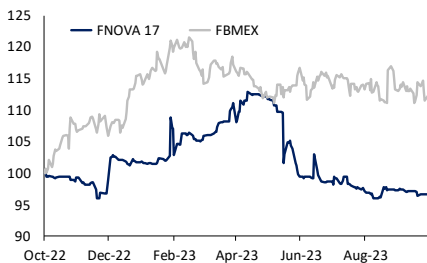


FNOVA: 3Q23 Results

Maintained a high growth in US Dollar terms due to the portfolio expansion and higher rents in the industrial segment, as expected; FFO exceeded our forecasts

FNOVA 17	BUY
Target Price (MXN\$)	\$ 39.00
Expected Dividend	\$ 2.47
Current Price (MXN\$)	\$ 28.25
Min / Max (L12M - MXN\$)	\$ 27.95 - 32.91
Total Return	46.8%
Mkt Cap (Mn of MXN)	12,133
CBFI's Outstanding (Mn)	429.5
Float	25.3%



Opinion and recommendation

FNOVA registered a strong growth in US dollar terms in 3Q23 driven by the expansion of its portfolio and higher rents in the industrial segment. Revenue, NOI and EBITDA were broadly in line with our forecasts, while FFO exceeded our expectations.

We reiterate our BUY recommendation with a MXN\$39.0/CBFI target price. FNOVA offers an attractive growth potential as it is building various industrial warehouses in Ciudad Juárez and is in the process of acquiring a land reserve in the city of Chihuahua, which will increase its exposure to “nearshoring”.

Portfolio

FNOVA's total GLA grew 4.9% YoY to 550,182 M2 due to the addition of two properties during the last twelve months. Occupancy remained at 100%, while the average contract term was 7.0 years. The Fibra does not face contract expirations during the rest of 2023 and only 5,245 M2 in 2024.

The average rent per square foot rose 20% in dollars in the industrial segment, which reflects the high demand for this type of property in the north of the country, and remained stable in the logistics and office segments. It rose 7.6% in the educational segment and 3.6% in the commercial segment in pesos.

FNOVA delivered the Regal and ZF properties and is about to conclude the acquisition of more than 50 hectares of land reserve. The project pipeline includes warehouses B to F in Ciudad Juárez with a GLA of 66,857 M2, which will represent 12% of the current GLA, the expansion of the Visteon project and the urbanization of Park 3 in Chihuahua.

Results

FNOVA recorded total revenues of MXN\$261.4 million (vs. our MXN\$260.1 million projection), practically in line with those of the same period of the previous year in peso terms. This was mainly due to the expansion in the portfolio which was offset by the FX appreciation. Revenues were up 18.7% in US dollars. Same property revenues advanced 3.7% excluding the FX rate effect.

Total NOI decreased marginally to MXN\$253.5 million (vs. MXN\$252.3 million E) due to the FX impact but increased 18.4% in dollars. The NOI margin was 97.0% in 3Q23, from 97.2% in 3Q22. EBITDA recorded a similar performance, reaching MXN\$235.6 million.

However, FFO grew 21.1% to MXN\$248.8 million (vs. MXN\$228.1 million E) in local currency, thanks to a 49.7% reduction in interest paid due to a greater capitalization of the interests of projects under development. The FFO margin expanded to 95.2%, from 78.1%.

FNOVA made a MXN\$217.7 million distribution corresponding to 3Q23 last August 3rd, with an annualized return of 6.83% compared to the price at the beginning of the year.

Financial structure

The value of investment properties rose 8.5% annually due to the incorporation of new properties, in addition to a MXN\$72.1 million property revaluation gain in the period.

Total debt fell 25.2% to MXN\$4.37 billion as FNOVA paid down some debt with the resources of its MXN2.7 billion follow-on. This reduced the LTV to 29.7% at the end of the current quarter, compared to 43.9% in 3Q22, but in line with 29.4% in 2Q23. In addition, the Fibra closed with a MXN\$334.0 million cash position and MXN\$68.1 million in recoverable VAT.

