

QUÁLITAS: 1Q21 Results

Net Profit Down 25.5% YoY On Higher Claims and Reserves

HOLD	
Target Price (MXN\$)	\$ 132.00
Current Price (MXN\$)	\$ 116.72
Min / Max (L12M)	\$ 65.50 - 119.30
Expected Dividend (MXN\$)	\$ 4.00
Expected Return	16.5%
Market Cap (MXN\$ Mn)	48,205
Oustanding Shares (Mn)	413.0
Float	47.0%
6-month ADTV (MXN\$ Mn)	\$ 95.8

Opinion and Recommendation

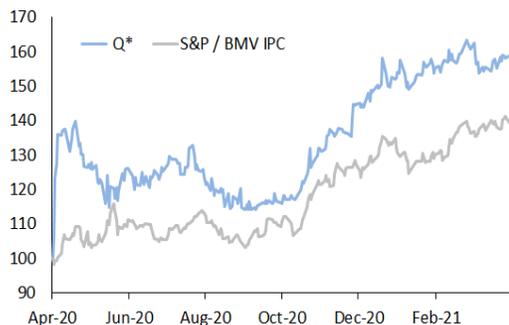
QUÁLITAS presented 1Q21 results practically in line with our projections with a 25.5% YoY decline in net profits, slightly above the 27.7% drop that we anticipated. The loss ratio normalized due to greater mobility, which boosted the combined ratio to 86.6% in the current quarter, from 80.8% the previous year. However, this was partially offset by high financial gains.

We are downgrading our recommendation to HOLD, from BUY, as we expect QUÁLITAS' loss ratio to continue normalizing during the following quarters and the company to continue creating technical reserves. Additionally, financial gains face a less favorable comparison than in the current quarter.

QUÁLITAS will propose the payment of a MXN\$4.0/share cash dividend, the creation of a new MXN\$1.2 billion share buy-back reserve and the cancellation of 7 million treasury shares at its April 28 shareholders' meeting.

Premiums Written / Earned

Premiums written were up 1.2% YoY (vs. -2.0% E) in 1Q21, reaching MXN\$9,705 million. They were mainly driven by 10.4% growth in the individual segment, which we believe benefited from the discounts and interest-free months that the company has applied since the beginning of the pandemic and which will continue during the rest of the year. In addition, foreign subsidiaries presented a significant 25.6% increase, representing 7.6% of total premiums written, vs. 6.1% in the previous year. On the other hand, the financial institutions segment fell 3.6% due to lower sales of new cars, while fleets decreased 8.3%. The portfolio included 76.8% annual policies and the remaining 23.2% multi-year policies, from a 78.6 / 21.4% mix in 2020.



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On the other hand, premiums earned were down -9.1% YoY (vs -6.6% E) to MXN\$8,608 million, as a result of the creation of technical reserves amounting to MXN\$1,009 million associated with a higher claims level.

Insured units were practically unchanged on an annual basis at 4.32 million, which was due to the fact that Mexico units remained stable. However, the company insured 138 thousand units during the current quarter.

Profitability

The claims cost was 2.4% YoY higher due to greater mobility, partially offset by a lower theft level (-20% in the case of Quálitas) and a higher recovery rate of 54% (+2.9 percentage points compared to 1Q20). In addition, attention through the "Adjustment Express" tool represented 21% of total claims, from 19.3% in 4Q20. This translated into a 59.3% (vs. 59.0% E) loss ratio in 1Q21, from 52.7% in 1Q20.

Meanwhile, the acquisition ratio stood at 23.2%, from 22.4%. The company launched the "QSeguimiento" and "QIndemnización" portals in order to track claims and digitize documents, respectively, which we believe will help it to improve this index in the future. The operating ratio was 4.1%, compared to 5.7% the previous year, thanks to a lower profit-sharing provision.

This resulted in an 86.6% combined ratio in the current quarter, up from 80.8% in the prior year. However, it was slightly below the 87.3% level that we expected.

Financial Gains / Underwriting Result

Financial gains reached MXN\$531 million (vs. MXN\$445 million E) in 1Q21, exceeding last year's MXN\$59 million figure. The favorable comparison base was due to the fact that, at the end of March 2020, the performance of the investment portfolio was affected by the volatility in international markets. The underwriting result decreased -51.8% YoY (vs. -46.2% E).

Net Profits

Net profits fell -25.5% YoY to MXN\$1,073 million (practically in line with our MXN\$1,041 million projection) in 1Q21 due to the creation of technical reserves and higher claims, which was partially offset by high financial gains. The company registered a 36.9% ROE, below the 43.8% in 1Q20.

Solvency

QUÁLITAS posted a 662% solvency margin with a MXN\$14,601 million surplus with respect to regulatory capital. This explains this year's increase in the dividend payments.

(Figures in MXN\$ Mn)	1Q21	1Q21E	Diff.	1Q20	YoY Chg.
Premiums Written	9,705	9,399	3.3%	9,593	1.2%
Net Premiums Written	9,617	9,337	3.0%	9,423	2.1%
Premiums Earned	8,608	8,837	-2.6%	9,465	-9.1%
Acquisition Cost	-2,232	-2,082	7.2%	-2,110	5.7%
Loss Cost	-5,105	-5,214	-2.1%	-4,986	2.4%
Technical Result	1,272	1,541	-17.5%	2,368	-46.3%
Net Operating Expenses	-396	-564	-29.7%	-551	-28.1%
Underwriting Result	876	978	-10.5%	1,817	-51.8%
Comprehensive Financing Result	531	445	19.4%	59	806.3%
Pre-Tax Profit	1,407	1,423	-1.1%	1,876	-25.0%
Tax Reserve	-332	-381	-12.7%	-435	-23.6%
Net Profit Before Minorities	1,074	1,042	3.1%	1,440	-25.4%
Minority Interest	-1	-1	1.8%	-1	-0.2%
Net Profit After Minorities	1,073	1,041	3.1%	1,439	-25.5%
EPS	\$ 2.60	\$ 2.52	3.1%	\$ 3.44	-24.4%
FINANCIAL RATIOS	1Q21	1Q21E		1Q20	
Acquisition Index	23.2%	22.3%		22.4%	
Loss Index	59.3%	59.0%		52.7%	
Operating Index	4.1%	6.0%		5.7%	
Combined Index	86.6%	87.3%		80.8%	
Adjusted Combined Ratio	89.8%	88.9%		80.8%	
Underwriting Result	10.2%	11.1%		19.2%	
Tax Rate	23.6%	26.8%		23.2%	
ROE	36.9%	36.5%		43.8%	
ROA	9.7%	9.8%		9.2%	

Source: Quálitas, BMV

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