

QUÁLITAS: 3Q21 Results

Higher Claims Affect The Bottom Line; But Attractive Valuation

Q*	BUY
Target Price (MXN\$)	\$ 120.00
Current Price (MXN\$)	\$ 99.46
Min / Max (L12M)	\$ 83.88 - 117.96
Expected Dividend (MXN\$)	\$ 4.00
Expected Return	24.7%
Market Cap (MXN\$ Mn)	41,077
Outstanding Shares (Mn)	413.0
Float	47.0%
6-month ADTV (MXN\$ Mn)	\$ 106.2

Opinion and Recommendation

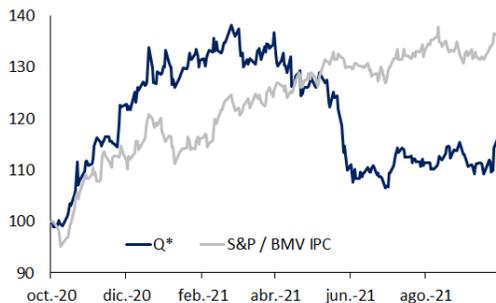
QUÁLITAS' loss ratio normalized as a result of greater mobility and weather events, reached 66.1% (vs. 65.0% E). This offset the growth in premiums written and the release of reserves, resulting in a 44.5% net profit drop, marginally above our expectations. After these results, we are reiterating our BUY recommendation with a MNX\$120.0/share target price due to the company's favorable outlook and as we expect another quarter of claims normalization. In addition, the valuation of QUÁLITAS' shares remains attractive with a 2022E P/E of only 8.4x.

Premiums Written / Earned

Premiums written rose 2.7% YoY (we expected + 6.3%) in 3Q21, reaching MXN\$8.8 billion. They were supported mainly by an 11.9% growth in the individual segment, which was partially offset by a 3.1% fall in financial institutions and a 1.4% decline in fleets. Annual premiums represented 78% of total premiums in 3Q21, up from 78.9% in 3Q20. Since last June, the company has been raising prices in different segments and categories in order to face the higher claims cost and improve its profitability.

Premiums written by foreign subsidiaries remained stable due to the FX impact, as they grew 10.5% in US dollars terms. In the United States, the growth slowed down as the company is looking to control claims and support profitability.

The company released reserves of MXN\$308 million (we only projected MXN\$100 million), with which its premiums earned amounted to MXN\$9.1 billion, practically unchanged annually.



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Insured units were up 7.3% YoY to nearly 4.5 million. This included 59 thousand additional units in the quarter. Mexico recorded a 7.1% YoY increase despite lower new car sales in September due to the semiconductor shortage. Insured units in Peru rose 25.7%, and those in Costa Rica 13.9%, while those in Salvador and the United States showed a marginal growth.

Profitability

The loss ratio rose to 66.1% (vs. 65.0% E) in 3Q21, from 52.9% in the same period last year, due to greater mobility and higher rain and flooding levels. Private mobility was 25% higher in 3Q21 than in 2019, according to Apple figures. Furthermore, robberies decreased 8.6% in the case of QUÁLITAS, while recoveries improved 3.6 percentage points to 50.5% in 9M21. However, the company mentioned that thefts stabilized in 3Q21. For these reasons, the claims cost advanced 24.8% YoY. The acquisition ratio rose one percentage point to 23.8% (vs. 23.0% E) due to an extraordinary payment. The operating ratio decreased to 4.8% (vs. 4.5% E) thanks to a lower profit-sharing level. This resulted in a 94.7% combined ratio (vs. 92.5% E) in 3Q21, from 82.5% in 3Q20.

Financial Gains

Financial gains were MXN\$534 million (in line with our expectations) in 3Q21, similar to those of 3Q20. The return on investments was 5.4% in the current quarter, in line with the same period of the previous year, despite lower interest rates. This indicates that the portfolio's performance benefited from the stock market rally. 87% of the portfolio was invested in fixed income, while the remainder was in equities at the end of the current quarter. This mix compares with 89/11 at the close of last year.

Net Profits

Net profits fell 44.5% YoY (vs. -45.3% E) to MXN\$920 million. ROE contracted to 23.7% in 3Q21, from 45.7% the previous year. This indicator is within the 20-25% long-term guidance.

Solvency

The company ended the quarter with a 637% solvency margin. We continue to think that it could use these resources in acquisitions. On the other hand, QUÁLITAS announced a new dividend policy with a 40-90% payout, provided that its capital is 1.5 times higher than the regulatory requirement. It will also depend on the company's performance and other considerations.

(Figures in MXN\$ Mn)	3Q21	3Q21E	Diff.	3Q20	Change
Premiums Written	8,840	9,197	-3.9%	8,610	2.7%
Net Premiums Written	8,779	9,119	-3.7%	8,535	2.9%
Premiums Earned	9,087	9,219	-1.4%	9,108	-0.2%
Acquisition Cost	-2,090	-2,097	-0.4%	-1,942	7.6%
Loss Cost	-6,007	-5,993	0.2%	-4,815	24.8%
Technical Result	990	1,129	-12.4%	2,351	-57.9%
Net Operating Expenses	-421	-414	1.7%	-589	-28.5%
Underwriting Result	569	721	-21.1%	1,766	-67.8%
Comprehensive Financing Result	534	539	-0.9%	544	-1.8%
Pre-Tax Profit	1,103	1,260	-12.4%	2,310	-52.3%
Tax Reserve	-183	-353	-48.2%	-653	-72.0%
Net Profit Before Minorities	920	907	1.4%	1,657	-44.5%
Minority Interest	-1	-1	-14.8%	-1	-28.7%
Net Profit After Minorities	919	906	1.5%	1,655	-44.5%
EPS	\$ 2.23	\$ 2.19	1.5%	\$ 4.01	-44.5%
(Figures in MXN\$ Mn)	3Q21	3Q21E		3Q20	
Acquisition Index	23.8%	23.0%		22.8%	
Loss Index	66.1%	65.0%		52.9%	
Operating Index	4.8%	4.5%		6.8%	
Combined Index	94.7%	92.5%		82.5%	
Adjusted Combined Ratio	93.7%	92.2%		80.7%	
Tax Rate	16.6%	28.0%		28.3%	
ROE	23.7%	23.7%		45.7%	
ROA	6.6%	6.6%		11.1%	

