

CADU: 2Q23 Results

Double digit growth, positive free cash flow and lower leverage in the quarter supported by land sales

CADU A	BUY
Target Price (MXN\$)	\$ 5.20
Current Price (MXN\$)	\$ 3.00
Min / Max (L12M)	\$ 1.90 - 3.16
Expected Dividend (MXN\$)	\$ 0.00
Expected Return	73.3%
Market Cap (MXN\$ Mn)	958
Enterprise Value (MXN\$ Mn)	2,719
Outstanding Shares (Mn)	319.2
Float	29.2%
ADTV (MXN\$ Mn)	\$ 0.07

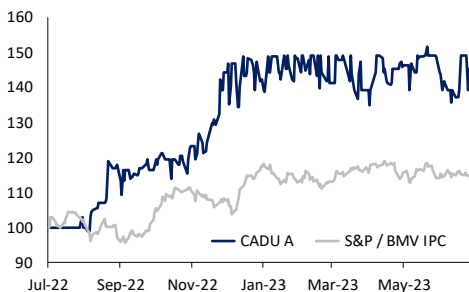
Opinion and recommendation

CADU posted double-digit increases in total revenues, EBITDA and net profits, generated positive free flow and continued to reduce the working capital cycle and its leverage in 2Q23. Revenues and net profits exceeded our forecasts, while EBITDA was slightly below. We reiterate our BUY recommendation with a MXN\$5.20/share target price after these quarterly results.

The company maintained its guidance for the year, which includes double-digit revenue and EBITDA growth. We believe it is achievable taking into account the results of the first half of the year.

Revenues

Revenues reached MXN\$1,169 million (slightly higher than our MXN\$1,135 million expectation) in 2Q23, up 17.5% YoY. They were supported mainly by the sale of land amounting to MXN\$256 million, well above the MXN\$8 million figure in the same period of the previous year. This more than offset the 8.9% decrease in housing sales, which took place as a result of an 8.8% reduction in the average price to MXN\$970 thousand due to a higher contribution of the social interest housing segment, a lower price per unit in the residential segment given the completion of the Allure project which was replaced by Blume (where the company only recognizes 60% of the sale price) and the sale of the last middle-income and middle-residential income homes in the Long Island development. Total units sold remained practically unchanged at 924. The company will open OMBU, a new middle-income housing project in Cancún, during the next quarter.



Profitability

Gross margin was 27.4% in the current quarter, from 19.0% a year earlier, due to the sale of land. However, expenses represented 15.9% of revenues, from 12.6%, as a consequence of higher commissions in Playa del Carmen and higher expenses for specialized services. EBITDA grew 10.0% to MXN\$186 million (vs. MXN\$201 million E) but the EBITDA margin contracted 110 bps to 15.9%. Net profits rose 37.8% to MXN\$88 million (vs. P\$57 million E), also supported by the sale of land.

Financial structure

Cash rose 16.8% to MXN\$530 million and the company reduced its debt by 36.8%, taking advantage of its significant free cash flow generation of MXN\$437 million during the current quarter and MXN\$902 million during the first six months of the year. The net debt to EBITDA ratio decreased to 2.23x in 2Q23, from 2.66x in 1Q23 and 10.31x in 2Q22.

CADU faces maturities of MXN\$353 million in 3Q23 (of which MXN\$185 million correspond to current account loans that are renewed annually and MXN\$92 million to the pre-bridge that became a bridge loan in July) and another MXN\$135 million in 4Q23.

Working capital cycle

The working capital cycle decreased to 740 days in 2Q23, compared to 1,196 days in 2Q22, due to higher housing displacement over the last twelve months.

(Figures in Millions of MXN\$)	2Q23	2Q23E	Diff	2Q22	Chg.
Revenues	1,169	1,135	3.0%	994	17.5%
Cost of Sales	-848	-917	-7.5%	-806	5.3%
Gross Profit	321	218	47.1%	189	69.9%
Gross Margin	27.4%	19.2%		19.0%	
General Expenses	-186	-110	68.6%	-125	48.7%
Operating Profit	134	108	25.1%	64	n.a.
Operating Margin	11.5%	9.5%		6.4%	
EBITDA	186	201	-7.5%	169	10.1%
EBITDA Margin	15.9%	17.7%		17.0%	
Financial Gains	6	9	-35.3%	5	28.9%
Financial Cost	-30	-37	-20.6%	-25	20.5%
Net Profit	88	57	53.6%	64	37.8%

