

HOTEL: WE EXPECT THE COMPANY TO REACH ITS 2019 GUIDANCE

BUY

Target Price 2020E (MXN\$)	\$ 8.20
Current Price (MXN\$)	\$ 6.20
Min / Max (L12M - MXN\$)	4.57 - 8.20
Expected Dividend (MXN\$)	\$ 0.00
Total Return	32.3%
Mkt Cap (Mn of MXN)	3,074
Enterprise Value (Mn of MXN\$)	5,844
Shares Outstanding (Mn)	495.7
Float	65.4%
ADTV (MXN\$ Mn)	\$ 1.21

Opinion and Recommendation

We expect HOTEL to present a slightly weak operating performance in 4Q19 with higher revenues but with lower profitability as a result of the macroeconomic weakness and higher costs and expenses at the "Reflect Krystal Grand" hotels. Quarterly net income will improve in a significant way due to foreign exchange gains.

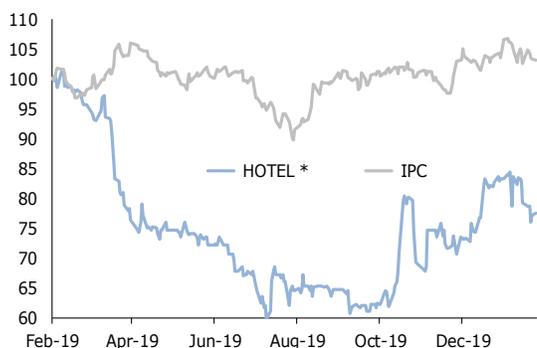
We believe that any short-term adjustment in HOTEL's shares represents a clear long-term investment opportunity since we expect that the company's occupancy, average daily rate and profitability will improve during the current year.

4Q19 Preview

We expect HOTEL revenues to increase 4.1% YoY, reaching MXN\$565 million. In the owned hotels segment, we project that the average occupancy rate will improve to 61.7% in 4Q19, from 57.5% in 4Q18 because the company decided to lower rates to maintain occupations. In fact, the average daily rate will be MXN\$1,350, down 3.7% YoY. This will result in a RevPar (calculated as occupancy rate) of MXN\$833 in 4Q19, slightly higher than the MXN\$806 of the previous year.

Despite the strong sales performance, we believe that profitability will continue to be affected by the costs and expenses of the "Reflect Krystal Grand" hotels, coupled with the lack of rate increases. We project that HOTEL EBITDA will be down 7.3% YoY to MXN\$160 million. The EBITDA margin will be 28.4% in 4Q19, below the 31.9% level of the same period last year.

We expect the company to generate significant foreign exchange gains in the current quarter as a result of the FX appreciation. This will result in a net profit of MXN\$56 million in 4Q19, higher than last year's MXN\$44 million.



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