

JAVER: 3Q23 Results

Favorable results with higher-than-expected profitability levels, positive free cash flow and lower leverage; will distribute another MXN\$300 million

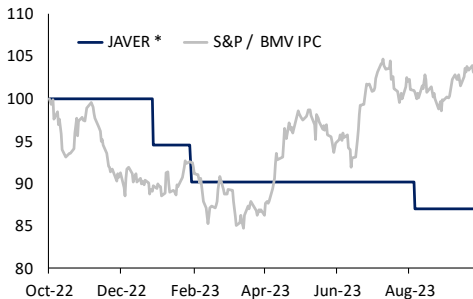
JAVER*	BUY
Target Price (MXN\$)	\$ 20.00
Current Price (MXN\$)	\$ 13.00
Max / Min (L12M)	13.00 - 15.86
Expected Dividend (MXN\$)	\$ 1.54
Expected Return	65.7%
Market Cap (MXN\$ Mn)	3,637
Enterprise Value (MXN\$ Mn)	4,544
Outstanding Shares (Mn)	279.8
Float	34.1%
ADTV (MXN\$ Mn)	\$ 0.01

Opinion and recommendation

JAVER reported positive 3Q23 results that exceeded our projections in terms of EBITDA, net profits and free cash flow generation. The company continued to benefit from its focus on the medium segment.

JAVER revised its guidance for the year upwards. It now expects an increase in revenue of between 12-15% and a 20% EBITDA growth with positive free cash flow. On the other hand, its Board approved the payment of a new MXN\$300 million dividend, in addition to the MXN\$130 million that the company distributed in August.

After having updated our model, we reiterate our BUY recommendation with a MXN\$20.0/share target price. We recommend taking advantage of the current price level.



3Q23 Results

Total revenues were up 7% YoY to MXN\$2.3 billion (in line with our estimates), mainly due to the company's focus on the medium segment, which boosted the average price per unit by 5%, once again exceeding the company's goal of MXN\$700 thousand. The average price in the medium segment increased 11%, while that of residential housing decreased 2%. For its part, titled house volume grew 2% to 3,230, supported by a 2% rise in the medium segment, which offset a slight 1% drop in the residential one. The company opened 4 new developments in 3Q23 and expects to inaugurate another 7 in 4Q23. It estimates that such openings will contribute around 10% of revenue in 2024.

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As a result of the improved housing mix and the cost containment strategy, gross margin expanded 2.6 percentage points to 30.7%. Expenses were up slightly as a percentage of revenues to 14.6%, from 14.4%, due to the inflationary impact. This allowed EBITDA to experience a significant 24% growth to MXN\$412 million (vs. MXN\$401 million projected). The margin reached 17.7%, from 15.4%.

Financing costs decreased 36% thanks to higher interest gains, FX gains and profits on derivatives. As a result, net income advanced 56% to MXN\$153 million (vs. MXN\$145 million estimated). ROIC hit an all-time high of 32.9%, up from 25.8%.

The company continued to deleverage as the net debt to EBITDA ratio was 0.78x at the end of the quarter, compared to 1.16x in the same period of the previous year.

JAVER generated free cash flow of MXN\$301 million in the period due to the reduction in the working capital cycle, mainly in inventory days. This happened despite higher investments in territorial reserves.

Credit rating

HR Ratings revised JAVER's National Scale rating upwards to "AA-" from "A+", and the short-term rating to "HR1" from "HR2", with a stable outlook. We believe this reflects the company's strong fundamentals and favorable prospects.

(Figures in Millions of MXN\$)	3Q23	3Q23E	Diff.	3Q22	Change
Revenues	2,329	2,332	-0.1%	2,172	7.2%
Gross Profit	715	683	4.6%	610	17.1%
Gross Margin	30.7%	29.3%		28.1%	
Operating Profit	378	373	1.2%	305	23.9%
Operating Margin	16.2%	16.0%		14.0%	
EBITDA	412	401	2.9%	334	23.6%
EBITDA Margin	17.7%	17.2%		15.4%	
Financial Gains	65	59	10.2%	28	133.1%
Financial Cost	-143	-147	-2.5%	-151	-5.1%
Net Profit	153	145	4.9%	98	56.3%

