

QUALITAS: 3Q20 RESULTS

Positive Results With a Lower Loss Index that Boosted Net Profits by 25.2%, ROE LTM of 45.7%

BUY

| | |
|----------------------------|-------------------|
| 2020E Target Price (MXN\$) | \$ 110.00 |
| Current Price (MXN\$) | \$ 83.88 |
| Min / Max (L12M) | \$ 54.01 - 102.22 |
| Expected Dividend (MXN\$) | \$ 1.70 |
| Expected Return | 33.2% |
| Market Cap (MXN\$ Mn) | 34,642 |
| Outstanding Shares (Mn) | 413.0 |
| Float | 43.1% |
| 6-month ADTV (MXN\$ Mn) | \$ 77.4 |

Opinion and Recommendation:

- QUALITAS' loss ratio continued to improve on an annual basis as a result of the gradual re-opening of the economy, the reduction in the number of robberies, the higher recovery rate of stolen vehicles and a greater use of technological tools. This offset the reduction in financial gains, translating into a significant 25.2% YoY net profit growth. The LTM ROE was 45.7%.
- We continue to believe that the current price QUÁLITAS's shares is very attractive mainly due to an estimated P/E of only 4.7x for 2020.
- We reiterate our BUY recommendation with a MXN\$110.0/ share target price.



Premiums Written / Earned

QUALÍTAS 3Q20 premiums written increased 0.5% YoY (against our estimate of -2.8%) to MXN\$8,656 million supported by the measures that the company implemented to face the prevailing macroeconomic situation which included price reductions, months without interests and flexibility in renewals. The individual segment posted a 9.7% growth while premiums of foreign subsidiaries rose 54.5%. The latter represented 8.3% of total premiums, from 5.4% 3Q19. This was partially offset by the 8.0% drop in fleets and 10.1% in financial institutions, in both cases as a result of lower macroeconomic activity. 80% of policies are annual and 20% multi-year, compared to a 73/27 mix two years ago. The higher percentage of annual policies gives the company more flexibility to hike prices up to 3 or 4 times per year. Earned premiums grew 2.7% to MXN\$8,977 million due to multi-year policies from previous years and the fact that the company released certain reserves due to lower claims.

QUÁLITAS' insured units fell only 0.5% to 4,204,566 in 3Q20 despite a 27.7% decrease in the number of new vehicles sold in Mexico during the quarter. In the Mexican subsidiary, insured vehicles were down 0.8%, which included a 1.7% reduction in automobiles and a 9.8% fall in motorcycles. The number of insured trucks grew 2.6%. In El Salvador, this indicator fell 3.0%, while in the United States it declined 9.3%. However, Peru and Costa Rica presented increases of 48.5% and 2.0%, respectively.

QUÁLITAS: 3Q20 Results

Profitability

The loss ratio continued to react favorably to the gradual re-opening of the economy, which has continued to generate less vehicle traffic compared to the previous year. The number of claims decreased 26.4% YoY. In addition, vehicle theft fell 19.1% at the industry level and 20.4% at the QUÁLITAS level. The stolen vehicle recovery rate improved 3.6 percentage points annually to 53.6%. In addition, the company handled 20% of claims through the express adjustment tool, compared to 3% the previous year. These factors resulted in a 51.7% loss ratio (we expected 48.5%) in 3Q20, well below the 59.5% in 3Q19.

The acquisition ratio rose 78 bps to 22.6% due to the increase in agents' performance bonuses and higher premiums sold by subsidiaries that operate with higher commissions. The technical result grew 43.5% YoY to MXN\$2,397 million.

The operating ratio was 7.3% in 3Q20, from 6.4% in 3Q19, which was due to the fact that the company included the employees' profit sharing (PTU) in this item. Thus, QUALITAS presented a combined ratio of 81.6% (we projected 78.1%) in 3Q20, compared to 87.8% in 3Q19.

Financial Gains

The comprehensive financing result was MXN\$544 million in 3Q20, below the MXN\$739 million of the previous year, mainly as a consequence of lower interest rates. 88.4% of the investment portfolio was in fixed income and 11.6% in variable income. The return on investments was 5.4% in 3Q20, or 330 bps below 3Q19, but 115 bp higher than the reference rate.

Net Profits

QUÁLITAS registered a MXN\$1,657 million net profit for the quarter, up 25.2% YoY (we expected + 31.6%). This was the second best quarter in the company's history. The L12M ROE was 45.7%, from 43.5% the previous year. The strong performance in terms of technical and operating results was partially offset by lower financial gains.

Financial Situation

Technical reserves fell 4.5% due to the low growth in terms of premiums written as well as the lower creation of reserves due to the reduction in claims.

Regulatory capital was MXN\$2,342 million at the end of 3Q20 with a 718% solvency margin. This means that the company is well positioned to deal with both the prevailing macroeconomic situation and its obligations, and possibly take advantage of acquisition opportunities that could eventually arise.

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