

# HOTEL: 4Q19 RESULTS

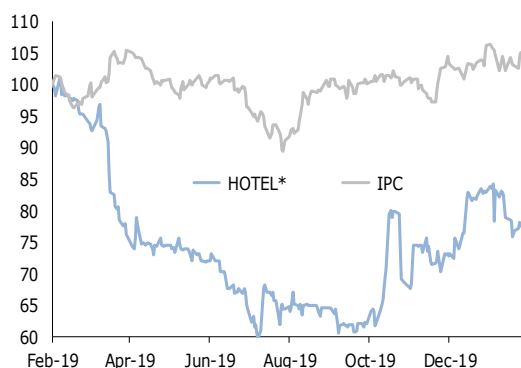
## 4Q19 In Line with Our Projections; Meets the Annual Guidance

### BUY

Target Price 2020E (MXN\$)	\$ 8.20
Current Price (MXN\$)	\$ 5.61
Min / Max (L12M - MXN\$)	4.57 - 8.20
Expected Dividend (MXN\$)	\$ 0.00
Total Return	46.2%
Mkt Cap (Mn of MXN)	2,781
Enterprise Value (Mn of MXN\$)	5,371
Shares Outstanding (Mn)	495.7
Float	65.4%
ADTV (MXN\$ Mn)	\$ 1.21

### Opinion and Recommendation:

- **As we expected, the HOTEL's profitability decreased in 4Q19 as a result of the macroeconomic situation and higher costs and expenses of the *Reflect Krystal Grand* hotels. However, the company recorded higher revenues supported by a favorable performance in the food and beverage, other income and hotel management segments. It also reported a much higher net income thanks to FX gains. These results were in line with the revised guidance for the year.**
- **In our view, these results have already been discounted by the market. Therefore, we believe that the recent adjustment in HOTEL's share price represents a clear long-term investment opportunity. We still expected the company's main operating indicators (in particular the occupancy rate, the average daily rate and the profitability) to improve during the current year. In addition, HOTEL's valuation remains at a discount compared to both the developed and emerging markets hotel chains.**
- **After these quarterly results, we continue with our BUY recommendation and year-end MXN\$8.20 target price per share.**

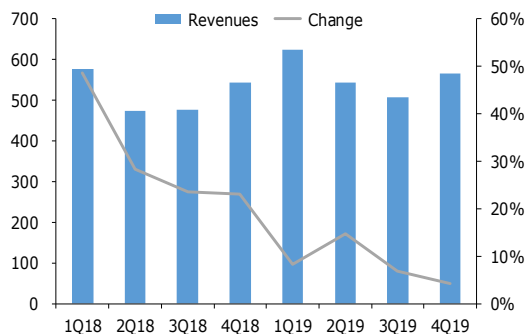


### Revenues

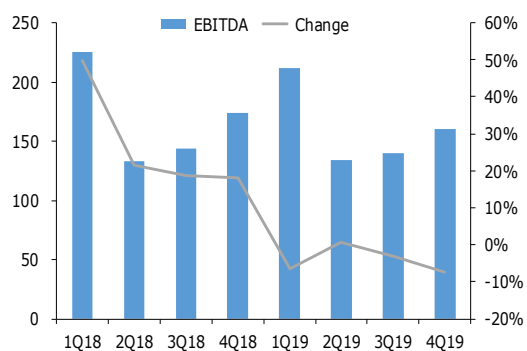
HOTEL revenues were MXN\$566 million in 4Q19, up 4.2% YoY (vs. 4.1% E). This solid performance was derived from the 9.1% YoY growth in food and beverages, +5.4% YoY in other revenues and +9.9% YoY in managed hotel fees, which was partially offset by the stability of room revenues. Beach hotels were affected by the slowdown of international tourism due to sargassum and the perception of higher insecurity levels in certain areas. Urban hotels were impacted by the macroeconomic situation.

