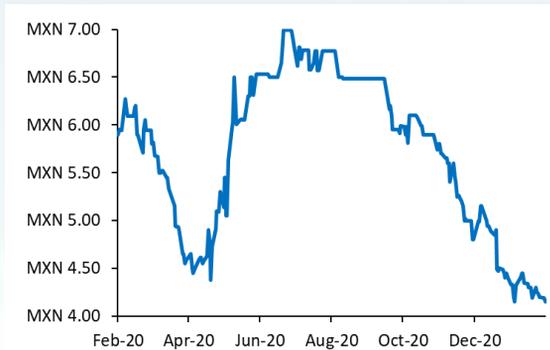


Corpovael, S.A.B. de C.V. (BMV: CADU A)

The Sequential Recovery Continued in 4Q20; High Free Cash Flow Generation



| RECOMMENDATION | BUY |
|---------------------------|---------|
| Target Price (MXN\$) | \$ 7.00 |
| Current Price (MXN\$) | \$ 4.05 |
| Expected Dividend (MXN\$) | \$ 0.00 |
| Potential Return | 72.8% |
| Market Cap (MXN\$ Mn) | 1,374 |
| EV/ EBITDA 2020E | 10.0x |
| P/E 2020E | 10.4x |
| P/BV (current) | 0.3x |

Opinion and Recommendation

We consider that CADU's 4Q20 results were positive as the company maintained a very healthy sequential growth in terms of revenues, EBITDA and net profits. In addition, sales were higher on an annual basis and CADU continued to generate positive free cash flow, which allowed it to reduce its debt.

We reiterate our BUY recommendation on CADU's shares as we expect the company's results to accelerate during the rest of the year due to a higher level of tourism in Quintana Róo, higher employment levels, low interest rates and the support of Infonavit, Fovissste, La Sociedad Hipotecaria Federal and commercial banking.

CADU expects stronger results in 2021 than in the previous year and confirmed that it will continue to focus on generating positive free cash flow, reducing debt, and preserving liquidity.

4Q20 Results

CADU total revenues reached MXN\$1,143 million in 4Q20 (exceeding our MXN\$930 million expectation), with an impressive 39.1% QoQ and 27.0% YoY growth. This performance was mainly due to strong housing revenues reached MXN\$1,003 million, with a favorable 24.1% QoQ and 15.2% YoY increase. By segment, low-income sales rose 65.3% compared to 3Q20 due to the launching of Aldea Tulúm, middle-income housing +6.9% and residential housing +40.4% (due to promotions at Allure).

The average price per unit reached MXN\$786 thousand in 4Q20, with a slight 3.8% reduction compared to 3Q20, but with an annual 33.7% rise, driven by the company's focus on higher-end housing and a higher level of low-income prices. CADU placed 1,276 units in the current quarter, well above the 989 in 3Q20 but still below the 1,481 units in 4Q19.

Gross profit for 4Q20 was up 44.5% QoQ to MXN\$220 million. However, gross profit fell 16.0% YoY as a result of the promotions that the company implemented, in addition to a greater contribution of construction services. On the other hand, total expenses declined 3.2% YoY to MXN\$145 million due to non-essential expenses control strategies.

EBITDA was MXN\$160 million in 4Q20, with a very favorable 45.5% QoQ increase. The EBITDA margin expanded 70 percentage points sequentially, reaching 14.0%. However, EBITDA fell 34.2% YoY and the EBITDA contracted 13.1 percentage points on an annual basis due to the impact of promotions and a higher contribution of construction services.

Net income was MXN\$21 million in 4Q20, up 40% QoQ and comparing favorably to the 4Q19 net loss.

CADU's working capital cycle decreased by 123 days sequentially to 1,071 days, supported by the promotional strategies. However, it was slightly higher than the 950 days of 4Q19 due to the focus on higher priced housing. Accounts receivable were 41 days, less than the 46 days of 3Q20 but higher than the 25 days of the previous year, due to financing from middle-income and residential customers.

The company generated a positive MXN\$257 million free cash flow, which was slightly lower than that of 3Q20, but experienced a significant 14.6% annual growth. For the year, it generated a positive MXN\$525 million free cash flow, compared to MXN\$203 million the previous year.

