

QUÁLITAS: 4Q21 Preview

Claims Will Likely Continue To Normalize, Reducing Net Profits

Q*	BUY
Target Price (MXN\$)	\$ 120.00
Current Price (MXN\$)	\$ 104.66
Min / Max (L12M)	\$ 89.09 - 118.85
Expected Dividend (MXN\$)	\$ 4.00
Expected Return	18.5%
Market Cap (MXN\$ Mn)	43,225
Outstanding Shares (Mn)	413.0
Float	47.0%
6-month ADTV (MXN\$ Mn)	\$ 106.6

Opinion and Recommendation

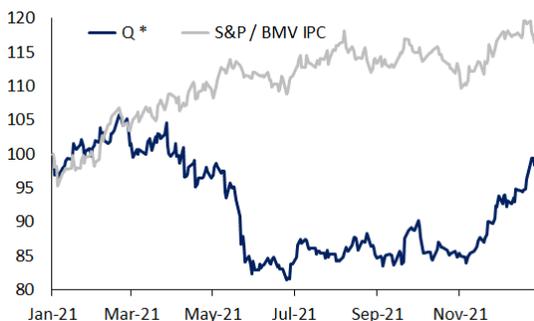
We expect QUÁLITAS claims ratio to continue normalizing in 4Q21 due to higher mobility levels. We also believe that financial gains will decline due to a high comparison base. This should translate into a 44% reduction in net profits. Our current recommendation is BUY with a MXN\$120.0/share target price. We continue to believe that the valuation of QUÁLITAS' shares is attractive with an estimate P/E of 8.8x.

4Q21 Preview

We project that 4Q21 premiums written will decrease marginally to MXN\$10.6 billion. This performance will be attributed to a 7% drop in financial institutions given lower car sales. We also project a 2% reduction in the fleet segment as QUÁLITAS renewed two multi-year policies last year. This will be partially offset by a 5% growth in the individual segment despite the price increases that the company implemented. Foreign subsidiaries will register a 15% increase in premiums written. We anticipate that the company will create reserves amounting to MXN\$500 million, below last year's level, which will boost earned premiums by 9% to MXN\$10.1 billion.

We project that the loss ratio will be 66.0% in the current quarter, from 57.7% a year earlier, due to increased mobility and higher auto parts prices. The acquisition rate will likely be 22.5%, from 19.9%. However, the operating ratio will improve to 4.0%, compared to 5.3%, due to a lower profit sharing. The combined index will reach 92.5% in the quarter, higher than the 82.9% of the same period last year.

Financial gains will fall 32% YoY to MXN\$483 million due to a high base of comparison since in 4Q20 the company benefited from the recovery of the stock market. We expect these factors to result in a MXN\$816 million quarterly net profit, down 44% YoY. ROE will be 19.3% in the current quarter, down from last year's 41.7%.



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