

CREAL

Quarterly Report

May 02, 2019

Profit beats expectations due to non-recurring gains

- Creal reported positive 1Q19 results. MXN\$625 million in net profit (+47.8% yoy) topped expectations by including a non-recurring gain related to the settlement of derivative instruments
- Excluding the above-mentioned gain, the result was in line with our estimates. As we had anticipated, portfolio rose 22.1% yoy, Net Interest Income 12.4% and net profit 11.3%
- After these recurring results, the P/E multiple is stable at 4.1x. We have upgraded our PT2019 to MXN\$24.50, which represents a 2019E P/E multiple similar to the current level. We reiterate our BUY rating

Constant growth inertia continues. 1Q19 results reflect positive numbers. The healthy growth trend of the company's portfolio continued, matching expectations. However, net profit beat estimates, standing at MXN\$625 million, by reporting a gain related to the settlement of *Senior Notes 2019* derivative instruments for MXN\$220 million. Excluding such non-recurring gain, net profit would have stood at MXN\$470 million (+11.3% yoy), in line with our MXN\$464 million estimate. The credit portfolio reached MXN\$38.2 billion (vs. our MXN\$38.7 billion forecast), representing a 22.1% yoy increase, which is explained by the favorable performance mainly in SME's, Payroll and Autos Mexico, although it should be mentioned that all business segments reported growth. The expansion of the company's portfolio helped financial revenue increase 17.2% yoy to MXN\$2.8 billion, in line with our estimate. In turn, interest expenditures rose 26.2% yoy, which translates into a 12.4% yoy Net Interest Income expansion to MXN\$1.7 billion (vs MXN\$1.7 billion estimate). As for NPL, such index improves to levels of 1.6% vs 1.9% in 1Q18 and ROE increases to 14.3% vs 12.3% in 1Q18.

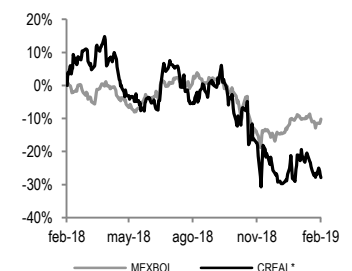
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BUY

Current Price	MXN\$21.24
PT 2019	MXN\$24.50
Dividend 2019	MXN\$0.00
Dividend Yield (%)	0.0%
Upside Potential	15.3%
Max – Min LTM (MXN\$)	27.62-16.70
Market Cap (US\$m)	366.2
Shares Outstanding (m)	379.7
Float	36.7%
Daily Turnover (MXN\$ m)	8.9
Valuation metrics TTM	
P/BV	0.5x
P/E	3.7x

Relative performance to Mexbol
 LTM

Financial Statements

	2017	2018	2019E	2020E
Interest Income	8,463	10,288	12,627	13,969
Financial margin	5,773	7,080	8,853	10,003
Prov for loan losses	1,343	1,801	2,046	2,286
Operating Income	2,166	2,509	2,866	3,342
Net Income	1,661	1,955	2,280	2,590
Net Margin	19.6%	19.0%	18.1%	18.5%
Total Assets	42,238	49,562	53,326	57,399
Performing Loans	28,410	35,702	42,447	46,691
Non-perf Loans	605	618	760	862
Total Liabilities	27,469	33,754	35,354	36,954
Stockholders' Equity	14,768	15,809	17,972	20,445

Source: Banorte with data from MSE

Valuation and financial metrics

	2017	2018	2019E	2020E
P/E	4.8x	4.1x	3.5x	3.1x
P/BV	0.6x	0.5x	0.5x	0.4x
ROE	11.2%	12.4%	12.7%	12.7%
ROA	3.9%	3.9%	4.3%	4.5%
NIM	18.1%	17.9%	18.0%	18.1%
NPL	2.1%	1.9%	1.8%	1.8%
Prov/TL	3.7%	2.9%	2.9%	2.9%

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 Document for distribution among public

CREAL – Results 1Q19

MXN, million

Concept	1Q18	1Q19	Var %	1Q19e	Diff % vs Estim.
Interest Income	2,415	2,830	17.2%	2,830	0.0%
Financial Margin	1,570	1,765	12.4%	1,770	-0.3%
Operating Income	553	911	64.7%	501	81.8%
Net Income	423	625	47.8%	464	34.6%
ROE	12.3%	14.3%	1.9pp	13.0%	1.3pp
NIM	14.0%	14.0%	0.1pp	13.1%	0.9pp
NPL	1.9%	1.6%	-0.2pp	1.8%	-0.2pp
Provisions/TL	183.1%	207.9%	24.8pp	159.0%	48.9pp

Balance Sheet (Million)

