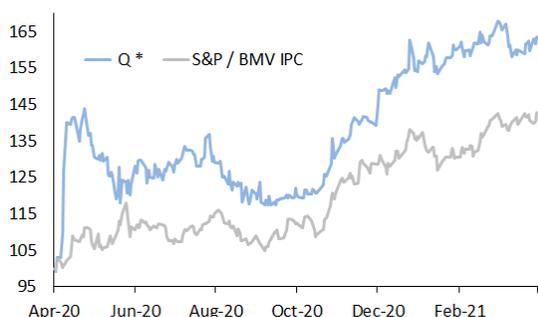


# QUÁLITAS: 1Q21 Preview

## Claims Ratio to Normalize

<b>BUY</b>	
Target Price (MXN\$)	\$ 132.00
Current Price (MXN\$)	\$ 115.01
Min / Max (L12M)	\$ 65.50 - 119.30
Expected Dividend (MXN\$)	\$ 4.00
Expected Return	18.3%
Market Cap (MXN\$ Mn)	47,499
Outstanding Shares (Mn)	413.0
Float	47.0%
6-month ADTV (MXN\$ Mn)	\$ 95.8



## Opinion and Recommendation

We expect QUÁLITAS' premiums written to fall slightly in 1Q21 due to the prevailing macroeconomic situation and a strong competition in the heavy equipment segment. We believe that the loss ratio will normalize due to greater mobility as a result of the gradual re-opening of the Mexican economy. This will boost the combined ratio to 87.3% in 1Q21, from 80.3% the previous year. However, the company will partially offset this impact with high financial gains, which will result in a 27.7% YoY decline in net profits.

## 1Q21 Preview

We expect QUÁLITAS premiums written to fall 1% due to the still low purchasing power of clients, lower sales of new cars (although these resumed growth in March), and strong competition in the heavy equipment segment. The company has decided to maintain discounts and interest-free months in order to support its profitability. This will be partially offset by a strong performance in foreign subsidiaries, which maintained a high growth. We project that QUÁLITAS' premiums earned will decrease 5% YoY due to the creation of technical reserves as a result of higher claims.

We estimate that the loss ratio will be 59% as a result of greater mobility derived from the gradual re-opening of the Mexican economy. As in previous quarters, we expect this situation to be partially mitigated by a lower theft level and a higher recovery rate. We also estimate an acquisition ratio of 22.3%, while the operating ratio will remain at 6.0%, which will result in an 87.3% combined ratio, higher than the 80.2% of the previous year. For this reason, the operating result will contract 46.2% YoY.

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However, financial gains will reach MXN\$445 million, well above the MXN\$59 million figure in 1Q20. Net profits will likely stand at MXN\$1,041 million in the current quarter, down 27.7% YoY. Despite this adjustment, LTM ROE will remain at a high 36.5%.

**Dividend**

QUALITAS will propose the payment of a MXN\$4.0/share cash dividend at its next annual shareholders' meeting to be held on April 28th. This dividend will increase 135% compared to the MXN\$1.70/share that the company distributed last year and translates into a 3.5% dividend yield. It will be paid on May 14th in a single installment. Likewise, the company will propose the cancellation of 7 million treasury shares (1.7% of total shares outstanding) and the creation of a new MXN\$1.2 billion share buy-back reserve (2.5% of the current market value) . We believe this is favorable news as the total return of the three operations will be 7.7%.

The company will report on April 20<sup>th</sup> after the close.

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