

JAVER: 2Q22 Results

Higher-than-expected profitability levels due to the company’s focus on the middle and residential segments

JAVER*	BUY
Target Price (MXN\$)	\$ 20.00
Current Price (MXN\$)	\$ 15.86
Max / Min (L12M)	14.95 - 16.48
Expected Dividend (MXN\$)	\$ 0.00
Expected Return	26.1%
Market Cap (MXN\$ Mn)	4,437
Enterprise Value (MXN\$ Mn)	6,069
Outstanding Shares (Mn)	279.8
Float	34.1%
ADTV (MXN\$ Mn)	\$ 0.01

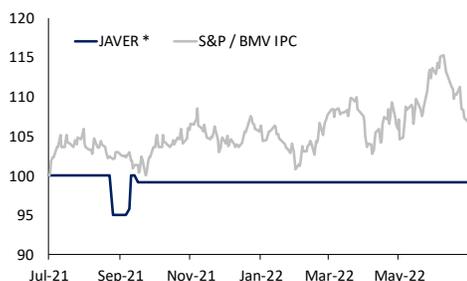
Opinion and recommendation

JAVER's 2Q22 results were slightly positive mainly due to a higher-than-expected profitability (gross margin expanded 2.9 PP, while EBITDA margin 1.1 PP) due to the company’s focus on the middle-income and residential segments, which resulted in a 2.2% EBITDA growth despite lower revenues. In addition, digital sales established a new record, the company generated positive free cash flow despite higher investments in inventor, and reduced its leverage.

JAVER reaffirmed its guidance for the year that includes a 3% EBITDA growth. Such guidance seems conservative to us since this indicator was up 5% in the first half of the year. In addition, the company opened five new projects in the quarter, which we expect will accelerate its growth during the rest of the year. We reiterate our BUY recommendation with a MXN\$20.0/share target price after these results.

Revenues

JAVER reported total revenues of MXN\$1,945 million (vs. MXN\$2,021 million E), down 4.4% YoY. The company continued to focus on improving its sales mix, prioritizing the middle-income and residential segments. Middle-income segment units fell 7.8% and those in the residential segment decreased 20.6%. The company did not sell any houses in the affordable entry-level segment. This resulted in an 11.8% drop in total volume to 3,045 units.



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JAVER offset the lower volume with price adjustments of 9.9% in the case of the middle segment and 9.2% in the residential segment, with which the average price per unit rose 7.6% to MXN\$633 thousand. Housing revenues thus declined 5.1% to MXN\$1,928 million. Lot sales rose significantly to MXN\$17 million.

JAVER opened 5 projects in the states of Jalisco and Nuevo León during the current quarter in the middle and residential segments, which we believe will continue to support its growth in these two segments and translate into a higher average price per unit in the future.

Digital media sales continued to peak representing 67% of the total, compared to 59% in the same period of the previous year, and only 28% in 2Q19.

Profitability

As a result of the stronger sales mix and higher lot sales, gross profit rose 5.8% YoY to MXN\$587 million. Gross margin expanded 2.9 PP to 30.2%. However, administrative expenses were 13.5% higher due to the extraordinary effect of the July 2021 labor reform. The expenses to sales ratio increased 2.4 PP to 15.1%. Despite this situation, EBITDA grew 2.2% to MXN\$328 million (vs. MXN\$319 million E) and the margin improved 1.1 PP to 16.8% (vs. 15.8%).

Net profit

JAVER recorded a MXN\$104 million net profit (exceeding our MXN\$20 million estimate), supported by a 10.8% drop in the net financial cost. Interests fell because of the debt pre-payment that the company carried out last February while FX losses were lower.

Financial structure

Net debt decreased 19.0% to MXN\$1,472 million due to the February prepayment. The net debt to EBITDA ratio improved to 1.47x in the current quarter, from 1.77x in 2Q21 and 1.62x in 1Q22. The company has MXN\$100 million available in bridge credit lines and another MXN\$69.2 million in leases.

Working Capital/Free cash flow

The working capital cycle was 294 days in 2Q22, 18 days higher than in 2Q21, due to the investments in inventory that the company carried out during the period. However, it remained stable with respect to the previous three quarters.

JAVER generated MXN\$188 million in positive free cash flow in 2Q22, which was lower than the MXN\$460 million of 2Q21, due to the aforementioned investments in inventory.

ESG

JAVER carried out various activities during 2Q22 that included: i) the donation of 600 toys during Children's Day; ii) the opening of the first classroom in association with Construyendo y Crezando, A.C., in one of the Nuevo León projects. This will allow construction workers and community members to complete their basic studies and take classes with curricular value; iii) donation of 700 books in libraries and toy libraries in the Monterrey municipality; iv) participation in the Business Alliance for Technical Education in Nuevo León to

grant scholarships to 150 young people during the 2022-2023 school year; and, v) planting of 60 trees in the State of Mexico and adoption of 112 trees in 6 developments in Jalisco and Nuevo León.

(Figures in Millions of MXN\$)	2Q22	2Q22E	Diff.	2Q21	Change
Revenues	1,945	2,021	-3.8%	2,033	-4.4%
Operating Profit	298	296	0.6%	300	-0.6%
<i>Operating Margin</i>	15.3%	14.7%		14.8%	
EBITDA	328	319	2.6%	321	2.2%
<i>EBITDA Margin</i>	16.8%	15.8%		15.8%	
Pre-Tax Profit	183	47	n.a.	171	7.0%
Income Tax & Profit Sharing	-80	-27	n.a.	-83	-4.2%
<i>Tax & Profit Sharing Rate</i>	43.4%	57.6%		48.4%	
Net Profit	104	20	n.a.	88	17.5%
EPS	P\$ 0.37	P\$ 0.07	n.a.	P\$ 0.31	17.3%

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