

QUALITAS: 4Q20 RESULTS

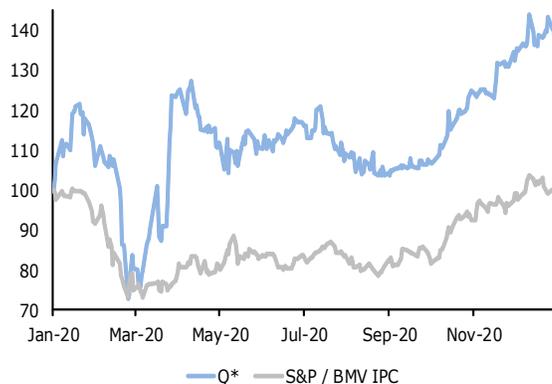
Higher-Than-Expected Loss Ratio Offset by High Financial Gains That Exceeded Our Expectations

BUY

2021E Target Price (MXN\$)	\$ 132.00
Current Price (MXN\$)	\$ 109.12
Min / Max (L12M)	\$ 54.01 - 119.30
Expected Dividend (MXN\$)	\$ 1.80
Expected Return	22.6%
Market Cap (MXN\$ Mn)	45,067
Outstanding Shares (Mn)	413.0
Float	47.0%
6-month ADTV (MXN\$ Mn)	\$ 74.1

Opinion and Recommendation:

- QUÁLITAS reported neutral results in 4Q20 with a higher-than-expected loss ratio due to a rising mobility in Mexico, but with financial gains well above our projections. This resulted in a 4.6% decline in net profits, marginally below than the 3.5% drop that we projected. Additionally, L12M ROE stood at 41.7%, slightly below our 42.6% projection. After this report we continue with a BUY recommendation, mainly due to the low valuation of QUÁLITAS shares with an estimated P/E of 8.2x and a P/BV of 2.4x.



Premiums Written / Earned

QUÁLITAS's premiums written fell slightly by 2.2% YoY (vs. -1.3% E), reaching MXN\$10,701 million. This performance was mainly due to the 16.0% decline in financial institutions and a 4.2% decrease in fleets, which was partially offset by the 14.6% growth in individuals and 13.2% in foreign subsidiaries. The latter contributed 5.8% of written premiums in the current quarter, up from 5.1% the previous year. Multi-year policies represented 78.6% of premiums written, compared to 79.5% in 2019 and 73.6% in 2018. From their part, earned premiums fell 2.2% YoY due to lower premiums written and the creation of technical reserves.

Insured units were down 1.0% to 4.182 million, as a result of a 1.4% drop in Mexico. In this country, insured cars fell 1.8% due to the 21.3% contraction in new car sales, while motorcycle premiums fell 8.3%, which was offset by a 1.9% increase in tourists and +0.3% in trucks. Meanwhile, insured units in Costa Rica and Peru were up 5.2% and 47.1%, respectively, but those in El Salvador and the United States contracted 4.3% and 10.3%, respectively.

Profitability

The loss cost declined only 2.2% YoY in 4Q20 due to a recovery in Mexico's mobility levels compared to previous quarters (-1.9% YoY), offset by a lower theft levels (-20.0% YoY), the highest recovery of stolen cars (54% of total) and greater penetration of technology systems (19.3% of incidents were resolved through "Express Adjustment" in the current quarter). In addition, the company included a MXN\$250 million bonus to its agents due to favorable loss levels. The loss ratio thus remained unchanged at 57.7% (vs. 55.0% E).

QUÁLITAS: 4Q20 Results

The acquisition ratio improved to 19.9% in 4Q20, from 21.0% in 4Q19, due to lower premiums sold through financial institutions. The operating ratio rose marginally to 5.3%, from 5.0% a year earlier, as a result of a 42.1% higher profit-sharing rate. Thus, the combined ratio was 82.9% in 4Q20 (vs. 85.2% E), from 83.6% in the same period of the previous year. Underwriting result was up 5.1% YoY to MXN\$1,239 million.

Financial Gains

As a consequence of the continuous interest rates reduction, QUÁLITAS recorded financial gains of MXN\$713 million, down 15.3% YoY. However, such gains exceeded our projections of MXN\$471 million by far. The return on investments was 7.2% in the current quarter, from 8.2% in 4Q19.

The portfolio was 89% invested in fixed income and the rest in equities in 4Q20, while in 4Q19, the mix was 85/15, respectively. The company plans to increase its exposure to equities in the coming months.

