Moura Dubeux

Brazil | Outperform

Itaú BBA

August 20, 2023 | Company Update

Sunny Days in the Northeast; Updating Our Estimates

We hosted a series of meetings last week with Moura Dubeux's CEO Diego Villar, CFO and IR Director Marcello Dubeux, the founder, other top management, and local investors. The meetings were well attended and there was positive feedback from investors. Despite the recent 120% rally YTD, we continue to see an attractive valuation at 4.8x P/E 2024 and 0.8x P/BV (vs. 15% ROE 2024). We see upside risk to our estimates based on the company's expectation of a yearly launch pipeline of BRL 3.0 billion in PSV in the long term (vs. our estimate of BRL 2 billion). Finally, liquidity concerns will likely be dispelled (ADTV at ~BRL 3 million) as macro conditions improve. We are raising our YE24 target price to BRL 16.0/share (from BRL 9/share), with a 30% upside. Below are the main takeaways from of our meeting and our updated numbers.

Competition I. The company does not anticipate an increase in competition in the Northeast. Its competitors are mostly small, local players operating in a few cities, not in multiple states (Moura Dubeux is present in seven states). Management is comfortable with its leadership in the region and sees the Condominium and Mood divisions as important growth paths.

Competition II. According to management, players in the Southeast face labor-force-related obstacles when entering the Northeast, given the differences in the service-provision market in these regions. In the Northeast, companies use their own construction labor force and rarely outsource.

Cash and dividends. The company reiterated its post-IPO plans to accelerate the pipeline of launches and burn cash in 2023 and 2024, which will reverse its current net-cash position to a gradual increase in leverage that is expected to reach 20% at the end of 2024, at maximum cash burn. With higher revenues following construction, management then expects to generate cash and stabilize its net debt/equity at 15%-20%. Dividend distribution is likely to resume at the beginning of 2025.

Mood. Management reinforced that the Mood operation (aimed at the mid-income segments) will continue to launch outside the MCMV program (units priced at BRL 350,000-500,000, for clients with a monthly income range of BRL 12,000-15,000). The company has no interest in joining the government housing program, despite using the same construction method for better monetization. The materials in Mood's segment are the same as those used in Moura's traditional high-income operation and the main financing model is associative credit (transfers to CEF).

Further launches. The company expects Mood to launch a PSV of BRL 500 million in 2024, with a 15% net margin, and gradually grow to a PSV of BRL 1 billion in ~2026. There is also a BRL 800 million potential for the condominium operation and BRL 1.2 billion for the traditional high-income incorporation. This amounts to a total PSV launch potential of BRL 3.0 billion for Moura Dubeux in ~2026.

Gross margin. According to management, the gross margin target for the incorporation division is 30%, which is likely to be driven by the delivery of older vintages of launches. In the long term, the company estimates an increase of 200 bps in incorporation margins given Mood operation and 100-150 bps in consolidated margins (including the Condominium division).

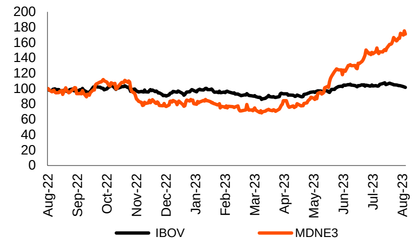
Condominium I. Management expects an increase in the share of the condominium division in the company's results given the lower risk and better margins of the operation. Furthermore, the limit for the segment is not companies' operational capacity, but market size and absorption. Condominiums require customers with higher income and cash availability in the short term.

Ticker (local)	MDNE3
Target Price (YE24)	BRL 16.0

Stock Data

Current price	BRL	12.05
Upside (YE24)	%	32.8
52 Week high/low	BRL	12.4/4.66
Shares outstanding	th	84,909
Market capitalization	BRL m	1,023
3-mth avg daily vol.	BRL m	3
Performance (%)	1m	12m
Absolute	20.4	71.0
Vs. Ibovespa	22.0	66.4

Company x Ibovespa



Source: Itaú BBA

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Condominium II. The operation is expected to reach a PSV of BRL 800 million. Projects can be installed with a 20%-25% adhesion and usually reach 70% of clients. The remaining units are sold on the market.

ITC. The company is planning to return its commercial projects in the coming quarters. Management expects the demand for offices in the Northeast region to increase in the coming months, following the return of in-person actives at companies.

