

# CREAL

Quarterly Report

February 24, 2020

## A year-end with better dynamics

- Although 4Q19 results reflected a non-recurrent effect due to liabilities management, when excluding this charge, net income would have stood at \$570 million (+0.3% y/y), in line with our estimates
- This quarter, a remarkable loan portfolio growth trend (+29.3% y/y), a 1.3% historical 5-year minimum non-performing loans ratio, a q/q recovery on NIM to 15% and a stable ROE of 13.1% stand out
- 2020 looks positive. Dynamism within the loan portfolio, lower costs of funding along with higher efficiencies will boost profitability. After assuming a 5.0x P/E 2020e our PT2020e is \$30.00. Our rating is BUY

**A transition quarter but reflecting better dynamics.** Creal's 4Q19 results, were below our estimates in terms of profit, having posted a \$142.8 million non-recurring effect, related to liability management of 2027 Senior Notes. However, after excluding this effect, net profit would have stood at \$570 million (vs. our estimated \$567 million) increasing by 0.3% y/y. Despite the above, a remarkable loan portfolio growth trend stands out, having placed at \$46.9 billion (+29.3% y/y), with all business segments showing double-digit growth, given the successful strategy implemented along with a relevant recovery in the US operations and Instacredit. The loan portfolio growth underpinned a 17.9% y/y increase in interest income to \$3.2 billion. On the other hand, interest expenses grew 75.1% y/y, stemming from higher levels of debt and funding costs, as well as to the said liability management impact. Consequently, a 3.0% y/y drop in the Financial Margin was posted, standing at \$1.9 billion. Regarding to the non-performing loans ratio, it is located at 1.3% (5-years minimum levels) and ROE remains stable at 13.1%.

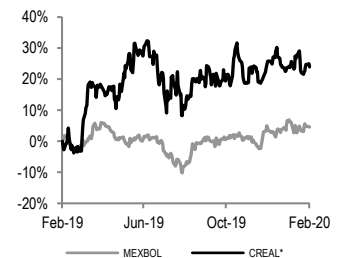
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### BUY

Current Price	\$22.93
<b>PT2020</b>	<b>\$30.00</b>
Dividend 2020	\$0.80
Dividend Yield (%)	3.5%
Upside Potential	34.3%
Max – Min LTM (\$)	25.00-17.49
Market Cap (US\$m)	484.8
Shares Outstanding (m)	376.7
Float	36.7%
Daily Turnover (\$m)	5.5
<b>Valuation metrics LTM</b>	
P/BV	0.6x
P/E	4.4x

### Relative performance to MEXBOL LTM



### Financial Statements

MXN, million	2018	2019	2020E	2021E
Interest Income	10,288	11,933	14,156	13,969
Financial margin	7,080	7,262	8,467	10,003
Prov for loan losse	1,801	1,307	701	837
Operating Income	2,509	2,647	3,008	3,242
Net Income	1,955	1,980	2,259	2,448
Net Margin	19.0%	16.6%	16.0%	17.5%
Total Assets	49,562	61,592	70,747	80,583
Performing Loans	35,702	46,326	56,171	65,344
Non-perf Loans	618	633	787	972
Total Liabilities	33,754	45,528	52,728	60,228
Stockholders' Equity	15,809	16,064	18,020	20,355

Source: Banorte with data from MSE

### Valuation and financial metrics

	2018	2019	2020E	2021E
P/E	4.4x	4.4x	3.8x	3.5x
P/BV	0.6x	0.6x	0.5x	0.4x
ROE	12.4%	12.3%	12.5%	12.0%
ROA	3.9%	3.2%	3.2%	3.0%
NIM	13.8%	12.2%	13.4%	13.3%
NPL	1.7%	1.3%	1.4%	1.5%
Prov/TL	3.7%	2.9%	3.0%	3.0%

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## CREAL – Results 4Q19

MXN, million

Concept	4Q18	4Q19	Var %	4Q19e	Diff % vs Estim.
Interest Income	2,792	3,293	17.9%	3,116	5.7%
Financial Margin	2,043	1,982	-3.0%	1,924	3.0%
Operating Income	727	648	-10.9%	643	0.8%
Net Income	568	427	-24.8%	567	-24.7%
ROE	13.1%	13.1%	0.0pp	13.3%	-0.2pp
NIM	16.6%	15.0%	-1.7pp	12.8%	2.2pp
NPL	1.7%	1.3%	-0.4pp	1.7%	-0.4pp
Provisions/TL	172.9%	219.7%	46.8pp	172.8%	46.9pp

