

HOTEL: 2Q20 RESULTS

Results Affected by the Pandemic; Significant Cost and Expense Reduction

Under Review

Target Price 2020E (MXN\$)	UR
Current Price (MXN\$)	\$ 4.00
Min / Max (L12M - MXN\$)	3.75 - 6.80
Expected Dividend (MXN\$)	\$ 0.00
Total Return	UR
Mkt Cap (Mn of MXN)	1,990
Enterprise Value (Mn of MXN\$)	5,148
Shares Outstanding (Mn)	497.5
Float	65.4%
ADTV (MXN\$ Mn)	\$ 5.11

Opinion and Recommendation:

- HOTEL's operating performance was very affected by the pandemic as the company was unable to open most of its hotels during April, May and part of June. This situation dragged down its revenues and led to a negative EBITDA and a net loss during the quarter. However, HOTEL was able to reduce its operating costs and expenses by 65%, much better than other public chains.
- So far, most of the hotels are open, subject to an occupancy limit of 30%. The only exceptions are the *Hilton Guadalajara* and the *Hyatt Place Aguascalientes*, which are expected to resume operations in the coming weeks. We believe that these openings and the measures that the company has taken will improve its occupancy and profitability in a significant way in the coming quarters.
- HOTEL extended the maturity profile of most of its debt. Leverage reached 8.2x as a result of the negative EBITDA.



Revenues

HOTEL's 2Q20 revenues were down 97.1% YoY to MXN\$15.6 million, mainly due to the fact that most of its properties were closed for most of the quarter. All business segments experienced significant revenue reductions, including rooms (-96.9%), food and beverages (-98.5%), other revenue (-93.3%), and third-party hotel management fees (-94.7%).

Average occupancy at the chain level was 2.3% in 2Q20. However, the adjusted occupancy of hotels that remained open was 19.5%. The company had to reduce its average rates by 20.2%, which generated a 96.4% contraction in the RevPar to MXN\$24. It is worth mentioning that HOTEL has already opened most of its hotels, but with capacity limitations.

Portfolio

The company closed 2Q20 with 24 hotels in operation, of which 13 are owned and 11 are owned by third-parties. During the last twelve months, rooms in operation increased 3.0% to 6,237, which included 2,767 urban rooms and 3,470 on the beach. 179 net rooms were added, of which 321 came from the signing of the operation contract for the *AC by Marriot Santa Fe*

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hotel, the operation of the *Courtyard by Marriot Puebla* hotel and the expansion of the *Reflect Krystal Grand Punta Cancún* hotel. On the other hand, 142 were discounted due to the removal of the *Double Tree by Hilton Toluca* hotel from the portfolio.

Likewise, there are 750 rooms under construction at the *Hyatt Regency Insurgentes Mexico City, AC by Marriott Distrito Armida*, *Curio Collection Zacatecas* and *Breathless Tulum Resort & Spa* with 300 rooms.

Profitability

HOTEL implemented successful cost and expense containment measures, which resulted in a significant 65.8% reduction in total costs and expenses, much better than the other public chains. Despite this, EBITDA was negative by MXN\$86.7 million. We believe that the hotel openings and the measures the company has taken will improve its occupancy and profitability in a significant way in the coming quarters.

The company presented a MXN\$43.4 million net loss in the current quarter derived from the significant sales reduction.

Financial Structure

HOTEL announced that it renegotiated the terms of its loans with the majority of its banks during the period. Its short-term debt was MXN\$170 million at the end of the quarter, which begins to come due in November. On the other hand, the company recorded cash and temporary investments of MXN\$146.4 million. We believe that liquidity will also gradually improve with the hotel openings.

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(Figures in Millions of MXN\$)

INCOME STATEMENT	2Q20	2Q19	Change	Acum 2020	Acum 2019	Change
Revenues	16	542	-97.1%	601	1,165	-48.4%
Operating Profit	-152	65	-334.7%	-66	216	-130.4%
<i>Operating Margin</i>	<i>n.a.</i>	<i>11.9%</i>		<i>n.a.</i>	<i>18.6%</i>	
EBITDA	-87	134	-164.6%	70	345	-79.8%
<i>EBITDA Margin</i>	<i>n.a.</i>	<i>24.8%</i>		<i>11.6%</i>	<i>29.7%</i>	
Financial Gains	106	47	125.8%	706	137	416.3%
Financial Cost	2	-87	-102.2%	-1,291	-193	569.7%
Pre-Tax Profit	-43	25	-271.4%	-649	162	-501.5%
Income Tax & Profit Sharing	0	-6	-100.0%	0	-36	-100.0%
<i>Tax & Profit Sharing Rate</i>	<i>0.0%</i>	<i>22.0%</i>		<i>0.0%</i>	<i>22.0%</i>	
Profit Before Minorities	-43	20	-319.8%	-649	126	-614.8%
Minority Interest	-7	8	-196.3%	199	-8	-2678.7%
Net Profit	-51	27	-285.1%	-450	118	-480.1%
EPS	-P\$ 0.10	P\$ 0.06	-284.2%	-P\$ 0.90	P\$ 0.24	-478.0%
BALANCE SHEET	2Q20	2Q19	Change	Acum 2020	Acum 2019	Change
TOTAL ASSETS	10,081	10,302	-2.1%	10,081	10,302	-2.1%
Current Assets	780	795	-2.0%	780	795	-2.0%
Cash & Temp. Inv.	146	104	40.3%	146	104	40.3%
LT Assets	9,302	9,506	-2.2%	9,302	9,506	-2.2%
TOTAL LIABILITIES	4,719	4,315	9.4%	4,719	4,315	9.4%
ST Liabilities	677	746	-9.2%	677	746	-9.2%
LT Liabilities	4,041	3,569	13.2%	4,041	3,569	13.2%
TOTAL CAPITAL	5,362	5,987	-10.4%	5,362	5,987	-10.4%
Stockholder's Equity	4,282	4,672	-8.3%	4,282	4,672	-8.3%
Minority Interest	1,080	1,315	-17.9%	1,080	1,315	-17.9%
TOTAL DEBT	3,304	2,934	12.6%	3,304	2,934	12.6%
NET DEBT	3,158	2,829	11.6%	3,158	2,829	11.6%
CASH FLOW STATEMENT	2Q20	2Q19	Change	Acum 2020	Acum 2019	Change
PRE-TAX PROFIT	-43	20	-319.8%	-649	126	-614.8%
Pre-Tax Cash Flow	-97	107	-190.7%	89	290	-69.5%
Working Capital Changes	16	38	-57.9%	3	-34	-107.6%
Operating Cash Flow	-81	145	-155.9%	91	256	-64.3%
Investment Cash Flow	-4	-41	-91.0%	-14	-146	-90.7%
Financing Cash Flow	-18	-144	-87.7%	-133	-108	22.5%
Net Incr. (Decr.) in Cash & Temp. Inv.	-112	-39	187.6%	-33	2	-2325.6%
FX Gain (Loss) In Cash and Temp. Inv.	-10	0	N.A.	22	0	N.A.
Beg. of Period Cash and Temp. Inv.	259	143	80.5%	259	143	80.5%
End of Period Cash and Temp. Inv.	146	104	40.3%	146	104	40.3%

Source: BMV

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