

# CREAL

Quarterly Report

October 30, 2020

## Gradual recovery, but still challenging

- The results show a gradual recovery, although profit generation was impacted by an increase in provisions. Thus, net income decreased 54.4% y/y to \$199 million
- Creal continues with a very strict origination process and focuses on preserving high liquidity. Payroll shows a substantial improvement, although the biggest challenges continue in SMEs

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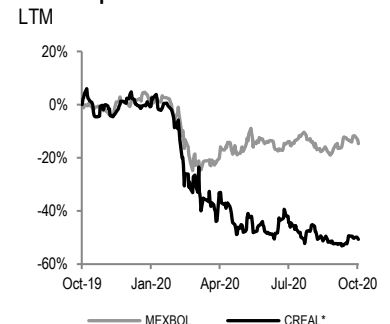
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**Less than anticipated weakness.** The results show year-on-year declines, affected by the evolution of the pandemic, but with sequential improvements upon the resumption of activities. Since 2Q20 the company has consolidated the Arrendamiento business, so the main line of income in this segment is now recorded in Other Income. Despite the slowdown in the economy, Creal maintained a healthy growth pace in the loan portfolio, which stood at \$48.5 billion (+11.6% y/y), mainly supported by the performance in Payroll and Autos USA, while including the Arrendamiento and Factoring portfolio, it increased 20.4% y/y to \$52.7 billion. However, the Financial Margin fell 19.3% y/y, due to the relief programs implemented and the change in the recognition of factoring and Arrendamiento income as Other Income. In the quarter, the company recorded provisions of \$504.4 million (+17.5% y/y), as additional reserves were built up and non-performing loans and write-offs increased due to the effects of the pandemic. Thus, the NIM is pressured to 6.6%, but improves vs. 5.8% in 2Q20. As a result, net income fell 54.4% y/y to \$199 million. The non-performing loan ratio increased to 1.8% vs. 1.5% previously, while the ROE dropped to 6.3% vs. 7.7% in 2Q20. **But still with challenges ahead.** Although origination has improved and liquidity is strong, recovering profit growth will still take time. By the end of 2020 Creal expects to maintain a portfolio growth rate between 15-20% and a non-performing loan ratio between 2-3%. Valuation is very attractive (P/E 4.2x and P/BV 0.3x), but low marketability is a risk to be considered in an environment like the current one.

### BUY

Current Price	\$13.93
<b>PT2020</b>	<b>\$17.00</b>
Dividend 2020	
Dividend Yield (%)	
Upside Potential	29.2%
Max – Min LTM (\$)	24.45-11.26
Market Cap (US\$m)	245.8
Shares Outstanding (m)	392.6
Float	36.7%
Daily Turnover (\$m)	8.9
<b>Valuation metrics LTM</b>	
P/BV	0.3x
P/E	4.3x
<b>MSCI ESG Rating*</b>	<b>N.A.</b>

### Relative performance to MEXBOL



#### Financial Statements

MXN, million	2018	2019	2020E	2021E
Interest Income	10,288	11,933	10,301	10,816
Financial margin	7,080	7,262	5,630	5,937
Prov for loan losses	1,801	1,307	1,527	1,375
Operating Income	2,509	2,647	544	685
Net Income	1,955	1,980	990	1,044
Net Margin	19.0%	16.6%	9.6%	9.7%
Total Assets	49,562	61,592	75,207	76,138
Performing Loans	35,702	46,326	48,084	50,063
Non-perf Loans	618	633	728	843
Total Liabilities	33,754	45,528	56,798	56,798
Stockholders' Equity	15,809	16,064	18,409	19,340

Source: Banorte with data from MSE

#### Valuation and financial metrics

	2018	2019	2020E	2021E
P/E	2.3x	2.2x	4.5x	4.3x
P/BV	0.3x	0.3x	0.3x	0.2x
ROE	12.4%	12.3%	5.4%	5.4%
ROA	3.9%	3.2%	1.3%	1.4%
NIM	13.8%	12.2%	7.3%	8.0%
NPL	1.7%	1.3%	1.5%	1.7%
Prov/TL	3.7%	2.9%	3.0%	3.0%

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## CREAL – Results 3Q20

MXN, million

Concept	3Q19	3Q20	Var %	3Q20e	Diff % vs Estim.
Interest Income	2,969	2,523	-15.0%	2,437	3.6%
Financial Margin	1,755	1,415	-19.3%	1,270	11.4%
Operating Income	512	188	-63.3%	255	-26.2%
Net Income	436	199	-54.4%	141	40.9%
ROE	13.8%	6.3%	-7.4pp	13.3%	-7.0pp
NIM	11.9%	6.6%	-5.3pp	12.8%	-6.2pp
NPL	1.7%	1.8%	0.1pp	1.7%	0.1pp
Provisions/TL	178.8%	217.3%	38.4pp	172.8%	44.5pp

