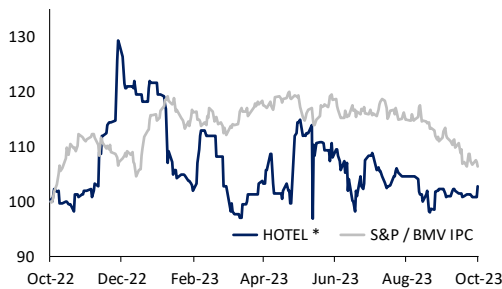


HOTEL: 3Q23 Results

Occupancy and profitability decline, but food & bev revenues accelerate, in line with our expectations

HOTEL*	BUY
Target Price (MXN\$)	\$ 6.40
Current Price (MXN\$)	\$ 4.00
Min / Max (L12M - MXN\$)	3.64 - 5.20
Expected Dividend (MXN\$)	\$ 0.00
Total Return	60.0%
Mkt Cap (Mn of MXN)	2,864
Enterprise Value (Mn of MXN\$)	5,909
Shares Outstanding (Mn)	716.1
Float	72.3%
ADTV (MXN\$ Mn)	\$ 1.87



Opinion and recommendation

HOTEL reported lower occupancy and profitability levels in the quarter due to an unfavorable comparison base, as we broadly anticipated. However, the performance of the food and beverage business was very strong.

We are reiterating our BUY recommendation and reducing our target price to MXN\$6.40/share, from MXN\$7.30/share, after having included this report in our model.

Portfolio

Owned hotels increased to 16 units due to the addition of the *Mahekal Beach Resort*, *Hyatt Regency Mexico City Insurgentes* and *Krystal Grand San Miguel de Allende*. However, total rooms in operation decreased slightly to 5,613 with the sale of the *Barceló Guadalajara*. HOTEL’s exposure to beach destinations rose to 64% of total rooms, from 58% last year. After the close of the quarter, the company opened the *Secrets Tulum Resort & Spa*.

3Q23 Results

Total revenues were up 0.5% to MXN\$655 million (in line with our MXN\$656 million projection), mainly due to a marginal 1.6% drop in hotel revenues and a 36.3% reduction in “other revenues,” which was offset by a significant 11.9% increase in food and beverages, supported by the additional contribution of *Mahekal Beach Resort*. The latter represented 42% of total revenues, up from 38% the previous year.

In owned hotels, occupancy was 60.3%, from 62.6%, due to the slowdown in tourist activity which peaked last year, the appreciation of the Mexican peso, global inflation, and competition from other regions. The average daily rate rose only 3.2%, leaving the RevPar stable at MNX\$926.

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Total costs and expenses advanced 5.2% due to higher revenues and the inflationary impact. Consolidated EBITDA decreased 9.3% to MXN\$156 million (in line), with a 2.6 percentage points margin contraction to 23.6%.

The company recorded a MXN\$55 million net loss in the quarter (vs. our -MXN\$48 million estimate), thus reversing the 3Q22 net profit of MXN\$51 million, as a result of higher interest paid and FX losses.

Financial structure

The net debt to EBITDA ratio was virtually unchanged sequentially at 3.0x in 3Q23, from 2.9x in 2Q23. However, it improved compared to 3.3x in 3Q22. The company faces limited maturities during the remainder of 2023. However, 11.8% of its total debt matures during 2024.

Others

HOTEL's Board of Directors authorized its shareholder Héctor Fabian Gómez Sainz to increase his equity stake to 9.90%.

(Figures in Millions of MXN\$)	3Q23	3Q23E	Diff.	3Q22	Change
Revenues	656	656	-0.1%	652	0.5%
Operating Profit	58	58	-0.3%	99	-41.8%
<i>Operating Margin</i>	8.8%	8.8%		15.2%	
EBITDA	156	157	-0.8%	172	-9.3%
<i>EBITDA Margin</i>	23.7%	23.9%		26.3%	
Financial Gains	-48	-45	7.5%	36	n.a.
Financial Cost	-92	-89	3.6%	-76	21.1%
Net profit	-55	-41	33.3%	51	n.a.

Discounted Cash Flow Model

(Figures in Millions of MXN\$)	2024E	2025E	2026E	2027E	2028E	Perp.
OPERATING PROFIT	504	696	812	941	1,060	1,131
Tax Rate	26%	27%	27%	28%	28%	30%
Tax Shield	-131	-184	-219	-259	-297	-317
NOPLAT	373	512	593	682	764	814
Depreciation	327	345	364	384	405	432
Working Capital Changes	-77	-56	-57	-60	-62	-66
CAPEX	-272	-316	-352	-396	-408	-435
FCFF	351	484	547	610	699	746
Perpetuity Growth Rate						6.7%
PV of Explicit Period (2024 - 2028E)						1,828
Perpetuity Value						11,973
PV of Perpetuity Value						5,786
Enterprise Value						7,614
Net Debt						3,032
Market Value						4,582
Outstanding Shares						716
Target Price						P\$ 6.40
Current Market Price						P\$ 4.00
Potential Return Incl. Dividends						60.0%
Forward EV/EBITDA						10.5x
Forward P/E						42.6x
Average Cost of Debt						10.0%
LT Tax Rate						30.0%
After-Tax Cost of Debt						7.0%
Cost of Equity						16.1%
Market Risk Premium						6.0%
Risk-Free Rate						10.1%
Beta						1.00
% Total Debt						35.1%
% Capital						64.9%
WACC						12.9%

