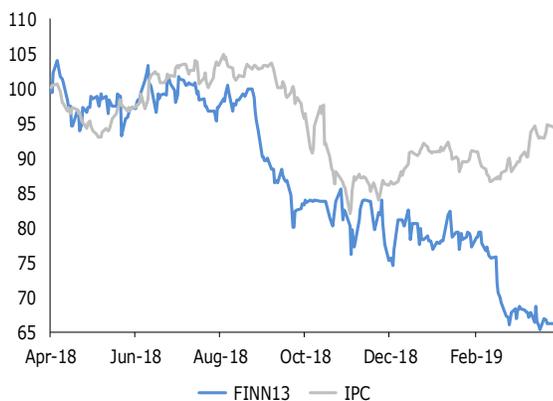# FIBRA INN: PREVIEW OF 1Q19 RESULTS

FIBRA INN: Neutral

Opinion and Recommendation

We expect FIBRA INN to report slow 1Q19 results in its traditional hotel operations due mainly to the weak macroeconomic situation and the pending ratification of the USMCA, which affected the occupancy rate. However, this should be partially offset by the fees that the company collected under the "Hotel Factory". We thus believe that this quarterly report is unlikely to be a near-term catalyst for the price of the CBFI's.

We are reiterating our long-term BUY recommendation on FIBRA INN's CBFI's mainly because we consider that the Fibra's outlook should improve during the second half of the year supported on a stronger macroeconomic performance, which will likely result in higher occupancies and average daily rates, and the fact that FIBRA INN will start to receive fees from the Westin Monterrey Valle and JW Marriott Valle hotels. In addition, we believe that the Fibra's valuation is very attractive at current levels with a cap rate of 10.1%, a dividend yield of 9.1% and a P/NAV of 0.53x, which makes it one of Mexico's cheapest Fibra's.

1Q19 Preview

We expect FIBRA INN to continue with its current portfolio of 42 properties with 6,785 hotel rooms. The occupancy rate fell to 58.1% in 1Q19, from 63.2% in 1Q18, as a result of the aforementioned macroeconomic weakness, as was previously reported. However, the average daily rate increased by 3.8% to MXN$1,294. This translated into a RevPar of MXN$752 in 1Q19, down 4.6% YoY. For the same reason, hotel revenues fell 4.7% to MXN$456 million. This marginal revenue decline and higher electricity costs will likely lead to a Hotel NOI of MXN$160.5 milion, down 10.9% YoY. Hotel NOI margin will fall to 33.4% in 1Q19, compared to 36.0% in 1Q18.

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The very good news for the quarter is that FIBRA INN will start to receive fees from the "Hotel Factory" amounting to MXN$10 million. This will translate into a Total NOI of MXN$166.5 million, down only 5.6% YoY. As a result, Total NOI margin will likely contract marginally to 34.7% in 1Q19, from 35.3% in 1Q18.

The AFFO will decrease 21.1% YoY due to the slow performance of FIBRA INN's hotel operations. This will result in a quarterly MXN$0.156 distribution per CBFI.

(Figures in Millions of Pesos)

INCOME STATEMENT	1Q19E	1Q18	Change
Hotel Revenues	456	479	-5%
Total Revenues	481	501	-4%
Hotel Cost and Expenses	(320)	(321)	-0%
Hotel NOI	161	180	-11%
Hotel NOI Margin	*33.4%*	*36.0%*	
Total NOI	167	177	-6%
NOI Margin	*34.7%*	*35.3%*	
Indirect Total Expenses	(36)	(30)	18%
EBITDA	131	146	-11%
EBITDA Margin	*27.2%*	*29.2%*	
Acquisition and Organization Expenses	13	8	54%
Adjusted EBITDA	144	155	-7%
Adjusted EBITDA Margin	*29.9%*	*30.9%*	
Depreciation of Fixed Assets	(62)	(83)	-25%
Operating Profit	54	59	-10%
Net Financial Expenses	(38)	(37)	4%
Net Profit	15	22	-31%
Integral Net Profit	12	(10)	-222%
Outstanding CBFI's	519	436	19%
FFO	98	118	-17%
FFO Margin	*20.4%*	*23.5%*	
Maintenance Capex	17	15	13%
AFFO	81	103	-21%
AFFO Margin	*16.9%*	*20.5%*	
FFO per CBFI	$ 0.19	$ 0.27	-30%
AFFO per CBFI	$ 0.16	$ 0.24	-34%

Source: Company, Miranda Global Research

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