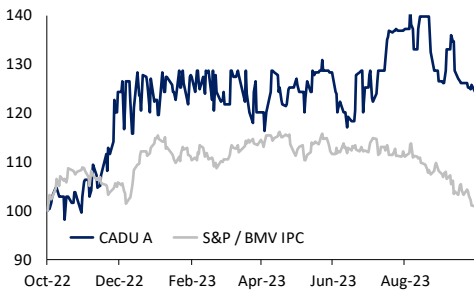


# CADU: 3Q23 Results

Positive quarter with solid sales, EBITDA and net profit growth which exceeded our forecasts

CADU A	BUY
Target Price (MXN\$)	\$ 5.20
Current Price (MXN\$)	\$ 2.90
Min / Max (L12M)	\$ 2.25 - 3.29
Expected Dividend (MXN\$)	\$ 0.00
Expected Return	79.3%
Market Cap (MXN\$ Mn)	926
Enterprise Value (MXN\$ Mn)	2,757
Outstanding Shares (Mn)	319.2
Float	29.2%
ADTV (MXN\$ Mn)	\$ 0.05



## Opinion and recommendation

CADU reported positive 3Q23 results with solid revenue, EBITDA, and net profit growth which exceeded our projections due to strong demand and the opening of new projects. Additionally, the company acquired some land, continued to reduce leverage, and improved its maturity profile.

We are reiterating our BUY recommendation with a MXN\$5.20/share target price. We believe that CADU's prospects are favorable mainly due to the recovery in INFONAVIT demand (+21.5% vs. December 2022) and greater mortgage loan supply.

## 3Q23 Results

CADU recorded a 21.9% increase in its total revenues to MXN\$1.02 billion (vs. our MXN\$933 million estimate). The openings of mid-segment developments, the completion of projects at the mid-residential and residential levels, and price adjustments in most segments, with the exception of residential, generated an 11.8% rise in the average price per unit to MXN\$1.1 million. The volume of titled homes remained stable at 798 units as the 138% increase in the middle segment was offset by the reductions in social interest (VU), middle residential, and residential. In addition, the company sold commercial land and a residential lot in Mexico City for MXN\$107 million. It plans to boost its ecological commitment to all units to take advantage of preferential conditions for this type of mortgage loans.

The gross margin expanded 3 percentage points to 27.3% as the new developments in Cancún (OMBÚ and La Vela) have higher profitability. Additionally, the company reduced capitalized interest in the cost of sales due to a lower amount of bridge loans. However, the expense-to-sales ratio rose to 18.6%, from 16.0%, due to higher sales expenses. This resulted in a 3.8% EBITDA growth to MXN\$138 million (vs. MXN\$134 million E). The EBITDA margin contracted 2.3 percentage points to 13.5%.

Net profits were up 259.3% to MXN\$112 million (vs. MXN\$69 million E) due to the favorable operating performance in combination with a MXN\$53 million tax benefit during the quarter.

### Financial structure / Free cash flow

Total debt decreased 28.0% mainly in bridge loans and the CADU 18 and 19 domestic bonds. Leverage fell to 2.31x in 3Q23, from 13.78x in 3Q22. The company faces limited maturities in 4Q23 and 27% of debt over the next twelve months.

The working capital cycle was 729 days in 3Q23, compared to 1,177 days in 3Q22. This improvement resulted from a significant decrease in inventory days, despite the fact that the company acquired 4 lots, and to better terms with land suppliers. Free cash flow was MXN\$13 million positive, with a 91% contraction, due to higher accounts receivable. For the year to date, the company has generated MXN\$915 million of positive free cash flow.

(Figures in Millions of MXN\$)	3Q23	3Q23E	Diff	3Q22	Chg.
Revenues	1,023	933	9.6%	839	21.9%
Cost of Sales	-743	-693	7.2%	-635	17.1%
Gross Profit	279	240	16.4%	204	36.7%
Gross Margin	27.3%	25.7%		24.3%	
General Expenses	-190	-133	42.8%	-134	41.4%
Operating Profit	89	107	-16.5%	70	27.7%
Operating Margin	8.7%	11.4%		8.3%	
EBITDA	138	134	3.1%	133	3.8%
EBITDA Margin	13.5%	14.3%		15.8%	
Financial Gains	7	6	18.4%	6	11.3%
Financial Cost	-37	-25	47.9%	-32	13.9%
Net Profit	112	69	61.9%	31	259.3%