Net Profit / ROE

QUÁLITAS posted a MXN\$1,465 quarterly net profit, down 4.6% YoY. For the whole year, the company registered a MXN\$6,798 million net profit, the highest in its history. ROE was 41.7% in the current quarter, which was lower than last year's 47.3%, but remains among the world's highest.

Technical Reserves / Solvency

Technical reserves fell 4.4% YoY to MXN\$34,312 million as a result of lower premiums written and claims. On the other hand, QUÁLITAS registered a 718% solvency margin in 4Q20. We continue to believe that the company will use part of this excess capital in small acquisitions in Latin America, as well as dividend payments. In our model, we project that it will distribute MXN\$1.80 during the current year, which represents a 1.6% dividend yield.

Share Buyback

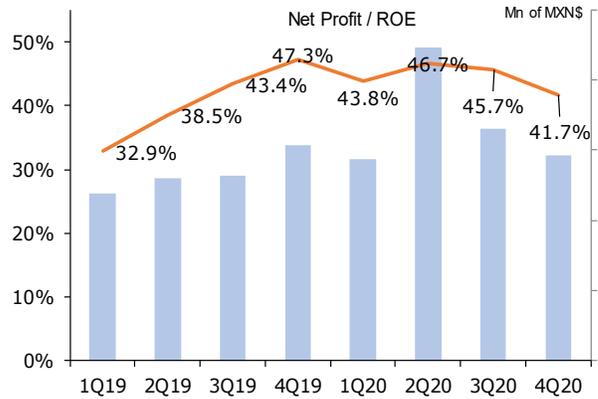
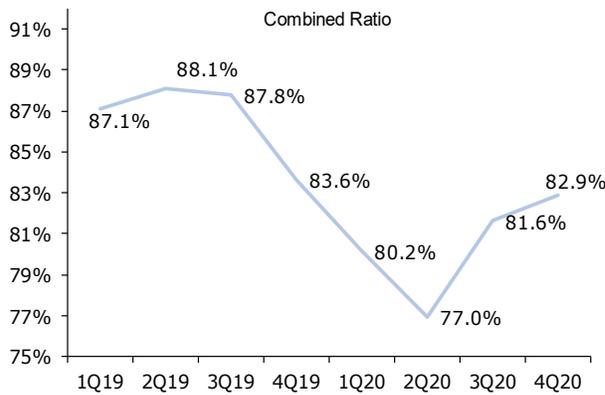
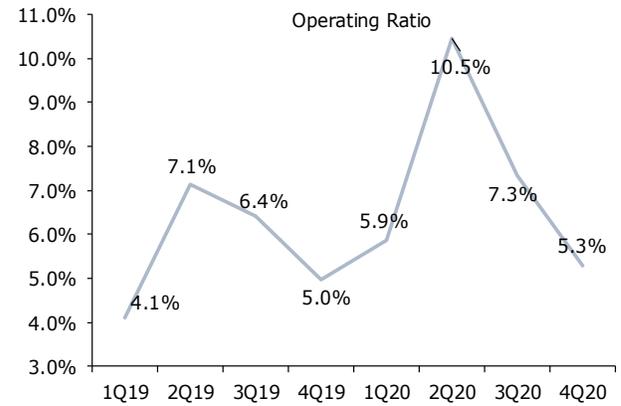
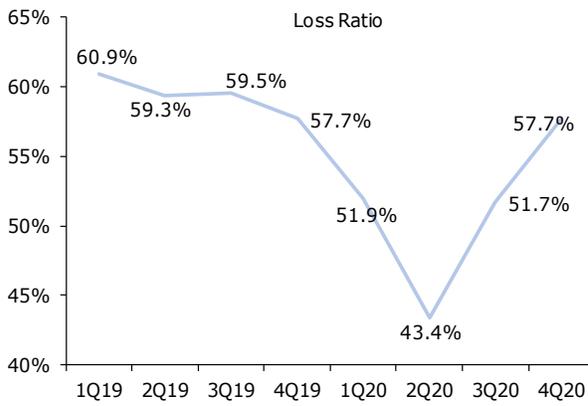
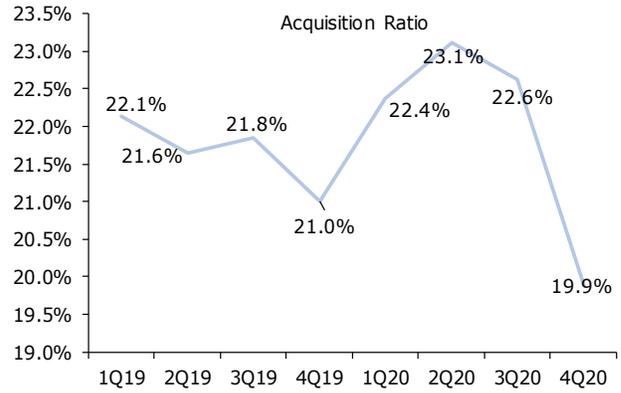
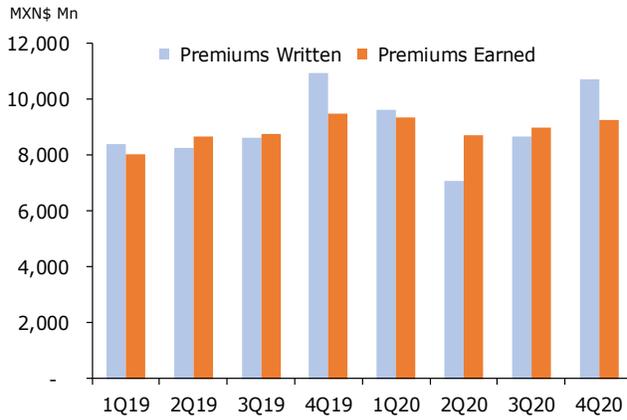
QUÁLITAS repurchased 8.7 million shares amounting to MXN\$728 million during the quarter, using part of MXN\$1.4 billion buyback reserve.

