

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

**Positive results with high housing sales and EBITDA growth despite higher construction costs; refinances BLUME's debt**



CADU A	BUY
Target Price (MXN\$)	\$ 4.00
Current Price (MXN\$)	\$ 2.36
Expected Dividend (MXN\$)	\$ 0.00
Potential Return	69.5%
Market Cap (MXN\$ Mn)	753
2023E EV/ EBITDA	5.8x
2023E P/E	3.1x
P/BV (current)	0.2x

### Opinion and recommendation

CADU's results were positive, in line with our projections. The company maintained its focus on higher-end housing which resulted in a 40% increase in the average price per unit and a 38% rise in housing revenues. Although profitability was lower due to the inflationary impact on construction costs, EBITDA grew 18%. CADU expects to exceed its guidance for the year.

On the other hand, the company refinanced MXN\$260 million in debt related to the BLUME project with a 3-year term. With this transaction, it extended its maturity profile.

Our recommendation is BUY with a target price of MXN\$4.00/share. We believe that CADU's prospects are favorable due to the recovery of tourist activity in the state of Quintana Roo and the opening of new developments. In addition, we expect the company to continue increasing prices to compensate for the inflationary effect. The valuation of its shares is low with a forward EV/EBITDA of 5.8x, estimated P/E of 3.1x and P/BV of 0.2x.

### Revenues

CADU maintained its focus on higher-priced housing, which resulted in a 40% increase in the average price per unit, once again exceeding one million pesos. This offset the slight drop in total units to 798. Housing sales were up 38%, mainly driven by higher demand in the state of Quintana Roo (Cancún +54%, Playa del Carmen +54%, Tulum +21%) given the opening of new developments (new phase at Kings, Aldea Tulum Plus in 1Q22 and El Edén).

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Total adjusted revenues (without the sale of the Tulum land in 3Q21 that was reversed in 4Q21) advanced 33% to MXN\$839 million (vs. MXN\$842 million E). The company mentioned in its conference call that it expects to increase housing prices starting next quarter in order to offset the inflationary impact. Additionally, it opened the Broadway development at the end of the quarter and will likely open the La Selva development in Playa del Carmen. We believe that this will have a favorable impact on sales.

### Profitability

As a consequence of higher construction costs, the adjusted gross margin contracted to 24.3% in 3Q22, from 28.4% in 3Q21. For this same reason, the EBITDA margin fell two percentage points to 15.8%. This generated a very healthy 18% growth in adjusted EBITDA, which amounted to MXN\$133 million (vs. MXN\$128 million E), slightly higher than our estimates.

Net income was MXN\$31 million in the current quarter, from an adjusted MXN\$32 million net loss in the prior year.

### Financial structure

Leverage increased with an adjusted net debt ratio of 9.14x at the end of 3Q22, from 5.24x in 3Q21. The company expects to close this year with a leverage between 5.0-6.0x. This indicator could drop even more with the sale of non-strategic assets. CADU announced the refinancing of the BLUME development debt, with which it faces maturities of only MXN\$139 million in 4Q22 and MXN\$405 million in 1Q23.

CADU has high liquidity with cash reserves of MXN\$471 million, slightly higher than the MXN\$454 million of 3Q21. In addition, the company has access to MXN\$500 million in working capital credit lines.

### Free cash flow / Working capital

Free cash flow was MXN\$149 million positive in the period, accumulating MXN\$227 million in the year, we believe as a result of a lower investment in land reserves. The working capital cycle rose to 1,177 days, from 1,042 the previous year, due to the greater investment in project development. However, it stabilized compared to 1,196 days in 2Q22.

### ESG

CADU achieved EDGE Advanced certification from the World Bank for 590 units and environmental certifications for 100% of the homes developed in the low-income segment in 2021. In addition, it reduced its carbon footprint by 53%, and saved more than 18 thousand M3 of water, thanks to the development of green housing.

(Figures in Millions of MXN\$)	3Q22	3Q22E	Diff.	3Q21	Chg.
Revenues	839	842	-0.3%	633	32.5%
Cost of Sales	-635	-683	-7.0%	-453	40.2%
Gross Profit	204	159	28.3%	180	13.4%
Gross Margin	24.3%	18.9%		28.4%	
EBITDA	133	128	3.6%	113	17.7%
EBITDA Margin	15.8%	15.2%		17.8%	
Net Profit	31	34	-7.3%	-32	n.a.

