

# GENTERA

Quarterly Report

October 28, 2019

## Solid report, profit outperforms expectations

- Genera's results are positive, showing a solid increase in loan portfolio (+18.6% yoy) and profits that beat expectations by growing 28.9% yoy supported by the expenses containment strategy
- NIM deteriorates by 1.8pp qoq to 38.0%, in line with estimates, while NPLs and the efficiency ratio improve, on a sequential basis, to 2.9% and 72.1%, respectively
- After incorporating these results, ROE advances to 16.0%, while the P/E multiple decreases to 8.3x. We consider the report should be welcomed by the market. We reiterate a BUY rating

**Genera maintains double-digit growth in portfolio.** Genera's 3Q19 results are positive and evidence how the implemented strategy is reflecting on higher profits. An 18.6% yoy double-digit growth in loan portfolio, to stand at MXN 39.4 billion stands out, in line with our estimate. This result is explained by a solid performance in Peru (+23.1% yoy) and in Mexico (+8.0% yoy), followed by Guatemala (+3.5% yoy). Based on the latter, financial income rose 9.1% yoy, in line with our projections. In turn, interest expenditures surged 13.1% yoy due to a loan portfolio increase mainly in Peru and increased liquidity taken on by the company to mitigate volatility since November of 2018. Thus, net interest income stood at MXN 5.2 billion, up 8.7% yoy A/A, and similar to our estimates. Regarding provisions for loan losses, these rose 28.1% yoy, due to loan portfolio growth. Hence, Net Interest Margin (NIM) reached 38.0% vs 39.8% in 2Q19 and 44.6% in 3Q18, reflecting extra liquidity and smaller contribution of Mexico in the consolidated portfolio, now accounting for 63.9% vs 67.1% in 3Q18.

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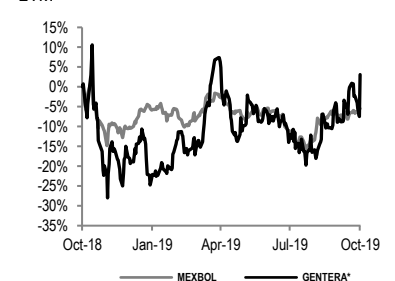
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### BUY

Current Price	MXN\$16.53
PT 2019	MXN\$21.80
Dividend 2019	MXN\$0.38
Dividend Yield (%)	2.2%
Upside Potential	34.2%
Max - Min LTM (MXN\$)	20.00-12.78
Market Cap (US\$m)	1,410.5
Shares Outstanding (m)	1,590.9
Float	61.3%
Daily Turnover (MXN\$ m)	28.6
<b>Valuation metrics TTM</b>	
P/BV	1.3x
P/E	8.3x

### Relative performance to MEXBOL



### 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	9.0x	8.8x	8.0x	7.8x
P/BV	1.6x	1.5x	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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## GENTERA – Results 3Q19

MXN, million

Concept	3Q18	3Q19	Var%	3Q19e	Diff % vs. Estim.
Interest Income	5,283	5,765	9.1%	5,684	1.4%
Financial Margin	4,825	5,248	8.7%	5,142	2.1%
Operating Income	1,028	1,300	26.5%	1,127	15.4%
Net Income	735	948	28.9%	826	14.8%
<b>Margins</b>					
ROE	15.0%	16.0%	0.9pp	15.4%	0.6pp
NIM	44.6%	38.0%	-6.6pp	38.5%	-0.5pp
NPL	2.6%	2.9%	0.3pp	3.1%	-0.2pp
Provisions/TL	230.1%	217.3%	-12.8pp	210.2%	7.1pp

