

Mid-Income HBs

Brazil

October 27, 2025 | Sector Update



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Defying the Cycle

When interest rates began to rise and the macro backdrop turned bleak in Brazil in the second half of 2021, few would have expected the rate-sensitive real estate sector to hold steady. Yet companies like CYRE, MDNE and LAVV defied the cycle, delivering growth and rising ROEs, a paradox that says more about their intrinsic strength than the macro environment itself. The macro pendulum still swings toward caution, and while we acknowledge risks to returns if conditions don't improve, their top-notch execution in high-income niche and the increasing exposure to low-income segment are "barbell-like strategies" helping them shield operations while sustaining returns. For now, they continue compounding value, setting the stage for a potential re-rating if the macro pendulum swings toward optimism.

Join us today to discuss this report with our team at 9:30 AM (BRT) on Zoom ([link](#)).

- **Brazil's mid/high-income homebuilders have surprised investors with their resilience over the past tough years of high interest rates.** Considering that, some have even argued that the correlation between housing demand in SP and mortgage rates/affordability has broken down. We looked closer and found that micro factors have played a larger role: (i) post-pandemic scarcity of high-end inventory benefitted those with strong positioning in the niche and with product differentiation; (ii) pent-up mid-income demand reacted after a period of high construction-cost inflation and muted launches; and (iii) resilient demand for compact units. Today, the high-end market looks competitive amid rising inventory, while mid-income is undersupplied — though affordability constraints may once again begin to influence demand. As such, we believe flawless execution, product differentiation, and diversification will be key drivers of performance going forward.
- **CYRE is our Top Pick with a TP of BRL 39, 29% upside.** CYRE is proof that great businesses can thrive in cyclical sectors. Through a well-executed barbell strategy, balancing exposure to both high-end and low-income segments, combined with superior product design and a highly productive in-house housing brokerage team, the company has grown launches and sales at an impressive pace. The macro remains challenging, but CYRE's diversified platform provides stability. The stock trades at just 4.6x 2026E adj. P/E or 1.15x P/TBV, levels we see as attractive relative to its high ROE and Ke. As some pundits once put it, "It's far better to buy a wonderful company at a fair price than a fair company at a wonderful price."
- **MDNE ranks second in our pecking order (TP BRL 39; 46% upside); followed by LAVV (TP 19, 34% upside) and EZTC (TP 22, 31% upside).** MDNE is the leading developer in Northeast Brazil, with strong growth and increasing returns since its 2020 IPO, driven by its condominium-based model. It now opens a new growth avenue in the low-income segment through a strategic partnership with DIRR — all while trading at only 4.3x 2026E adj. P/E. LAVV, meanwhile, is the highest-ROE developer in the high-income segment, combining flawless execution, a lean cost structure, and an attractive valuation of 4.9x earnings. Finally, EZTC, once the sector's benchmark, still faces capital-structure constraints, but we remain constructive given its attractive 0.85x P/TBV multiple and optionalities such as extraordinary dividends and a potential sale of its office towers.

REAL ESTATE TEAM

Elvis Credendio, CNPI
+55-11-3073-3032
elvis.credendio@itaubba.com

Daniel Gasparete, CNPI
+55-11-3073-3906
daniel.gasparete@itaubba.com

Mariangela Castro, CNPI
+55-11 3073-3102
mariangela.castro@itaubba.com

Juliana Veiga, CNPI
+55-11 3073-2025
juliana.veiga@itaubba.com



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MDNE (OP): TP 39/sh (46% upside)

SECTION 7

We are initiating coverage on Moura Dubeux (MDNE3) with an Outperform rating and a target price of R\$39/sh (implying in a 46% upside to current stock price). Our 12-month forward target price of is derived from the next twelve months' dividend collection and exit value, calculated as the tangible book value 1Y forward at an exit P/TBV multiple of 1.5x. This is derived from the Gordon Growth formula, considering a nominal Ke of 17.2% and a terminal nominal growth rate of 4.0%.

