

JAVER: 2Q21 Results

Higher-Than-Expected Growth, High Free Cash Flow Generation and Lower Leverage

JAVER*	BUY
Target Price (MXN\$)	\$ 20.00
Current Price (MXN\$)	\$ 15.99
Max / Min (L12M)	14.95 - 16.48
Expected Dividend (MXN\$)	\$ 0.00
Expected Return	25.1%
Market Cap (MXN\$ Mn)	4,473
Enterprise Value (MXN\$ Mn)	6,290
Outstanding Shares (Mn)	279.8
Float	34.1%
ADTV (MXN\$ Mn)	\$ 0.01

Opinion and Recommendation

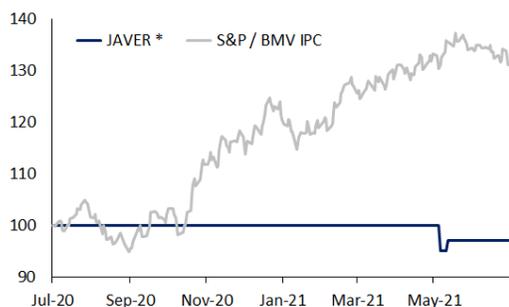
JAVER presented very positive results in 2Q21, which exceeded our projections. Revenues were up 24.4% due to the combination of higher prices and volumes, EBITDA grew 28.5% and net profits rose 92.1%. In addition, the company generated MXN\$460.3million in positive free cash flow, reduced its leverage and improved the working capital cycle.

JAVER kept its guidance of the year. The company expects revenue and EBITDA to increase 3-5% with a positive free cash flow generation. We believe this guidance is conservative as revenues rose 16.9% and EBITDA 29.4% in the first half of the year. In addition, the company generated MXN\$546.0 million in positive free cash flow in such period.

Our recommendation remains BUY with a MXN\$20.0/share target price. We believe that JAVER's prospects are favorable due to the high housing demand and the recent reduction in INFONAVIT's mortgage rates.

Revenues

JAVER's revenues advanced 24.4% YoY (vs. 12.9% E) in 2Q21, reaching MXN\$2,033.5 million, which was due to the combination of higher volumes and average prices. By segment, revenues rose 71.9% in residential and 8.3% in the middle segment. However, they decreased 4.1% in social interest due to lower volume sold in this segment.



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Homes sold were up 7.7% YoY to 3,453, thanks to a high demand, the opening of 5 new projects, and a higher penetration of sales through digital channels which reached 59.5% on a cumulative basis, compared to 50.0% for the year previous. The average price per unit increased 15.7% YoY to MXN\$588.1 thousand, due to higher prices in all segments, as well as a higher contribution of middle and residential housing in the sales mix.

By type of financing, INFONAVIT represented 87.3% of units sold, down from 92.3% the previous year. This decrease was due to a greater contribution from FOVISSSTE and bank credit. Worth mentioning that INFONAVIT reduced its mortgage rate to a range of 1.91% to 10.45% in the new loan scheme in pesos. However, it established a new scoring system.

Profitability

Gross profit rose 22.5% YoY to MXN\$554.5 million in the current quarter. Gross margin remained practically unchanged at 27.3% in 2Q21. Expenses were up only 11.4%, with the expenses to sales ratio improving to 12.7% in the current quarter, from 14.2% in 2Q20. This was due to the company's operating leverage in conjunction with a strict expense control. As a result, EBITDA grew 28.5% (vs. 11.6% E) YoY, reaching MXN\$320.8 million. The EBITDA margin expanded to 15.8% (vs. 15.1% E) in 2Q21, from 15.3% in 2Q20.

Net Profits

Comprehensive financing cost fell 10.7% YoY to MXN\$128.6 million thanks to lower financial expenses and higher interest gains, which offset the increase in the FX losses. Net profits stood at MXN\$88.4 million in the current quarter, up 92.1% YoY.

Financial Structure

The financial structure strengthened with a net debt to EBITDA ratio of 1.77x in 2Q21, from 2.87x in 2Q20. Cash, cash equivalents and restricted cash reached MXN\$1,287.3 million, compared to MXN\$513.6 million, due to the high free cash flow generation, the strong EBITDA growth and the company's operating efficiency. In addition, JAVER has access to bridge credit lines amounting to MXN\$286.8 million and MXN\$99.6 million in lease lines.

JAVER restructured its syndicated loan, which modified the amortization schedule, deferring MXN\$535 million of the first 6 installments to the 2023-2024 period. We believe this restructuring will help the company to generate incremental free cash flow over the next two years. The debt profile is comfortable since the company faces maturities of MXN\$153 during the next 12 months.

Working Capital Cycle / Free Cash Flow

The working capital cycle fell to 276 days in 2Q21, from 330 days last year. This improvement was mainly due to a 59-day reduction in inventory in process due to the acceleration in home sales supported by a high demand and new openings in recent months.

(Figures in Millions of MXN\$)	2Q21	2Q21E	Diff.	2Q20	Change
Revenues	2,033	1,846	10.2%	1,635	24.4%
Operating Profit	300	255	17.5%	223	34.4%
<i>Operating Margin</i>	14.8%	13.8%		13.7%	
EBITDA	321	279	15.2%	250	28.5%
<i>EBITDA Margin</i>	15.8%	15.1%		15.3%	
Pre-Tax Profit	171	141	21.2%	79	116.1%
Income Tax & Profit Sharing	-83	-69	21.2%	-33	149.3%
<i>Tax & Profit Sharing Rate</i>	48.4%	48.4%		42.0%	
Net Profit	88	73	21.2%	46	92.1%
EPS	P\$ 0.31	P\$ 0.26	21.2%	P\$ 0.16	91.4%

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