

GENTERA

Quarterly Report

February 26, 2019

Solid year -end. We have set PT 2019

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- **Genera comes through; its results reflect steady recovery inertia. 4Q18 net profit totaled MXN 708 million (+ 88.7% yoy), in line with our estimates**
- **An 11.4% credit portfolio increase stands out, with a NPL index almost stable at 2.7%, albeit NIM under pressure to 40.6% from higher liquidity and changes in the mix. ROE stands at 16.4%**
- **With these results the P/E multiple drops from 9.4x to 8.2x. Assuming a 10.0x P/E 2019E multiple, similar to the LTM average, our PT 2019 is MXN 20.00. We reiterate a BUY recommendation.**

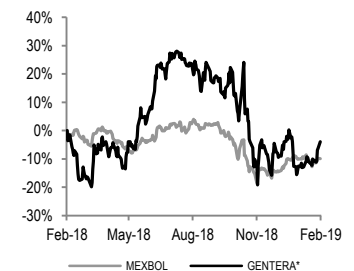
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BUY

Current Price	MXN\$15.44
PT 2019	MXN\$20.00
Dividend 2019	MXN\$0.75
Dividend Yield (%)	4.8%
Upside Potential	34.4%
Max – Min LTM (MXN\$)	21.48-12.65
Market Cap (US\$m)	1,311.8
Shares Outstanding (m)	1,595.8
Float	61.3%
Daily Turnover (MXN\$ m)	63.2
Valuation metrics TTM	
P/BV	1.4x
P/E	8.2x

A positive year-end for Genera. 4Q18 results reflect that strategies implemented have been appropriate. Recovery inertia remains, leading the company to resume growth. Portfolio rose 11.4% yoy and 7.5% qoq to reach MXN 35.7 billion, in line with our expectations. This result is explained by the solid performance in Peru (+24.4% yoy) and Guatemala (+5.6% yoy), while Mexico finally reflected a 5.6% yoy growth. Hence, financial revenue increased 6.1% yoy, in line with expectations. In turn, interest expenditures rose 40.1% yoy due to the higher reference rate in Mexico, additional liquidity used by the company to face the current volatile environment and higher liability in Peru to fund growth. Thus, the Financial Margin stood at MXN 5.0 billion, up 3.6% yoy, in line with our estimates. The 22.8% contraction in allowance for loan losses is outlined favorably, resulting from an improvement in early NPLs. Net Interest Margin remained at 40.7% vs. 42.5% in 4Q17 in view of higher liquidity and changes in the mix that reflected a higher stake of Peru in the portfolio (from 29.9% to 33.3%).

Relative performance to Mexbol
 LTM

Financial Statements

	2017	2018	2019E	2020E
Interest Income	20,889	20,987	23,499	27,274
Financial Margin	19,372	19,276	21,457	24,652
Allowance for loan losses	3,640	2,712	3,156	3,691
Operating Income	4,012	3,992	4,427	4,752
Net Income	2,937	2,990	3,159	3,389
Net Margin	14.1%	14.2%	13.4%	12.4%
Total Assets	43,677	51,588	56,390	61,810
Performing Loan Portfolio	31,028	34,750	39,056	43,596
Non-performing Loan Portfolio	1,046	975	1,164	1,252
Total Liability	26,872	33,505	35,760	38,391
Common Equity	16,805	18,083	20,630	23,419

Source: Banorte

Valuation and financial metrics

	2017	2018	2019E	2020E
P/E	8.4x	8.2x	7.8x	7.3x
P/BV	1.5x	1.4x	1.2x	1.1x
ROE	17.5%	16.5%	15.3%	14.5%
ROA	6.7%	5.8%	5.6%	5.5%
NIM	43.7%	44.1%	42.7%	41.9%
NPL	3.3%	2.7%	2.9%	2.8%
Prov/TL	5.8%	6.2%	6.2%	6.0%

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 Document for distribution among public

GENTERA – Results 4Q18

MXN, million

Concept	4Q17	4Q18	Var%	4Q18e	Diff % vs. Estim.
Interest Income	5,256	5,575	6.1%	5,530	0.8%
Financial Margin	4,904	5,082	3.6%	5,033	1.0%
Operating Income	448	849	89.6%	960	-11.6%
Net Income	375	708	88.7%	713	-0.7%
Margins					
ROE	18.4%	16.4%	-2.0pp	16.1%	0.3pp
NIM	42.5%	40.7%	-1.8pp	42.9%	-2.2pp
NPL	3.3%	2.7%	-0.5pp	2.7%	0.0pp
Provisions/TL	215.3%	228.2%	12.9pp	227.9%	0.3pp

Balance Sheet (Million)