Discounted Cash Flow Model

(Figures in Millions of MXN\$)	2024E	2025E	2026E	2027E	2028E	Perp.
OPERATING PROFIT	1,514	1,710	1,928	2,131	2,349	2,418
Tax Rate	49%	49%	49%	49%	49%	30%
Tax Shield	-742	-838	-945	-1,044	-1,151	-1,185
NOPLAT	772	872	983	1,087	1,198	1,233
Depreciation	103	107	111	115	119	122
Working Capital Changes	-652	-274	-167	-232	-231	-238
CAPEX	-20	-24	-28	-28	-28	-29
FCFF	203	681	898	941	1,058	1,089
Perpetuity Growth Rate						2.9%
PV of Explicit Period (2024 - 2028E)						2,545
Perpetuity Value						11,730
PV of Perpetuity Value						6,591
Enterprise Value						9,136
Net Debt						1,071
Market Value						8,065
Outstanding Shares						282
Target Price						P\$ 20.00
Current Market Price						P\$ 13.00
Potential Return Incl. Dividends						65.7%
Forward EV/EBITDA						5.5x
Forward P/E						14.2x
Average Cost of Debt						12.1%
LT Tax Rate						30.0%
After-Tax Cost of Debt						8.5%
Cost of Equity						16.0%
Market Risk Premium						6.0%
Risk-Free Rate						10.00%
Beta						1.00
% Total Debt						50.2%
% Capital						49.8%
WACC						12.2%

(Figures in Millions of MXN\$)

INCOME STATEMENT	2022	2023E	2024E	2025E	2026E	2027E	2028E
Revenues	8,140	9,108	10,039	11,096	12,148	13,197	14,292
Cost of Sales	-5,819	-6,370	-6,990	-7,714	-8,434	-9,149	-9,894
Gross Profit	2,321	2,738	3,050	3,382	3,714	4,048	4,399
General Expenses	-1,259	-1,404	-1,540	-1,680	-1,815	-1,945	-2,078
Operating Profit	1,081	1,341	1,514	1,710	1,928	2,131	2,349
<i>Operating Margin</i>	<i>13.3%</i>	<i>14.7%</i>	<i>15.1%</i>	<i>15.4%</i>	<i>15.9%</i>	<i>16.2%</i>	<i>16.4%</i>
Depreciation and Amortization	-95	-100	-103	-107	-111	-115	-119
Profit Sharing & Exec. Comp.	-24	-43	-48	-48	-48	-48	-48
EBITDA	1,202	1,479	1,665	1,865	2,087	2,294	2,516
<i>EBITDA Margin</i>	<i>14.8%</i>	<i>16.2%</i>	<i>16.6%</i>	<i>16.8%</i>	<i>17.2%</i>	<i>17.4%</i>	<i>17.6%</i>
Financial Gains	156	237	255	254	271	288	306
Financial Cost	-723	-579	-658	-715	-833	-948	-1,001
Pre-Tax Profit	514	999	1,111	1,249	1,366	1,472	1,653
Income Tax & Profit Sharing	-252	-490	-544	-612	-669	-721	-810
Net Profit	262	510	567	637	696	750	843
BALANCE SHEET	2022	2023E	2024E	2025E	2026E	2027E	2028E
TOTAL ASSETS	8,953	9,878	10,457	11,656	12,631	13,753	14,773
Current Assets	6,671	7,484	8,437	9,121	9,681	10,289	10,900
Cash & Temp. Inv.	1,404	1,741	1,919	2,121	2,321	2,521	2,730
LT Assets	2,282	2,395	2,020	2,535	2,950	3,464	3,873
P, P & E	147	137	155	161	167	172	172
Other LT Assets	1,774	1,965	1,565	2,065	2,465	2,965	3,365
TOTAL LIABILITIES	6,302	7,107	7,254	7,958	8,387	8,916	9,258
ST Liabilities	2,554	3,406	3,752	4,356	4,785	5,314	5,657
LT Liabilities	3,748	3,702	3,502	3,602	3,602	3,602	3,602
TOTAL DEBT	2,541	2,812	3,036	3,430	3,667	4,021	4,193
NET DEBT	1,137	1,071	1,116	1,310	1,346	1,500	1,463
TOTAL CAPITAL	2,651	2,793	3,224	3,717	4,263	4,856	5,533
Stockholder's Equity	2,651	2,793	3,224	3,717	4,263	4,856	5,533
CASH FLOW STATEMENT	2022	2023E	2024E	2025E	2026E	2027E	2028E
PRE-TAX PROFIT	262	510	567	637	696	750	843
Inv. Related Activities	919	927	1,010	1,014	1,018	1,022	1,026
Pre-Tax Cash Flow	1,181	1,267	1,408	946	1,124	1,189	1,436
Working Capital Changes	87	-340	-652	-274	-167	-232	-231
Operating Cash Flow	1,267	926	756	672	956	957	1,205
Investment Cash Flow	3	-5	-20	-24	-28	-28	-28
Financing Cash Flow	-1,292	-582	-560	-449	-730	-731	-970
Net Incr. (Decr.) in Cash & Temp. Inv.	-23	337	176	199	198	198	207
Beg. of Period Cash and Temp. Inv.	1,427	1,404	1,741	1,919	2,121	2,321	2,521
End of Period Cash and Temp. Inv.	1,404	1,741	1,919	2,121	2,321	2,521	2,730

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