

QUÁLITAS: 4Q20 P REVIEW

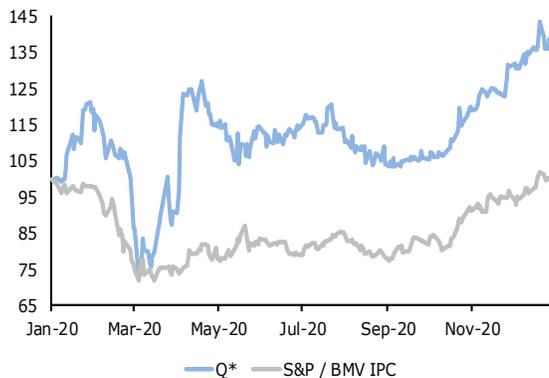
We Expect Neutral 4Q20 Results; But Valuation Looks Very Attractive

BUY

2021E Target Price (MXN\$)	\$ 132.00
Current Price (MXN\$)	\$ 110.14
Min / Max (L12M)	\$ 54.01 - 119.30
Expected Dividend (MXN\$)	\$ 1.80
Expected Return	21.5%
Market Cap (MXN\$ Mn)	45,488
Outstanding Shares (Mn)	413.0
Float	47.0%
6-month ADTV (MXN\$ Mn)	\$ 74.1

Opinion and Recommendation:

- We expect QUALITAS to deliver neutral 4Q20 results with rising earned premiums, which will be partially offset by a higher combined index and lower financial gains, resulting in slightly higher net profit. We believe that these results will have a limited short-term impact on the stock price.
- We reiterate our BUY recommendation due mainly to QUÁLITAS strong fundamentals and low valuation with an estimated P/E of 8.3x and P/BV of 2.1x. In addition, we expect the company to pay a higher dividend in 2021 than in 2020 due to its excess of capital.
- We are introducing our new 2021 target price of MXN\$132.0 per share with a potential 21.5% return. The target multiples are 2.5x P/BV and 8.7x forward P/E, which we believe are conservative.



4Q20 Preview

We expect QUÁLITAS' written premiums to fall 1.3% YoY to MXN\$10.8 billion as the continued weakness in fleets (-5% YoY) and the financial (-5% YoY) segments, which derived from a lower mobility and the partial lockdowns in some states, is partially mitigated by a strong 46% YoY growth in foreign subsidiaries. These subsidiaries will likely represent 7.5% of written premium in the current quarter. However, QUÁLITAS' earned premiums will likely rise 18.2% YoY to MXN\$11.2 billion.

The loss index will likely improve to 55.0% in 4Q20, from 57.7% in 4Q19, as a result of less mobility, the reduction in robberies and a higher theft recovery. Meanwhile, the acquisition index will increase to 22.6% in the current quarter, from last year's 21.0% level, due to higher commissions paid. The operating index will reach 7.6% in 4Q20, from 5.0% in 4Q19 due to higher profit sharing mainly. This will likely translate into a combined index of 85.2% in 4Q20, higher than the 83.6% in 4Q19.

We forecast financial gains of MXN\$471 million in 4Q20, down from MXN\$842 million, mainly due to lower interest rates. Net profits will be up 3.5% YoY to MXN\$1,588 million with a 42.6% ROE which compares to last year's 47.3% ROE.

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