

JAVER: 4Q20 RESULTS

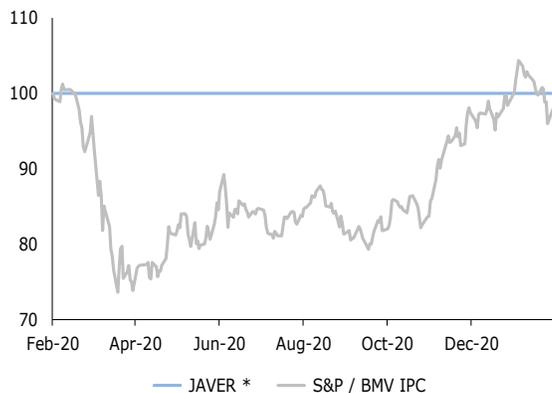
Solid Operating Performance with a High Free Cash Flow Generation

BUY

2021E Target Price (MXN\$)	\$ 20.00
Current Price (MXN\$)	\$ 16.48
Max / Min (L12M)	\$ 16.23 - 16.59
Expected Dividend (MXN\$)	\$ 0.00
Expected Return	21.4%
Market Cap (MXN\$ Mn)	4,610
Enterprise Value (MXN\$ Mn)	7,039
Outstanding Shares (Mn)	279.8
Float	34.1%
ADTV (MXN\$ Mn)	\$ 0.01

Opinion and Recommendation:

- JAVER reported positive results that exceeded our projections both at the operating and free cash flow level. Revenues grew 5.4% YoY, EBITDA rose 5.9% YoY (we expected slight declines in these two indicators) and the company registered a positive net profit of MXN\$45 million (vs. MXN\$40 million E), thus reversing the net loss for the same period of the last year.
- JAVER continued to favor its free cash flow generation since it limited the acquisition of land reserves during the year in order to face the pandemic. It generated a positive figure of MXN\$108 million (vs. MXN\$99 million E) in the current quarter and MXN\$375 million in the whole year despite having paid in advance interests on its syndicated loan during the quarter. As a result, the cash reserves exceeded MXN\$800 million at the end of the quarter, and the net debt to EBITDA ratio was only 2.4x (vs. 2.5x E), down from 3.0x the previous year.
- On the other hand, JAVER expects its 2021 results to be fairly similar to those of the previous year due to the fact that the electoral process could delay the construction permits during the first half of the year, in addition to the possible impact of the pandemic. It expects to generate positive or slightly negative free cash flow due to a higher acquisition of land reserves. These projections seem conservative to us. We reiterate our BUY recommendation after these results.



Revenues

JAVER's 4Q20 revenues reached MXN\$2.1 billion, up 5.4% YoY (we expected a 5.9% YoY contraction). This performance was mainly attributed to the company's continued focus on medium and residential interest, which boosted the average price by 10.8% YoY to MXN\$525 thousand. This offset the 4.7% reduction in the number of units sold, which stood at 4,057 in the current quarter. The reason behind this volume drop was a sharp 85% decrease in low-income units, partially offset by a significant 16.2% rise in the residential segment and by a 5.1% increase in medium-interest units.

Infonavit continued as the main source of financing, representing 91.2% of JAVER's units sold, very similar to the 91.0% level of the same period last year.

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Profitability

Gross margin contracted marginally to 26.9% in 4Q20, from 27.1% in 4Q19. However, the company was able to limit the growth of its operating expenses to only 3.1% YoY despite having recorded start-up expenses of new projects. This resulted in a 5.9% YoY EBITDA growth (vs. -4.2% E), which reached MXN\$319 million. Thus, the EBITDA margin was 15.0% in the current quarter, slightly higher than the 14.9% of the previous year.

JAVER reported a MXN\$45 million quarterly net profit (vs. our MXN\$40 million forecast), thus reversing last year's MXN\$85 million net loss. In addition to the solid performance at the operating level, the integral cost of financing fell 59.3% YoY due to the lower interest paid (the previous year the company recorded extraordinary expenses related to the cancellation of the USD bond) and a significant reduction in FX losses on the derivatives position.

Free Cash Flow / Financial Structure

Given the prevailing health situation, JAVER continued to favor its free cash flow generation since it did not carry out investments in land reserves during the past year. For this reason, it generated a positive MXN\$108 million (vs. MXN\$99 million E) free cash flow in 4Q20 and MXN\$375 million in 2020, despite having paid in advance the interests of its syndicated loan corresponding to the May-August period (the company had obtained a waiver to make such payments in February this year), and having focused more on the medium and residential interest segments.

Thanks to this strong free cash flow generation, JAVER's cash reserves reached MXN\$806 million at the end of 4Q20. Additionally, the net debt to EBITDA ratio was 2.4x (in line with our 2.5x projection), well below the 3.0x in 4Q19. The company has access to bridge loans amounting to MXN\$306 million and lease lines of another MXN\$87 million, which can be used at any time as long as it is in compliance with its financial covenants. In addition, it has a US\$12 million credit line to face any negative effect on the valuation of its derivatives.

