

Corpovael, S.A.B. de C.V. (BMV: CADU A)

Weak 1Q22 results due to regulatory changes, as expected



CADU A	BUY
Target Price (MXN\$)	\$ 4.00
Current Price (MXN\$)	\$ 1.94
Expected Dividend (MXN\$)	\$ 0.00
Potential Return	106.2%
Market Cap (MXN\$ Mn)	658
EV/ EBITDA	5.3x
P/E	3.9x
P/BV (current)	0.1x

Opinion and recommendation

CADU reported weak 1Q22 results. The company continued to be affected by the impact of the outsourcing reform, the change in the INFONAVIT scoring system and the pandemic, resulting in reductions of 32.4% in units sold, 23.6% in total revenues and 59.1% in EBITDA, which was partially offset by a higher average price. Worth mentioning that revenues and EBITDA were slightly lower sequentially. The company generated MX\$78 million in negative free cash flow in the quarter due to investments in inventory while cash decreased to MXN\$429 million.

We anticipate a recovery in CADU's operating results during the following quarters supported by a greater hotel activity in the state of Quintana Roo, as well as a higher contribution of new projects such as "Aldea Tulum Plus", Playa de Carmen, Querétaro and Guadalajara. In fact, the company maintained its guidance for the current year which includes a 10-15% revenue growth, with the recovery taking place mainly during the second half of the year. In addition, it will maintain its strategy focused on preserving liquidity, generating free cash flow and reducing debt. We reiterate BUY recommendation and are revising our target price to MXN\$4.00/share, from MXN\$5.00/share.

On the other hand, CADU announced that the annual auditing review generated accounting adjustments in 2021 results. As a result of such adjustments, the company will not be able to comply with the covenants and will require additional waivers.

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Revenues

CADU reported total revenues of MXN\$640 million (vs. MXN\$642 million E), down 23.6% YoY, which was mainly due to the impact of the outsourcing reform, INFONAVIT's new T1000 scoring system, and the pandemic. All segments reported lower revenues, mainly social interest (-67.1%), and mid residential (-83.6%). Units sold fell 32.4% to 738 as a result of a 29.6% contraction in social interest. The average price per unit increased 9.4% to MXN\$817 thousand due to the change in the sales mix, as well as price increases in the affordable entry-level and low-income segments, reflecting the higher costs of building materials. This offset the price drop in the other segments. The company began to sell houses at "Aldea Tulum Plus" and initiated the development of new projects in Playa del Carmen, Cancún, Querétaro and Guadalajara.

Profitability

Cost of sales fell 18.0% to MXN\$516 million due to lower revenues. The cost-to-sales ratio rose 5.6 percentage points to 80.5%. This generated a 40.6% reduction in gross profits. General expenses decreased 13.9% due to a lower amount of commissions paid. EBITDA was down 59.1% to MXN\$61 million (vs. MXN\$68 million E) with which the margin contracted to 9.5% (vs. 10.8% E), from 17.7%.

Net loss

CADU reported a MXN\$78 million quarterly net loss, against a positive MXN\$73 million net profit in 1Q21, as a result of lower operating results.

Financial structure

CADU closed the quarter with cash balances of MXN\$429 million, down 20.3%. The company has available credit lines of MXN\$400 million. Accounts receivable amounted to MXN\$497 million and inventories to MXN\$7,733 million.

Total debt rose slightly to MXN\$3,520 million due to a 12.3% increase in bank debt and an 11.9% reduction in bonds. 25.5% of the total debt matures within this year (19.6% in 4Q22), 12.4% in 1Q23 and the rest during the following years. The net debt/EBITDA ratio reached 6.85x, from 5.92x.

Working capital cycle

The working capital cycle rose to 1,247 days, 235 days higher than 1Q21 and 91 days higher than 4Q21, due to the increase in inventory days and accounts receivable days. Free cash flow was negative at MXN\$78 million, from a positive figure of MXN\$199 million, due to investments in construction in process.

ESG

CADU received the 2022 Socially Responsible Company (ESR) distinction. It also obtained the EDGE advanced certification in 798 units in Playa del Carmen.

Auditor review

CADU announced that the annual auditing review generated accounting adjustments in 2021 results. Due to such adjustments, the company will not be able to comply with the covenants and will require additional waivers. According to CADU, the most important adjustment derived from the Tulum operation which generated MXN\$103.8 million in EBITDA on the sale of land and which, according to the external auditors, should be eliminated. Additionally, the MXN\$250 million which were contributed by investors to the Tulum project have to be recorded as a liability and not as a capital investment. Audit adjustments will not affect liquidity, cash levels, interest-bearing debt, or free cash flow generation.

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