

Brazil. Real Estate
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Moura Dubeux Engenharia

Lowering YE2024 TP to R\$16.00 and Maintaining Outperform

Outperform

Current Price R\$11.72 Target Price R\$16.00

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Reiterating Outperform rating: We are reiterating our Outperform rating on Moura Dubeux, based on its: (i) strong competitive position in the main cities of the Northeast region; (ii) attractive valuation, with the stock currently trading at a 2024E P/E of 4.7x and 2024E P/BV of 0.7x, despite a potential 2024E ROE expansion of 420 bps (to 15.0% in 2024, from 10.8% in the LTM); (iii) strong 2022-25E EPS CAGR of ~31%; and (iv) solid balance sheet, with YE2024E net debt/equity of 14%.

Lowering YE2024 TP to R\$16.00 (from R\$16.50) and adjusting estimates: As a means to reflect the postponement of the Pestana project (~R\$340 million PSV) to the 1Q24, we are lowering our launch estimates for 2023 (down 10% vs. our previous estimate) and increasing our estimate for 2024 by 11%. Additionally, we are trimming our 2024-25 net revenue estimates by ~4%, on average, as we fine-tune the pace of revenue recognition of the company's development division. In addition, we are also raising the share of condominium projects on annual launches to 40% (from 30%, previously), and therefore raising our adj. gross margin estimates by 150 bps for 2024 and 191 bps for 2025. Still, we are only slightly increasing our adj. EBITDA margin by 55 bps for 2024 and 42 bps for 2025, as we forecast higher-than-expected SG&A expenses to partially offset the expected gross margin gains. All in all, we now forecast net income of R\$212 million for 2024 and R\$239 million for 2025, down 2% and 4%, vs. our previous estimates.

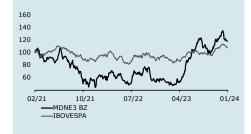
Higher exposure to condominium division implies stronger resilience: Reflecting a stronger-than-expected demand for the company's condominium projects, management now expects the condominium division to represent ~40% of the consolidated business (or ~R\$800 million PSV per year in the long run), which should strengthen returns and lead to lower risks for Moura Dubeux. We note that condominium projects: (i) demand less invested capital compared to traditional residential projects; (ii) have lower execution risks, as construction costs are transferred to clients; and (iii) have lower risks related to cancellations, as defaulting clients are subject to having their condominium shares auctioned.

What has Changed

Lowering YE2024 Target Price to R\$16.00 from R\$16.50

Previous TP was set on 08/21/23

Relative Performance (R\$)



Source: FactSet.

Company Data, January 25, 2024 (closing price)								
Bloomberg code				MDNE3 BZ				
Current Price		R\$11.72						
Target Price (\		R\$16.00						
Price Perf Last		96.97%						
52 Week Rang	4.0	4.66 - 13.52						
Market Cap (F		995						
Free Float (%)		63.3						
3-Mth Avg da		5						
Outst shares (85						
(R\$)	2022A	2023E	2024E	2025E				
Adj EPS	1.25	1.79	2.50	2.81				
BVPS	13.92	15.74	17.61	19.72				
DDC	0.00	0.00	0.00	0.62				

(R\$ mn)	2022A	2023E	2024E	2025E
Revenues	800	1,162	1,510	1,613
EBITDA	93	178	274	309
EBIT	88	171	265	297
Net Profit	106	152	212	239
FCFE	37	(185)	(159)	128
Net Debt	(129)	44	205	132
P/E (x)	4.7	6.6	4.7	4.2
EV/EBITDA (x)	3.9	5.8	4.4	3.6
FCFE Yield (%)	7.5	(18.6)	(15.9)	12.9
Div Yield (%)	0.0	0.0	0.0	5.3
Net Debt/EBITDA (x)	NM	0.2	0.7	0.4

Sources: FactSet, Company Data and Santander estimates.

Important Disclosures/Certifications are in the "Important Disclosures" section of this report.