## Balance Sheet (Million)

Year	2019	2020	2020	Change	Change
Quarter	3	2	3	% y/y	% q/q
<b>Total Assets</b>	<b>57,392.4</b>	<b>74,653.6</b>	<b>73,946.3</b>	<b>28.8%</b>	<b>-0.9%</b>
Cash and cash equivalents	1,776.9	9,431.1	7,790.8	338.4%	-17.4%
Loan Portfolio (Net)	42,162.3	45,466.0	46,667.5	10.7%	2.6%
Allowance for loan losses	-1,310.0	-1,708.1	-1,847.8	41.1%	8.2%
<b>Performing Loan Portfolio</b>	<b>42,739.8</b>	<b>46,479.2</b>	<b>47,664.9</b>	<b>11.5%</b>	<b>2.6%</b>
<b>Non-performing Loan Portfolio</b>	<b>732.5</b>	<b>695.0</b>	<b>850.4</b>	<b>16.1%</b>	<b>22.4%</b>
Other Accounts Receivables	6,862.8	9,456.6	9,490.6	38.3%	0.4%
Property, furniture & fixtures	733.1	3,511.4	3,307.8	351.2%	-5.8%
Long Term Investments	1,263.3	1,251.5	1,252.5	(0.0)	0.1%
Taxes				N.A.	N.A.
Other Assets	4,584.4	5,511.5	5,404.8	17.9%	-1.9%
<b>Total Liabilities</b>	<b>40,908.5</b>	<b>56,797.7</b>	<b>56,166.9</b>	<b>37.3%</b>	<b>-1.1%</b>
Notes Payables	22,761.7	32,610.3	30,955.7	36.0%	-5.1%
Bank Loans	14,705.1	20,418.5	21,478.0	46.1%	5.2%
Other accounts payable	1,002.3	1,218.4	1,274.5	27.2%	4.6%
<b>Stockholders' Equity</b>	<b>16,483.9</b>	<b>17,856.0</b>	<b>17,779.4</b>	<b>7.9%</b>	<b>-0.4%</b>
Minority Interest	1,060.3	1,230.0	1,163.0	9.7%	-5.4%
<b>Majority Interest</b>	<b>15,423.5</b>	<b>16,626.0</b>	<b>16,616.4</b>	<b>7.7%</b>	<b>-0.1%</b>

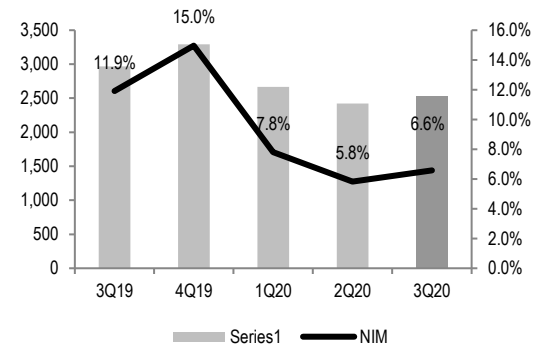
## Income Statement (Million)

	2019	2020	2020	Change	Change
	3	2	3	% y/y	% q/q
<b>Interest Income</b>	<b>2,968.7</b>	<b>2,423.6</b>	<b>2,523.3</b>	<b>-15.0%</b>	<b>4.1%</b>
Interest Expense	(1,213.7)	(1,205.0)	(1,107.9)	-8.7%	-8.1%
<b>Financial Margin</b>	<b>1,755.0</b>	<b>1,218.6</b>	<b>1,415.4</b>	<b>-19.3%</b>	<b>16.1%</b>
Provision for Loan Losses	(429.2)	(404.4)	(504.4)	17.5%	24.7%
<b>Adjusted Financial Margin</b>	<b>1,325.8</b>	<b>814.2</b>	<b>911.0</b>	<b>-31.3%</b>	<b>11.9%</b>
Net Commissions	54.5	23.4	(25.5)	N.A.	N.A.
Intermediation Income	(52.6)	1.9	(31.5)	-40.1%	N.A.
Other operating income	114.1	304.7	308.9	170.7%	1.4%
Administrative & Promotion Expenses	(929.7)	(939.7)	(974.7)	4.8%	3.7%
Operating Income	512.2	204.5	188.2	-63.3%	-8.0%
Taxes	117.7	25.5	21.6	-81.6%	-15.3%
Subsidiaries	65.7	3.0	20.0	-69.6%	>500%
Minorities	(24.2)	(50.6)	12.3	N.A.	N.A.
<b>Majority Net Income</b>	<b>436.0</b>	<b>131.4</b>	<b>198.9</b>	<b>-54.4%</b>	<b>51.4%</b>

Source: Banorte, MSE.

## Interest Income & NIM

MXN, million

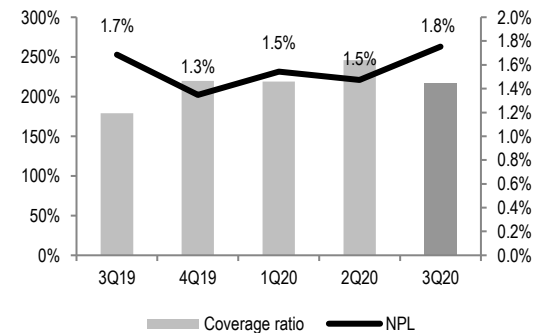


## Net Income & ROE

MXN, million



## Coverage & NPL Ratios



## 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, Eridani Ruibal Ortega and Juan Barbier Arizmendi, 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
<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	July 22, 2020	BUY	\$17.00
CREAL	February 19, 2020	BUY	\$30.00
CREAL	February 7, 2020	To be defined	To be defined
CREAL	April 24, 2019	BUY	\$24.50

## MSCI ESG Rating scale

CCC	B	BB	BBB	A	AA	AAA
LAGGARD			AVERAGE		LEADER	

\*The MSCI ESG Rating is an indicator that evaluates companies in Environment, Society and Governance (ESG) metrics.

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