### Balance Sheet (Million)

Year	2018	2019	2019	Change	Change
Quarter	4	3	4	% y/y	% q/q
<b>Total Assets</b>	<b>49,562.5</b>	<b>57,392.4</b>	<b>61,591.7</b>	<b>24.3%</b>	<b>7.3%</b>
Cash and cash equivalents	2,544.6	1,776.9	2,475.2	-2.7%	39.3%
Loan Portfolio (Net)	36,319.1	43,472.4	46,958.4	29.3%	8.0%
Allowance for loan losses	-1,067.9	-1,310.0	-1,390.0	30.2%	6.1%
<b>Performing Loan Portfolio</b>	<b>35,701.6</b>	<b>42,739.8</b>	<b>46,325.7</b>	<b>29.8%</b>	<b>8.4%</b>
<b>Non-performing Loan Portfolio</b>	<b>617.6</b>	<b>732.5</b>	<b>632.7</b>	<b>2.5%</b>	<b>-13.6%</b>
Other Accounts Receivables	5,389.3	6,862.8	6,796.9	26.1%	-1.0%
Property, furniture & fixtures	341.5	733.1	625.3	83.1%	-14.7%
Long Term Investments	1,193.4	1,263.3	1,273.6	0.1	0.8%
Taxes				N.A.	N.A.
Other Assets	4,842.5	4,584.4	4,841.5	0.0%	5.6%
<b>Total Liabilities</b>	<b>33,753.6</b>	<b>40,908.5</b>	<b>45,527.8</b>	<b>34.9%</b>	<b>11.3%</b>
Notes Payables	18,499.2	22,761.7	25,897.7	40.0%	13.8%
Bank Loans	12,147.6	14,705.1	15,613.5	28.5%	6.2%
Other accounts payable	848.0	1,002.3	681.2	-19.7%	-32.0%
<b>Stockholders' Equity</b>	<b>15,808.8</b>	<b>16,483.9</b>	<b>16,063.9</b>	<b>1.6%</b>	<b>-2.5%</b>
Minority Interest	908.5	1,060.3	949.1	4.5%	-10.5%
<b>Majority Interest</b>	<b>14,900.3</b>	<b>15,423.5</b>	<b>15,114.8</b>	<b>1.4%</b>	<b>-2.0%</b>

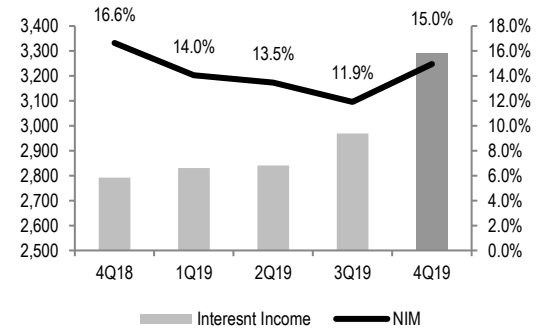
### Income Statement (Million)

<b>Interest Income</b>	<b>2,792.1</b>	<b>2,968.7</b>	<b>3,293.0</b>	17.9%	10.9%
Interest Expense	(748.7)	(1,213.7)	(1,310.9)	75.1%	8.0%
<b>Financial Margin</b>	<b>2,043.4</b>	<b>1,755.0</b>	<b>1,982.0</b>	-3.0%	12.9%
Provision for Loan Losses	(452.4)	(429.2)	(156.5)	-65.4%	-63.5%
<b>Adjusted Financial Margin</b>	<b>1,591.0</b>	<b>1,325.8</b>	<b>1,825.5</b>	14.7%	37.7%
Net Commissions	(78.0)	54.5	(6.3)	-91.9%	N.A.
Intermediation Income	(101.9)	(52.6)	(42.1)	-58.6%	-19.9%
Other operating income	94.4	114.1	(157.8)	N.A.	N.A.
Administrative & Promotion Expenses	(778.7)	(929.7)	(971.6)	24.8%	4.5%
Operating Income	726.8	512.2	647.8	-10.9%	26.5%
Taxes	213.1	117.7	186.0	-12.7%	58.0%
Subsidiaries	47.1	65.7	3.3	-93.1%	-95.0%
Minorities	(7.2)	(24.2)	(37.8)	425.0%	56.5%
<b>Majority Net Income</b>	<b>568.1</b>	<b>436.0</b>	<b>427.2</b>	<b>-24.8%</b>	<b>-2.0%</b>

Source: Banorte, MSE.