Discounted Cash Flow Model

(Figures in Millions of MXN\$)	2024E	2025E	2026E	2027E	2028E	Perp.
OPERATING PROFIT	381	425	505	590	668	689
Tax Rate	20%	21%	21%	22%	22%	30%
Tax Shield	-76	-87	-106	-127	-147	-152
NOPLAT	305	338	399	463	521	537
Depreciation	6	6	7	7	7	8
Working Capital Changes	-63	-281	-18	-107	-188	-193
FCFF	268	84	407	383	361	372
Perpetuity Growth Rate						3.1%
PV of Explicit Period (2024 - 2028E)						1,084
Perpetuity Value						4,923
PV of Perpetuity Value						2,681
Enterprise Value						3,765
Net Debt						1,790
Minority Interest						49
Market Value						1,927
Outstanding Shares						321
Adjusted Target Price						P\$ 4.20
Current Market Price						P\$ 3.00
Potential Return Incl. Dividends						40.1%
Forward EV/EBITDA						4.9x
Forward P/E						5.6x
Average Cost of Debt						13.3%
LT Tax Rate						30.0%
After-Tax Cost of Debt						9.3%
Cost of Equity						11.3%
Market Risk Premium						6.0%
Risk-Free Rate						8.9%
Beta						0.40
% Total Debt						31.1%
% Capital						68.9%
WACC						10.7%

(Figures in Millions of MXN\$)

INCOME STATEMENT	2022	2023E	2024E	2025E	2026E	2027E	2028E
Revenues	3,723	4,427	4,303	4,654	5,035	5,447	5,893
Cost of Sales	-2,805	-3,308	-3,327	-3,585	-3,864	-4,163	-4,487
Gross Profit	918	1,119	975	1,069	1,171	1,284	1,407
<i>Gross Margin</i>	<i>24.7%</i>	<i>25.3%</i>	<i>22.7%</i>	<i>23.0%</i>	<i>23.3%</i>	<i>23.6%</i>	<i>23.9%</i>
General Expenses	-543	-612	-594	-644	-666	-694	-738
Operating Profit	368	507	381	425	505	590	668
<i>Operating Margin</i>	<i>9.9%</i>	<i>11.4%</i>	<i>8.9%</i>	<i>9.1%</i>	<i>10.0%</i>	<i>10.8%</i>	<i>11.3%</i>
EBITDA	636	721	667	732	832	937	1,016
<i>EBITDA Margin</i>	<i>17.1%</i>	<i>16.3%</i>	<i>15.5%</i>	<i>15.7%</i>	<i>16.5%</i>	<i>17.2%</i>	<i>17.2%</i>
Financial Gains	25	28	26	28	31	33	36
Financial Cost	-115	-121	-108	-113	-110	-107	-103
Pre-Tax Profit	278	414	299	341	426	516	601
Net Profit	269	320	239	271	336	405	469
BALANCE SHEET	2022	2023E	2024E	2025E	2026E	2027E	2028E
TOTAL ASSETS	11,017	10,262	10,695	11,032	11,421	11,913	12,499
Current Assets	7,349	5,040	5,248	5,360	5,522	5,784	6,140
LT Assets	3,667	5,222	5,447	5,672	5,899	6,128	6,359
TOTAL LIABILITIES	6,011	4,956	5,156	5,231	5,294	5,392	5,523
ST Liabilities	3,286	2,520	2,720	2,794	2,857	2,955	3,087
LT Liabilities	2,725	2,436	2,436	2,436	2,436	2,436	2,436
TOTAL DEBT	3,092	2,397	2,502	2,799	2,776	2,782	2,815
NET DEBT	2,430	1,790	1,844	2,088	2,007	1,949	1,913
TOTAL CAPITAL	5,006	5,309	5,541	5,804	6,130	6,523	6,978
Stockholder's Equity	4,966	5,260	5,490	5,751	6,074	6,463	6,914
Minority Interest	40	49	51	53	56	60	64
CASH FLOW STATEMENT	2022	2023E	2024E	2025E	2026E	2027E	2028E
Net Profit	269	320	239	271	336	405	469
Inv. Related Activities	341	417	255	266	278	290	298
Pre-Tax Cash Flow	609	396	42	80	134	189	238
Working Capital Changes	216	474	-63	-281	-18	-107	-188
Operating Cash Flow	825	870	-21	-200	116	82	51
Investment Cash Flow	3	38	46	48	50	53	56
Financing Cash Flow	-660	-963	25	206	-108	-72	-38
Net Incr. (Decr.) in Cash & Temp. Inv.	169	-55	50	54	58	63	69
Beg. of Period Cash and Temp. Inv.	494	663	607	657	711	770	833
End of Period Cash and Temp. Inv.	663	607	657	711	770	833	901

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