Our Estimates

Income statement summary	2024	2025E	2026E	2027E
Launches (100%)	2,897	5,548	5,238	5,452
Net Sales (100%)	2,643	4,085	3,660	4,031
(=) Net revenues	1,570	2,216	2,477	2,873
(-) COGS (ex-interest)	(1,043)	(1,422)	(1,554)	(1,820)
(=) Gross profit	527	793	923	1,053
(-) Operating expenses	(237)	(325)	(372)	(404)
(+/-) Net financial results	42	30	20	32
(+/-) Other income (expenses)	(43)	(46)	(44)	(51)
(=) EBT	290	468	551	649
(-) Income taxes	(32)	(41)	(58)	(65)
(-) Minority interest	0	1	2	2
(=) Net income	251	413	491	581
<i>Adj. gross margin</i>	<i>35.5%</i>	<i>36.9%</i>	<i>38.5%</i>	<i>37.9%</i>
<i>Gross margin</i>	<i>33.5%</i>	<i>35.8%</i>	<i>37.3%</i>	<i>36.7%</i>
<i>Net margin</i>	<i>16.0%</i>	<i>18.7%</i>	<i>19.8%</i>	<i>20.2%</i>
(=) FCF generation (cash burn)	(16)	(152)	222	303
<i>Net Debt/Equity (%)</i>	<i>7.0%</i>	<i>17.8%</i>	<i>11.8%</i>	<i>6.1%</i>
ROE	16.9%	23.7%	23.4%	23.5%

Valuation

TP - Gordon Growth (P/TBV)	
Target quarter	3Q26E
Tangible book value (TBV)	2,107,665
Stabilized return-on-equity	24.0%
Target P/TBV multiple	1.5x
Assets valued separately	0
Fair equity value	3,186,098
Shares outstanding (ex-treasury)	84,618
Fair equity value (R\$/sh)	R\$ 37.65
DPS 1Y fwd (R\$/sh)	R\$ 1.48
Fair share price (R\$/sh)	R\$ 39.00
Forecasted upside (1Y fwd)	45.6%

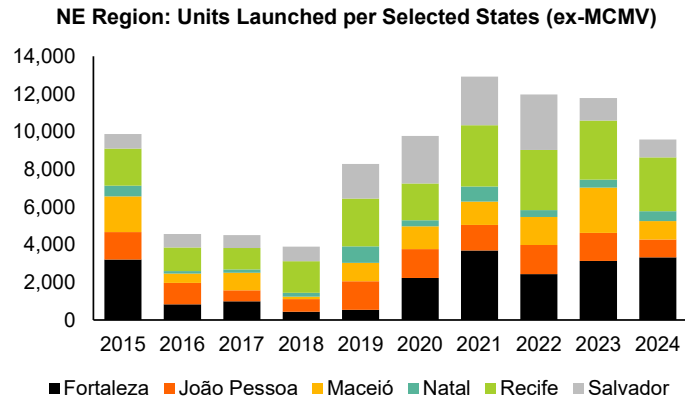
MDNE was founded in 1987 by the Moura Dubeux family in Recife (PE), focusing on high-income projects under the condominium business model. In 1990s, MDNE expanded operations across other Northeast states and diversified its real estate product portfolio by developing office buildings, 2nd home projects. MDNE has 5 brands: Moura Dubeux (high-end housing), Beach Class (second homes), ITC (commercial) all eligible under the condominium model, and Mood (mid-income housing) and Única (MCMV)

MDNE conducted its IPOed in 2020 raising BRL 1.1bn in a primary offering with the proceeds to being channeled to curb leverage – MDNE was impacted by Brazil economic crisis in 2015-16 and its effects on market in Northeast. The controlling shareholders (Moura Dubeux family) currently hold 36% stake, and the management team is veteran fully professionalized (Diego Villar is the CEO, Diego Wanderley CFO, Diogo Barral the IRD and among others experienced directors).

