

FNOVA: 3Q22 Results

Significant revenue, EBITDA and FFO growth due to the incorporation of properties and new leasing contracts, in line

FNOVA 17	HOLD
Target Price (MXN\$)	\$ 34.00
Expected Dividend	\$ 2.22
Current Price (MXN\$)	\$ 29.00
Min / Max (L12M - MXN\$)	\$ 21.97 - 34.47
Total Return	24.9%
Mkt Cap (Mn of MXN)	9,737
CBFI's Outstanding (Mn)	335.8
Float	25.3%



Opinion and recommendation

FNOVA reported positive 3Q22 results that were very much in line with our projections at the revenue and EBITDA level, but slightly below at the FFO level. The portfolio continued to expand and the Fibra closed new leases, which led to a high revenue, EBITDA and FFO growth.

On the other hand, FNOVA mentioned in its conference call that as part of the debt management strategy, it will conduct a new capital increase in the coming months and that it will use such proceeds to pay down short-term debt and invest in new industrial properties. As a result, it expects its leverage ratio to decline below 40%, from the current 43.9% level.

After updating our projections model, we continue with a a HOLD recommendation and MXN\$34.0/CBFI target price. We believe that FNOVA's prospects are very encouraging due to the upcoming incorporation of new properties, taking advantage of the "nearshoring" effect. However, we believe that the Fibra is fairly valued at current levels as it trades at a 30% premium against its net asset value.

Portfolio

FNOVA's portfolio included 110 properties with a total GLA of 527,704 M2 and a piece of land of 1,653 hectares for the agribusiness sector, at the end of the quarter. The ABR experienced a 10% annual growth thanks to the addition of 4 properties during the last twelve months. Despite this expansion, occupancy remained at 100%.

Additionally, the Fibra is developing a 24 thousand M2 industrial warehouse for Essilor, which will start operations in 1Q23, and 4 properties in Ciudad Juárez with a GLA of almost 64 thousand M2, which it hopes to rent before they are finished. FNOVA has land reserves of 597 thousand M2, which means that its total reserve is close to 1.2 million M2.

Revenues

FNOVA recorded total revenues of MXN\$263 million (vs. MXN\$262 million E) in 3Q22, of which 97% came from the leasing business, up 63%YoY. This was mainly attributed to the leases of the Lear industrial warehouse, the Visteon engineering center in Chihuahua, the Black & Decker industrial warehouses in Hermosillo, and Tecma in Ciudad Juárez, the Masterbrand building in Reynosa, the second phase of the properties of BWI and Legget & Platt, and the agribusiness portfolio. Worth mentioning that same property revenues rose 7% due to the inflationary effect on leases denominated in pesos, which was partially offset by the appreciation of the exchange rate on leases denominated in US Dollars.

Profitability

The EBITDA margin remained practically unchanged at 90.2% resulting in a 63% EBITDA growth. However, the FFO margin contracted to 78.1%, from 82.1% the previous year, as a result of an increase in interest paid due to higher leverage. FFO advanced 55% to MXN\$205 million (vs. MXN\$215 million E).

Leverage

FNOVA closed the quarter with MXN\$5,290 million in total bank debt, equivalent to a 43.9% LTV, compared to 35.5% the previous year. 22% of bank debt is short-term. However, the Fibra expects to refinance this portion with long-term loans and with the next capital increase. In fact, during the quarter it refinanced a US\$50 million loan with HSBC at a lower interest rate and extending the maturity. On the other hand, the cash reserves amounted to MXN\$69 million, recoverable VAT was MXN\$53 million and the Fibra has available lines of credit of MXN\$3,456 million.

ESG

Last August, FNOVA published its first Sustainability Report for 2021, which is aligned with GRI standards.

(Figures in MXN\$ Mn)	3Q22E	3Q22E	Diff.	3Q21	Change
Total Revenues	263	262	0.3%	162	62.6%
Leasing Revenues	256	256	0.0%	154	65.8%
Operating Expenses	-7	-7	4.6%	-5	44.8%
NOI	256	255	0.2%	157	63.2%
<i>NOI Margin</i>	97.2%	97.3%		96.8%	
EBITDA	237	232	2.1%	146	62.6%
<i>EBITDA Margin</i>	90.2%	88.6%		90.3%	
Net Profit	261	242	7.5%	68	282.2%
Outstanding CBFIs	336	336		336	
FFO	205	215	-4.4%	133	53.9%
FFO Margin	78%	82%	-4.7%	82%	
<i>FFO/CBFI</i>	61.2%	64.0%		39.8%	
Distribution	188	193	-2.8%	155	20.9%
Distribution / FFO	91%	90%		116%	
Distribution/CBFI	\$ 0.56	\$ 0.58		\$ 0.46	

Discounted Cash Flow Model

MXN\$ Mn	2023E	2024E	2025E	2026E	2027E	Perp.
Net profit	1,206	1,284	1,377	1,469	1,563	1,668
Adjustments	(183)	(219)	(205)	(191)	(175)	(187)
FFO	1,023	1,065	1,172	1,278	1,387	1,481
Interest Expenses	112	131	138	140	144	154
FFO Before Interest Expenses	1,135	1,196	1,309	1,418	1,531	1,634
Perpetuity Growth Rate						6.7%
PV of Explicit Period (2023 -2027E)						4,641
Perpetuity Value						27,015
PV of Perpetuity Value						13,523
Enterprise Value						18,165
Net Debt						3,248
Market Value						14,917
<i>Outstanding CBFIs</i>						439
Target Price						P\$ 34.00
Current Price						P\$ 29.02
Potential Return incl/ Div.						24.2%
Target Multiples						
Cap Rate						5.4%
Dividend Yield						5.0%
P/ FFO						18.2x
Average Cost of Debt						4.1%
Cost of Capital						14.8%
Market Risk Premium						6.0%
Risk Free Rate						9.9%
Beta						0.82
% of Debt						24%
% of Capital						76%
WACC						12.2%