Expansion. Management has no interest in expanding Moura's operation to other regions, given its belief that the high-income segment requires a deep knowledge of the city and the dynamics of its clients. The company intends to remain in the Northeast region, where it wants to increase its leadership from its current 20% market share.

Costs. The company believes that the worst of construction inflation has passed and that costs are now likely to stabilize.

Estimates and Valuation

Years	2022a	2023e	2024e	2025e
Launches	1,866	1,840	1,915	1,990
Contracted Sales	985	1,198	1,243	1,237
Net revenues (BRL m)	800	1,179	1,422	1,641
Gross Margin (%)	33.3%	33.4%	34.5%	34.7%
Net income (BRL m)	105	172	214	281
P/E	-	5.9	4.8	3.6

Source: Itaú BBA

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Model Output

OPERATING DATA	2020A	2021A	2022A	2023E	2024E	2025E
Launches (co-stake)	**672**	**1,110**	**1,866**	**1,840**	**1,915**	**1,990**
Nominal yoy growth (%)	nm	65.2%	68.2%	-1.4%	4.1%	3.9%
Contracted sales (co-stake)	**540**	**1,311**	**1,345**	**1,388**	**1,755**	**1,988**
Nominal yoy growth (%)	nm	142.9%	2.5%	3.2%	26.4%	13.3%

RESULTS	2020A	2021A	2022A	2023E	2024E	2025E
GROSS REVENUES	**528**	**643**	**826**	**1,217**	**1,468**	**1,695**
Tax	(15)	(23)	(27)	(39)	(46)	(53)
NET REVENUES	**513**	**620**	**800**	**1,179**	**1,422**	**1,641**
Growth YoY (%)	nm	20.7%	29.0%	47.4%	20.7%	15.4%
COGS	**(285)**	**(308)**	**(392)**	**(550)**	**(703)**	**(788)**
Interest on COGS	(23)	(19)	(14)	(17)	(18)	(19)
Gross Profit	**139**	**226**	**266**	**394**	**491**	**569**
Gross Margin (%)	27%	36%	33%	33%	35%	35%
Selling Expenses	(51)	(77)	(76)	(87)	(105)	(119)
G&A	(42)	(57)	(70)	(80)	(91)	(94)
Other Expenses	(122)	(27)	(29)	(32)	(36)	(41)
Equity Pickup	8	1	1	2	3	3
EBITDA (Itau)	**(45)**	**85**	**106**	**214**	**281**	**337**
EBITDA Margin (%)	-9%	14%	13%	18%	20%	21%
Depreciation & Amortization	**(4)**	**(4)**	**(5)**	**(6)**	**(7)**	**(9)**
Financial Results	(21)	37	40	17	2	21
Financial Revenues	25	60	70	43	29	49
Financial Expenses	(47)	(23)	(30)	(26)	(27)	(28)
EARNINGS BEFORE TAXES	**(94)**	**99**	**127**	**208**	**257**	**331**
Income Tax & Contributions	(11)	(14)	(22)	(36)	(43)	(50)
Minority Interest & Employees Participation	(4)	2	(1)	(1)	(0)	(0)
NET INCOME	**(104)**	**85**	**105**	**172**	**214**	**281**
Net Margin (%)	-20%	14%	13%	15%	15%	17%

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
ASSETS - BRL m	**2,077**	**2,694**	**2,819**	**3,607**	**4,284**	**4,802**
Cash	119	185	254	186	152	308
Receivables	510	652	721	1,075	1,325	1,349
Inventory (ex-land and capitalized interest)	334	264	316	423	507	540
Land	566	860	614	783	994	1,147
Capitalized Interest	24	10	5	6	7	8
Others	189	371	567	796	960	1,108
Investments	321	331	307	297	297	297
PP&E	7	12	33	38	40	42
Intangible	7	8	3	3	3	3
LIABILITIES - BRL m	**2,077**	**2,694**	**2,819**	**3,607**	**4,284**	**4,802**
Suppliers	30	74	66	86	104	120
Deferred Taxes	20	20	22	32	38	44
Debt	126	125	125	304	364	379
Obligations with land acquisition	-	-	-	-	-	-
Land Swaps	-	-	-	-	-	-
Advance from Clients	733	1,193	1,230	1,570	1,894	2,186
Dividends	-	-	-	-	-	-
Provisions	2	9	12	76	92	106
Other	168	201	185	190	230	265
Minority Shareholders	(5)	(3)	(4)	(4)	(4)	(4)
Shareholders' Equity	1,005	1,075	1,182	1,353	1,567	1,707

Source: Itaú BBA

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