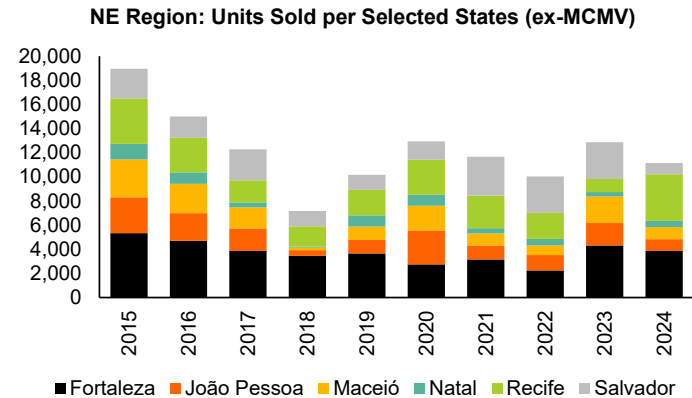
The housing market (ex-MCMV) in the main 6 cities of Northeast Brazil (Recife, Fortaleza, Salvador, Natal, Maceió and João Pessoa), peaked at 2008-12 with 28,000 units launched per year. The

strength of the market at that time reflected homebuilders from Southeast region expanding footprint into the region after IPOs, follow-on offerings and plans to grow operations. However, Brazil's economic crises resulted in a more dramatic market downturn in Northeast.

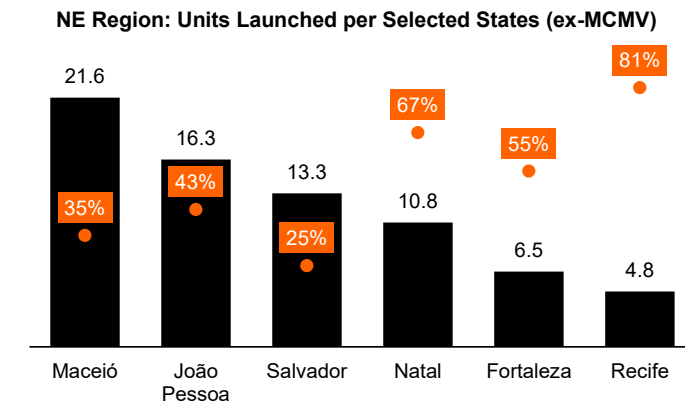
The sales speed of housing market in Northeast (or in other words, the absorption of inventories) has been resilient since the crisis, consequently cutting inventories in months of LTM sales from the peak level of 22 months to 9 months nowadays. More importantly, units launched in 2021-24 have been ~2x bigger than the volume in 2015-18 and MDNE consolidated itself as the leading homebuilder in the region with launches market share of 22%.



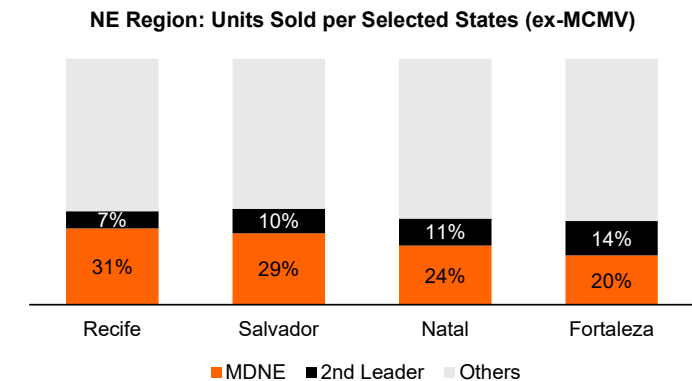
sSource: Inteligência Imobiliária Prática, Moura Dubeux and Itaú BBA



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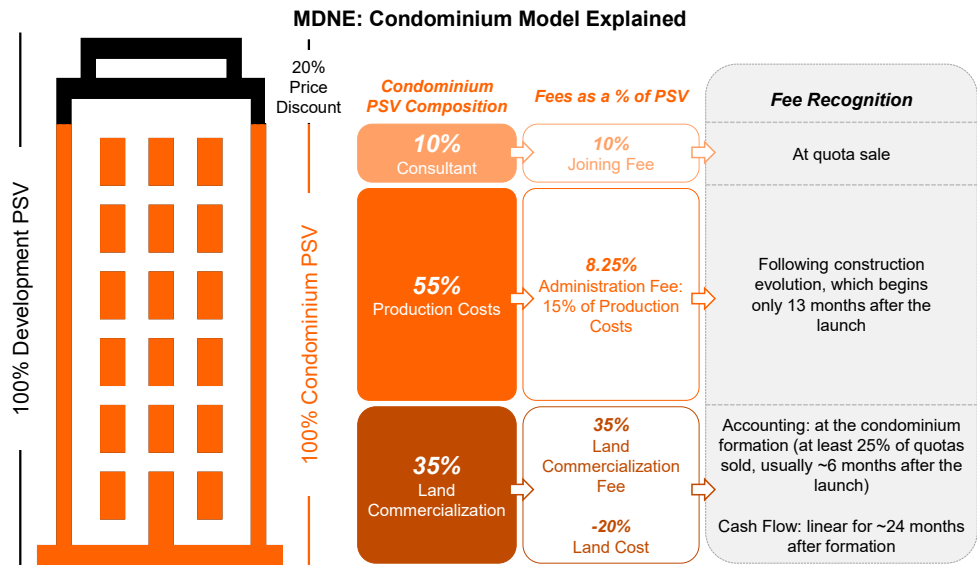