## Discounted Cash Flow Model

(Figures in Millions of MXN\$)	2023E	2024E	2025E	2026E	2027E	Perp.
OPERATING PROFIT	324	362	403	449	500	533
Tax Rate	27%	27%	27%	27%	27%	30%
Tax Shield	-88	-98	-110	-122	-136	-145
NOPLAT	236	263	293	327	364	388
Depreciation	10	10	11	11	12	13
Working Capital Changes	-335	-106	-48	-198	-187	-199
FCFF	-89	168	257	141	189	202
Perpetuity Growth Rate						6.6%
PV of Explicit Period (2023 - 2027E)						460
Perpetuity Value						5,560
PV of Perpetuity Value						3,415
Enterprise Value						3,876
Net Debt						2,557
Minority Interest						40
Market Value						1,278
Outstanding Shares						319
Target Price						P\$ 4.00
Current Market Price						<b>P\$ 2.36</b>
Potential Return Incl. Dividends						69.7%
Forward EV/EBITDA						6.7x
Forward P/E						5.2x
Average Cost of Debt						11.6%
LT Tax Rate						30.0%
After-Tax Cost of Debt						8.1%
Cost of Equity						11.6%
Market Risk Premium						6.0%
Risk-Free Rate						9.9%
Beta						0.28
% Total Debt						38.6%
% Capital						61.4%
WACC						10.2%

(Figures in Millions of MXN\$)

<b>INCOME STATEMENT</b>	<b>2021</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>
Revenues	2,779	3,448	3,569	3,860	4,175	4,515	4,884
Cost of Sales	-2,094	-2,692	-2,688	-2,896	-3,119	-3,360	-3,620
Gross Profit	685	756	881	964	1,056	1,155	1,264
<i>Gross Margin</i>	<i>24.6%</i>	<i>21.9%</i>	<i>24.7%</i>	<i>25.0%</i>	<i>25.3%</i>	<i>25.6%</i>	<i>25.9%</i>
General Expenses	-602	-493	-557	-603	-652	-706	-764
Operating Profit	82	263	324	362	403	449	500
<i>Operating Margin</i>	<i>3.0%</i>	<i>7.6%</i>	<i>9.1%</i>	<i>9.4%</i>	<i>9.7%</i>	<i>9.9%</i>	<i>10.2%</i>
EBITDA	319	536	594	652	714	781	852
<i>EBITDA Margin</i>	<i>11.5%</i>	<i>15.5%</i>	<i>16.6%</i>	<i>16.9%</i>	<i>17.1%</i>	<i>17.3%</i>	<i>17.4%</i>
Financial Gains	15	24	26	28	30	32	35
Financial Cost	-107	-80	0	0	0	0	0
Pre-Tax Profit	-10	208	350	389	433	481	535
Net Profit	-101	151	254	283	315	351	389
Minority Interest	-3	-4	-9	-10	-11	-13	-14
Net Profit After Minorities	-104	148	245	273	304	338	375
<b>BALANCE SHEET</b>	<b>2021</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>
TOTAL ASSETS	10,177	10,611	10,969	11,161	11,228	11,521	11,961
Current Assets	3,682	7,073	7,441	7,643	7,722	8,026	8,328
LT Assets	6,495	3,538	3,528	3,517	3,506	3,495	3,633
TOTAL LIABILITIES	5,442	5,745	5,857	5,776	5,539	5,495	5,560
ST Liabilities	2,126	3,132	3,245	3,164	2,927	2,882	2,947
LT Liabilities	3,316	2,612	2,612	2,612	2,612	2,612	2,612
TOTAL DEBT	3,460	3,062	3,185	3,052	2,834	2,734	2,741
NET DEBT	2,966	2,557	2,637	2,459	2,192	2,040	1,990
TOTAL CAPITAL	4,734	4,866	5,112	5,385	5,689	6,026	6,402
Stockholder's Equity	4,695	4,826	5,069	5,340	5,641	5,976	6,349
Minority Interest	39	40	42	45	47	50	53
<b>CASH FLOW STATEMENT</b>	<b>2021</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>
PRE-TAX PROFIT	-101	183	350	389	433	481	535
Inv. Related Activities	420	168	95	93	90	87	83
Pre-Tax Cash Flow	320	386	245	271	300	332	218
Working Capital Changes	-36	179	-335	-106	-48	-198	-187
Operating Cash Flow	284	565	-90	165	253	135	31
Investment Cash Flow	-45	24	26	28	30	32	35
Financing Cash Flow	-324	-578	107	-148	-234	-115	-9
Net Incr. (Decr.) in Cash & Temp. Inv.	-86	11	43	45	49	53	57
Beg. of Period Cash and Temp. Inv.	565	494	505	548	593	641	694
End of Period Cash and Temp. Inv.	494	505	548	593	641	694	751

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