

CADU: 3Q24 Results

Outstanding quarterly results fueled by the social interest segment; positive free cash flow generation and debt reduction

CADU A	BUY
Target Price (MXN\$)	\$ 7.50
Current Price (MXN\$)	\$ 3.50
Min / Max (L12M)	\$ 2.75 - 5.17
Expected Dividend (MXN\$)	\$ 0.00
Expected Return	114.3%
Market Cap (MXN\$ Mn)	1,097
Enterprise Value (MXN\$ Mn)	2,612
Outstanding Shares (Mn)	313.5
Float	29.2%
ADTV (MXN\$ Mn)	\$ 0.13

Opinion and recommendation

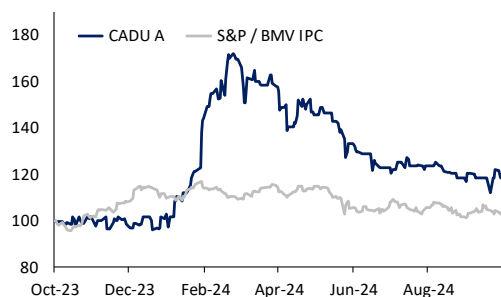
CADU reported outstanding 3Q24 operating results with revenues and EBITDA that were practically in line with our projections. They were driven mainly by a significant increase in social interest volume. In addition, the company generated positive free cash flow and continued to reduce debt. We reiterate our BUY recommendation with a MXN\$7.50/share target price after having updated our projections.

The company mentioned in its press release that it will not meet its annual guidance due to the lack of inventory as a result of hurricanes, rains and changes in the municipal government that delayed the paperworks.

3Q24 Results

CADU's results benefited from a significant 51.9% growth in affordable housing volume due to the high demand that prevails in this segment and a favorable comparison base, which offset the volume contraction in the other segments. This resulted in a 41.0% rise in total units sold. However, this change in the revenue mix led to a 9.3% reduction in the average price per unit to MXN\$1.02 million. For these reasons, housing revenues advanced 27.8%. Meanwhile, land sales revenues fell 89.8%. These factors led to a 15.1% YoY increase in total revenues to MXN\$1.18 billion, slightly higher than our MXN\$1.1 billion expectation.

Profitability fell due to a higher contribution of the social interest segment and an increase in interest capitalization. Gross margin contracted 2.5 PP, with gross profit up 4.7% YoY.



However, the expense to sales ratio remained unchanged, boosting EBITDA by 11.2% YoY to MXN\$153 million (practically in line with the MXN\$152 million figure we projected).

Net profits were down 69.8% YoY to MXN\$34 million (vs. MXN\$61 million E), as a result of the tax payment during this quarter, compared to a fiscal profit in 3Q23.

CADU took advantage of its significant MXN\$342 million free cash flow generation in the quarter to reduce its debt by 18.9% YoY, thus improving the net debt to EBITDA ratio to 1.92x at the end of 3Q24, from 2.31x in 3Q23. Worth mentioning that the company complies with its financial covenants, including interest coverage. On the other hand, CADU faces a comfortable maturity profile during the next quarters. The company mentioned in its quarterly conference call that it will remain focused on strengthening the balance sheet and maintaining stable covenants.

Housing and Regularization Program

The Mexican government announced the “Housing and Regularization Program,” which includes the construction of 1 million homes during the current six-year term with an investment of MXN\$600 billion in construction, improvement and expansion of homes. 50% of these new units will be built by INFONAVIT for its affiliated members and the other 50% will be developed by the National Housing Commission (CONAVI) for the non-affiliated population. It will begin in 2025 with the construction of 165,000 homes. The Government expects to create 6.1 million direct jobs. The effect on the housing sector is uncertain since the operating rules have not yet been released.