## Discounted Cash Flow Model

(Figures in Millions of MXN\$)	2024E	2025E	2026E	2027E	2028E	Perp.
OPERATING PROFIT	479	531	649	696	783	836
Tax Rate	20%	21%	21%	22%	22%	30%
Tax Shield	-96	-109	-136	-150	-172	-184
NOPLAT	383	422	513	546	611	652
Depreciation	5	5	6	6	6	7
Working Capital Changes	-196	168	-261	-291	-348	-372
FCFF	185	589	251	253	262	279
Perpetuity Growth Rate						6.8%
PV of Explicit Period (2024 - 2028E)						1,136
Perpetuity Value						5,900
PV of Perpetuity Value						3,072
Enterprise Value						4,208
Net Debt						1,775
Minority Interest						51
Market Value						2,382
Outstanding Shares						321
Adjusted Target Price						P\$ 5.20
Current Market Price						P\$ 2.90
Potential Return Incl. Dividends						79.2%
Forward EV/EBITDA						5.1x
Forward P/E						3.3x
Average Cost of Debt						13.4%
LT Tax Rate						30.0%
After-Tax Cost of Debt						9.4%
Cost of Equity						12.4%
Market Risk Premium						6.0%
Risk-Free Rate						10.1%
Beta						0.40
% Total Debt						30.8%
% Capital						69.2%
WACC						11.5%

(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	3,723	4,574	4,418	4,777	5,166	5,588	6,044
Cost of Sales	-2,805	-3,361	-3,377	-3,638	-3,919	-4,222	-4,548
Gross Profit	918	1,213	1,040	1,139	1,247	1,366	1,495
<i>Gross Margin</i>	24.7%	26.5%	23.5%	23.8%	24.1%	24.4%	24.7%
General Expenses	-543	-682	-561	-608	-598	-670	-712
Operating Profit	368	531	479	531	649	696	783
<i>Operating Margin</i>	9.9%	11.6%	10.8%	11.1%	12.6%	12.4%	13.0%
EBITDA	636	737	684	745	871	925	1,021
<i>EBITDA Margin</i>	17.1%	16.1%	15.5%	15.6%	16.9%	16.6%	16.9%
Financial Gains	25	30	30	32	35	38	41
Financial Cost	-115	-75	119	115	109	107	106
Pre-Tax Profit	278	486	628	678	793	840	930
Net Profit	269	444	503	539	626	659	726
<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	11,017	11,679	12,248	12,463	13,120	13,820	14,591
Current Assets	7,349	5,532	5,855	5,823	6,230	6,680	7,200
LT Assets	3,667	6,147	6,393	6,641	6,889	7,139	7,391
TOTAL LIABILITIES	6,011	6,252	6,348	6,055	6,117	6,191	6,270
ST Liabilities	3,286	2,116	2,212	1,919	1,982	2,055	2,135
LT Liabilities	2,725	4,136	4,136	4,136	4,136	4,136	4,136
TOTAL DEBT	3,092	2,419	2,441	2,068	2,045	2,026	2,005
NET DEBT	2,430	1,775	1,745	1,316	1,231	1,146	1,055
TOTAL CAPITAL	5,006	5,430	5,902	6,411	7,005	7,631	8,323
Stockholder's Equity	4,966	5,379	5,847	6,351	6,939	7,560	8,244
Minority Interest	40	51	56	60	66	72	78
<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>
Net Profit	269	444	503	539	626	659	726
Inv. Related Activities	341	202	265	277	289	302	312
Pre-Tax Cash Flow	609	550	291	335	430	462	523
Working Capital Changes	216	409	-196	168	-261	-291	-348
Operating Cash Flow	825	959	95	503	169	170	175
Investment Cash Flow	3	33	37	40	42	45	48
Financing Cash Flow	-660	-1,011	-80	-486	-150	-149	-152
Net Incr. (Decr.) in Cash & Temp. Inv.	169	-18	52	56	61	66	71
Beg. of Period Cash and Temp. Inv.	494	663	644	696	753	813	879
End of Period Cash and Temp. Inv.	663	644	696	753	813	879	951

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