QUÁLITAS: 4Q20 Results

(Figures in MXN\$ Mn)	4Q20	4Q20E	YoY Chg.	4Q19	YoY Chg.	2020	2019	YoY Chg.
Premiums Written	10,701	10,797	-0.9%	10,939	-2.2%	36,057	36,196	-0.4%
Net Premiums Written	10,630	10,704	-0.7%	10,891	-2.4%	35,676	35,991	-0.9%
Premiums Earned	9,261	11,197	-17.3%	9,472	-2.2%	36,291	34,899	4.0%
Acquisition Cost	-2,115	-2,422	-12.7%	-2,288	-7.6%	-7,791	-7,780	0.1%
Loss Cost	-5,341	-6,159	-13.3%	-5,462	-2.2%	-18,613	-20,687	-10.0%
Technical Result	1,805	2,617	-31.0%	1,722	4.8%	9,887	6,432	53.7%
Net Operating Expenses	-567	-821	-30.9%	-544	4.2%	-2,507	-2,029	23.6%
Underwriting Result	1,239	1,800	-31.2%	1,179	5.1%	7,387	4,410	67.5%
Comprehensive Financing Result	713	471	51.5%	842	-15.3%	1,975	2,882	-31.5%
Pre-Tax Profit	1,952	2,270	-14.0%	2,021	-3.4%	9,362	7,292	28.4%
Tax Reserve	-487	-681	-28.4%	-487	0.1%	-2,564	-1,934	32.6%
Net Profit Before Minorities	1,465	1,589	-7.8%	1,534	-4.6%	6,798	5,358	26.9%
Minority Interest	-1	-1	1.1%	-1	41.0%	-4	-4	12.9%
Net Profit After Minorities	1,463	1,588	-7.8%	1,533	-4.6%	6,794	5,354	26.9%
EPS	\$ 3.54	\$ 3.84	-7.8%	\$ 3.61	-1.8%	\$ 16.40	\$ 2.78	489.7%
FINANCIAL RATIOS	4Q20	4Q20E		4Q19		2020	2019	
Acquisition Index	19.9%	22.6%		21.0%		21.8%	21.0%	
Loss Index	57.7%	55.0%		57.7%		51.3%	57.7%	
Operating Index	5.3%	7.6%		5.0%		7.0%	5.0%	
Combined Index	82.9%	85.2%		83.6%		80.1%	83.6%	
Adjusted Combined Ratio	86.6%	84.0%		87.6%		79.7%	87.6%	
Underwriting Result	13.4%	16.1%		12.4%		20.4%	12.4%	
Tax Rate	25.0%	30.0%		24.1%		27.4%	24.1%	
ROE	41.7%	42.6%		47.3%		41.7%	47.3%	
ROA	10.3%	10.1%		9.0%		10.3%	9.0%	

Source: Quálitas, BMV

QUÁLITAS: 4Q20 Results



Source: Quálitas

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