Sensitivity Analysis (Cap Rate vs. NOI)

	-10%	-5%	<i>Projected</i>	+5%	+10%
Total NOI	890	937	986	1,035	1,087
Cap Rate					
4.4%	38.40	40.81	43.35	45.88	48.55
4.9%	33.75	35.92	38.20	40.48	42.87
5.4%	29.96	31.93	34.00	36.07	38.24
5.9%	26.81	28.61	30.50	32.40	34.39
6.4%	24.15	25.81	27.56	29.30	31.14

Sensitivity Analysis (Dividend Yield vs. Distributions)

	-10%	-5%	<i>Projected</i>	+5%	+10%
Distribution	667	702	739	776	814
Div. Yield					
4.0%	38.45	40.47	42.60	44.73	46.96
4.5%	34.13	35.92	37.81	39.71	41.69
5.0%	30.68	32.30	34.00	35.70	37.48
5.5%	27.87	29.34	30.88	32.42	34.04
6.0%	25.53	26.87	28.29	29.70	31.18

Sensitivity Analysis (P/FFO vs. FFO)

	-10%	-5%	<i>Projected</i>	+5%	+10%
FFO	739	777	818	859	902
P/FFO					
17.2x	29.00	30.52	32.13	33.74	35.43
17.7x	29.84	31.41	33.06	34.72	36.45
18.2x	30.68	32.30	34.00	35.70	37.48
18.7x	31.52	33.18	34.93	36.68	38.51
19.2x	32.37	34.07	35.86	37.66	39.54

(Figures in Millions of Pesos)

Total GLA (M2)	2021	2022E	2023E	2024E	2025E	2026E	2027E
Industrial	369,219	393,554	480,602	480,602	480,602	480,602	480,602
Education	43,082	43,082	43,082	43,082	43,082	43,082	43,082
Retail	23,431	23,431	23,431	23,431	23,431	23,431	23,431
Logistics	36,346	42,713	42,713	42,713	42,713	42,713	42,713
Engineering Centers	24,924	24,923	24,923	24,923	24,923	24,923	24,923
Total Real Estate	497,001	527,703	614,751	614,751	614,751	614,751	614,751
Agroindustrial	1,653	1,653	1,653	1,653	1,653	1,653	1,653
Total	17,027,001	17,057,703	17,144,751	17,144,751	17,144,751	17,144,751	17,144,751
Occupancy	2021	2022E	2023E	2024E	2025E	2026E	2027E
Industrial	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Education	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Retail	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Logistics	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Engineering Centers	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Agroindustrial	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Total	100.0%						
Monthly revenues per M2	2021	2022E	2023E	2024E	2025E	2026E	2027E
Monthly revenues per M2		4.84	5.90	6.40	6.90	7.40	7.90
INCOME STATEMENT	2021	2022E	2023E	2024E	2025E	2026E	2027E
Total Revenues	691	1,015	1,239	1,349	1,456	1,562	1,669
Leasing Revenues	667	989	1,211	1,317	1,420	1,522	1,625
Other Revenues	23	26	28	32	36	40	44
Operating Expenses	19	29	32	36	36	40	42
NOI	672	986	1,207	1,313	1,420	1,522	1,627
<i>NOI Margin</i>	97%	97%	97%	97%	98%	97%	97%
Net Profit	823	1,206	1,206	1,284	1,377	1,469	1,563
Outstanding CBFI's	336	439	439	439	439	439	439
EBITDA	625	934	1,134	1,235	1,338	1,437	1,538
<i>EBITDA Margin</i>	91%	92%	92%	92%	92%	92%	92%
FFO	558	818	1,023	1,065	1,172	1,278	1,387
<i>FFO Margin</i>	81%	81%	83%	79%	81%	82%	83%
FFO/CBFI	\$ 1.80	\$ 2.29	\$ 2.33	\$ 2.43	\$ 2.67	\$ 2.91	\$ 3.16
Distribution	602	739	972	1,012	1,113	1,214	1,318
<i>Distribution / FFO</i>	87%	73%	78%	75%	76%	78%	79%
Distribution/CBFI	\$ 1.92	\$ 2.06	\$ 2.22	\$ 2.31	\$ 2.54	\$ 2.77	\$ 3.00
BALANCE SHEET	2021	2022E	2023E	2024E	2025E	2026E	2027E
Total Assets	11,909	13,830	15,308	15,943	16,221	16,740	17,093
Short-Term Assets	200	137	141	145	149	153	157
Long-Term Assets	11,709	13,692	15,166	15,798	16,071	16,587	16,936
Investment Properties	10,626	12,804	14,198	14,750	14,943	15,378	15,647
Total Liabilities	4,689	3,356	4,599	4,962	4,975	5,239	5,348
ST Liabilities	984	214	458	820	834	598	706
Long-Term Liabilities	3,705	3,142	4,142	4,142	4,142	4,642	4,642
Gross Debt	4,537	3,318	4,562	4,924	4,938	5,202	5,310
Net Debt	4,398	3,248	4,487	4,846	4,856	5,116	5,220
LTV	38%	24%	30%	31%	30%	31%	31%
Trust's Equity	7,220	10,474	10,709	10,981	11,245	11,501	11,745

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