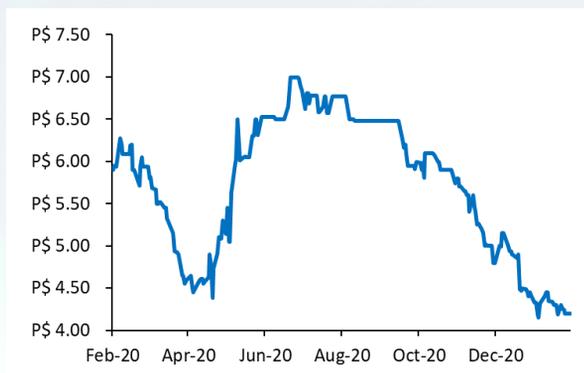


## Corpovael, S.A.B. de C.V. (BMV: CADU A) The Sequential Recovery Will Likely Continue in 4Q20



RECOMMENDATION	BUY
Target Price (MXN\$)	\$ 7.00
Current Price (MXN\$)	\$ 4.20
Expected Dividend (MXN\$)	\$ 0.00
Potential Return	66.7%
Market Cap (MXN\$ Mn)	1,425
EV/ EBITDA 2020E	7.0x
P/E 2020E	3.8x
P/BV (current)	0.3x

### Opinion and Recommendation

We expect CADU's operating performance to continue improving on a sequential basis (with revenues up 13.1% QoQ, EBITDA +20.1% QoQ and net income + 152.4% QoQ) due to the gradual reopening of the Mexican economy, although results will still be lower in the annual comparison. In addition, we believe that the company will continue to generate a significant amount of positive free cash flow supported by its strategy of preserving cash and limiting its investments in land reserves. We recommend taking advantage of the correction in CADU's shares during the recent weeks.

### 4Q20 Preview

We expect CADU to report total revenues of MXN\$930 million in 4Q20, up 13.1% sequentially, but down 21.3% annually. The sequential growth will be driven mainly by the implementation of promotions to mobilize inventories, the reinforcement of sales through digital channels and a higher average price. This will result in 1,078 units sold during the quarter, with a sequential improvement compared to the 989 units in 3Q20, but still below the 1,481 units placed in 4Q19. We estimate an average price per unit of MXN\$849 thousand in 4Q20, practically stable compared to the 3Q20, but 44.0% higher than the 4Q19 price due to the company's strategy to focus on higher-priced housing.

Considering the discounts applied to face the prevailing health situation, we estimate that CADU's gross margin will remain stable sequentially at 18.7% in 4Q20, but that it will be lower than the 38.5% of the same period of the previous year. For its part, the EBITDA margin will improve to 14.2% in 4Q20, slightly higher than the 13.4% of 3Q20, but lower than the 31.5% of the same period last year. The EBITDA will likely rise 20.1% sequentially due to the combination of higher revenues and profitability, but it will be 64.4% lower YoY.

CADU's net profit will likely reach MXN\$39 million in 4Q20, which will be 152.4% higher than the 3Q20 level due to the sequential recovery at the operating level, partially offset by higher taxes. However, this indicator will be down 84.8% YoY.

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