Working Capital Cycle

There was no significant change in the working capital cycle since it remained at 320 days, practically in line with the 318 days of 4Q19. We believe this performance was positive considering the aforementioned focus on higher priced units.

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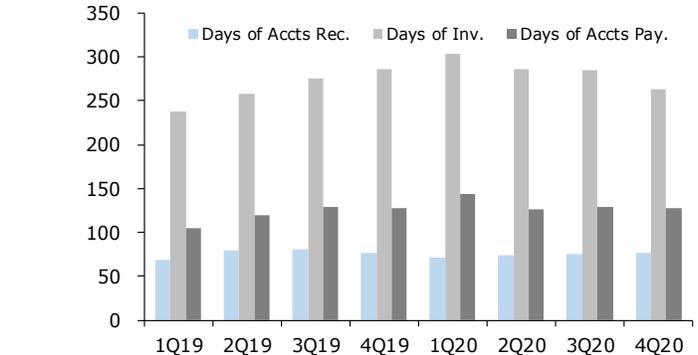
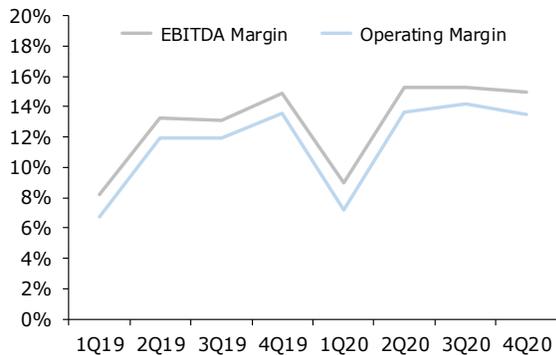
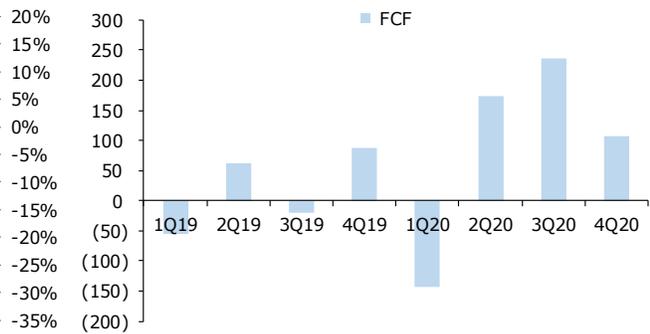
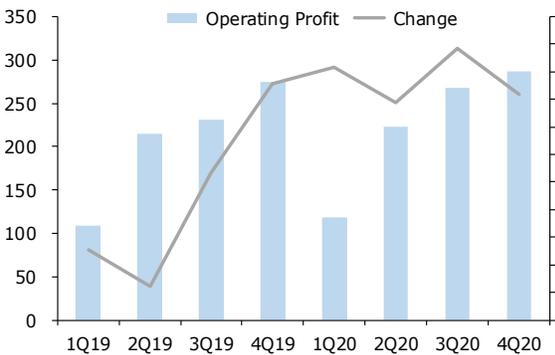
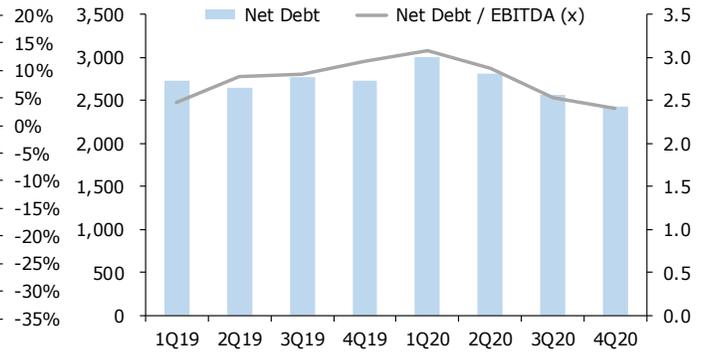
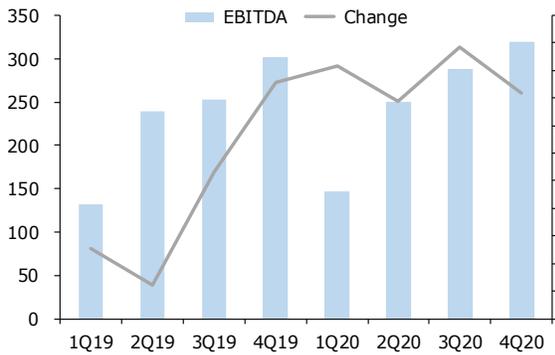
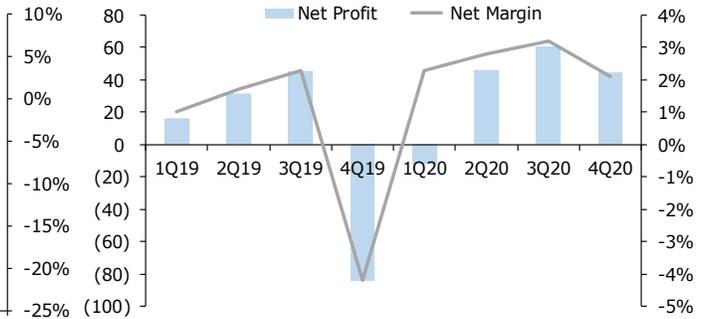
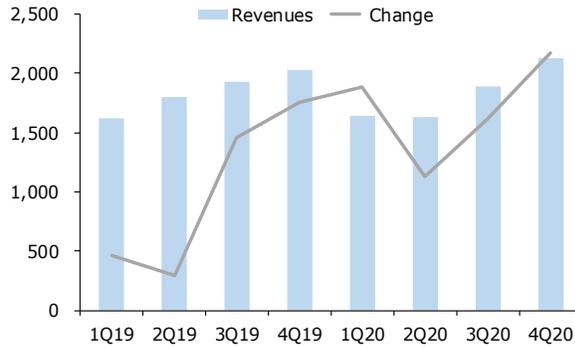
(Figures in Millions of MXN\$)

