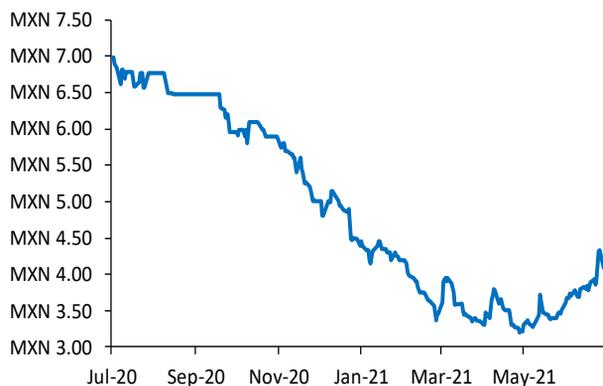


Corpovael, S.A.B. de C.V. (BMV: CADU A)

Accelerated Growth, Above Our Projections



CADU/A	BUY
Target Price (MXN\$)	\$ 7.00
Current Price (MXN\$)	\$ 4.22
Expected Dividend (MXN\$)	\$ 0.00
Potential Return	65.9%
Market Cap (MXN\$ Mn)	1,432
EV/ EBITDA 2020E	8.5x
P/E 2020E	11.3x
P/BV (current)	0.3x

Opinion and Recommendation

CADU reported favorable 2Q21 results, which exceeded our projections. The company maintained the recovery trend as its housing revenues increased 27.5% YoY due to the combination of higher volumes and prices. In addition, the EBITDA margin expanded 4.6 percentage points, CADU generated positive free cash flow and reduced its debt 10.2%. After these results, we continue with a BUY recommendation and a target price of MXN\$7.00 / share.

During the quarter, CADU published its second Quarterly Green Bond Report and its fourth Annual Sustainability Report. It has positioned itself as a leader under the ECO CASA program and made progress in obtaining the EDGE Certification from the IFC. It plans to report its main ESG indicators on a quarterly basis starting next quarter. We believe that the continued focus on ESG is positive as the company will become increasingly sustainable. Also, it could reduce the financing cost and increase the stock's valuation.

Revenues

CADU's 2Q21 revenues were up 38.6% YoY to MXN\$727 million (exceeding our MXN\$703 million estimate). They were supported by higher housing, land and construction services sales. Housing revenues rose 27.5% to MXN\$666 million, which derived mainly from a favorable performance in social interest (+ 66.5%), due to the displacement of the Aldea Tulum and Cielo Nuevo projects; in middle-income housing (+ 37.2%), due to the Madison and Midtown developments; as well as in residential (+ 86.9%), due to the Allure and Blume projects.

The average price increased 4.3% YoY to MXN\$846 thousand thanks to higher average prices in most segments, with the exception of middle-residential, and a greater contribution of residential housing in the mix. During the quarter, CADU placed 787 units, 22.2% more YoY.

Land sales amounted to MXN\$48 million, compared to MXN\$2 million the previous year. In addition, construction services revenues improved to MXN\$ 13 million, from MXN\$0.1 million.

Profitability

Cost of sales was MXN\$557 million, rising 30.9% YoY, as CADU reduced the promotions it implemented to stimulate demand. Gross profit grew 72.0% YoY to MXN\$170 million, thanks to the combination of higher revenues and a decrease in the costs to revenue ratio. General expenses were up 73.2% YoY to MXN\$125 million, as the company limited expenses in 2Q20 due to the uncertainty caused by the pandemic.

These represented 17.2% of total sales, against 13.8% the previous year. 2Q21 EBITDA stood at MXN\$ 106 million, up 98.2% YoY, which was above our MXN\$104 million forecast. The EBITDA margin expanded to 14.6% in the quarter, from 10.2% in the same period of the previous year.

Net Profit

Net profits reached MXN\$16 million in 2Q21, down 35.8% YoY, due to a MXN\$ 15 million fiscal reserve, which compared to a MXN\$7 million fiscal benefit in 2Q20.

Financial Structure

Total debt fell 10.2% YoY to MXN\$3,528 million. The 27.8% reduction in bank debt offset the 42.4% increase in securities due to the issuance of the CADU20V green bond. The maturity profile improved given that 84.8% of debt matures in 2 years or more. Cash and equivalents rose 8.3% YoY to MXN\$ 554 million. The net debt/EBITDA ratio was 5.47x in 2Q21, from 4.61x in 2Q20.

Working Capital Cycle

The company's strategy of focusing on the titling of finished housing reduced the inventory by 213 days. As a result, the working capital cycle improved by 227 days, ending at 951 days in 2Q21.

Free Cash Flow

Free cash flow amounted to MXN\$26 million, compared to MXN\$199 million in 2Q20. This was mainly due to the fact that the company resumed construction activities, while a year ago it focused on preserving liquidity.

ESG

During the quarter, CADU published its Second Quarterly Green Bond Report and its fourth Annual Sustainability Report. In the latter report, the company used the Global Reporting Initiative (GRI), the Sustainability Accounting Standards Board (SASB), and the Task Force on Climate-Related Disclosures (TCFD) methodologies. It has also positioned itself as a leader under the ECOCASA program and made progress in obtaining the EDGE Certification from the IFC. It plans to report its main ESG indicators on a quarterly basis starting next quarter.

(Figures in Millions of MXN\$)

INCOME STATEMENT	2Q21	2Q21E	Diff	2Q20	Change
Revenues	727	703	3.4%	525	38.6%
Operating Profit	45	45	0.4%	27	68.8%
Operating Margin	6.2%	6.4%		5.1%	
EBITDA	106	104	2.4%	54	96.3%
EBITDA Margin	14.6%	14.7%		10.3%	
Financial Gains	1	2	-39.3%	4	-65.3%
Financial Cost	-15	-17	-12.5%	-12	23.4%
Pre-Tax Profit	32	30	4.5%	19	68.7%
Income Tax & Profit Sharing	-15	-15	n.a.	7	-319.3%
Tax & Profit Sharing Rate	n.a.	n.a.		-36.9%	
Profit Before Minorities	16	16	4.7%	26	-35.8%
Minority Interest	1	-0	n.a.	-4	n.a.
Net Profit	17	16	12.0%	22	-20.1%
EPS	P\$ 0.05	P\$ 0.05	12.0%	P\$ 0.06	-19.4%

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