

FIBRA INN: 3Q21 Results

Significant Operating Improvement; Expects an Occupancy Rate Above 49% in October

FINN 13	BUY
Target Price (MXN\$)	\$ 5.00
Current Price (MXN\$)	\$ 3.24
Min / Max (L12M - MXN\$)	2.97 - 5.00
Expected Dividend (MXN\$)	\$ 0.00
Total Return	54.3%
Mkt Cap (Mn of MXN)	1,632
CBFI's Outstanding (Mn)	503.8
Float	86.5%
ADTV (MXN\$ Mn)	\$ 0.55



Opinion and Recommendation

FIBRA INN reported positive operating results in 3Q21, in line with expectations. Revenues rose significantly due to a higher occupancy and average daily rates. The EBITDA, the Hotel NOI and the total NOI were positive and improved both annually and sequentially due to the higher revenues, operating efficiencies generated with the sale of the hotel operator, and a strict control of costs and expenses. However, the FFO remained in negative territory; although it improved significantly compared to the previous year, it was slightly lower than in 2Q21. The cash position closed at MXN\$237 million, also in line with our expectations, which means that the Fibra will be able to meet the MXN\$161 million maturity in February next year.

FIBRA INN expects an occupancy rate of more than 49% in October, with which it will be operating at the financial break-even. Following these results, we are reiterating our BUY recommendation and adjusting our target price to MXN\$5.00/CBFI, from MXN\$6.50/CBFI.

Portfolio

FIBRA INN closed the period with 38 hotels, of which 5 remained closed. During the quarter, it sold the Holiday Inn Guadalajara Autónoma hotel. Rooms in operation increased 13.8% to 5,444 in 3Q21, as last year the Fibra had only 29 hotels in operation.

Revenues

Total revenues grew 136.4% YoY (we expected + 135.6%) to MXN\$324.9 million. As the Fibra had previously announced, hotel revenues were up 145.5% YoY to MXN\$315.3 million thanks to higher occupancy and average daily rates.

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Occupancy improved to 44.4% in 3Q21, from 21.3% in 3Q20. FIBRA INN's average daily rate advanced 6.2% to MXN\$1,357.9 thanks to the Fibra's strategy of focusing on luxury real estate assets and the closure of limited-service hotels in the Bajío regio. The RevPar was up 121.3% to MXN\$602.8.

FIBRA INN expects an average occupancy above 49% in October, with which it estimates that it will reach the financial break-even point. It is worth mentioning that the occupancy rate of the Westin Monterrey Valle was 27.2% and that of the JW Marriott, which opened last May, was 27.0% as of October 24th. These hotels have higher average daily rates than the rest of the properties.

Profitability

As a result of the acquisition of the hotel operator by Aimbridge Hospitality, FIBRA INN generated operating efficiencies that helped it to reduced the expenses to revenues ratio to 77.0% in 3Q21, compared to 79.6% in 2Q21 and 93.5% in 1Q21. Operating expenses advanced 55.3% YoY to MXN\$250.1 million.

The Hotel NOI improved to MXN\$74.8 million, from a negative Hotel NOI of MXN\$23.6 million in 3Q20, supported by a higher sales evel and the aforementioned operating efficiencies. Hotel NOI margin expanded to 23.0% in 3Q21, from a negative 17.2% margin of the previous year.

Total NOI was MXN\$73.8 million in the quarter (against our MXN\$73.3 million estimate), compared to the negative Total NOI of MXN\$21.8 million in 3Q20, which was the third consecutive quarter with a positive Total NOI. The Total NOI margin was 22.6%, against a negative margin the previous year.

Adjusted EBITDA increased to MXN\$47.6 million in 3Q21, from last' year's negative figure. Therefore, the margin was 14.7% in the quarter, compared to a negative margin the previous year.

However, the FFO was MXN\$54.5 million negative (vs. MXN\$45.0 million E). Although it improved significantly against the negative MXN\$125.1 million FFO in 3Q20, it was slightly below the MXN\$46.2 million in 2Q21 due to higher interest payments.

Financial Structure

LTV rose to 40.8% in 3Q21, but remained below the 50% maximum regulatory threshold. FIBRA INN ended the quarter with a MXN\$237 million cash position, which means that it will be able to meet the MXN\$161 million maturity in February next year. In addition, it registered a recoverable VAT of MXN\$163.2 million.

ESG

On July 27, 2021, FIBRA INN created the Committee for Environmental Affairs, Sustainability and Governance. We consider this to be favorable for FIBRA INN in the long term, both in in terms of operations and in its financing costs.

(Figures in Millions of Pesos)	3Q21	3Q21E	Diff.	3Q20	Change
Total Revenues	325	324	0.3%	137	136.4%
Lodging Revenues	315	315	0.0%	128	145.5%
Property Leasing	10	9	13.1%	9	6.6%
Hotel Costs and Expenses	-250	-249	0.3%	-161	55.3%
Hotel NOI	75	74	0.4%	-24	n.a.
<i>Hotel NOI Margin</i>	<i>23.0%</i>	<i>23.0%</i>		<i>-17.2%</i>	
Total NOI	74	73	0.7%	-24	n.a.
<i>Total NOI Margin</i>	<i>22.7%</i>	<i>22.6%</i>		<i>-17.8%</i>	
EBITDA	46	54	-15.7%	-41	n.a.
<i>EBITDA Margin</i>	<i>14.1%</i>	<i>16.8%</i>		<i>-30.1%</i>	
Acquisition and Organization Expenses / Capex	2	3	-48.2%	0	759.8%
Adjusted EBITDA	48	58	-17.6%	-41	n.a.
<i>Adjusted EBITDA Margin</i>	<i>14.7%</i>	<i>17.8%</i>		<i>-29.9%</i>	
FFO	-54	-45	21.3%	-125	n.a.
<i>FFO Margin</i>	<i>-16.8%</i>	<i>-13.9%</i>		<i>-91.0%</i>	
AFFO	-66	-57	16.1%	-130	n.a.
<i>AFFO Margin</i>	<i>-20.3%</i>	<i>-17.5%</i>		<i>-94.5%</i>	
FFO per CBFI	-\$ 0.11	-\$ 0.09	21.3%	-\$ 0.25	n.a.
AFFO Per CBFI	-\$ 0.13	-\$ 0.11	16.1%	-\$ 0.26	n.a.

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