Sensitivity Analysis Table, EV/EBITDA vs. EBITDA

	-10%	-5%	<i>Original</i>	+5%	+10%
Projected EBITDA	797	839	883	927	974
Target EV/EBITDA					
9.0x	3.47	3.99	4.55	5.10	5.69
9.5x	4.02	4.58	5.17	5.75	6.37
10.0x	4.58	5.17	5.78	6.40	7.05
10.5x	5.14	5.75	6.40	7.05	7.73
11.0x	5.69	6.34	7.02	7.69	8.41
11.5x	6.25	6.92	7.63	8.34	9.09

Sensitivity Analysis Table, P/E vs. Net Profit

	-10%	-5%	<i>Original</i>	+5%	+10%
Projected Net Profit	97	102	107	113	118
Target P/E					
39.6x	5.37	5.65	5.95	6.25	6.56
40.6x	5.50	5.79	6.10	6.40	6.72
41.6x	5.64	5.94	6.25	6.56	6.89
42.6x	5.77	6.08	6.40	6.72	7.05
43.6x	5.91	6.22	6.55	6.88	7.22
44.6x	6.05	6.36	6.70	7.03	7.39

(Figures in Millions of Pesos)

INCOME STATEMENT	2022	2023E	2024E	2025E	2026E	2027E	2028E
Revenues	2,652	2,876	2,969	3,597	3,984	4,405	4,792
Cost of Sales	-977	-1,139	-1,395	-1,673	-1,833	-2,004	-2,156
Gross Profit	1,676	1,737	1,573	1,924	2,151	2,401	2,636
<i>Gross Margin</i>	<i>63.2%</i>	<i>60.4%</i>	<i>53.0%</i>	<i>53.5%</i>	<i>54.0%</i>	<i>54.5%</i>	<i>55.0%</i>
General Expenses	-595	-625	-609	-737	-817	-903	-982
Operating Profit	355	780	504	696	812	941	1,060
<i>Operating margin</i>	<i>13.4%</i>	<i>27.1%</i>	<i>17.0%</i>	<i>19.4%</i>	<i>20.4%</i>	<i>21.4%</i>	<i>22.1%</i>
Depreciation and Amortization	-281	-310	-327	-345	-364	-384	-405
EBITDA	749	827	883	1,097	1,236	1,389	1,533
<i>EBITDA Margin</i>	<i>28.2%</i>	<i>28.8%</i>	<i>29.7%</i>	<i>30.5%</i>	<i>31.0%</i>	<i>31.5%</i>	<i>32.0%</i>
Financial Gains	406	366	-85	-87	-88	-89	-91
Financial Cost	-418	-550	-277	-285	-292	-300	-308
Pre-Tax Profit	346	602	145	328	435	555	666
Income Tax & Profit Sharing	-147	-82	-38	-87	-117	-153	-186
Net profit	198	520	107	241	317	402	479
BALANCE SHEET	2022	2023E	2024E	2025E	2026E	2027E	2028E
TOTAL ASSETS	12,644	12,128	12,417	12,625	12,815	13,011	13,196
Current Assets	2,105	1,508	1,841	2,074	2,262	2,464	2,652
LT Assets	10,540	10,620	10,576	10,551	10,552	10,547	10,544
TOTAL LIABILITIES	5,787	5,314	5,594	5,794	5,975	6,162	6,339
ST Liabilities	1,429	1,348	1,537	1,644	1,733	1,827	1,912
LT Liabilities	4,358	3,965	4,058	4,150	4,242	4,335	4,427
TOTAL DEBT	3,707	3,291	3,383	3,475	3,568	3,660	3,752
NET DEBT	3,263	3,032	3,056	3,080	3,129	3,175	3,225
TOTAL CAPITAL	6,857	6,814	6,822	6,831	6,840	6,849	6,858
Stockholder's Equity	5,384	5,178	5,185	5,191	5,198	5,205	5,212
Minority Interest	1,474	1,636	1,638	1,640	1,642	1,644	1,646
BALANCE SHEET	2022	2023E	2024E	2025E	2026E	2027E	2028E
NET PROFIT	198	520	107	241	317	402	479
Inv. Related Activities	284	155	555	572	595	615	637
Pre-Tax Cash Flow	482	428	232	264	282	340	358
Working Capital Changes	-52	-232	-77	-56	-57	-60	-62
Operating Cash Flow	430	196	155	208	225	280	296
Investment Cash Flow	-1,731	604	-285	-329	-365	-409	-421
Financing Cash Flow	1,181	-985	198	191	183	175	168
Net Incr. (Decr.) in Cash & Temp. Inv.	-121	-185	68	69	43	46	43
Beg. of Period Cash and Temp. Inv.	565	444	259	327	396	438	485
End of Period Cash and Temp. Inv.	444	259	327	396	438	485	527

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