### Balance Sheet (Million)

Year	2018	2019	2019	Change	Change
Quarter	3	2	3	% YoY	% QoQ
<b>Total Assets</b>	<b>46,813.2</b>	<b>52,784.3</b>	<b>55,705.2</b>	<b>19.0%</b>	<b>5.5%</b>
Cash and cash equivalents	5,132.7	7,173.3	8,283.9	61.4%	15.5%
Loan Portfolio (Net)	31,248.2	34,447.3	36,939.8	18.2%	7.2%
Allowance for loan losses	-1,986.1	-2,382.9	-2,483.1	25.0%	4.2%
<b>Performing Loan Portfolio</b>	<b>32,371.1</b>	<b>35,722.2</b>	<b>38,280.0</b>	<b>18.3%</b>	<b>7.2%</b>
<b>Non-performing Loan Portfolio</b>	<b>863.1</b>	<b>1,108.1</b>	<b>1,142.9</b>	<b>32.4%</b>	<b>3.1%</b>
Other Accounts Receivables	1,797.3	2,294.4	1,866.8	3.9%	-18.6%
Property, furniture & fixtures	1,155.1	1,042.2	1,030.9	-10.8%	-1.1%
Long Term Investments	2,341.6	2,322.9	2,402.1	0.0	3.4%
Taxes	1,238.0	1,373.4	1,444.3	16.7%	5.2%
Other Assets	2,997.4	2,977.4	2,826.9	-5.7%	-5.1%
<b>Total Liabilities</b>	<b>29,310.2</b>	<b>33,728.0</b>	<b>35,715.3</b>	<b>21.9%</b>	<b>5.9%</b>
Notes Payables	15,606.0	19,841.5	20,705.1	32.7%	4.4%
Bank Loans	9,858.9	9,536.3	10,819.0	9.7%	13.5%
Other accounts payable	3,841.6	4,345.2	4,186.1	9.0%	-3.7%
<b>Stockholders' Equity</b>	<b>17,503.0</b>	<b>19,056.3</b>	<b>19,989.9</b>	<b>14.2%</b>	<b>4.9%</b>
Minority Interest	43.4	39.4	48.2	11.1%	22.3%
<b>Majority Interest</b>	<b>17,459.7</b>	<b>19,016.9</b>	<b>19,941.7</b>	<b>14.2%</b>	<b>4.9%</b>

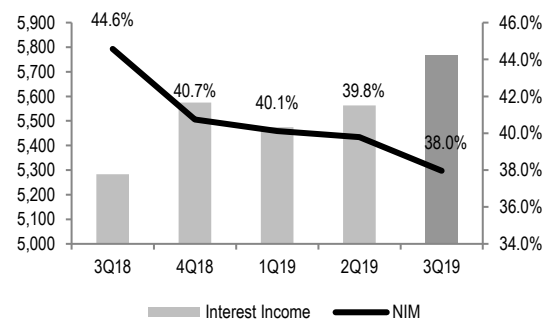
### Income Statement (Million)

Interest Income	5,283.0	5,562.8	5,764.9	9.1%	3.6%
Interest Expense	457.5	528.7	517.4	13.1%	-2.1%
<b>Financial Margin</b>	<b>4,825.5</b>	<b>5,034.1</b>	<b>5,247.5</b>	<b>8.7%</b>	<b>4.2%</b>
Provision for Loan Losses	646.3	767.9	828.1	28.1%	7.8%
<b>Adjusted Financial Margin</b>	<b>4,179.2</b>	<b>4,266.2</b>	<b>4,419.4</b>	<b>5.7%</b>	<b>3.6%</b>
Net Commissions	235.1	253.2	226.5	-3.6%	-10.5%
Intermediation Income	(17.3)	(1.1)	5.8	N.A.	N.A.
Other operating income/expense	27.0	(15.0)	3.0	-88.9%	N.A.
Administrative & Promotion Expenses	3,396.2	3,499.7	3,354.4	-1.2%	-4.2%
Operating Income	1,027.6	1,004.0	1,300.3	26.5%	29.5%
Taxes	312.0	332.0	410.0	31.4%	23.5%
Subsidiaries	19.8	47.8	57.6	190.5%	20.6%
<b>Consolidated Net Income</b>	<b>735.5</b>	<b>719.8</b>	<b>947.9</b>	<b>28.9%</b>	<b>31.7%</b>
Minorities	6.3	8.5	8.9	42.6%	5.4%
<b>Majority Net Income</b>	<b>729.2</b>	<b>711.3</b>	<b>939.0</b>	<b>28.8%</b>	<b>32.0%</b>

