

QUÁLITAS: 2Q21 Preview

Claims Will Continue to Normalize

Q*	HOLD
Target Price (MXN\$)	\$ 132.00
Current Price (MXN\$)	\$ 92.88
Min / Max (L12M)	\$ 82.46 - 117.96
Expected Dividend (MXN\$)	\$ 4.00
Expected Return	46.4%
Market Cap (MXN\$ Mn)	37,709
Outstanding Shares (Mn)	406.0
Float	47.0%
6-month ADTV (MXN\$ Mn)	\$ 110.7

Opinion and Recommendation

We expect QUÁLITAS to present an atypical quarter due to the normalization of claims, in addition to the reduction in interest rates and the creation of reserves, which will offset the strong growth in written premiums. This will result in a 62.1% YoY drop in the company's net profits. We believe that most of these results have been discounted by the markets considering the sharp correction that QUÁLITAS' shares have experienced in recent weeks. In addition, the valuation is starting to look attractive with a P/BV of 1.9x and a projected P/E of 8.0x.

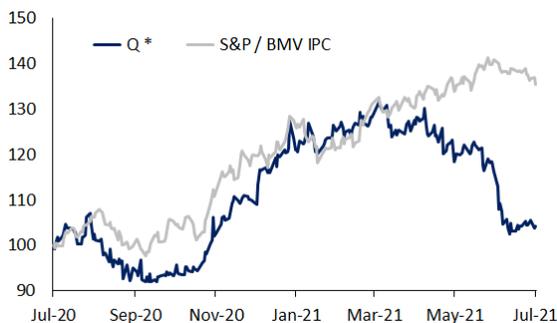
2Q21 Preview

We expect 2Q21 premiums written to rise 24% YoY to MXN\$8,787 million as a result of a strong 25% growth in the individual segment, +20% in fleets and +30% in financial institutions. The company benefited from a higher demand, canceled discounts and promotions, and faced a favorable comparison base in the current quarter. However, we estimate that premiums earned will decline 2.7% YoY to MXN\$8,358 million due to the creation of reserves amounting to MXN\$350 million, as a result of higher claims.

The loss ratio will likely normalize due to higher mobility levels, reaching 62.5% in 2Q21, compared to 41.5% in 2Q20. The acquisition ratio will remain stable at 23.2%, while the operating ratio will drop to 4.5%, from 10.5% the previous year, due to lower profit sharing. This will lead to a combined ratio of 90.2% in the current quarter, higher than the 76.2% in the same period last year.

We project that financial gains will fall 33.1% YoY to MXN\$441 million, due to lower interest rates and a portfolio recomposition that included a greater exposure to higher quality equity instruments in Mexico, as well as foreign equities.

Net profits will likely decrease 62.1% YoY to MXN\$847 million. This will result in a 28.6% ROE in 2Q21, down from 46.7% in 2Q20. The company will report on April 20th after the close.



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