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Moura Dubeux Engenharia at a Glance



Table 1. Key Company Data

Table 1. Key company bata		R\$			US\$	
	2022A	2023E	2024E	2022A	2023E	2024E
P&L Account						
Revenues EBITDA EBITDA yoy Change (%) EBITDA as % of Revenue EBIT Net Financial Result Associates Taxes Minorities Net Profit Adj Net Profit Yoy Change (%) as % of Revenues	800 93 39.3 11.6 88 40 0 (22) (1) 106 106 27.7 13.2	1,162 178 91.9 15.3 171 16 0 (35) (1) 152 152 43.1 13.1	1,510 274 54.5 18.2 265 (13) 0 (39) (1) 212 212 39.9 14.0	155 18 45.5 11.6 17 8 0 (4) (0) 21 21 33.4 13.2	232 36 98.3 15.3 34 3 0 (7) (0) 30 30 47.8 13.1	295 54 50.7 18.2 52 (3) 0 (8) (0) 41 41 36.5 14.0
Cash Flow						
Lease Payments Changes in Wkg. Capital Capital Expenditures Cash Financials Cash Taxes Free Cash Flow to Equity Other Invest./(Divest.) Dividends Capital Increases/Other Change in Net Fin. Debt Balance Sheet Cash and Equivalents Current Assets Goodwill Non-Curr Assets (ex g'will) Total Assets Current Liabilities Non-Current Liabilities Minorities Shareholders' Equity Total Liabilities & Equity Net Financial Debt	93 0 (47) (26) 40 (22) 37 0 0 21 (69) 254 811 0 1,413 2,477 383 1,258 (4) 1,182 2,819 (129)	178 0 (313) (31) 16 (35) (184) 0 0 (196) 172 181 935 0 1,769 2,886 486 1,423 (3) 1,336 3,242 44	274 0 (351) (30) (13) (39) (157) 0 0 162 324 1,084 0 1,996 3,403 566 1,725 (3) 1,495 3,783 205	18 0 (9) (5) 8 (4) 7 0 0 4 (13) 49 155 0 271 475 73 241 (1) 226 540 (25)	36 0 (63) (6) 3 (7) (37) 0 0 (39) 34 36 187 0 354 577 97 285 (1) 267 648 9	54 0 (68) (6) (3) (8) (31) 0 0 0 32 206 0 380 648 108 329 (1) 285 721 39
Other Ratios						
Dividend Payout (%) ROCE (%) EV/EBIT (x) FCFF Yield (%) P/BV (x) Launches (Cia Stake) Contracted Sales (Cia Stake) Sales Speed (%)	0.0 18.8 4.1 56.7 0.4 1,865.7 1,345.7 47.9	0.0 32.2 6.1 (6.0) 0.7 1,611.2 1,479.5 45.5	25.0 31.3 4.5 (8.4) 0.7 2,100.0 1,834.5 46.9	0.0 19.3 4.1 56.7 0.4 361.2 260.5 47.9	0.0 32.6 6.1 (6.0) 0.7 322.2 295.9 45.5	25.0 31.0 4.5 (8.4) 0.7 409.6 357.8 46.9

Source: Company Data and Santander estimates.

Investment Case

We are reiterating our Outperform rating on Moura Dubeux, based on its: (i) strong competitive position in minimally competitive markets located in the Northeast; (ii) attractive valuation, despite improving profitability with 2024E ROE of 15.0%; (iii) appealing 2022-25E EPS CAGR of ~31%; and (iv) solid balance sheet. Our YE2024 target price of R\$16.00 is based on a free cash flow to firm analysis, using a WACC of 17.5% in reais (vs. 17.7% previously) and nominal terminal growth of 4.0% (unchanged).

Investment Risks

Risks to our investment thesis include: (i) new entrants in the Northeast market toughening competition and affecting sales volumes, prices, and land costs in the region; (ii) higher interest rates and rising production costs, potentially reducing sales-over-supply and margins; (iii) lower-than-expected demand for housing units in the Northeast region; (iv) execution risks associated with the significant increase in simultaneous construction sites under management; (v) the lack of housing data in the region; and (vi) liquidity risk.

Company Description

Founded in Recife by brothers Aluísio, Gustavo, and Marcos José Moura Dubeux in 1983, Moura Dubeux is currently one of the largest homebuilders in Brazil's Northeastern region and a market leader in the middle- to high-income segment in the cities of Recife, Fortaleza, and Salvador. The company also has some exposure to Natal and Maceió, Aracajú and João Pessoa.

Key Personnel

Diego Paixão Villar (CEO), Carlos Roberto Gentil Filho (Engineering Officer), Diego Freire Wanderley (CFO), and Diogo de Barral Araújo (IRO).