

FHipo: 1Q23 Results

Net profits down 45.8% due to interest rates impact and higher reserves; we reiterate HOLD

FHIPO 14	HOLD
Target Price (MXN\$)	\$ 21.00
Current Price (MXN\$)	\$ 16.60
Min / Max (L12M)	\$ 16.11 - 19.50
Expected Dividend (MXN\$)	\$ 1.15
Expected Return	26.5%
Market Cap (MXN\$ Mn)	6,394
CBFI's Outstanding (Mn)	385.2
Float	100.0%
6-month ADTV (MXN\$ Mn)	\$ 0.3

Opinion and recommendation

FHipo's 1Q23 results were affected by the increase in interest rates and reserve creation, which resulted in a higher-than-expected drop in net profits. However, it maintained a portfolio diversification strategy towards higher growth segments and continued deleveraging.

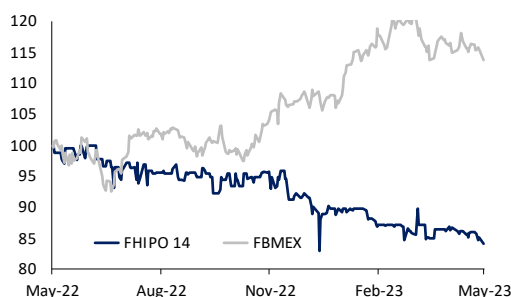
We continue with our HOLD recommendation and we are adjusting our target price to MXN\$21.0/CBFI, from MXN\$22.0/CBFI, after having updated our model. The valuation of FHipo's certificates seems attractive to us since they currently trade at a P/BV of only 0.7x and a projected P/E of 13.7x.

Income statement

The adjusted financial margin registered a 35.1% fall to MXN\$115.0 million (vs. our MXN\$137.3 million estimate), since the increase in interest rates impacted the cost of funding. The portfolio yield was 11.75% compared to a 9.84% cost of debt, which reduced the spread to 191 bps, from 363 bps the previous year. FHipo expects such spread to remain stable for the rest of the year, which is consistent with our forecasts.

On the other hand, FHipo created reserves amounting to MXN\$60.7 million in the current quarter, higher than the MXN\$14.0 million of 1Q22.

The valuation of receivable benefits in securitizations decreased 28.4% to MXN\$64.5 million due to the maturity of the portfolio and the natural increase in past-due loans.



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As a result, total revenues fell 0.6%, ending the quarter at MXN\$416.5 million. On the other hand, total expenses, which include commissions paid to INFONAVIT, were down 1.2%. They represented 17.8% of gross revenues, compared to 17.9%.

Net profits for the quarter contracted 45.8% to MXN\$104.1 million (vs. MXN\$118.6 million E), translating into a 4.31% ROE in 1Q23, from 8.12% in the same period of the previous year.

Distribution

Net profit was MXN\$0.27/CBFI. FHipo thus estimates that the quarterly distribution will be MXN\$0.257/CBFI based on the current policy. It compares with a MXN\$0.47/CBFI distribution corresponding to 1Q22.

Portfolio / Asset Quality

The total portfolio (balance sheet and off-balance sheet) decreased 9.3% YoY to MXN\$24.3 billion due to the natural maturity of the INFONAVIT (-16.5% in IT and -11.4% in IMC) and FOVISSSTE (-1.4%) portfolios. FHipo continued to diversify its portfolio through high growth with YAVE (+82.3%) and the incorporation of KREDI as a new originator since 4Q22. 75% of the total portfolio is denominated in nominal interest rate, while the remaining 25% is at a real interest rate.

The NPL ratio stood at 6.69% based on the current portfolio, and 5.56% considering the balance of the portfolio at origination. Coverage remained practically unchanged at 0.72x.

Financial structure

FHipo maintained its deleveraging strategy, which allowed it to lower its on-balance sheet debt to equity ratio to 0.62x, from 0.69x, while the total assets to equity ratio improved slightly to 1.66x, from 1.72x. Worth mentioning that the exposure to variable interest rate debt is only 16% considering hedging derivatives that FHipo has contracted at the end of 1Q23.

Stockholders' equity was down 1.0% to MXN\$9.8 billion due to distributions and certificate repurchases that offset the profits generated.

(Figures in MXN\$ Mn)	1Q23	1Q23E	Diff.	1Q22	Change
Total interest income	352	354	-0.6%	328	7.1%
Interest expenses	-176	-159	10.7%	-137	28.2%
Financial margin	176	195	-9.7%	191	-8.1%
(-) Allowance for loan losses	-61	-57	6.0%	-14	331.6%
Financial margin adjusted for credit risks	115	137	-16.3%	177	-35.1%
Val. of rec. benefits in sec. transactions	65	58	11.5%	90	-28.4%
Other income	0	0	8.1%	1	-7.5%
Total revenues, Net	180	195	-7.8%	268	-32.8%
Total Expenses	-74	-78	-5.0%	-75	-1.2%
Profit (Loss) before taxes	106	117	-9.6%	193	-45.1%
Income tax	-2	1	-223.9%	-1	133.6%
Net profit (loss)	104	119	-12.2%	192	-45.8%
Earnings per CBFI	\$ 0.27	\$ 0.31	-12.3%	\$ 0.50	-45.5%
Distribution	99	113	-12.1%	182	-45.7%
Distribution per CBFI	\$ 0.26	\$ 0.29	-12.1%	\$ 0.47	-45.3%

