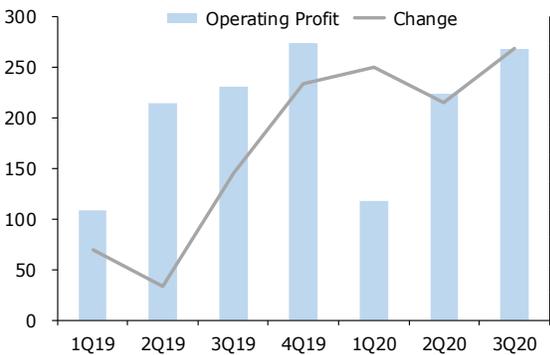
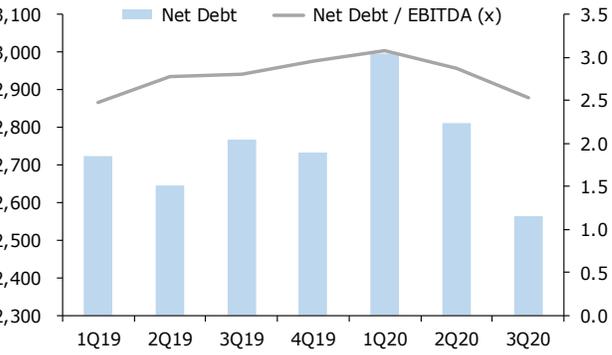
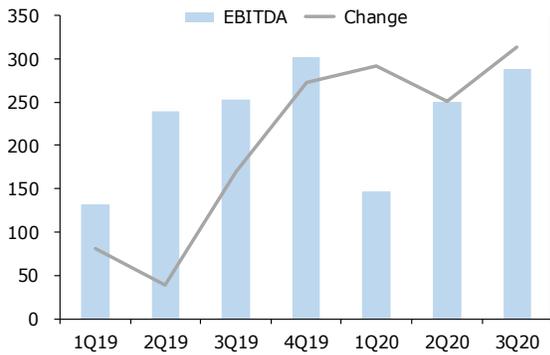
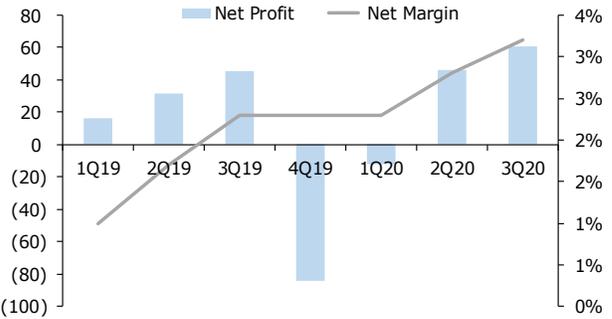
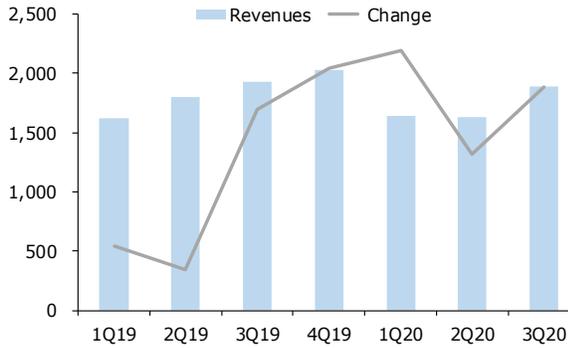
(Figures in Millions of MXN\$)

INCOME STATEMENT	3Q20	3Q20E	Diff.	3Q19	Change	Acum 2020	Acum 2020	Change
Revenues	1,888	1,835	2.9%	1,933	-2.3%	3,274	3,418	-4.2%
Operating Profit	268	246	9.0%	231	16.3%	341	323	5.5%
<i>Operating Margin</i>	<i>14.2%</i>	<i>13.4%</i>		<i>11.9%</i>		<i>10.4%</i>	<i>9.5%</i>	
EBITDA	289	272	6.0%	253	14.2%	397	371	6.8%
<i>EBITDA Margin</i>	<i>15.3%</i>	<i>14.9%</i>		<i>13.1%</i>		<i>12.1%</i>	<i>10.9%</i>	
Pre-Tax Profit	125	124	1.0%	83	49.4%	59	88	-33.2%
Income Tax & Profit Sharing	-64	-62	3.4%	-38	67.3%	-25	-40	-38.7%
<i>Tax & Profit Sharing Rate</i>	<i>51.2%</i>	<i>50.0%</i>		<i>45.7%</i>		<i>42.0%</i>	<i>45.7%</i>	
Net Profit	61	62	-1.5%	45	34.3%	34	48	-28.6%
EPS	P\$ 0.22	P\$ 0.22	-1.5%	P\$ 0.16	34.1%	P\$ 0.12	P\$ 0.17	-28.9%
BALANCE SHEET	3Q20	3Q20E	Diff.	3Q19	Change	Acum 2020	Acum 2020	Change
TOTAL ASSETS	8,887	9,634	-7.8%	8,882	0.1%	8,749	8,670	0.9%
Current Assets	6,253	6,891	-9.2%	6,279	-0.4%	6,001	6,087	-1.4%
LT Assets	2,634	2,743	-4.0%	2,603	1.2%	2,748	2,583	6.4%
TOTAL LIABILITIES	6,852	7,618	-10.1%	6,828	0.4%	6,779	6,657	1.8%
ST Liabilities	2,176	2,883	-24.5%	2,031	7.2%	2,044	1,967	3.9%
LT Liabilities	4,676	4,735	-1.3%	4,797	-2.5%	4,735	4,690	1.0%
NET DEBT	2,565	3,346	-23.3%	2,766	-7.3%	2,810	2,646	6.2%
TOTAL CAPITAL	2,035	2,031	0.2%	2,054	-1.0%	1,970	2,013	-2.1%
Net Debt / EBITDA (x)	2.5x	2.9x		2.8x		2.5x	2.8x	
CASH FLOW STATEMENT	3Q20	3Q20E	Diff.	3Q19	Change	Acum 2020	Acum 2020	Change
PRE-TAX PROFIT	61	124	-50.7%	45	34.3%	86	102	-15.6%
Pre-Tax Cash Flow	292	198	47.7%	252	15.8%	412	366	12.5%
Working Capital Changes	-22	-586	n.a.	-129	-83.2%	-105	-94	11.5%
Operating Cash Flow	271	-388	n.a.	124	119.0%	307	272	12.9%
Investment Cash Flow	-1	0	n.a.	-3	-63.6%	-2	-5	-65.4%
Financing Cash Flow	-54	375	n.a.	-194	-71.9%	-317	-257	23.0%
Net Incr. (Decr.) in Cash & Temp. Inv.	215	-13	n.a.	-68	-414.7%	-9	4	-306.6%
FX Gain (Loss) In Cash and Temp. Inv.	-0	-1	-32.9%	5	-107.8%	2	-5	-145.1%
Beg. of Period Cash and Temp. Inv.	514	514	0.0%	584	-12.0%	371	561	-33.9%
End of Period Cash and Temp. Inv.	728	500	45.7%	515	41.3%	514	584	-12.0%

Source: BMV

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(Figures in Millions of MXN\$)



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