Source: Banorte, MSE

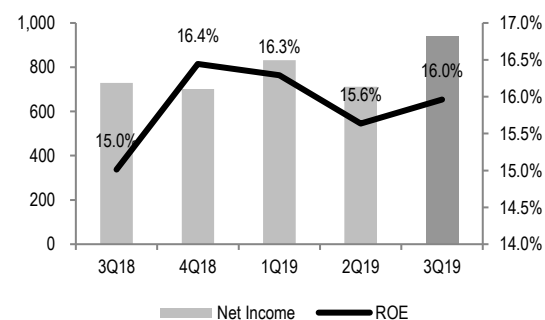
## Interest Income & NIM

MXN, Million

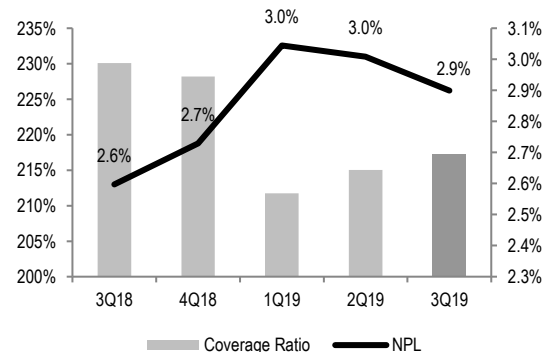


## Net Income & ROE

MXN, Million



## Coverage Ratio & NPL



**Efficiency ratio continues high but improves on a sequential basis** This quarter, the expenses containment strategy reflected on a 1.2% yoy drop in expenses. The favorable performance in Mexico stands out, where expenses contracted by 7.2% yoy. Thus, operating income rose 26.5% yoy to MXN 1.3 billion, exceeding our estimates. Thereby, the efficiency ratio improves to 72.1% vs 77.7% in 2Q19 and 76.8% in 3Q18.

**Net income beats expectations.** Following the favorable operating performance, Genera obtained MXN 948 million in net income, which represents a 28.9% yoy increase, topping our estimates and those of the consensus. Considering these results, ROE stood at 16.0%, improving vs. 2Q19's 15.6% and 3Q18's 15.0%.

**NPLs in line with expectations.** This quarter, the index of non-performing loans in proportion to total lending stood at 2.9%, slightly below 2Q19's 3.0% yet above 3Q18's 2.6%. The strategy to enhance origination processes, implemented by the company, improvements in customer service and an adequate monitoring of customer performance has helped maintain this indicator stable despite the increase in portfolio. On a sequential basis, main improvements are observed in the subsidiaries of Guatemala and Peru, while Mexico remains unchanged.

**We believe this report should be welcomed by the market. We reiterate our BUY rating.** Considering these results, Genera is on track to meet its 2019 growth guidance. We will be incorporating this quarter's figures and will be reviewing our 2020 perspectives. With these quarterly results, the P/E multiple decreases from 8.8x to 8.3x and the P/BV from 1.4x to 1.3x, levels which are highly attractive, in our opinion. For the time being, we reiterate our BUY rating and PT 2019 of MXN 21.80.

## Certification of Analysts.

We, Gabriel Casillas Olvera, Delia Maria Paredes Mier, Alejandro Padilla Santana, Manuel Jiménez Zaldívar, 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, Francisco José Flores Serrano, Luis Leopoldo López Salinas, Jorge Antonio Izquierdo Lobato and Leslie Thalia Orozco Vélez, 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>	<i>When the share expected performance is greater than the MEXBOL estimated performance.</i>
<b>HOLD</b>	<i>When the share expected performance is similar to the MEXBOL estimated performance.</i>
<b>SELL</b>	<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	04/24/2019	Buy	MXN\$21.80
GENTERA	02/26/2019	Buy	MXN\$20.00
GENTERA	10/29/2018	Buy	MXN\$21.50
GENTERA	07/24/2018	Hold	MXN\$21.50

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