Gordon Shapiro Model

(Figures in MXN\$ MN)

Stockholder's Equity 2023E	9,831
LT ROE	10.5%
Cost of Equity	11.0%
Risk Free Rate	8.8%
Market Risk Premium	6.0%
Beta	0.378
Perpetuity Growth Rate	0.5%
Equity Value	9,321
Outstanding CBFIs	385
Target price per CBFIs	\$ 24.20
Liquidity discount	13%
Adjusted Target Price	\$ 21.00
Current Price	\$ 16.60
Expected Dividend	\$ 1.15
Total Return	26.5%
Target P/BV	0.7x
Target P/E	14.7x

(Figures in MXN\$ Mn)

Income Statement	2022	2023E	2024E	2025E	2026E	2027E	2028E
Interests on mortgage loans	1,271.1	1,173.8	1,098.7	1,028.5	961.0	896.1	833.5
Investment income	118.4	194.6	203.8	216.3	229.6	243.7	258.7
Total interest income	1,389.6	1,368.4	1,302.5	1,244.9	1,190.6	1,139.8	1,092.2
Interest expenses	-600.5	-636.1	-515.3	-447.3	-384.3	-324.0	-268.0
Financial margin	789.0	732.3	787.2	797.6	806.4	815.7	824.2
(-) Allowance for loan losses	124.8	-222.9	-203.9	-191.2	-179.7	-169.3	-160.1
Financial margin adjusted for credit risks	913.8	509.4	583.3	606.4	626.7	646.4	664.1
Val. of rec. benefits in sec. transactions	395.1	253.3	246.6	240.1	234.0	228.3	223.0
Other income	1.5	1.9	1.9	1.9	1.9	1.9	1.9
Total revenues, Net	1,310.4	764.6	831.7	848.4	862.6	876.6	889.0
Management and collection fees	-96.2	-85.6	-80.2	-75.2	-70.5	-66.1	-62.0
Other administrative expenses & Other Expenses	-291.3	-204.2	-192.3	-181.0	-170.4	-160.4	-151.0
Administrative expenses	-387.5	-289.8	-272.5	-256.2	-240.9	-226.5	-213.0
Profit (Loss) before taxes	922.9	474.8	559.2	592.2	621.7	650.1	676.1
Income tax	0.4	-8.0	-9.4	-10.0	-10.5	-10.9	-11.4
Net profit (loss)	923.2	466.8	549.8	582.2	611.2	639.2	664.7
Other comprehensive income	55.3	-64.7	-64.7	-64.7	-64.7	-64.7	-64.7
Total comprehensive income	978.5	402.1	485.1	517.5	546.5	574.4	600.0
CBFIs	385.2	385.2	385.2	385.2	385.2	385.2	385.2
Earnings per CBFi	2.394	1.212	1.427	1.512	1.587	1.659	1.726
Distribution	877.0	443.6	522.3	553.1	580.7	607.2	631.5
Distribution per CBFi	2.273	1.152	1.356	1.436	1.508	1.576	1.639
Distribution / Net profit	95%	95%	95%	95%	95%	95%	95%
Balance Sheet	2022	2023E	2024E	2025E	2026E	2027E	2028E
Cash and cash equivalents	1,921.3	1,840.1	1,953.0	2,072.8	2,200.0	2,335.0	2,478.3
Loans, net	10,477.1	9,683.0	9,072.6	8,485.4	7,920.4	7,376.5	6,852.9
Collection rights, net	104.3	95.9	90.3	85.0	80.0	75.3	70.9
Receivable benefits in securitization transactions	3,773.7	3,373.1	3,162.3	2,964.7	2,779.5	2,605.8	2,443.0
Accounts receivables and other assets	149.9	601.2	631.3	662.8	696.0	730.8	767.3
Equipment, net	6.4	6.7	6.7	6.7	6.7	6.7	6.7
Derivative financial instruments	81.2	65.0	65.0	65.0	65.0	65.0	65.0
Total assets	16,513.9	15,664.9	14,981.2	14,342.5	13,747.5	13,195.1	12,684.1
Accounts payables and accrued expenses	152.0	379.6	379.6	379.6	379.6	379.6	379.6
Notes/securities payable	400.8	201.2	201.2	201.2	201.2	201.2	201.2
Borrowings	5,999.2	5,253.2	4,541.9	3,874.1	3,248.6	2,664.2	2,120.0
Total liabilities	6,551.9	5,834.0	5,122.7	4,454.9	3,829.4	3,245.0	2,700.8
Total debt	6,400.0	5,454.4	4,743.1	4,075.3	3,449.8	2,865.4	2,321.2
Total equity	9,962.0	9,830.9	9,858.4	9,887.6	9,918.1	9,950.1	9,983.3

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