

# JAVER: 2Q23 Results

Outstanding quarter with high growth, positive free cash flow generation and lower leverage

JAVER*	BUY
Target Price (MXN\$)	\$ 20.00
Current Price (MXN\$)	\$ 14.30
Max / Min (L12M)	14.30 - 15.86
Expected Dividend (MXN\$)	\$ 0.46
Expected Return	43.1%
Market Cap (MXN\$ Mn)	4,000
Enterprise Value (MXN\$ Mn)	5,055
Outstanding Shares (Mn)	279.8
Float	34.1%
ADTV (MXN\$ Mn)	\$ 0.01

## Opinion and recommendation

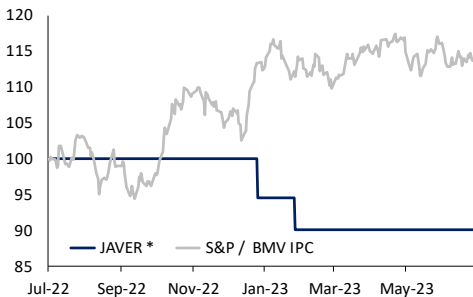
JAVER reported outstanding 2Q23 results with significant increases in sales, EBITDA and net profits that exceeded our expectations as the company continued to focus on the residential segment. In addition, it generated positive free cash flow and continued to deleverage. The figures for the first semester were above the guidance for the year. We reiterate our BUY recommendation with a MXN\$20.0/share target price after this quarterly report.

## Revenues

JAVER's total 2Q23 revenues amounted to MXN\$2,303 million, above our MXN\$2,161 million projection, up 18.4% YoY. The company continued to focus on the residential level as volume in this segment increased 36%, while that of middle-income was virtually flat. This boosted the total volume by 3.9% to 3,163 units. In addition, the average price per unit experienced a 14.2% increase, surpassing the P\$700 thousand barrier, which was mainly attributed to the aforementioned change in the sales mix and a 10.5% adjustment in the price of the middle segment, since the price of the residential segment remained unchanged.

During the semester, the company inaugurated three new developments, of which 2 are focused on the middle segment and the other one on the residential segment. It plans to open another 8 developments during the rest of the year, which we believe will support its revenues.

Digital media sales represented 68% of total sales, slightly below the 1Q23 level, but in line with previous quarters.



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## Profitability

Gross margin decreased marginally to 29.9% in 2Q23, from 30.2% in 2Q22, as a result of reduced profitability in the sale of lots, in addition to a lower sales level in this category. The profitability of the housing business remained unchanged. However, the percentage of expenses to total revenue decreased to 14.4% in the current quarter, from 15.1% a year earlier. This EBITDA margin thus expanded to 17.1%, from 16.8%, translating into a higher-than-expected 20.0% EBITDA growth to MXN\$394 million (vs. MXN\$361 million E).

JAVER's net profits advanced 32.0% to MXN\$137 million, also above our MXN\$122 million expectation. In addition to operating growth, the company generated a greater amount of financial gains. Net margin was 5.9% in 2Q23, compared to 5.3% a year earlier. Worth mentioning that ROIC improved 6.6 percentage points annually, reaching 31.0% in 2Q23.

## Working capital cycle

The working capital cycle fell to 237 days, from 294 days, driven by a higher inventory turnover and a reduction of accounts receivable days. This indicator is at its lowest level of recent years. This allowed JAVER to generate positive free flow, despite a higher investment in land reserves.

## Leverage

Leverage continued to decline, with a net debt to EBITDA ratio of just 0.96x at the end of the quarter, a historically low level for the company.

## ESG

JAVER published its declaration of commitment to the EDGE certification of the IFC, was classified as EDGE Champions for having more than 200 thousand M2 of sustainable homes and expects to have around 10,000 houses with EDGE certification over the next 3 years.

(Figures in Millions of MXN\$)	2Q23	2Q23E	Diff.	2Q22	Change
Revenues	2,304	2,161	6.6%	1,945	18.4%
Gross Profit	688	655	5.1%	587	17.3%
Gross Margin	29.9%	30.3%		30.2%	
Operating Profit	360	333	7.8%	298	20.6%
Operating Margin	15.6%	15.4%		15.3%	
EBITDA	394	361	9.3%	328	20.3%
EBITDA Margin	17.1%	16.7%		16.8%	
Financial Gains	56	28	95.7%	16	237.9%
Financial Cost	-146	-139	5.4%	-131	11.7%
Net Profit	137	122	12.4%	104	32.0%