Discounted Cash Flow Model

(Figures in Millions of MXN\$)	2025E	2026E	2027E	2028E	2029E	Perp.
OPERATING PROFIT	661	728	813	903	1,001	1,039
Tax Rate	30%	30%	30%	30%	30%	30%
Tax Shield	-198	-218	-244	-271	-300	-312
NOPLAT	463	510	569	632	701	727
Depreciation	14	15	16	17	18	18
Working Capital Changes	-361	-191	-206	-223	-241	-250
CAPEX	-8	-8	-8	-8	-8	-8
FCFF	108	326	371	418	470	488
Perpetuity Growth Rate						3.8%
PV of Explicit Period (2025 - 2029E)						1,207
Perpetuity Value						7,262
PV of Perpetuity Value						3,995
Enterprise Value						5,201
Net Debt						1,535
Minority Interest						51
Market Value						3,616
<i>Outstanding Shares</i>						314
Adjusted Target Price						P\$ 7.50
Current Market Price						P\$ 3.50
Potential Return Incl. Dividends						114.2%
Forward EV/EBITDA						5.2x
Forward P/E						5.9x
Average Cost of Debt						12.7%
LT Tax Rate						30.0%
After-Tax Cost of Debt						8.9%
Cost of Equity						11.1%
Market Risk Premium						7.4%
Risk-Free Rate						10.1%
Beta						0.14
% Total Debt						27.3%
% Capital						72.7%
WACC						10.5%

(Figures in Millions of MXN\$)

INCOME STATEMENT	2023	2024E	2025E	2026E	2027E	2028E	2029E
Revenues	4,506	4,504	4,705	5,084	5,493	5,936	6,415
Cost of Sales	-3,286	-3,298	-3,415	-3,675	-3,954	-4,255	-4,579
Gross Profit	1,220	1,206	1,290	1,409	1,539	1,681	1,836
<i>Gross Margin</i>	<i>27.1%</i>	<i>26.8%</i>	<i>27.4%</i>	<i>27.7%</i>	<i>28.0%</i>	<i>28.3%</i>	<i>28.6%</i>
General Expenses	-698	-744	-629	-681	-726	-778	-834
Operating Profit	522	462	661	728	813	903	1,001
<i>Operating Margin</i>	<i>11.6%</i>	<i>10.3%</i>	<i>14.0%</i>	<i>14.3%</i>	<i>14.8%</i>	<i>15.2%</i>	<i>15.6%</i>
EBITDA	745	745	803	879	973	1,072	1,187
<i>EBITDA Margin</i>	<i>16.5%</i>	<i>16.5%</i>	<i>17.1%</i>	<i>17.3%</i>	<i>17.7%</i>	<i>18.1%</i>	<i>18.5%</i>
Financial Gains	28	26	27	29	32	34	37
Financial Cost	-137	-118	-121	-127	-138	-147	-154
Pre-Tax Profit	413	370	567	630	707	791	885
Net Profit	302	259	397	441	495	553	619
BALANCE SHEET	2023	2024E	2025E	2026E	2027E	2028E	2029E
TOTAL ASSETS	11,337	11,763	12,569	13,133	13,867	14,629	15,423
Current Assets	3,826	3,765	4,324	4,647	4,996	5,373	5,779
LT Assets	7,511	7,998	8,245	8,486	8,871	9,257	9,644
TOTAL LIABILITIES	6,060	6,256	6,708	6,876	7,160	7,415	7,637
ST Liabilities	1,771	1,751	2,203	2,371	2,655	2,910	3,132
LT Liabilities	4,289	4,505	4,505	4,505	4,505	4,505	4,505
TOTAL DEBT	2,123	2,069	2,382	2,465	2,657	2,815	2,931
NET DEBT	1,579	1,535	1,789	1,825	1,966	2,068	2,123
TOTAL CAPITAL	5,277	5,514	5,867	6,264	6,713	7,221	7,792
Stockholder's Equity	5,227	5,463	5,813	6,206	6,652	7,154	7,721
Minority Interest	49	51	54	57	61	66	71
CASH FLOW STATEMENT	2023	2024E	2025E	2026E	2027E	2028E	2029E
Net Profit	302	259	397	441	495	553	619
Inv. Related Activities	405	431	270	282	294	303	312
Pre-Tax Cash Flow	707	618	403	463	390	462	537
Working Capital Changes	606	-301	-361	-191	-206	-223	-241
Operating Cash Flow	1,313	318	43	272	184	240	297
Investment Cash Flow	29	19	19	22	24	26	29
Financing Cash Flow	-1,461	-347	-3	-246	-156	-210	-266
Net Incr. (Decr.) in Cash & Temp. Inv.	-118	-11	59	47	51	56	60
Beg. of Period Cash and Temp. Inv.	663	544	534	593	640	691	747
End of Period Cash and Temp. Inv.	544	534	593	640	691	747	807

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