Year	2017	2018	2018	Change	Change
Quarter	4	3	4	% YoY	% QoQ
Total Assets	43,677.2	46,813.2	51,587.9	18.1%	10.2%
Cash and cash equivalents	5,985.7	5,132.7	7,794.9	30.2%	51.9%
Loan Portfolio (Net)	29,822.5	31,248.2	33,500.5	12.3%	7.2%
Allowance for loan losses	-2,251.8	-1,986.1	-2,224.5	-1.2%	12.0%
Performing Loan Portfolio	31,028.2	32,371.1	34,750.1	12.0%	7.3%
Non-performing Loan Portfolio	1,046.1	863.1	974.8	-6.8%	12.9%
Other Accounts Receivables	1,838.1	1,797.3	1,570.3	-14.6%	-12.6%
Property, furniture & fixtures	1,310.7	1,155.1	1,144.6	-12.7%	-0.9%
Long Term Investments	99.6	2,341.6	2,398.8	>500%	2.4%
Taxes	1,227.1	1,238.0	1,302.8	6.2%	5.2%
Other Assets	3,143.7	2,997.4	2,943.9	-6.4%	-1.8%
Total Liabilities	26,872.3	29,310.2	33,504.1	24.7%	14.3%
Notes Payables	16,229.5	15,606.0	17,952.2	10.6%	15.0%
Bank Loans	7,707.3	9,858.9	12,072.0	56.6%	22.4%
Other accounts payable	2,931.9	3,841.6	3,476.0	18.6%	-9.5%
Stockholders' Equity	16,804.9	17,503.0	18,083.8	7.6%	3.3%
Minority Interest	85.0	43.4	50.1	-41.1%	15.5%
Majority Interest	16,719.9	17,459.7	18,033.7	7.9%	3.3%

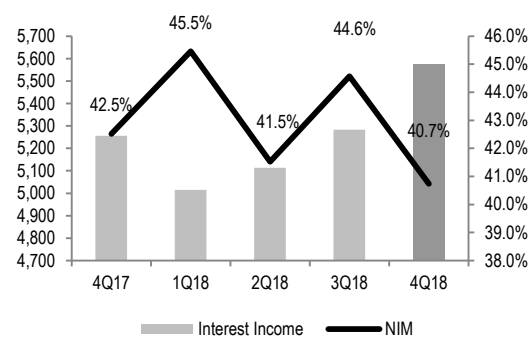
Income Statement (Million)

Interest Income	5,256.2	5,283.0	5,575.3	6.1%	5.5%
Interest Expense	352.7	457.5	493.2	39.8%	7.8%
Financial Margin	4,903.6	4,825.5	5,082.1	3.6%	5.3%
Provision for Loan Losses	969.6	646.3	748.7	-22.8%	15.8%
Adjusted Financial Margin	3,933.9	4,179.2	4,333.4	10.2%	3.7%
Net Commissions	282.4	235.1	250.2	-11.4%	6.4%
Intermediation Income	0.2	(17.3)	14.2	>500%	N.A.
Other operating income/expense	(50.0)	189.0	27.0	N.A.	-85.7%
Administrative & Promotion Expenses	3,712.1	3,396.2	3,773.9	1.7%	11.1%
Operating Income	447.7	1,027.6	848.8	89.6%	-17.4%
Taxes	68.0	312.0	197.0	189.7%	-36.9%
Subsidiaries	(4.6)	19.8	56.3	N.A.	183.8%
Consolidated Net Income	375.2	735.5	708.1	88.7%	-3.7%
Minorities	18.2	6.3	6.8	-62.8%	8.2%
Majority Net Income	357.0	729.2	701.3	96.5%	-3.8%

Source: Banorte, MSE

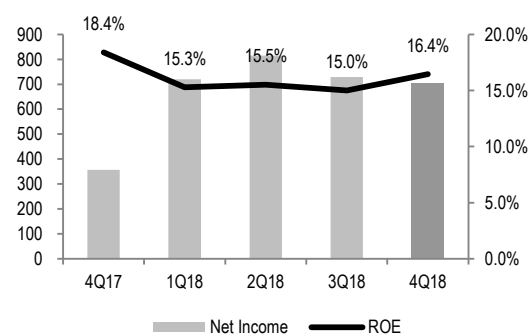
Interest Income & NIM

MXN, Million

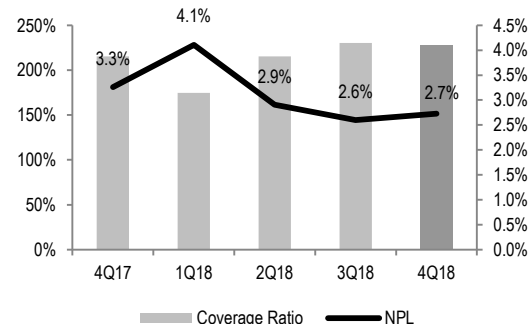


Net Income & ROE

MXN, Million



Coverage Ratio & NPL



The efficiency ratio continues at high levels, although it is favorable to observe a more controlled expense level. This quarter, operating expenses increased just 1.7% yoy, given the company's efficiency plans implemented throughout the year. Consequently, Genera met its goal to report operating expense growth below 10% during 2018 by posting an increase of just 8.8% yoy. Thus, operating profit grew 89.6% yoy to MXN 849 million. Although this number remains below our projections, this is due to a higher than expected expense level, without changing the estimated trend. Derived from the latter, the efficiency ratio stood at 82.1% in 4Q18 vs. 77.2% in 3Q18, but below 88.0% from the year-ago period, yet still above 75% posed by the company.

