

UPSITE: 1Q22 Results

Begins construction of two new buildings in Ciudad Juárez; results show the temporary impact of the contract cancelation in Tlaxcala

FIBRAUP 18	BUY
Target Price (MXN\$)	\$ 55.00
Current Price (MXN\$)	\$ 32.00
Min / Max (L12M - MXN\$)	32.00 -38.50
Total Return	71.9%
Mkt Cap (Mn of MXN)	1,800
CBFI's Outstanding (Mn)	56.3
Float	62.0%
NAV / CBFI (P\$)	\$ 54.20
Discount vs. NAV	41%

Opinion and recommendation

UPSITE announced it has started the construction of two new buildings in Ciudad Juárez, which will be completed in 4Q22. In addition, it expects to finish the other building that is under construction in that city during 3Q22. These three properties will increase the gross leasable area by 57,082 M2, which will represent 50% of the current portfolio.

Occupancy of existing properties was 76.2% in the quarter due to the temporary impact related to the cancellation of the Tlaxcala industrial property contract in January this year. However, the Fibra is in the process of obtaining the surety bond and could rent this property again. We expect to see an improvement in UPSITE's results in the coming quarters due to the completion of the new properties and the possible entry of a new client in Tlaxcala.

UPSITE recorded a NAV/CBFI of MXN\$54.20. Based on this indicator, it certifies continue to trade at a significant 41% discount, which we find very attractive. We reiterate BUY with a MXN\$55.0/CFBI target price.

Portfolio

UPSITE started the construction of two new buildings in its Ciudad Juárez land reserve, which will have a combined gross leasable area of 36,738 M2 and will be completed in 4Q22. In addition, it is finishing the construction of another building in Ciudad Juárez with a gross leasable area of 20,344 M2, which will be delivered in 3Q22. It expects to rent them at a price of around US\$5.60/M2 per month, above market levels, we believe as a result of a high demand in this city. In fact, the Fibra mentioned that occupancy in the Tijuana and Ciudad Juárez markets reached 98% due to the significant growth of Mexican exports to the US.



Regina González

+5255-1391-1380

luis.hernandez@miranda-gr.com

Martin Lara

+5255-6413-8563

martin.lara@miranda-gr.com

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On the other hand, UPSITE is still in the process of collecting the surety bond for the industrial property in Tlaxcala, after having terminated the contract in January of this year. It expects to have an answer from the bonding company in 45 days. It is exploring other potential clients.

1Q22 Results

Leasing revenues grew 27.5% YoY to MXN\$19.8 million (vs. MXN\$20.5 million E) in 1Q22 due to the completion of properties. However, they fell 15.9% sequentially due to the cancellation of the Tlaxcala contract.

Operating costs rose 150.6% due to the opening of more properties. This resulted in a 14.1% NOI growth to MXN\$16.0 million (vs. MXN\$17.5 million E). Administrative expenses were up 28.2% due to the annual inflation adjustment, with which EBITDA fell to MXN\$296,744, from MXN\$1.8 million, or 83.2%. We believe that this reduction will be temporary due to the constructions that UPSITE is currently carrying out and the possibility of renting the Tlaxcala property to a new client.

The comprehensive financing result was a MXN\$5.8 million loss, from a MXN\$5.2 million gain. The difference was an FX loss that the Fibra recorded in the current quarter, as well as higher interests paid. UPSITE adjusted down the value of its properties by MXN\$43.1 million, resulting in a MXN\$48.6 million net loss, from a MXN\$123.8 million net profit.

FFO was MXN\$5.5 million negative, compared to a positive MXN\$7.1 million figure in the same period of the previous year. This occurred as a result of lower leasing revenues and higher interests paid.

Financial structure

UPSITE made the third drawdown of its credit line with Bancomext amounting to US\$17.45 million with a 7-year term. It will only pay interests during the first two years and then it will pay principal and interests for 25 years. As a result, total debt amounted to MXN\$843.3 million, which translated into a 21.5% LTV, below the 40% internal limit. On the other hand, cash rose to MXN\$854.7 million, from MXN\$683.0 million, thanks to the disposal that the Fibra made in the quarter.

The Fibra mentioned in its conference call that it has used US\$42.0 million of its credit line with Bancomext and that such line was expanded by an additional US\$50 million. This means that it has US\$58 million available, which is enough to carry out the construction of the new buildings in Ciudad Juárez.

UPSITE recorded MXN\$82.0 million in the clients account, which is the provision for outstanding rents of the Tlaxcala customer.

Property value - NAV / CBF

The value of the properties reached MXN\$2,842 million, up 32.2%. The Fibra adjusted such figure by MXN\$43.1 million in the quarter due to the cancellation of the Tlaxcala industrial property contract.

This translated into a NAV/CBF of MXN\$54.20, with an average annual growth of 10.7% since the IPO. This indicator was marginally below our MXN\$56.36 projection. The Fibra mentioned in its conference call that the adjustment in the properties' value and the client account could be reversed in the future once it rents the Tlaxcala property.

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