

# FIBRA INN: 3Q22 Results

Excellent operating results fueled by higher occupancies and average daily rates; reactivates distributions and authorizes buy backs

FINN 13	BUY
Target Price (MXN\$)	\$ 5.50
Current Price (MXN\$)	\$ 3.65
Min / Max (L12M - MXN\$)	2.98 - 3.85
Expected Dividend (MXN\$)	\$ 0.17
Total Return	55.4%
Mkt Cap (Mn of MXN)	1,838
CBFI's Outstanding (Mn)	503.6
Float	86.5%
ADTV (MXN\$ Mn)	\$ 0.16

## Opinion and recommendation

We consider that FIBRA INN's 3Q22 operating performance was very satisfactory as total revenues and NOI improved 55% and 116%, respectively, as widely anticipated. Also, FFO and AFFO were positive, the Fibra announced that it will reactivate distributions, paying 55% of the FFO of the last quarter, and that it will use its MXN\$250 million buy-back reserve.

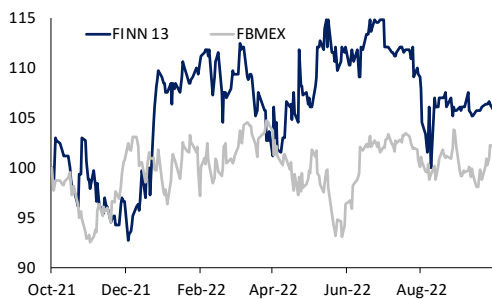
We are reiterating our BUY recommendation and raising our target price to MXN\$5.50/CBFI, from MXN\$5.00/CBFI as a result of these announcements. In our view, FIBRA INN's valuation is low with a 76% discount to NAV and a 10% cap rate.

## Revenues

As previously reported, hotel revenues were up 55% driven by a 60.6% occupancy level in the current quarter, from 44.4% a year earlier, combined with a 14% increase in the average daily rate, which reached MXN\$1,548. The Fibra expects to maintain high occupancy levels during the rest of the year. Leasing revenues were MXN\$18 million. This translated into a 55% rise in total revenues, which reached MXN\$507 million (in line with our projection).

## Profitability

The Fibra benefitted from its association with Aimbridge Hospitality that allows it to carry out global negotiations and implement procedures and technologies in asset management. Total expenses represented 67.5% of revenues, down from 76.7% in 3Q21 and in line with pre-pandemic levels.



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The NOI margin was 32.5%, with an expansion of more than nine percentage points. For this reason, total NOI experienced an impressive 116% growth to MXN\$164 million (vs. MXN\$168 million E). Likewise, FFO was MXN\$39 million and AFFO stood at MXN\$22 million (in line in both cases), compared to negative figures from the previous year.

### Distributions/Buy-backs

On October 24<sup>th</sup>, FIBRA INN'sholders approved a MXN\$22 million distribution, which represents 55% of the 3Q22 FFO. On the other hand, the Technical Committee authorized the use of the buy-back reserve which amounts to MXN\$250 million. We believe this is positive news.

### Financial structure

FIBRA INN ended the quarter with a total debt of MXN\$4,063 million, which was equivalent to an LTV of 34.8%, compared to 40.8% in 3Q21. Worth mentioning that 95% of the total debt is at a fixed rate or is hedged with swaps, so there will be no impact from interest rate increases at the domestic and international levels. The Fibra also has a cash position of MXN\$282 million and recoverable VAT of MXN\$149 million.

(Figures in MXN\$ Mn)	3Q22E	3Q22E	Diff.	3Q21	Change
Total Revenues	507	507	-0.0%	325	55.4%
Hotel Revenues	488	488	0.0%	315	54.6%
Property Leasing	18	18	-0.3%	10	86.8%
Hotel Costs and Expenses	-342	-339	1.0%	-250	36.8%
Total NOI	164	168	-2.1%	76	116.3%
<i>Total NOI Margin</i>	32.5%	33.2%		23.4%	
Adjusted EBITDA	134	122	9.4%	48	181.1%
<i>Adjusted EBITDA Margin</i>	26.4%	24.2%		14.7%	
FFO	39	39	1.2%	-55	n.a.
<i>FFO Margin</i>	7.8%	7.7%		-16.9%	
AFFO	22	21	2.4%	-66	n.a.
<i>AFFO Margin</i>	4.3%	4.2%		-20.2%	

## Discounted Cash Flow Model

MXN\$ Mn	2023E	2024E	2025E	2026E	2027E	Perp.
Total NOI	693	757	828	906	989	1,052
Indirect Expenses	(155)	(169)	(183)	(198)	(214)	(228)
Acquisition and Organization Expenses / Capex	11	11	12	13	14	15
Adjusted EBITDA	548	600	658	721	789	840
Interest Gains	23	25	27	29	31	33
Interest Expenses	(425)	(432)	(436)	(429)	(454)	(483)
FX Gain (Loss)	(11)	(11)	(12)	(12)	(12)	(13)
FFO	135	181	237	309	354	377
Maintenance Capex	(63)	(68)	(74)	(80)	(87)	(92)
AFFO	72	112	163	229	268	285
AFFO before interest payments	474	520	572	629	690	735
Perpetuity Growth Rate						6.4%
PV of Explicit Period (2023 -2027E)						2,137
Perpetuity Value						7,478
PV of Perpetuity Value						4,599
Enterprise Value						6,736
Net Debt						3,965
Market Value						2,771
<i>Outstanding CBFI's</i>						504
Target Price						P\$ 5.50
Current Price						P\$ 3.65
Potential Return incl/ Div.						55.4%
Target Multiples						
Cap Rate						9.0%
Dividend Yield						1.3%
P/ AFFO						74.8x
Average Cost of Debt						9.3%
Cost of Capital						10.7%
Market Risk Premium						6.0%
Risk Free Rate						9.9%
Beta						0.14
% of Debt						36%
% of Capital						64%
WACC						<b>10.2%</b>