Source: Quálitas, BMV

INCOME STATEMENT (MXN\$ Mn)	2020	2021E	2022E	2023E	2024E	2025E	2026E
Premiums Written	36,057	39,115	42,194	45,464	48,891	52,594	56,596
Ceded	-381	-303	-288	-310	-334	-359	-386
Net Premiums Written	35,676	38,812	41,906	45,154	48,557	52,235	56,210
Net Increase of Unearned Premiums Reserve	615	-115	1,469	1,583	1,702	1,831	1,970
Premiums Earned	36,291	38,697	43,375	46,737	50,260	54,066	58,180
Acquisition Cost	-7,791	-9,172	-9,850	-10,478	-11,123	-11,808	-12,538
Loss Cost	-18,613	-24,808	-27,649	-29,698	-31,836	-34,139	-36,620
Technical Result	9,887	4,717	5,875	6,560	7,301	8,119	9,022
Net Operating Expenses	-2,507	-1,800	-1,984	-2,183	-2,397	-2,631	-2,887
Underwriting Result	7,387	2,921	3,891	4,377	4,904	5,488	6,134
Comprehensive Financing Result	1,975	2,197	2,385	2,642	2,910	3,204	3,632
Pre-Tax Profit	9,362	5,119	6,276	7,018	7,814	8,692	9,766
Tax Reserve	-2,564	-1,173	-1,394	-1,547	-1,720	-1,913	-2,150
Net Profit Before Minorities	6,798	3,946	4,883	5,471	6,094	6,778	7,616
Minority Interest	-4	-4	-5	-6	-7	-7	-8
Net Profit After Minorities	6,794	3,942	4,877	5,465	6,087	6,771	7,608
EPS	\$ 16.21	\$ 9.54	\$ 11.81	\$ 13.23	\$ 14.74	\$ 16.39	\$ 18.42
BALANCE SHEET (MXN\$ Mn)	2020	2021E	2022E	2023E	2024E	2025E	2026E
TOTAL ASSETS	69,039	78,884	84,793	90,899	97,177	105,155	115,997
Securities and Derivatives	34,893	33,654	35,654	37,654	39,654	43,084	49,084
Securities	34,893	33,654	35,654	37,654	39,654	43,084	49,084
Overnight	36	187	587	987	1,387	1,787	2,187
Net Loan Portfolio	339	296	296	296	296	296	296
Property (Net)	1,854	1,929	1,953	1,977	2,001	2,025	2,049
Investments Related to Labour Obligations	73	77	85	93	101	109	117
Cash and Cash Equivalents	1,692	2,335	2,775	3,215	3,655	4,095	4,535
Debtors	23,718	31,567	33,965	36,518	39,206	42,106	45,236
Re-Insurers and Re-Bonding Companies	117	123	103	83	63	43	23
Permanent Investments	47	47	47	47	47	47	47
Other Assets	6,270	8,670	9,328	10,029	10,767	11,564	12,424
TOTAL LIABILITIES	49,977	58,462	62,428	66,273	69,959	74,956	82,280
Technical Reserves	34,312	46,821	50,378	54,165	58,151	62,452	67,096
Creditors	6,339	3,191	2,958	2,333	1,312	1,230	3,071
Re-Insurers and Re-Bonding Companies	180	13	13	13	13	13	13
Other Liabilities	8,708	7,965	8,570	9,214	9,892	10,624	11,414
TOTAL CAPITAL	19,061	20,422	22,365	24,626	27,218	30,199	33,717
Minority Interest	9	13	14	16	18	20	22
Stockholder's Equity	19,052	20,409	22,351	24,610	27,200	30,179	33,696
FINANCIAL RATIOS	2020	2021E	2022E	2023E	2024E	2025E	2026E
Acquisition Index	21.8%	23.6%	23.5%	23.2%	22.9%	22.6%	22.3%
Loss Index	51.3%	64.1%	63.7%	63.5%	63.3%	63.1%	62.9%
Operating Index	7.0%	4.6%	4.7%	4.8%	4.9%	5.0%	5.1%
Combined Index	80.1%	92.3%	92.0%	91.6%	91.2%	90.8%	90.4%
Adjusted Combined Ratio	79.7%	92.5%	91.0%	90.6%	90.2%	89.8%	89.5%
Underwriting Result	20.4%	7.5%	9.0%	9.4%	9.8%	10.2%	10.5%
Return on Financial Investments (Annualized)	6.0%	6.3%	6.8%	7.0%	7.3%	7.4%	7.5%
Tax Rate	27.4%	22.9%	22.2%	22.0%	22.0%	22.0%	22.0%
ROE	41.7%	20.0%	22.8%	23.3%	23.5%	22.4%	22.6%
ROA	10.3%	5.3%	6.0%	6.2%	6.5%	6.4%	6.6%

Source: Quálitas, Miranda Global Research

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