Source: Inteligência Imobiliária Prática, Moura Dubeux and Itaú BBA

Since the IPO, we expect MDNE to end the year growing launches by 6x, from BRL 790mn in 2020 to BRL 5.5bn in 2025E. This operating expansion, coupled with margin improvement (from 27% in 2020 to ~35% in 2025E), driven by the higher profitability of development projects and growth of condominium-based projects (a business model that boasts higher gross margins and returns). Consequently, MDNE expanded ROE from 8% in 2021 to ~24%, outperforming peers.

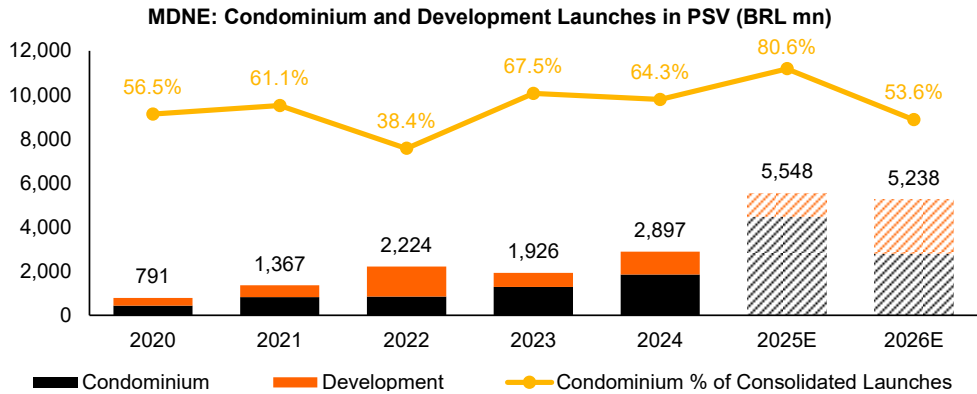
Under the condominium model, MDNE usually develops high-end residential projects and operates as a contractor, and buyers are responsible for 100% of the construction disbursements (meaning a lower cash disbursement vs. traditional developments). MDNE collects revenues through 3 fees: (i) land commercialization fee (right after the sale of quotas), (ii) adhesion fee (also upon quota acquisition), and (iii) service fee (collected from clients during the construction).

The project starts with MDNE acquiring the land, designing and approving the project. Then it sells the quotas from a pre-selected pool of loyal clients (without the sales stands) and once a minimum amount of quotas is sold (usually 35%), the condominium is formalized. Typically, MDNE keeps a certain volume of quotas of the project and sells them later (so the company is responsible for the disbursements related to these quotas). For details on the economics, see the chart below.



Source: Company and Itaú BBA

MDNE has grown launches and sales meaningfully in the condominium business model, which has boosted its margins, operating leverage and returns. In 2020, MDNE's launches were 55% under the condominium model, it rose to 60-65% in 2024 and should end 2025 at ~80%, representing BRL 3.6bn at stake. We are adopting a conservative approach for launches under this model (expecting stabilized launches of BRL 2.5bn), meaning there are upside risks to our forecasts.



