

CADU: 4Q21 Results

Higher EBITDA and High Free Flow Generation in 2021 Despite Lower Results in 4Q21



RECOMMENDATION	BUY
Target Price (MXN\$)	\$ 5.00
Current Price (MXN\$)	\$ 2.25
Expected Dividend (MXN\$)	\$ 0.00
Potential Return	122.2%
Market Cap (MXN\$ Mn)	763
EV/ EBITDA 2021E	7.4x
P/E 2021E	6.1x
P/BV (current)	0.2x

Opinion and Recommendation

CADU continued to focus on positive free cash flow generation, debt reduction and liquidity preservation in 2021 to face the macroeconomic volatility. This resulted in a 10.2% EBITDA growth with a positive MXN\$413 million free cash flow generation and a reduction in leverage to 5.47x, from 6.14x, despite the fact that revenues and EBITDA decreased 42.2% and 62.7%, respectively, in 4Q21.

CADU released its guidance for the current year, which includes a growth between 10-15%, which will take place mainly during the second half of the year, supported by an economic improvement in Quintana Roo. The company expects an EBITDA margin between 17.0-18.0% (vs. 17.7% in 2021) due to higher housing sales and a possible strategic association. It does not plan to increase debt. CADU will strengthen its products offering with housing between MXN\$1.8-2.5 million and will diversify its geographical coverage since it will launch a project in Querétaro and expand its presence in Guadalajara with two new developments.

After these results, we continue to BUY as we expect a recovery in the company's operating performance during the current year.

Revenues

CADU's total revenues fell 42.2% YoY to MXN\$689 million in 4Q21, impacted by lower home sales and a reduced amount of construction services revenues. Home sales decreased 35.5% to MXN\$646 million, as a result of lower demand in Quintana Roo (-25.4%) and CDMX (-87.8%). Quintana Roo was affected by the new INFONAVIT scoring system, while CDMX experienced a slowdown in the commercialization of Torre Lago, in addition to the fact that the Oasis project was completed at the end of 2020.

Revenues in most segments fell (low-income -30.5%, low-income VU -47.9%, middle -residential -76.4% and residential -35.0%), except for middle-income housing (+21.6%).

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The average price remained stable (+0.2% YoY) at P\$787 thousand, since the increase in the affordable entry-level segment (supported by a higher price in Aldea Tulúm) offset the fall in the middle-income, middle-residential and residential segments. Homes titled were down 35.7% YoY to 821 units due to a high comparison base.

Profitability

Gross profit fell 42.6% YoY to MXN\$161 million, practically in line with revenues. Gross margin was 23.3% in 4Q21, from 23.4% in 4Q20. General expenses fell 28.2% due to lower sales commissions. However, the expense-to-sales ratio was up 4 percentage points to 20.5%. As a result, EBITDA was down 62.7% YoY to MXN\$67 million. The EBITDA margin was 9.7% in 4Q21, compared to 15.0% in 4Q20. CADU reported a MXN\$35 million net loss in the quarter, because of the sales contraction.

Financial structure

The company reduced its debt by 4.0% taking advantage of its high free cash flow generation. Cash balances fell 14.8% YoY since in 4Q20 the company had the resources to pay for the CADU20V bond, but they rose 8.8% QoQ to MXN\$494 million. As a result, the net debt to EBITDA ratio of 5.47x in 4Q21, from 6.14x in 4Q20. Worth mentioning that 28.5% of debt matures during the rest of 2022, which includes P\$809 million of bank loans (which in turn mature mainly in 4Q22) and the Cebures CADU 18 amounting to MXN\$171 million. The company has MXN\$400-500 million in available lines of credit line.

On the other hand, CADU obtained waivers to comply with the financial restrictions included in its CADU18, CADU 19 and CADU 20V bonds.

Working capital cycle

The working capital cycle increased 90 days YoY to 1,156 days, mainly as a result of higher days of inventory. The amount of inventories remained stable as land reserve purchases and higher capitalized interest were offset by the reduction in work in progress and completed housing.

Free cash flow

Free cash flow was MXN\$17 million in the current quarter, from MXN\$258 million in 4Q20. However, the company generated MXN\$413 million in 2021, from MXN\$526 million in 2020.

ESG

CADU presented its quarterly ESG indicators, related to the environment, ethics and communities.

Last December, the company won the "first green bond of a housing developer placed in the local market" award for the issuance of its CADU20V Green Bond, by the Green Finance Advisory Council (CCFV).

During January 2022, CADU obtained the EDGE Advanced Certification from the IFC (part of the World Bank Group) in the first 798 homes, which allowed savings of up to 47% in energy, 39% in water and 75% in energy mass of materials.

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