Year	2018	2018	2019	Change	Change
Quarter	1	4	1	% YoY	% QoQ
Total Assets	42,840.6	49,562.5	50,839.2	18.7%	2.6%
Cash and cash equivalents	2,135.7	2,544.6	1,614.2	-24.4%	-36.6%
Loan Portfolio (Net)	31,355.9	36,319.1	38,277.4	22.1%	5.4%
Allowance for loan losses	-1,076.1	-1,067.9	-1,308.0	21.5%	22.5%
Performing Loan Portfolio	30,768.3	35,701.6	37,648.3	22.4%	5.5%
Non-performing Loan Portfolio	587.6	617.6	629.1	7.1%	1.9%
Other Accounts Receivables	4,688.8	5,389.3	5,412.9	15.4%	0.4%
Property, furniture & fixtures	327.6	341.5	767.0	134.1%	124.6%
Long Term Investments	1,275.9	1,193.4	1,166.0	(0.1)	-2.3%
Taxes				N.A.	N.A.
Other Assets	4,132.8	4,842.5	4,891.5	18.4%	1.0%
Total Liabilities	28,418.6	33,753.6	34,795.2	22.4%	3.1%
Notes Payables	18,103.7	18,499.2	22,591.2	24.8%	22.1%
Bank Loans	6,129.4	12,147.6	9,077.6	48.1%	-25.3%
Other accounts payable	1,467.1	848.0	1,379.2	-6.0%	62.6%
Stockholders' Equity	14,422.0	15,808.8	16,044.0	11.2%	1.5%
Minority Interest	755.3	908.5	935.8	23.9%	3.0%
Majority Interest	13,666.7	14,900.3	15,108.2	10.5%	1.4%

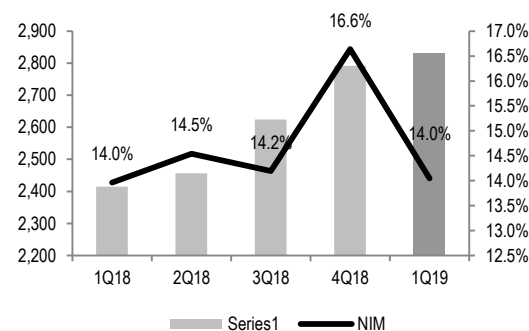
Income Statement (Million)

Interest Income	2,414.7	2,792.1	2,830.4	17.2%	1.4%
Interest Expense	(844.6)	(748.7)	(1,065.8)	26.2%	42.4%
Financial Margin	1,570.1	2,043.4	1,764.5	12.4%	-13.6%
Provision for Loan Losses	(421.4)	(452.4)	(385.7)	-8.5%	-14.8%
Adjusted Financial Margin	1,148.6	1,591.0	1,378.8	20.0%	-13.3%
Net Commissions	249.9	(78.0)	47.6	-81.0%	N.A.
Intermediation Income	83.6	(101.9)	257.4	207.7%	N.A.
Other operating income	62.9	94.4	81.1	28.9%	-14.1%
Administrative & Promotion Expenses	(856.3)	(778.7)	(854.1)	-0.3%	9.7%
Operating Income	553.1	726.8	910.9	64.7%	25.3%
Taxes	82.5	213.1	265.1	221.3%	24.4%
Subsidiaries	26.5	47.1	2.0	-92.3%	-95.7%
Minorities	27.7	(7.2)	(23.2)	N.A.	222.1%
Majority Net Income	422.7	568.1	624.6	47.8%	10.0%

Source: Banorte, MSE.