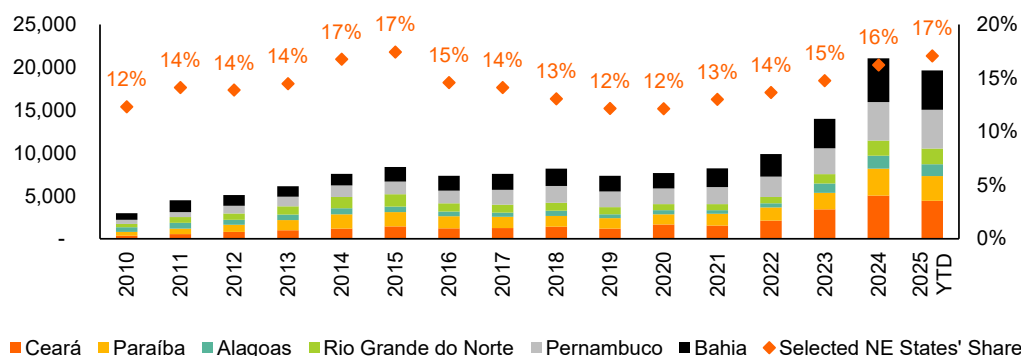
Source: Company and Itaú BBA

In addition, we see a big growth avenue under mid-income and MCMV program. MDNE started its mid-income operations (under the Mood brand) 2-3 years ago and it has already launched BRL 1.5bn since its inception and BRL 626mn in 2025. MDNE seizes this operating reaching up to BRL 2bn in launches in the next years and this segment should benefit the most from the brand new MCMV bracket 4 (or “Faixa 4”).

In 2025, MDNE announced its low-income brand Única, focused on MCMV brackets 3 (“Faixa 3”) and the first launch is scheduled for 4Q25 under the recently announced partnership with DIRR – which should MDNE’s next growth avenue, as launches should total BRL 1bn in 2026 and stabilize at BRL 2bn, split 50%/50% between MDNE and DIRR.

Elsewhere, the possible approval of tax exemption for individuals earning up to BRL 5k/month should further boost demand in MCMV “Faixa 2–3”, widening the pool of eligible buyers. This is especially important for the Northeast region as informal workers are 43% of total households earning BRL 5k, while in states of São Paulo and Rio this represents 33%.

NE Selected States Share at MCMV Program (BRL mn; %)



Source: FGTS and Itaú BBA

NE Selected States MCMV Program Addressable Market

	CE	PB	AL	RN	PE	BA	SP	RJ
(+) Households - R\$1,200-R\$2,000/month (mn)	728	334	296	278	810	1,345	2,260	1,173
(+) Households - R\$2,000-R\$5,000/month (mn)	858	413	270	361	889	1,527	6,410	2,467
(+) Households - R\$5,000-R\$7,000/month (mn)	67	36	25	44	84	142	1,215	338
= (a) Households eligible to MCMV (mn)	1,653	783	591	682	1,783	3,014	9,885	3,978
(b) % of informal workers	45.8%	45.4%	40.6%	38.8%	42.5%	43.6%	31.5%	34.8%
(a) x [1-(b)] = (c) MCMV addressable market	895	427	351	418	1,024	1,699	6,769	2,595
(+) Units sold in MCMV "Group 1"	210	309	650	85	1,350	2,283	7,783	4,081
(+) Units sold in MCMV "Group 2"	6,439	8,043	2,406	5,747	8,641	6,895	63,477	8,585
(+) Units sold in MCMV "Group 3"	785	302	186	293	623	821	20,629	2,636
= (d) Total units sold in MCMV - 2019	7,434	8,654	3,242	6,125	10,614	9,999	91,889	15,302
(d) / (c) = MCMV as % of addressable market	0.8%	2.0%	0.9%	1.5%	1.0%	0.6%	1.4%	0.6%
Population growth during 2010-2020 (%)	0.8%	0.7%	0.7%	1.1%	0.9%	0.6%	1.2%	0.8%

Source: IBGE and Itaú BBA

MDNE's shares trades at 1.2x P/BV, which is above many mid/high-income developer peers, but justified by its high ROE and earnings growth, as we expect earnings CAGR of 32% from 2024-27. However, the stock trades at a very attractive 4.3x P/E 26E. Consequently, with a strong market position, seasoned management team, clear growth avenues and attractive valuation, we rate MDNE as Outperform and offering 46% upside from current stock levels (the highest among our mid/high-income homebuilders coverage).

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Outperform	The analyst expects the stock to perform better than market average.	56%	62%
Market Perform	The analyst expects the stock to perform in line with market average.	36%	40%
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	1	2	3	4	
Daniel Gasparete					OK
Mariangela Castro					OK
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