## Discounted Cash Flow Model

(Figures in Millions of MXN\$)	2024E	2025E	2026E	2027E	2028E	Perp.
OPERATING PROFIT	1,454	1,644	1,856	2,054	2,266	2,342
Tax Rate	49%	49%	49%	49%	49%	30%
Tax Shield	-712	-806	-910	-1,007	-1,111	-1,148
NOPLAT	741	838	947	1,048	1,156	1,194
Depreciation	106	110	114	118	122	126
Working Capital Changes	-803	-307	-196	-263	-263	-272
CAPEX	-20	-24	-28	-28	-28	-29
FCFF	25	617	837	874	987	1,020
Perpetuity Growth Rate						3.3%
PV of Explicit Period (2024 - 2028E)						2,249
Perpetuity Value						12,249
PV of Perpetuity Value						7,057
Enterprise Value						9,306
Net Debt						1,242
Market Value						8,064
Outstanding Shares						282
Target Price						P\$ 20.00
Current Market Price						<b>P\$ 14.30</b>
Potential Return Incl. Dividends						43.1%
Forward EV/EBITDA						6.1x
Forward P/E						15.5x
Average Cost of Debt						12.1%
LT Tax Rate						30.0%
After-Tax Cost of Debt						8.5%
Cost of Equity						14.7%
Market Risk Premium						6.0%
Risk-Free Rate						8.68%
Beta						1.00
% Total Debt						48.6%
% Capital						51.4%
WACC						11.7%

(Figures in Millions of MXN\$)

<b>INCOME STATEMENT</b>	<b>2022</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>	<b>2028E</b>
Revenues	8,140	9,219	10,283	11,363	12,439	13,512	14,633
Cost of Sales	-5,819	-6,505	-7,245	-7,995	-8,740	-9,481	-10,252
Gross Profit	2,321	2,714	3,037	3,368	3,699	4,031	4,380
General Expenses	-1,259	-1,455	-1,587	-1,731	-1,871	-2,005	-2,142
Operating Profit	1,081	1,264	1,454	1,644	1,856	2,054	2,266
<i>Operating Margin</i>	<i>13.3%</i>	<i>13.7%</i>	<i>14.1%</i>	<i>14.5%</i>	<i>14.9%</i>	<i>15.2%</i>	<i>15.5%</i>
Depreciation and Amortization	-95	-102	-106	-110	-114	-118	-122
Profit Sharing & Exec. Comp.	-24	-23	-8	-8	-8	-8	-8
EBITDA	1,202	1,386	1,568	1,762	1,978	2,180	2,396
<i>EBITDA Margin</i>	<i>14.8%</i>	<i>15.0%</i>	<i>15.2%</i>	<i>15.5%</i>	<i>15.9%</i>	<i>16.1%</i>	<i>16.4%</i>
Financial Gains	156	223	245	262	280	297	315
Financial Cost	-723	-593	-675	-736	-842	-957	-1,008
Pre-Tax Profit	514	894	1,023	1,170	1,294	1,395	1,574
Income Tax & Profit Sharing	-252	-438	-501	-573	-634	-684	-771
Net Profit	262	456	522	597	660	711	802
<b>BALANCE SHEET</b>	<b>2022</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>	<b>2028E</b>
TOTAL ASSETS	8,953	9,768	10,536	11,749	12,733	13,865	14,896
Current Assets	6,671	7,424	8,559	9,257	9,825	10,444	11,065
Cash & Temp. Inv.	1,404	1,472	1,642	1,815	1,987	2,159	2,338
LT Assets	2,282	2,344	1,977	2,492	2,907	3,422	3,831
P, P & E	147	131	155	161	167	172	172
Other LT Assets	1,774	1,915	1,515	2,015	2,415	2,915	3,315
TOTAL LIABILITIES	6,302	6,926	7,258	7,969	8,395	8,926	9,273
ST Liabilities	2,554	3,255	3,788	4,398	4,825	5,356	5,702
LT Liabilities	3,748	3,671	3,471	3,571	3,571	3,571	3,571
TOTAL DEBT	2,541	2,714	3,085	3,477	3,703	4,051	4,218
NET DEBT	1,137	1,242	1,443	1,662	1,716	1,892	1,881
TOTAL CAPITAL	2,651	2,866	3,299	3,800	4,357	4,958	5,642
Stockholder's Equity	2,651	2,866	3,299	3,800	4,357	4,958	5,642
<b>CASH FLOW STATEMENT</b>	<b>2022</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>	<b>2028E</b>
PRE-TAX PROFIT	262	456	522	597	660	711	802
Inv. Related Activities	919	923	1,003	1,007	1,011	1,015	1,019
Pre-Tax Cash Flow	1,181	1,027	1,377	931	1,100	1,163	1,406
Working Capital Changes	87	-526	-803	-307	-196	-263	-263
Operating Cash Flow	1,267	500	574	624	904	900	1,143
Investment Cash Flow	3	-6	-20	-24	-28	-28	-28
Financing Cash Flow	-1,292	-422	-380	-423	-700	-696	-932
Net Incr. (Decr.) in Cash & Temp. Inv.	-23	71	174	177	176	176	183
Beg. of Period Cash and Temp. Inv.	1,427	1,404	1,472	1,642	1,815	1,987	2,159
End of Period Cash and Temp. Inv.	1,404	1,472	1,642	1,815	1,987	2,159	2,338

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