INCOME STATEMENT	4Q20	4Q20E	Diff.	4Q19	Change	2020	2019	Change
Revenues	2,133	1,905	12.0%	2,024	5.4%	5,161	5,351	-3.5%
Operating Profit	287	267	7.6%	274	4.8%	609	554	10.0%
<i>Operating Margin</i>	<i>13.5%</i>	<i>14.0%</i>		<i>13.5%</i>		<i>11.8%</i>	<i>10.4%</i>	
EBITDA	319	289	10.5%	301	5.9%	685	624	9.8%
<i>EBITDA Margin</i>	<i>15.0%</i>	<i>15.2%</i>		<i>14.9%</i>		<i>13.3%</i>	<i>11.7%</i>	
Pre-Tax Profit	135	125	8.5%	-99	-236.3%	183	171	7.0%
Income Tax & Profit Sharing	-91	-85	6.6%	15	-712.4%	-89	-78	12.9%
<i>Tax & Profit Sharing Rate</i>	<i>66.9%</i>	<i>42.0%</i>		<i>14.9%</i>		<i>48.3%</i>	<i>45.7%</i>	
Net Profit	45	40	12.7%	-85	-152.9%	95	93	2.0%
EPS	P\$ 0.16	P\$ 0.14	12.6%	-P\$ 0.30	-152.9%	P\$ 0.34	P\$ 0.33	1.7%
BALANCE SHEET	4Q20	4Q20E	Diff.	4Q19	Change	2020	2019	Change
TOTAL ASSETS	8,721	9,102	-4.2%	8,837	-1.3%	8,887	8,882	0.1%
Current Assets	6,088	6,473	-5.9%	6,132	-0.7%	6,253	6,279	-0.4%
LT Assets	2,633	2,629	0.1%	2,705	-2.7%	2,634	2,603	1.2%
TOTAL LIABILITIES	6,639	6,852	-3.1%	6,812	-2.5%	6,852	6,828	0.4%
ST Liabilities	2,321	2,176	6.6%	2,019	14.9%	2,176	2,031	7.2%
LT Liabilities	4,318	4,676	-7.7%	4,793	-9.9%	4,676	4,797	-2.5%
NET DEBT	2,429	2,565	-5.3%	2,732	-11.1%	2,565	2,766	-7.3%
TOTAL CAPITAL	2,082	2,035	2.3%	2,026	2.8%	2,035	2,054	-1.0%
Net Debt / EBITDA (x)	2.4x	2.5x		3.0x		2.4x	3.0x	
CASH FLOW STATEMENT	4Q20	4Q20E	Diff.	4Q19	Change	2020	2019	Change
PRE-TAX PROFIT	45	40	11.9%	-85	-152.9%	86	102	-15.6%
Pre-Tax Cash Flow	317	292	8.3%	395	-19.8%	704	618	13.9%
Working Capital Changes	38	-130	n.a.	-188	-120.0%	-127	-223	-43.2%
Operating Cash Flow	354	163	117.8%	207	70.8%	578	396	46.1%
Investment Cash Flow	0	-1	n.a.	-2	-117.8%	-3	-8	-64.7%
Financing Cash Flow	-276	-54	406.2%	-190	45.3%	-371	-451	-17.8%
Net Incr. (Decr.) in Cash & Temp. Inv.	78	2	3669.1%	7	943.9%	206	-64	-422.2%
FX Gain (Loss) In Cash and Temp. Inv.	-1	-0	213.7%	-8	-84.5%	2	0	644.4%
Beg. of Period Cash and Temp. Inv.	728	728	0.0%	515	41.3%	514	584	-12.0%
End of Period Cash and Temp. Inv.	806	730	10.4%	523	54.2%	728	515	41.3%

Source: BMV

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(Figures in Millions of MXN\$)



Source: BMV

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