Owned hotels' RevPar (calculated as occupancy rate by average daily rate) remained unchanged at MXN\$806 because the situation of the tourism sector has forced the industry to lower rates (-6.2% YoY to MXN\$1,315). However, the occupancy reacted favorably with an annual 3.7 percentage points improvement to 61.2%. In stabilized owned hotels, RevPar fell

## HOTEL: 4Q19 Results



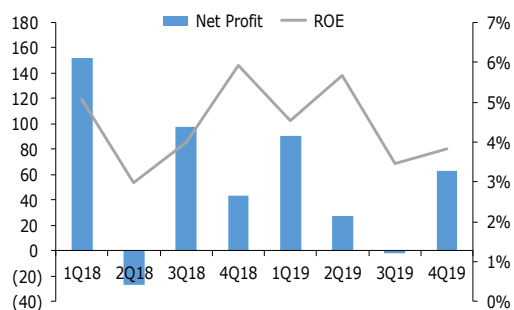
8.7% YoY to MXN\$816, as a result of the 9.9% YoY drop in the average daily rate to MXN\$1,295 and a slightly higher occupancy rate of 63.0%. The hotels in stabilization stage contributed favorably with a significant 20.4% YoY rise in the RevPar to MXN\$784, which derived from the increases of 2.7% YoY in the average daily rate and 8.4 percentage points in the occupancy rate. Managed third-party hotels showed a 13.2% YoY RevPar reduction to MXN\$896 which was generated by 2.5% YoY fall in the average rate and a 7.6 percentage points decline in the occupancy rate.



HOTEL's portfolio consisted of 25 properties at the end of 4Q19, which included 13 owned hotels and 12 owned by third parties. The number of rooms was up 10.5% YoY, reaching 6,380 (including vacation club) due to the opening of the *Hyatt Place Aguascalientes*, *Double Tree by Hilton Toluca*, *AC Hotel by Marriott Santa Fé* and *Courtyard by Marriott Puebla* hotels. In addition, the company has 750 rooms under development, both owned by the company and by third parties, which include the *Krystal Grand Insurgentes*, *AC by Marriott Armida District*, *Curio Collection Zacatecas* and *Breathless Tulum Resort & Spa*.

### Profitability

HOTEL's profitability was lower due to the higher costs and expenses of the *Reflect Krystal Grand* hotels, in combination with the lack of rate increases. This situation generated a 7.3% YoY reduction (vs. -7.5% E) in the company's EBITDA, which stood at MXN\$161 million. The EBITDA margin contracted to 28.4% in 4Q19 (in line), below the 31.9% level of the same period last year.

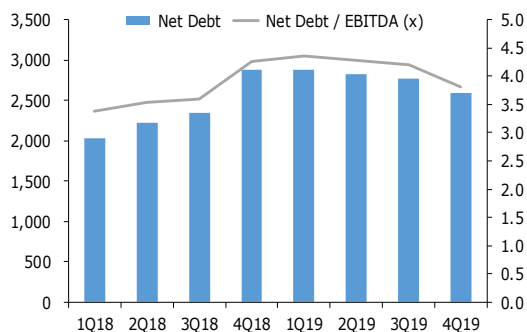


### Net Profit

HOTEL generated significant FX gains in the current quarter as a result of the FX appreciation. This translated into a total net income of MXN\$67 million in 4Q19 (vs. MXN\$56 million E), higher than last year's MXN\$17 million.

### Financial structure

The company closed the quarter with a net debt to EBITDA ratio of 3.8x, compared with the previous year's 4.1x. The average cost of debt was 5.31%. Only 8.5% of the total debt is short term.



### Conference Call Highlights

HOTEL expects the construction of the *Krystal Grand Insurgentes* hotel to resume in the short term since the issues that this property faced will soon be solved. This hotel will likely open in 1Q22. Additionally, the company announced that it has won two new management contracts for the *AC by Marriott Santa Fe* hotels (168 rooms) and *Courtyard Marriott Puebla* (154 rooms).

## **HOTEL: 4Q19 Results**

Bookings have improved during the last three quarters in both urban and beach destinations. Therefore, the company expects 2020 to be a stronger year, which is in line with our expectations. HOTEL expects its capex to represent 4% or slightly less of its revenues in 2020.

The solid growth in the food and beverage segment was mainly due to the change to an "All Inclusive" model at the *Reflect Krystal Grand Cancun* hotel and a stronger performance of the *Reflect Krystal Grand* hotels in Los Cabos and Puerto Vallarta.

The company expects the performance of the *Reflect Krystal Grand* hotels to improve at the beginning of the current year and that it will stabilize during the next 2 years.

