

# QUÁLITAS: 4Q21 Results

Net Profit Down 44.8% On Higher Claims and Lower Financial Gains, In Line

Q*	BUY
Target Price (MXN\$)	\$ 120.00
Current Price (MXN\$)	\$ 103.89
Min / Max (L12M)	\$ 89.09 - 118.85
Expected Dividend (MXN\$)	\$ 4.00
Expected Return	19.4%
Market Cap (MXN\$ Mn)	42,907
Outstanding Shares (Mn)	413.0
Float	47.0%
6-month ADTV (MXN\$ Mn)	\$ 106.6

## Opinion and Recommendation

QUÁLITAS' 4Q21 results were affected by the normalization of claims and lower financial gains, which resulted in a 44.8% drop in net income, practically in line with the 44.3% decline we expected.

Our recommendation remains BUY with a MXN\$120.0/share target price as we expect QUÁLITAS results to improve during the following quarters due to a more favorable performance of claims and higher financial gains supported by rising interest rates. In addition, QUÁLITAS' shares trade at an estimated P/E of 9.0x.

## Premiums Written / Earned

Written premiums decreased 0.7% YoY to P\$10.6 billion in 4Q21, practically in line with our projections. The fleet segment fell 16.5% due to an unfavorable comparison basis as the company closed certain multi-year contracts the previous year. The financial institutions channel fell 9.6%, impacted by lower new cars sales (in turn generated by the semiconductor deficit). However, the individual segment was up 18.3% due to price adjustments carried out by the company. Foreign subsidiaries experienced a high 34.8% growth. Earned premiums fell 2.4% to MXN\$9.2 billion as the company created reserves amounting to MXN\$1.3 billion, compared to MXN\$1.2 billion the previous year.

Insured units reached 4.5 million, up 7.5% annually, but stable on a sequential basis. The annual performance was explained by a 6.8% increase in Mexico, mainly in motorcycles and tourists. Insured units in Peru, Costa Rica, and El Salvador grew at double-digit rates.



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The company continued to expand its distribution network as it opened 9 service offices and 22 ODQ's, reaching a total of 552 offices at the end of the year. Additionally, the number of agents grew 9.5% to 18,500. It is worth mentioning that 35% of the fleet included hybrid cars.

### **Profitability / Claims**

The loss ratio reached 70.0% (vs. 66.0% E), from last year's 58.7%, due to greater private mobility (+22.4% vs. pre-pandemic levels according to Apple) as well as a higher spare-parts prices. This was partially offset by lower thefts (-5.1% in the case of QUÁLITAS) with a higher recovery (49.3% of units stolen). The consolidation of foreign subsidiaries also had some impact. The acquisition ratio rose to 22.6%, from 19.9%, due to a higher bonus provision related to the collection of premiums. Meanwhile, the operating ratio fell to 0.9%, from 5.0%, also due to the consolidation of foreign subsidiaries, and lower profit sharing. This translated into a combined ratio of 93.4% (vs. 92.5% E) in 4Q21, higher than the 83.6% in 4Q20. Based on prior accounting, the combined ratio for the quarter would have been 90.9%.

### **Financial gains**

Financial gains reached MXN\$620 million (vs. P\$483 million E), which, although higher than those of the previous three quarters, were below those of the same period last previous year. The return on investments was 6.3% in the quarter and 5.6% in the year (120 bps above the reference rate).

The investment portfolio amounted to MXN\$34.8 billion, of which 85% was invested in fixed income instruments at the end of the quarter. Therefore, we believe that financial gains could improve during the following quarters supported by rising interest rates.

### **Net profits**

Net income decreased 44.8% YoY to MXN\$808 million (we forecast -44.3% to MXN\$816 million), due to higher claims and lower financial gains, partially offset by a reduced tax rate. L12M ROE contracted to 19.2% in the current quarter, from 41.7% in 4Q20, which was slightly below the long-term range of 20-25%. However, we believe that this indicator will gradually improve during the following quarters.

### **Technical reserves / Solvency**

Technical reserves rose 10.3% YoY as QUÁLITAS created reserves amounting to nearly MXN\$1.9 billion in 2021, mainly during the last quarter of the year.

The company closed the quarter with a MXN\$16.2 billion solvency margin, which translated into a solvency margin percentage of 565%. We expect it to use some of this excess of funds to pay dividends (which will most likely be announced at its next annual meeting, taking into account the new dividend policy that was announced the previous quarter), buybacks and, possibly, acquisitions.

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<b>(Figures in MXN\$ Mn)</b>	<b>4Q21</b>	<b>4Q21E</b>	<b>Diff.</b>	<b>4Q20</b>	<b>Change</b>
Premiums Written	10,601	10,638	-0.3%	10,672	-0.7%
Net Premiums Written	10,524	10,565	-0.4%	10,602	-0.7%
Premiums Earned	9,184	10,065	-8.8%	9,411	-2.4%
Acquisition Cost	-2,376	-2,377	0.0%	-2,115	12.4%
Loss Cost	-6,426	-6,643	-3.3%	-5,519	16.4%
Technical Result	382	1,045	-63.4%	1,776	-78.5%
Net Operating Expenses	-92	-426	-78.5%	-539	-83.0%
Underwriting Result	295	619	-52.4%	1,239	-76.2%
Comprehensive Financing Result	620	483	28.3%	713	-13.1%
Pre-Tax Profit	915	1,103	-17.0%	1,952	-53.1%
Tax Reserve	-107	-287	-62.8%	-487	-78.1%
Net Profit Before Minorities	808	816	-1.0%	1,465	-44.8%
Minority Interest	-0	-1	-78.0%	-1	-85.7%
Net Profit After Minorities	808	815	-0.9%	1,463	-44.8%
EPS	\$ 1.93	\$ 1.97	-2.3%	\$ 3.54	-45.6%
<b>(Figures in MXN\$ Mn)</b>	<b>4Q21</b>	<b>4Q21E</b>		<b>4Q20</b>	
Acquisition Ratio	22.6%	22.5%		19.9%	
Loss Ratio	70.0%	66.0%		58.7%	
Operating Ratio	0.9%	4.0%		5.0%	
Combined Ratio	93.4%	92.5%		83.6%	
Adjusted Combined Ratio	96.8%	93.8%		86.8%	
Underwriting Result	3.2%	6.2%		13.2%	
Tax Rate	11.7%	26.0%		25.0%	
ROE	19.2%	19.3%		41.7%	
ROA	5.4%	5.2%		10.3%	

Source: Quálitas, Miranda Global Research

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