

QUÁLITAS: 3Q20 PREVIEW

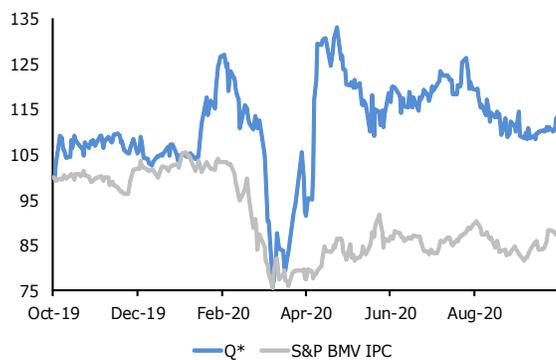
Lower Loss Index to Boost Net Profits 31.6% in the Quarter

BUY

2020E Target Price (MXN\$)	\$ 110.00
Current Price (MXN\$)	\$ 84.40
Min / Max (L12M)	\$ 54.01 - 102.22
Expected Dividend (MXN\$)	\$ 1.70
Expected Return	32.3%
Market Cap (MXN\$ Mn)	34,857
Outstanding Shares (Mn)	413.0
Float	43.1%
6-month ADTV (MXN\$ Mn)	\$ 77.4

Opinion and Recommendation:

- We expect QUALITAS to benefit from a lower loss ratio in 3Q20 as a result of the gradual reopening of the economy, a reduced theft level, and the investments in technology that the company has carried out, which we believe will offset the slight decrease in premiums written, as well as lower financial gains. This should translate into a significant 31.6% increase in net profits.
- We recommend investors to take advantage of QUALITAS' low share price as we expect the company's performance to continue improving over the next few quarters. Furthermore, the valuation remains very low, with an estimated P/E of only 4.7x for 2020.



3Q20 Preview

Written premiums will likely decrease 2.8% YoY, reaching MXN\$8,373 million, due to the gradual reopening of the economy during the quarter. We estimate that there will be a slight reduction in all segments with the exception of foreign subsidiaries, where we anticipate a 43% growth.

We estimate that QUÁLITAS's loss index will be 48.5% in 3Q20, well below the 59.5% of 3Q19, due to a 25% traffic reduction, a lower theft level, a higher recovery rate and the investments in technology that the company has carried out. The acquisition ratio will rise slightly to 23.0%, from 21.8%, while the operating ratio will remain virtually unchanged at 6.6%. This will result in a combined ratio of 78.1% in 3Q20, down from 87.8% in 3Q19. We project that QUALITAS' financial earnings will be MXN\$482 million in 3Q20, from MXN\$739 million in the same period last year, mainly due to lower interest rates.

Net profits will be MXN\$1,740 million in the quarter, up 31.6% YoY. The L12M ROE will likely reach 45.3%, higher than the 43.4% of 3Q19.

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