(Figures in MXN\$ Mn)	3Q23	3Q23E	Diff.	3Q22	Change
Total Revenues	261	260	0.5%	263	-0.6%
Leasing Revenues	254	253	0.4%	256	-0.9%
Other Revenues	-8	-8	1.5%	-7	6.2%
NOI	254	252	0.5%	256	-0.8%
<i>NOI Margin</i>	97.0%	97.0%		97.2%	
EBITDA	236	233	1.2%	237	-0.7%
<i>EBITDA Margin</i>	90.1%	89.5%		90.2%	
FFO	249	228	9.1%	205	21.1%
FFO Margin	95.2%	87.7%		78.1%	

Discounted Cash Flow Model

MXN\$ Mn	2024E	2025E	2026E	2027E	2028E	Perp.
Net profit	1,556	1,652	1,787	1,907	2,008	2,106
Adjustments	-342	-370	-434	-482	-510	-535
FFO	1,214	1,282	1,352	1,424	1,498	1,571
Interest Expenses	96	116	137	158	179	187
FFO Before Interest Expenses	1,310	1,398	1,490	1,582	1,677	1,758
Perpetuity Growth Rate						4.8%
PV of Explicit Period (2024 -2028E)						5,525
Perpetuity Value						28,129
PV of Perpetuity Value						15,512
Enterprise Value						21,036
Net Debt						4,288
Market Value						16,749
<i>Outstanding CBFI's</i>						429
Target Price						P\$ 39.00
Current Price						P\$ 28.25
Potential Return incl/ Div.						46.8%
Target Multiples						
Cap Rate						5.0%
Dividend Yield						5.0%
P/ FFO						17.7x
Average Cost of Debt						5.0%
Cost of Capital						12.9%
Market Risk Premium						6.0%
Risk Free Rate						9.9%
Beta						0.50
% of Debt						31%
% of Capital						69%
WACC						10.4%

(Figures in Millions of Pesos)

Total GLA (M2)	2022	2023E	2024E	2025E	2026E	2027E	2028E
Industrial	419,314	445,074	504,892	511,931	511,931	511,931	511,931
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	39,432	39,432	39,432	39,432	39,432	39,432	39,432
Engineering Centers	24,923	24,923	24,923	24,923	24,923	24,923	24,923
Total Real Estate	550,182	575,942	635,760	642,799	642,799	642,799	642,799
Agroindustrial	1,653	1,653	1,653	1,653	1,653	1,653	1,653
Total	17,080,182	17,105,942	17,165,760	17,172,799	17,172,799	17,172,799	17,172,799
Occupancy	2022	2023E	2024E	2025E	2026E	2027E	2028E
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%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Monthly revenues per M2	2022	2023E	2024E	2025E	2026E	2027E	2028E
Monthly revenues per M2	4.79	5.17	6.75	7.09	7.44	7.81	8.20
INCOME STATEMENT	2022	2023E	2024E	2025E	2026E	2027E	2028E
Total Revenues	1,005	1,092	1,420	1,496	1,574	1,654	1,735
Leasing Revenues	980	1,061	1,388	1,460	1,534	1,610	1,691
Other Revenues	26	31	32	36	40	44	44
Operating Expenses	29	32	36	36	40	42	42
NOI	976	1,060	1,384	1,460	1,534	1,612	1,693
<i>NOI Margin</i>	97.1%	97.1%	97.5%	97.6%	97.5%	97.5%	97.6%
Net Profit	1,509	2,305	1,556	1,652	1,787	1,907	2,008
Outstanding CBFIs	336	429	429	429	429	429	429
EBITDA	942	1,009	1,306	1,376	1,456	1,540	1,623
<i>EBITDA Margin</i>	93.6%	92.4%	92.0%	92.0%	92.5%	93.1%	93.5%
FFO	813	944	1,214	1,282	1,352	1,424	1,498
<i>FFO Margin</i>	80.9%	86.4%	85.5%	85.7%	85.9%	86.1%	86.4%
FFO/CBFI	\$ 2.42	\$ 2.33	\$ 2.83	\$ 2.99	\$ 3.15	\$ 3.32	\$ 3.49
Distribution	752	842	1,063	1,122	1,183	1,246	1,311
Distribution/CBFI	\$ 2.24	\$ 2.29	\$ 2.47	\$ 2.61	\$ 2.76	\$ 2.90	\$ 3.05
BALANCE SHEET	2022	2023E	2024E	2025E	2026E	2027E	2028E
Total Assets	13,741	15,073	16,653	18,290	20,007	21,784	23,601
Short-Term Assets	279	390	440	497	554	611	668
Long-Term Assets	13,463	14,683	16,213	17,793	19,453	21,173	22,933
Investment Properties	12,372	12,815	14,265	15,765	17,345	18,985	20,665
Total Liabilities	6,493	4,953	6,038	7,144	8,258	9,374	10,494
ST Liabilities	1,076	817	1,402	1,009	1,122	1,239	1,358
Long-Term Liabilities	5,418	4,136	4,636	6,136	7,136	8,136	9,136
Gross Debt	6,384	4,598	5,683	6,790	7,903	9,020	10,139
Net Debt	6,203	4,288	5,331	6,382	7,439	8,500	9,563
LTV	46%	31%	34%	37%	40%	41%	43%
Trust's Equity	7,248	10,147	10,641	11,171	11,775	12,435	13,133

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