## HOTEL: 4Q19 Results

### Discounted Cash Flow Model

(Figures in Millions of MXN\$)	2021E	2022E	2023E	2024E	2025E	Perp.
OPERATING PROFIT	416	454	529	594	607	627
Tax Rate	23%	24%	24%	25%	25%	30%
Tax Shield	-96	-107	-127	-145	-149	-153
NOPLAT	321	347	402	448	458	473
Depreciation	306	336	370	407	447	462
Working Capital Changes	-73	-19	-91	-82	-61	-63
CAPEX	-420	-440	-460	-480	-480	-496
FCFF	133	224	221	293	364	376
Perpetuity Growth Rate						3.3%
PV of Explicit Period (2021 - 2025E)						991
Perpetuity Value						10,864
PV of Perpetuity Value						7,348
Enterprise Value						8,339
Net Debt						2,940
Minority Interest						1,325
Market Value						4,075
<i>Outstanding Shares</i>						497
Target Price						P\$ 8.20
Current Market Price						P\$ 5.69
Potential Return Incl. Dividends						44.1%
Forward EV/EBITDA						11.3x
Forward P/E						38.8x
Average Cost of Debt						5.5%
LT Tax Rate						30.0%
After-Tax Cost of Debt						3.9%
Cost of Equity						8.2%
Market Risk Premium						6.0%
Risk-Free Rate						7.1%
Beta						0.19
% Total Debt						33.7%
% Capital						66.3%
WACC						6.7%

Source: Miranda Global Research

# HOTEL: 4Q19 Results

## Global Valuation Table - Hotels

Company	Country	Price (USD) 21-Feb-20	Mkt. Cap. (USD Mn)	EV/EBITDA			P/E		P/BV	EBITDA Δ%		Net EBITDA	ROE	EBITDA Margin 3Q19	Div. Yield	
				L12M	2019E	2020E	L12M	2019E		2020E	2019E					2020E
<i>Emerging Markets</i>																
GRUPO HOTELERO SANTA FE SAB	MEXICO	\$ 0.30	148	10.4x	10.3x	9.7x	15.8x	20.7x	26.9x	0.6	(5%)	9%	3.8x	3.8x	28.4	-
HOTELES CITY EXPRESS SAB DE	MEXICO	\$ 0.69	257	12.4x	10.0x	9.3x	38.7x	29.3x	25.9x	0.5	21%	15%	5.7x	1.7x	30.1	-
HUAZHU GROUP LTD-ADR	CHINA	\$ 35.84	10,548	30.6x	19.7x	15.0x	102.0x	37.3x	26.0x	10.8	16%	27%	8.4x	10.8x	31.0	0.9
GENTING BHD	MALAYSIA	\$ 1.32	5,073	5.7x	5.7x	6.3x	9.9x	8.9x	9.1x	0.4	38%	3%	0.1x	6.2x	36.0	2.3
KINGDOM HOLDING CO	SAUDI ARABIA	\$ 1.98	7,349	n.a.	45.0x	31.2x	61.4x	73.1x	30.0x	0.9	n.a.	43%	n.a.	1.5x	(11.7)	6.7
SHANGRI-LA ASIA LTD	HONG KONG	\$ 0.96	3,435	16.5x	15.3x	16.3x	22.1x	23.6x	24.5x	0.5	2%	(5%)	9.5x	2.4x	20.9	2.9
