

# QUÁLITAS: 1Q22 Results

Net profit declines 31.5% due to higher-than-expected claims and low financial gains; we adjusted our target price to MXN\$115.0/share

Q*	BUY
Target Price (MXN\$)	\$ 115.00
Current Price (MXN\$)	\$ 104.14
Min / Max (L12M)	\$ 89.09 - 119.64
Expected Dividend (MXN\$)	\$ 6.50
Expected Return	16.7%
Market Cap (MXN\$ Mn)	41,656
Outstanding Shares (Mn)	400.0
Float	48.5%
6-month ADTV (MXN\$ Mn)	\$ 106.9



## Opinion and Recommendation

QUÁLITAS reported 1Q22 results that were below our projections and consensus due to higher-than-expected claims and lower financial gains. This translated into a 31.5% fall in net profits. Following these results, we continue with a BUY recommendation and adjusted our target price to MXN\$115.0/share, from MXN\$120.0/share. Our new projections include a higher claims cost this year and a recovery during the next one due to the expected price hikes.

QUÁLITAS' shareholders approved the payment of a MXN\$6.50/share cash dividend, which will be distributed in two installments, the first one amounting to MXN\$4.00/share on May 9<sup>th</sup> and the second one of MXN\$2.50 on November 9<sup>th</sup>, representing a 6.0% yield against the current market price. They also approved the creation of a MXN\$1 billion share buy-back reserve and the cancellation of 6 million treasury shares.

## Premiums

Written premiums rose 0.9% YoY to MXN\$9,796 million, which was practically in line with our projections. The individual segment grew 10.0%, we believe as a result of the higher demand for used cars. In addition, premiums from foreign subsidiaries were up 25.4% (excluding the impact of foreign exchange, they would have grown 28.6%). In contrast, the financial institutions segment contracted 16.2% due to a 2.9% drop in new car sales and a high comparison base that included non-recurring business in 1Q21. The company plans to gradually raise prices in specific segments, which we believe will boost written premiums going forward. It created lower-than-expected reserves of MXN\$296 million, with which earned premiums rose 7.9% to MXN\$9,291 million.

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QUÁLITAS insured 4.6 million units, up 6.6%. This included an additional 109 thousand units compared to the end of 2021 and 285 thousand compared to 1Q21.

### Profitability

The cost of claims rose 19.9% as a result of a 48.1% increase in private mobility and a greater number of thefts, although with a greater recovery than the industry. The loss ratio reached 65.8% (vs. 62.1% E) in the current quarter, above the 59.3% of the previous year. The acquisition index showed a slight 78 bps rise to 24.0% due to a higher provision for bonuses related to the increase in premiums and commissions to agents. This was partially offset by a reduction in the operating ratio to 3.7% given the lower profit sharing level and a higher contribution from vertical subsidiaries. The combined index stood at 93.5% (vs. 90.6% E), from 86.6% the previous year.

### Financial gains

Financial gains decreased 35.1% to MXN\$345 million with a 3.3% yield as a result of the performance of equity positions. At the end of the quarter, the portfolio was 16.1% invested in equities and the rest in fixed income. This compares with a 15.2% in equities the previous year.

### Net profits

Net income registered a higher-than-expected 31.5% drop (vs. -15.3% E) to MXN\$736 million (below our forecast of MXN\$909 million) due to higher claims costs and the reduction in financial gains. The L12M ROE stood at 17.0%, below the 36.9% of the same period of the previous year.

### Health insurance

During 2Q22, the company will have a visit from the CNSF, which would be the last step to obtain a favorable opinion and start operations of its health insurance business in Mexico.

(Figures in MXN\$ Mn)	1Q22	1Q22E	Diff.	1Q21	Change
Premiums Written	9,796	9,878	-0.8%	9,705	0.9%
Net Premiums Written	9,587	9,807	-2.2%	9,617	-0.3%
Premiums Earned	9,291	8,787	5.7%	8,608	7.9%
Acquisition Cost	-2,300	-2,305	-0.2%	-2,232	3.1%
Loss Cost	-6,118	-5,457	12.1%	-5,105	19.9%
Technical Result	873	1,026	-14.9%	1,272	-31.3%
Net Operating Expenses	-363	-494	-26.5%	-396	-8.4%
Underwriting Result	510	536	-4.8%	876	-41.7%
Comprehensive Financing Result	345	701	-50.8%	531	-35.1%
Pre-Tax Profit	855	1,238	-30.9%	1,407	-39.2%
Tax Reserve	-120	-328	-63.5%	-332	-64.0%
Net Profit Before Minorities	736	910	-19.1%	1,074	-31.5%
Minority Interest	-1	-0	443.4%	-1	20.8%
Net Profit After Minorities	734	909	-19.2%	1,073	-31.6%
EPS	\$ 1.82	\$ 2.20	-17.2%	\$ 2.56	-28.8%