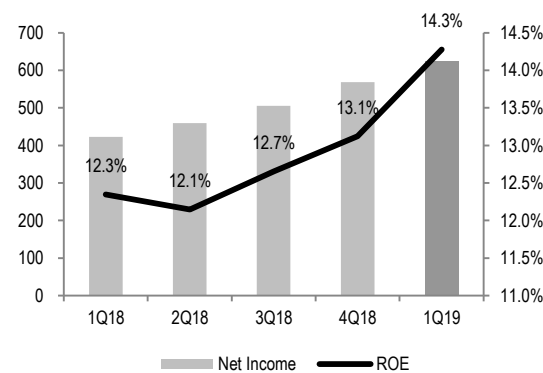
Interest Income & NIM

MXN, million

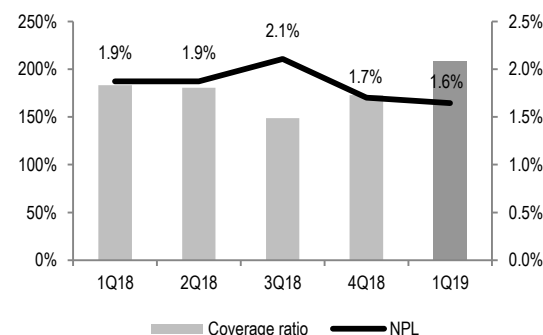


Net Income & ROE

MXN, million



Coverage & NPL Ratios



Double-digit portfolio growth continues driven by practically all business segments. The company's credit portfolio reached MXN\$38.2 billion, up 22.1% yoy, in line with our estimates. This result is primarily explained by the favorable performance of SME's, Payroll and Autos Mexico, although all business segments reported growth. The SME segment stands out, representing 11.5% of the portfolio and posted an 87.4% yoy increase in the portfolio due to the launching of a new product (operating leasing) focused on satisfying tangible and durable good needs of SME's seeking to generate attractive low risk margins. Payroll, which represents 66.6% of the aggregate, posted a 20.1% yoy expansion, boosted by the solid credit-generation strategy focused on clients with good credit profiles, while the pensioners segment continues to be promoted. In the Auto segment (8.4% of the aggregate), a 15.7% yoy increase was reported, driven mainly by the favorable performance of Autos México (+55.7%), while Autos USA remained stable (+0.7% yoy). As for Instacredit (11.7% of the aggregate) and Others (1.7% of the consolidated statement), 1.9% and 11.4% yoy increments were reported, respectively, reverting the downward trend that had been constant during previous quarters.

Net Interest Income in line with expectations. As we had previously mentioned, portfolio growth helped financial revenue climb 17.2% yoy to MXN\$2.8 billion, in line with expectations. In turn, interest expenditures added 26.2% yoy to MXN\$1.0 billion, given a 320bp increase in the cost of funding to 13.7%, a *negative carry over* effect related to unused proceeds from *Senior Notes 2026* and the recognition of leasing interests from the IFRS 16 accounting change. Thus, the Net Interest Income (NII) grew 12.4% yoy to MXN\$1.7 billion, in line with estimates. As for provision, these declined 8.5% yoy to MXN\$385.7 million, attributable to an improved performance in Instacredit and Others. In addition, allowance for loan losses in the balance sheet reached MXN\$1.3 billion, which equals 207.9% of past-due portfolio. Derived from the latter, the NIM (Net Interest Margin) remained flat yoy at 14.0%.

NPL drops. The past-due to total portfolio index stood at 1.6% in 1Q19 vs 1.9% in 1Q18. The latter is mainly explained by improvements in the Payroll segment, going from 1.0% in 1Q18 to 0.9% in 1Q19, in Autos USA from 0.7% to 0.6%, in Instacredit from 5.0% to 4.8% and in Others from 4.8% to 3.9%, respectively during the corresponding year-ago periods. As for the Payroll segment, it remained stable with a 1.3% NPL rate.

Improvement of the efficiency ratio. The efficiency ratio improved from levels of 46.7% in 1Q18 to 42.0% in 1Q19. During the quarter, a MXN\$220 million gain related to the settlement of derivatives that covered *Senior Notes 2019* was reported and registered under trading income, which helped the company's operating profit increase 64.7% yoy to MXN\$911 million. In addition to this, operating expenses remained stable yoy in view of achieved efficiencies in the U.S. and Central America, helping to offset higher expenses related to portfolio growth in Mexico.

Net profit above expectations due to non-recurring gains. As we have previously mentioned, given the operating performance and the gain reported from the settlement of derivative instruments, the company totaled MXN\$625 million in net profit, representing a 47.8% yoy increase, beating expectations. However, excluding such gain, net profit would have reached MXN\$470.3 million (+11.3% yoy) in line with our MXN\$464 million estimate. With these results, ROE rises to 14.3% vs 12.3% in 1Q18.

We reiterate our BUY recommendation. 1Q19 results confirm that the strategy implemented by the company has been working and is headed towards favorable growth this year, in line with the suggested guidance. We must remember that our 2019 estimates assume a 19.0% yoy portfolio expansion to MXN\$43.2 billion and a net profit of MXN\$2.2 billion (+16.6% yoy). Thus, we still believe that current valuation levels do not fully reflect the solid outlook. After incorporating the figures that were reported this quarter, the P/E multiple remains stable at 4.1x (it drops to 3.7x when we include the gain from the derivative instruments) and the P/BV stands at 0.5x. In our last report, we mentioned that given the complexity of the environment, we had decided to assume a conservative position and set a price target of MXN\$22.50 by using a multiple that was similar to that used when the company traded at MXN\$18.00 (3.8x). Since then, the share's price has reacted favorably and, as we had previously commented, if we were to assume a 4.8x multiple, similar to the last 12-month average, the theoretical price would be MXN\$28.00. For now, we have decided to assume a 2019E P/E multiple similar to the current 4.1x level, therefore upgrading our PT2019 to MXN\$24.50, providing an upside potential of 15.3% over current prices. Hence, we reiterate our BUY recommendation.

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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HOLD	<i>When the share expected performance is similar to the MEXBOL estimated performance.</i>
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History of PT and Ratings

Stock	Date	Rating	PT
CREAL	April 24, 2019	BUY	MXN\$24.50
CREAL	February 21, 2019	BUY	MXN\$22.50
CREAL	October 29, 2018	BUY	Under review
CREAL	December 7, 2017	BUY	MXN\$39.00

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