Net profit in line with expectations. In view of a favorable operating performance, Genera reported MXN 708 million in net profit, representing an 88.7% yoy increase, in line with our estimates. Hence, the company closed 2018 with a 1.8% year-on-year growth in profit to reach MXN 2.9 billion, standing above the high part of the guidance estimated by the company (MXN 2.8 billion). Excluding the MXN 187 million reported in 2Q18 in relation to the release of fiscal losses and a gain related to a legal dispute, recurring profit would be MXN 2.8 billion. Thus, ROE stood at 16.4% vs. 15.0% in 3Q18.

Non-Performing loan index remains almost stable. This quarter, the index of non-performing loans in proportion to total lending remained at 2.7%, modestly above 3Q18's 2.6%, but below 4Q17's 3.3%, and in line with our estimates. The latter is explained by an improvement strategy on origination processes implemented by the company, improved service levels and appropriate supervision of client performance. By methodology, the NPL index of Banco Compartamos's group methodology went from 2.39% in 4Q17 to 2.07% in 4Q18, while the individual methodology fell from 5.72% to 4.25% during the same periods.

2019 Estimates. We believe this report should be welcomed by the market as it has exhibited that implemented strategies are helping the company resume growth, particularly in Mexico. Although Genera will reveal more information in relation to its 2019 outlook during its conference call, we consider it will reiterate its commitment to keep focusing its efforts on customer service as the main element that sets it apart from its competition. Portfolio should return to double-digit growth between 10% -15% (our estimates assume a 12.6% increase yoy to MXN 40.2 billion) with a higher stake from Peru in the consolidated portfolio. We estimate an 11.3% yoy increase in the company's Financial Margin to MXN 21.4 billion and a NIM at 42.7% vs. 44.1%, given changes in the mix and the commitment to offer regular clients more attractive rates. Efficiencies and improved cost control will continue to be a priority for the company, which will translate into an operating expense increase, according to our projections, below 10% (+9.6% yoy), placing the efficiency index at around 77%. As for the NPL index, it should increase to 2.9%, in view of changes in the mix and given increased competition in several regions of Mexico. Our 2019 net profit estimate stands at MXN 3.1 billion, which would represent a 5.7% yoy increase (and above

12% if we exclude the 2018 non-recurring gain, in line with the portfolio's expansion).

We have set a PT2019 at MXN 20.00 and reiterate our BUY recommendation. Although 2019 promises an improved outlook, we have decided to assume a conservative stance in view of challenges to come in the current volatile context, which would limit a higher revaluation of multiples at which the company's shares trade. In this sense, we have decided to estimate our price target using a multiples valuation. By incorporating 4Q18 earnings, the P/E multiple dropped from 9.4x to 8.2x (8.8x considering recurring profits) and the P/BV went from 1.5x to 1.4x. Assuming a 10.0x P/E multiple, similar to the average LTM of 9.9x, and according to our estimates, our PT 2019 stands at MXN 20.00 (2019e P/BV of 1.6x). This price represents a 34.3% yield, including a 4.8% dividend yield (MXN 0.75 per share according to our estimates). Although the company will suggest, in its upcoming shareholders' meeting next April, a dividend of around MXN 0.38 per share to be distributed before July 31st, the payment of an extraordinary dividend during the month of October will be assessed (in our opinion, the extraordinary dividend could be similar to the one suggested shortly). Therefore, we reiterate our BUY recommendation. By doing the exercise of valuing the company as we did before, using a model that discounts expected profit growth, a theoretical price of MXN 21.70 is obtained, which would represent an 11.0x 2019e P/E multiple.

Certification of Analysts.

We, Gabriel Casillas Olvera, Delia Maria Paredes Mier, Alejandro Padilla Santana, Manuel Jiménez Zaldivar, Tania Abdul Massih Jacobo, Katia Celina Goya Ostos, Juan Carlos Alderete Macal, Víctor Hugo Cortes Castro, Marissa Garza Ostos, Miguel Alejandro Calvo Domínguez, Hugo Armando Gómez Solís, Gerardo Daniel Valle Trujillo, José Itzamna Espitia Hernández, Valentín III Mendoza Balderas, Santiago Leal Singer and Francisco José Flores Serrano 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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	Reference
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HOLD	<i>When the share expected performance is similar to the MEXBOL estimated performance.</i>
SELL	<i>When the share expected performance is lower than the MEXBOL estimated performance.</i>

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History of PT and Ratings

Stock	Date	Rating	PT
GENTERA	24/07/2018	Hold	MXN\$21.50
GENTERA	26/02/2018	Hold	MXN\$17.50
GENTERA	02/02/2018	Under review	Under review
GENTERA	24/10/2017	Buy	MXN\$29.00

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