### Gordon Shapiro Model

(Figures in MXN\$ Mn)

<b>Stockholder's Equity 2022E</b>	<b>20,694</b>
Long-Term ROE	20.0%
<b>Cost of Equity</b>	<b>11.4%</b>
Risk-Free Rate	8.5%
Market Risk Premium	6.0%
Beta	0.481
<b>Long-Term Growth Rate</b>	<b>4.3%</b>
Equity Value	46,000
Outstanding Shares	400
<b>Target Price / Share</b>	<b>\$ 115.00</b>
Current Price / Share	\$ 104.14
Expected Dividend	\$ 6.50
Total Return	16.7%
Target P/BV	2.3x
Target P/E (Forward)	13.0x

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<b>INCOME STATEMENT (MXN\$ Mn)</b>	<b>2021</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
Premiums Written	38,224	39,979	43,338	46,788	50,532	54,596
Net Premiums Written	37,923	39,128	42,415	45,792	49,456	53,434
- Net Increase of Unearned Premiums Reserve	1,856	920	984	1,053	1,127	1,206
Premiums Earned	36,067	38,208	41,431	44,739	48,329	52,228
Acquisition Cost	-8,831	-9,386	-10,132	-10,893	-11,715	-12,603
Loss Cost	-23,437	-25,314	-27,408	-29,551	-31,874	-34,393
Technical Result	3,799	3,509	3,892	4,295	4,740	5,231
Net Operating Expenses	-1,317	-1,749	-1,939	-2,140	-2,362	-2,607
Underwriting Result	2,491	1,760	1,953	2,155	2,378	2,624
Comprehensive Financing Result	2,273	2,424	3,030	3,323	3,642	4,113
Pre-Tax Profit	4,764	4,184	4,983	5,477	6,020	6,737
Tax Reserve	-986	-641	-756	-829	-911	-1,019
Net Profit Before Minorities	3,778	3,543	4,226	4,648	5,109	5,718
Minority Interest	-3	-6	-7	-7	-8	-9
Net Profit After Minorities	3,775	3,537	4,219	4,641	5,101	5,708
EPS	\$ 9.08	\$ 8.78	\$ 10.55	\$ 11.60	\$ 12.75	\$ 14.27
<b>BALANCE SHEET (MXN\$ Mn)</b>	<b>2021</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
TOTAL ASSETS	71,888	80,433	86,495	92,659	100,535	111,288
Securities and Derivatives	34,320	35,952	37,952	39,952	43,382	49,382
Securities	34,320	35,952	37,952	39,952	43,382	49,382
Overnight	88	359	759	1,159	1,559	1,959
Net Loan Portfolio	359	362	362	362	362	362
Property (Net)	2,031	2,049	2,073	2,097	2,121	2,145
Investments Related to Labour Obligations	76	83	91	99	107	115
Cash and Cash Equivalents	2,209	2,799	3,239	3,679	4,119	4,559
Debtors	25,043	29,166	31,589	34,089	36,802	39,747
Re-Insurers and Re-Bonding Companies	147	144	124	104	84	64
Permanent Investments	47	47	47	47	47	47
Other Assets	7,568	9,472	10,259	11,071	11,952	12,908
TOTAL LIABILITIES	51,509	59,721	65,693	71,684	79,268	89,473
Technical Reserves	37,850	45,059	48,802	52,665	56,856	61,405
Creditors	6,815	7,262	7,443	7,519	8,859	12,457
Re-Insurers and Re-Bonding Companies	59	149	149	149	149	149
Other Liabilities	6,351	6,783	8,795	10,807	12,819	14,831
TOTAL CAPITAL	20,379	20,712	20,801	20,975	21,267	21,815
Minority Interest	13	18	18	18	19	19
Stockholder's Equity	20,366	20,694	20,783	20,957	21,248	21,796

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