

JAVER: 1Q21 Results

Higher-Than-Expected Growth in all Operating Indicators

BUY	
Target Price (MXN\$)	\$ 20.00
Current Price (MXN\$)	\$ 16.48
Max / Min (L12M)	16.48
Expected Dividend (MXN\$)	\$ 0.00
Expected Return	21.4%
Market Cap (MXN\$ Mn)	4,610
Enterprise Value (MXN\$ Mn)	6,981
Outstanding Shares (Mn)	279.8
Float	34.1%
ADTV (MXN\$ Mn)	\$ 0.01

Opinion and Recommendation

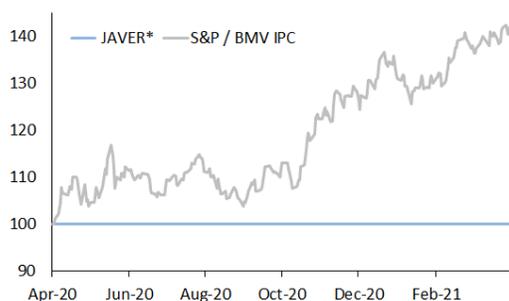
JAVER reported excellent 1Q21 results with higher volume, average price, revenues, EBITDA, and net profits as a result of the recovery in demand and high digital sales. In addition, free cash flow was positive despite the fact that the company started to invest in land reserves again. This also allowed it to strengthen its financial structure both annually and quarterly. These results exceeded our expectations.

As a result of this solid performance, JAVER revised up its guidance for the year. It now expects a 3-5% revenue and EBITDA growth, with a neutral cash flow generation. Previously it expected stable sales and EBITDA with neutral to slightly negative free cash flow.

Our recommendation remains BUY after these results with a MXN\$20.0/share target price. JAVER's valuation looks attractive with an EV/ EBITDA of 6.7x and a projected P/E of 20.6x.

Revenues

JAVER's revenues were up 9.4% YoY (vs. 2.1% E) in 1Q21, reaching MXN\$1,793.1 million. They were supported by a favorable combination of higher volume and average prices. Total volume rose 1.8% YoY to 3,434 units thanks to the gradual re-opening of the economy and the fact that sales through digital channels reached 60% of volume, with an annual increase of 41%. The average price rose 7.4% YoY to MXN\$520.8 thousand due to the company's focus on the middle and residential segments. JAVER opened two new projects in the state of Nuevo León, one residential and the other for middle-income housing.



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

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

It is important to mention that credit institutions have supported the housing industry in a significant way through larger amounts of credit and new financing schemes. FOVISSSTE released the folios for the 2021 scores in record time, while INFONAVIT reported a 14.5% YoY increase in loans granted in 1Q21. INFONAVIT and Cofinavit loans represented 88% JAVER's units in the current quarter, down 4.8 percentage points with respect to the previous year. This was due to greater financing through FOVISSSTE for the openings of the new projects in the State of Mexico and in Querétaro during the past year.

Profitability

Gross profit advanced 9.2% YoY, in line with total revenues. Gross margin remained practically unchanged at 27.2% in 1Q21, from 27.3% in 1Q20. Total expenses fell -3.1% YoY due to the strict control of costs and expenses that enabled the company to generate MXN\$10.3 million in savings. The expense to sales ratio was 17.9% in 1Q21 from 20.3% in 1Q20. EBITDA grew by a higher-than-expected 30.9% YoY (vs 21.1% E) to MXN\$192.2 million. The EBITDA margin was 10.7% in 1Q21, compared to 9.0% in 1Q20.

Net Profits

Quarterly net profits stood at MXN\$16.1 million, which compared very favorably to last year's MXN\$11.9 million net loss, thanks to the solid operating performance.

Financial Structure

The financial structure strengthened with a net debt to EBITDA ratio of 2.23x in 1Q21, from 2.40x in 4Q20 and 3.07x in 1Q20, due to a high free cash flow generation and a high EBITDA growth.

Working Capital Cycle / Free Flow

The working capital cycle improved to 311 days, compared to 329 days last year, due to higher sales of finished inventory. In fact, the ending inventory of finished units fell 19.7% YoY to 1,044. In addition, the company experienced a slight improvement in collection days.

Positive free cash flow reached MXN\$85.8 million in 1Q21, significantly stronger than the negative MXN\$ -142.4 million figure in 1Q20, supported by the cash preservation strategy. This occurred despite the fact that the company invested an additional MXN\$111 million in land reserves compared to the previous year. JAVER will continue to focus on acquiring land to compensate for last year's lag.

INCOME STATEMENT	1Q21	1Q21E	Diff.	1Q20	Change
Revenues	1,793	1,673	7.2%	1,639	9.4%
Operating Profit	169	145	16.4%	118	43.4%
<i>Operating Margin</i>	9.4%	8.7%		7.2%	
EBITDA	192	178	8.1%	147	30.9%
<i>EBITDA Margin</i>	10.7%	10.6%		9.0%	
Pre-Tax Profit	31	10	212.3%	-21	n.a.
Income Tax & Profit Sharing	-15	-4	236.2%	9	n.a.
<i>Tax & Profit Sharing Rate</i>	48.4%	45.0%		42.0%	
Net Profit	16	5	192.7%	-12	n.a.
EPS	P\$ 0.06	P\$ 0.02	192.4%	-P\$ 0.04	n.a.

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