SH JINJIANG INTL HOTELS - B	CHINA	\$ 1.73	3,646	n.a.	11.9x	11.0x	23.1x	23.1x	21.3x	1.8	22%	5%	4.2x	8.4x	16.7	5.0
BTG HOTELS GROUP CO LTD-A	CHINA	\$ 2.54	2,513	n.a.	8.6x	8.3x	22.3x	20.8x	18.2x	2.0	23%	1%	0.7x	9.2x	19.6	0.6
GREENTREE HOSPITALITY GR-ADR	CHINA	\$ 11.91	1,209	12.9x	12.2x	10.0x	19.8x	18.1x	16.3x	4.3	4%	14%	(2.0x)	23.1x	53.6	2.1
<b>Total / Average Emerging Markets</b>			<b>34,179</b>	<b>17.4x</b>	<b>12.3x</b>	<b>11.5x</b>	<b>27.6x</b>	<b>23.5x</b>	<b>19.5x</b>	<b>1.0</b>	<b>33%</b>	<b>8%</b>	<b>3.9x</b>	<b>7.4</b>	<b>25.0</b>	<b>2.3</b>
<i>Developed Markets</i>																
ORIENTAL LAND CO LTD	JAPAN	\$ 120.58	43,825	27.8x	29.1x	24.0x	55.0x	57.7x	47.8x	5.5	(5%)	21%	(1.6x)	10.6x	31.5	0.3
MARRIOTT INTERNATIONAL - CL A	UNITED STATES	\$ 143.24	46,830	24.3x	16.1x	15.5x	35.7x	23.7x	22.5x	55.9	35%	5%	4.7x	82.9x	11.5	1.3
HILTON WORLDWIDE HOLDINGS	UNITED STATES	\$ 109.57	30,400	18.3x	15.8x	14.9x	34.5x	26.3x	24.3x	(64.4)	13%	6%	4.1x	n.a.	22.7	0.5
ACCOR SA	FRANCE	\$ 41.76	11,326	11.5x	13.9x	12.5x	21.8x	24.9x	20.9x	1.4	(17%)	13%	1.3x	7.1x	24.8	2.7
INTERCONTINENTAL HOTELS GROU	BRITAIN	\$ 65.07	11,860	19.4x	14.2x	13.0x	30.8x	20.8x	19.2x	(8.1)	32%	7%	3.5x	n.a.	n.a.	2.0
HYATT HOTELS CORP - CL A	UNITED STATES	\$ 91.76	9,296	14.9x	13.7x	13.1x	12.1x	58.7x	48.5x	2.3	2%	5%	1.6x	20.1x	13.9	0.9
WYNDHAM HOTELS & RESORTS	UNITED STATES	\$ 59.06	5,534	18.0x	12.0x	11.6x	35.5x	17.0x	16.1x	4.6	50%	4%	4.9x	11.9x	20.5	2.2
CHOICE HOTELS INTL INC	UNITED STATES	\$ 107.37	5,984	18.4x	17.4x	16.3x	26.8x	25.2x	23.3x	(254.5)	6%	5%	2.3x	n.a.	33.2	0.8
NH HOTEL GROUP SA	SPAIN	\$ 5.59	2,193	7.3x	7.7x	7.0x	25.2x	19.6x	16.9x	1.6	(26%)	6%	4.0x	5.7x	34.1	2.9
MELIA HOTELS INTERNATIONAL	SPAIN	\$ 7.90	1,817	9.0x	6.1x	6.4x	13.1x	15.6x	15.7x	1.4	30%	(2%)	4.9x	10.1x	23.7	2.5
<b>Total / Average Developed Markets</b>			<b>###</b>	<b>19.1x</b>	<b>16.3x</b>	<b>15.2x</b>	<b>32.1x</b>	<b>28.8x</b>	<b>26.2x</b>	<b>7.5</b>	<b>14%</b>	<b>8%</b>	<b>3.0x</b>	<b>21.2</b>	<b>24.0</b>	<b>1.6</b>