As a result of this high free cash flow generation, cash reserves reached MXN\$565 million at the end of the quarter, stable with respect to 3Q20, but significantly above the MXN\$491 million in 4Q19. The Inter-American Investment Corporation (IDB Invest) authorized a revolving credit line of up to MXN\$300 million.

CADU reduced its total debt by 4.2% QoQ and 2.9% YoY, to MXN\$3,618 million. The company will maintain a similar strategy going forward. During the quarter, it issued its first "CADU20V" Green Bond amounting to MXN\$502 million with a 7-year term and a fixed interest rate of 9.13%, which will be used to finance projects under the ECOCASA program. This issuance enabled CADU to diversify its funding sources, improve its maturity profile, and diversify its rate structure (86.1% of the debt is at a variable rate and the rest at a fixed rate). The average cost of debt was 7.75%. The net debt to EBITDA ratio stood at 6.40x at the end of 4Q20 from 2.97x in 4Q19.

| (Figures in Millions of MXN\$) | 4Q20 | 4Q20E | Diff | 4Q19 | Change | 2020 | 2019 | Change |
|--------------------------------------|----------|----------|--------|-----------|---------|----------|----------|--------|
| Revenues | 1,143 | 930 | 22.9% | 900 | 27.0% | 3,247 | 4,304 | -24.5% |
| Operating Profit | 75 | 44 | 71.5% | 111 | -32.0% | 232 | 829 | -72.0% |
| <i>Operating Margin</i> | 6.6% | 4.7% | | 12.3% | | 7.1% | 19.3% | |
| EBITDA | 160 | 132 | 21.1% | 244 | -34.4% | 470 | 1,083 | -56.6% |
| <i>EBITDA Margin</i> | 14.0% | 14.2% | | 27.1% | | 14.5% | 25.2% | |
| Financial Gains | 2 | 4 | -40.0% | 2 | -3.5% | 13 | 17 | -22.5% |
| Financial Cost | -27 | 2 | n.a. | -20 | 38.2% | -73 | -43 | 68.7% |
| Pre-Tax Profit | 50 | 50 | 0.0% | 95 | -47.2% | 172 | 804 | -78.6% |
| Income Tax & Profit Sharing | -30 | -8 | 267.9% | -162 | -81.8% | -25 | -252 | -89.9% |
| <i>Tax & Profit Sharing Rate</i> | 58.9% | 16.0% | | 170.5% | | 14.7% | 31.3% | |
| Profit Before Minorities | 21 | 42 | -51.0% | -67 | -130.8% | 147 | 552 | -73.4% |
| Minority Interest | 1 | -2 | n.a. | -3 | n.a. | -4 | -37 | -89.4% |
| Net Profit | 21 | 40 | -47.2% | -70 | n.a. | 143 | 516 | -72.2% |
| EPS | P\$ 0.06 | P\$ 0.12 | -47.2% | -P\$ 0.20 | n.a. | P\$ 0.42 | P\$ 1.51 | -72.2% |

Source: BMV

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Luis Hernández
+5255-3659-6407
Luis.hernandez@miranda-gr.com

Martin Lara
+5255-6413-8563
martin.lara@miranda-gr.com



Contacto



Jorge Gordillo Arias
Director de Análisis Económico y Bursátil
jgordillo@cibanco.com
(55) 1103 1103 Ext. 5693



James Salazar Salinas
Subdirector de Análisis Económico
jasalazar@cibanco.com
(55) 1103-1103 Ext. 5699



A Benjamín Álvarez Juárez
Gerente de Análisis Bursátil
aalvarez@cibolsa.com
(55) 1103-1103 Ext. 5620



Jesús Antonio Díaz Garduño
Analista Económico
jdiaz@cibanco.com
(55) 1103-1103 Ext. 5609



Omar Contreras Paulino
Analista Bursátil
occontreras@cibanco.com
(55) 1103-1103 Ext. 5607



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Dirección de Análisis Económico y Bursátil
Paseo de las Palmas N° 215, Piso 2, Col. Lomas de
Chapultepec, C.P. 11000 CDMX
www.cibanco.com