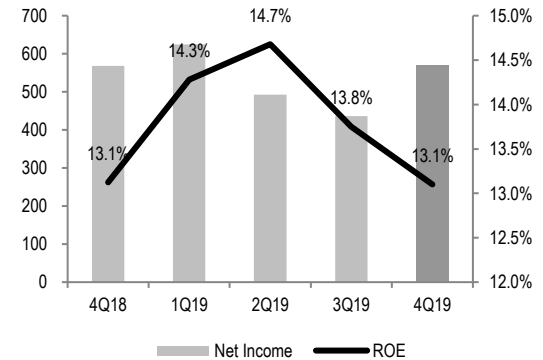
## Interest Income & NIM

MXN, million

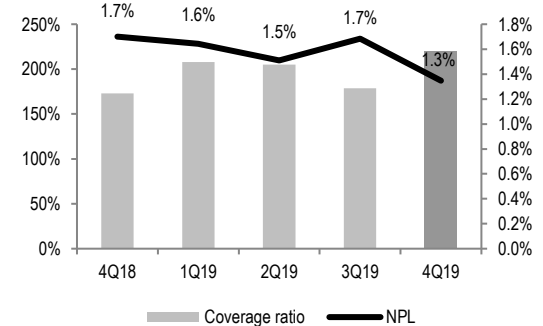


## Net Income & ROE

MXN, million



## Coverage & NPL Ratios



**A positive strategy should reflect favorable dynamics in 2020.** In 2019, Creal's strategy was aimed at achieving a consistent growth, with a higher asset quality, higher efficiency in operations and looking forward to improving the financing profile. In that sense, the company's perspective looks positive in 2020. A sustained growth for the loan portfolio is envisioned, seeking to grow a more profitable mix, which, in hand of lower funding costs, not only for lower interest rates expectation, but also for the refinancing strategy undertaken by the company and higher efficiencies, should yield into higher profits. In Mexico, Payroll loans would maintain a sustained growth, hand in hand with low credit penetration, while SMEs will continue to show a solid performance in customers and Cars additions driven by better used-cars demand dynamics. In the U.S. a relevant recovery is observed, supported by the sale of cross products and a commercial structure with greater Hispanic population penetration that should continue to reflect significant growth. As to Instacredit (Central America), efforts will continue to focus on high quality origination and a stabilization process with much more efficient operations. Thus, our 2020 estimates assume a loan portfolio growth of 21.3% y/y to stand at a level of \$56.9 billion and regarding the net profit it would show a 14.1% y/y increase reaching \$2.2 billion. The NIM should improve from 12.2% in 2019 to 13.4% in 2020. The ROE should remain over 13.2% and a non-performing loans ratio of 1.4%.

**We introduce our PT2020 of \$30.00 with a BUY rating.** After incorporating the 4Q19 results, P/E shows a slightly increase from 4.1x to 4.4x. and P/BV remains stable at 0.6x. With no doubts, this level of valuation seems very attractive because it does not reflect the positive perspective for the company. The latter, especially when considering lower interest rates environment, which should not only encourage less risk aversion, but should also be reflected through higher margins for the company. Hence, we have decided to assume a P/E 2020e multiple of 5.0x, below the 3-year average multiple of 5.3x, so that our PT2020 stands at \$30.00, which implies a return of 34.3% after including a 3.5% dividend yield. Therefore, our rating is BUY.

## Certification of Analysts.

We, Gabriel Casillas Olvera, Alejandro Padilla Santana, Delia María Paredes Mier, Juan Carlos Alderete Macal, Manuel Jiménez Zaldívar, Marissa Garza Ostos, Tania Abdul Massih Jacobo, Francisco José Flores Serrano, Katia Celina Goya Ostos, Santiago Leal Singer, José Itzamna Espitia Hernández, Valentin III Mendoza Balderas, Víctor Hugo Cortes Castro, Hugo Armando Gómez Solís, Miguel Alejandro Calvo Domínguez, Luis Leopoldo López Salinas, Leslie Thalía Orozco Vélez, Gerardo Daniel Valle Trujillo, Jorge Antonio Izquierdo Lobato and Eridani Ruibal Ortega, certify that the points of view expressed in this document are a faithful reflection of our personal opinion on the company (s) or firm (s) within this report, along with its affiliates and/or securities issued. Moreover, we also state that we have not received, nor receive, or will receive compensation other than that of Grupo Financiero Banorte S.A.B. of C.V. for the provision of our services.

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	<b>Reference</b>
<b>BUY</b>	When the share expected performance is greater than the MEXBOL estimated performance.
<b>HOLD</b>	When the share expected performance is similar to the MEXBOL estimated performance.
<b>SELL</b>	When the share expected performance is lower than the MEXBOL estimated performance.

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## History of PT and Ratings

Stock	Date	Rating	PT
CREAL	February 19, 2020	BUY	\$30.00
CREAL	February 7, 2020	To be defined	To be defined
CREAL	April 24, 2019	BUY	\$24.50
CREAL	February 21, 2019	BUY	\$22.50

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