Source: Bloomberg

# HOTEL: 4Q19 Results

## FINANCIAL PROJECTIONS

(Figures in Millions of MXN\$)

INCOME STATEMENT	2019	2020E	2021E	2022E	2023E	2024E	2025E	2019	2020E	2021E	2022E	2023E	2024E	2025E
Revenues	2,238	2,362	2,531	3,009	3,292	3,584	3,843	8%	6%	7%	19%	9%	9%	7%
Cost of Sales	-770	-1,055	-1,068	-1,388	-1,457	-1,530	-1,607	15%	37%	1%	30%	5%	5%	5%
Gross Profit	1,468	1,307	1,463	1,621	1,834	2,054	2,236	5%	-11%	12%	11%	13%	12%	9%
Gross Margin	65.6%	55.3%	57.8%	53.9%	55.7%	57.3%	58.2%							
General Expenses	-549	-576	-657	-732	-820	-918	-1,028	17%	5%	14%	11%	12%	12%	12%
Operating Profit	379	386	416	454	529	594	607	-16%	2%	8%	9%	17%	12%	2%
Operating Margin	16.9%	16.4%	16.5%	15.1%	16.1%	16.6%	15.8%							
Depreciation and Amortization	-237	-273	-306	-336	-370	-407	-447	21%	15%	12%	10%	10%	10%	10%
EBITDA	646	687	754	826	939	1,045	1,098	-5%	6%	10%	9%	14%	11%	5%
EBITDA Margin	28.8%	29.1%	29.8%	27.4%	28.5%	29.1%	28.6%							
Financial Gains	439	-4	-42	-44	-42	-46	-45	-36%	-101%	896%	3%	-3%	10%	-3%
Financial Cost	-548	-167	-178	-185	-193	-205	-219	-34%	-69%	7%	4%	4%	7%	7%
Pre-Tax Profit	272	215	196	225	294	342	343	-13%	-21%	-9%	15%	31%	16%	0%
Income Tax & Profit Sharing	-108	-48	-45	-53	-71	-84	-84	132%	-55%	-7%	17%	34%	19%	0%
Tax & Profit Sharing Rate	39.8%	22.5%	23.0%	23.5%	24.0%	24.5%	24.5%							
Profit Before Minorities	164	166	151	172	223	258	259	-39%	1%	-9%	14%	30%	16%	0%
Minority Interest	15	-30	-46	-62	-78	-94	-110	-1,205%	-296%	53%	35%	26%	21%	17%
Net Profit	179	136	105	110	145	164	149	-33%	-24%	-23%	5%	33%	13%	-10%
Outstanding Shares	497	497	497	497	497	497	497	1%	0%	0%	0%	0%	0%	0%
EPS	P\$ 0.36	P\$ 0.27	P\$ 0.21	P\$ 0.22	P\$ 0.29	P\$ 0.33	P\$ 0.30	-33%	-24%	-23%	5%	33%	13%	-10%
BALANCE SHEET	2019	2020E	2021E	2022E	2023E	2024E	2025E	2019	2020E	2021E	2022E	2023E	2024E	2025E
TOTAL ASSETS	10,253	10,890	11,184	11,564	11,884	12,380	12,809	1%	6%	3%	3%	3%	4%	3%
Current Assets	860	1,291	1,390	1,587	1,696	1,839	1,955	16%	50%	8%	14%	7%	8%	6%
Cash & Temp. Inv.	180	190	200	220	210	220	220	75%	6%	5%	10%	-5%	5%	0%
LT Assets	9,392	9,599	9,794	9,978	10,188	10,541	10,853	-0%	2%	2%	2%	2%	3%	3%
P, P & E	8,690	8,817	8,932	9,035	9,126	9,199	9,231	0%	1%	1%	1%	1%	1%	0%
Other LT Assets	161	241	321	401	521	801	1,081	3%	50%	33%	25%	30%	54%	35%
TOTAL LIABILITIES	4,220	4,722	4,911	5,183	5,357	5,690	5,971	-3%	12%	4%	6%	3%	6%	5%
ST Liabilities	757	758	947	1,219	1,393	1,226	1,507	5%	0%	25%	29%	14%	-12%	23%
LT Liabilities	3,464	3,964	3,964	3,964	3,964	4,464	4,464	-4%	14%	0%	0%	0%	13%	0%
TOTAL DEBT	2,770	3,130	3,303	3,417	3,563	3,845	4,071	-7%	13%	6%	3%	4%	8%	6%
NET DEBT	2,590	2,940	3,103	3,197	3,353	3,625	3,851	-10%	14%	6%	3%	5%	8%	6%
TOTAL CAPITAL	6,032	6,168	6,272	6,382	6,526	6,690	6,838	3%	2%	2%	2%	2%	3%	2%
Stockholder's Equity	4,737	4,843	4,925	5,011	5,125	5,253	5,369	4%	2%	2%	2%	2%	3%	2%
Minority Interest	1,296	1,325	1,347	1,371	1,402	1,437	1,469	0%	2%	2%	2%	2%	3%	2%
CASH FLOW STATEMENT	2019	2020E	2021E	2022E	2023E	2024E	2025E	2019	2020E	2021E	2022E	2023E	2024E	2025E
PRE-TAX PROFIT	164	215	196	225	294	342	343	-39%	31%	-9%	15%	31%	16%	0%
Inv. Related Activities	410	493	526	556	590	627	667	27%	20%	7%	6%	6%	6%	6%
Pre-Tax Cash Flow	574	9	331	364	394	289	314	-3%	-98%	3,497%	10%	8%	-27%	9%
Working Capital Changes	-56	43	-73	-19	-91	-82	-61	-77%	-178%	-270%	-74%	379%	-10%	-25%
Operating Cash Flow	519	53	257	345	303	207	252	49%	-90%	390%	34%	-12%	-32%	22%
Investment Cash Flow	-176	-377	-396	-414	-435	-454	-453	-85%	115%	5%	4%	5%	4%	-0%
Financing Cash Flow	-266	335	149	89	122	257	201	-144%	-226%	-56%	-40%	37%	111%	-22%
Net Incr. (Decr.) in Cash & Temp. Inv.	77	10	10	20	-10	10	0	-142%	-87%	-1%	100%	-150%	-200%	-100%
Beg. of Period Cash and Temp. Inv.	103	180	190	200	220	210	220	-64%	75%	6%	5%	10%	-5%	5%
End of Period Cash and Temp. Inv.	180	190	200	220	210	220	220	75%	6%	5%	10%	-5%	5%	0%

Source: Miranda Global Research Research

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