<b>INCOME STATEMENT</b>	<b>2021</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>
Lodging Revenues	1,150.5	1,786.7	2,006.7	2,176.7	2,358.8	2,553.6	2,761.9
Property Leasing	33.2	75.6	88.3	95.8	103.8	112.4	121.5
Total Revenues	1,183.7	1,867.1	2,101.0	2,279.7	2,470.9	2,675.9	2,895.1
Hotel Costs and Expenses	- 920.8 -	- 1,263.6 -	- 1,407.8 -	- 1,522.6 -	- 1,642.5 -	- 1,770.2 -	- 1,906.0
Total NOI	259.6	603.5	693.2	757.1	828.4	905.7	989.1
<i>Total NOI Margin</i>	<i>21.9%</i>	<i>32.3%</i>	<i>33.0%</i>	<i>33.2%</i>	<i>33.5%</i>	<i>33.8%</i>	<i>34.2%</i>
Indirect Expenses	- 90.7 -	- 139.7 -	- 155.5 -	- 168.7 -	- 182.9 -	- 198.0 -	- 214.2
EBITDA	169.0	463.8	537.7	588.4	645.6	707.7	774.9
<i>EBITDA Margin</i>	<i>14.3%</i>	<i>24.8%</i>	<i>25.6%</i>	<i>25.8%</i>	<i>26.1%</i>	<i>26.4%</i>	<i>26.8%</i>
Acquisition and Organization Expenses / Capex	11.6	16.8	10.5	11.4	12.4	13.4	14.5
Adjusted EBITDA	180.6	480.7	548.2	599.8	657.9	721.1	789.3
<i>Adjusted EBITDA Margin</i>	<i>15.3%</i>	<i>25.7%</i>	<i>26.1%</i>	<i>26.3%</i>	<i>26.6%</i>	<i>26.9%</i>	<i>27.3%</i>
Operating Profit	112.9	566.8	694.6	782.6	874.2	970.4	1,006.5
<i>Operating Margin</i>	<i>9.5%</i>	<i>30.4%</i>	<i>33.1%</i>	<i>34.3%</i>	<i>35.4%</i>	<i>36.3%</i>	<i>34.8%</i>
Majority Net Profit	- 241.6	190.0	260.2	336.5	419.6	516.6	528.9
FFO	- 201.6	99.8	134.7	180.9	237.2	308.9	354.4
<i>FFO Margin</i>	<i>-17.0%</i>	<i>5.3%</i>	<i>6.4%</i>	<i>7.9%</i>	<i>9.6%</i>	<i>11.5%</i>	<i>12.2%</i>
Maintenance Capex	41.4	65.7	63.0	68.4	74.1	80.3	86.9
AFFO	- 242.9	37.0	71.7	112.5	163.0	228.6	267.6
<i>AFFO Margin</i>	<i>-20.5%</i>	<i>2.0%</i>	<i>3.4%</i>	<i>4.9%</i>	<i>6.6%</i>	<i>8.5%</i>	<i>9.2%</i>
FFO per CBFI	-\$ 0.400	\$ 0.198	\$ 0.268	\$ 0.359	\$ 0.471	\$ 0.613	\$ 0.704
AFFO Per CBFI	-\$ 0.482	\$ 0.074	\$ 0.142	\$ 0.223	\$ 0.324	\$ 0.454	\$ 0.531
Distribution	-	21.6	74.1	99.5	130.4	169.9	194.9
Distribution Per CBFI	\$ -	\$ 0.043	\$ 0.147	\$ 0.198	\$ 0.259	\$ 0.337	\$ 0.387
<b>BALANCE SHEET</b>	<b>2021</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>
TOTAL ASSETS	11,878.4	12,369.7	12,781.0	13,089.1	13,477.0	14,095.9	14,941.3
Current Assets	629.6	670.5	720.7	759.0	800.1	844.1	891.2
Long-Term Assets	11,248.8	11,699.2	12,060.3	12,330.1	12,676.9	13,251.8	14,050.1
Property, Plant and Equipment	10,991.3	11,387.4	11,748.4	12,017.9	12,364.6	12,939.2	13,737.4
TOTAL LIABILITIES	4,520.7	4,709.5	4,839.6	4,784.0	4,718.6	4,779.2	5,053.1
Current Liabilities	464.5	642.9	773.1	717.5	652.0	512.7	786.5
Long-Term Liabilities	4,056.1	4,066.6	4,066.6	4,066.6	4,066.6	4,266.6	4,266.6
Total Debt	4,012.7	4,263.7	4,370.1	4,295.7	4,210.5	4,250.1	4,501.6
Net Debt	3,707.1	3,965.1	4,034.1	3,931.1	3,815.3	3,822.2	4,038.6
Trustee's Capital	7,357.7	7,660.2	7,941.4	8,305.0	8,758.5	9,316.6	9,888.2
Minority Interest	1,202.4	1,285.3	1,332.5	1,393.5	1,469.6	1,563.3	1,659.2
Stockholder's Equity	6,155.4	6,353.3	6,589.9	6,884.5	7,254.0	7,709.2	8,179.6

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