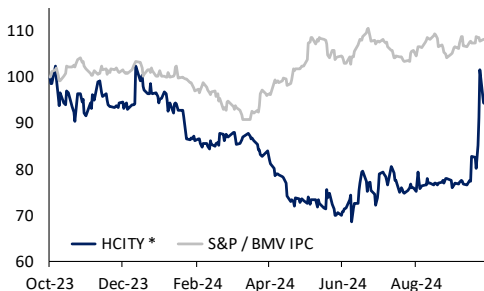


HCITY: 3Q24 Results

Positive quarter fueled by ADR and profitability maximization strategy; we reiterate BUY

HCITY *	BUY
Target Price (MXN\$)	\$ 11.00
Current Price (MXN\$)	\$ 5.45
Min / Max (L12M - MXN\$)	3.96 - 6.11
Expected Dividend (MXN\$)	\$ 0.00
Total Return	101.8%
Mkt Cap (Mn of MXN)	2,247
Enterprise Value (Mn of MXN\$)	5,905
Shares Outstanding (Mn)	412.3
Float	87.0%
ADTV (MXN\$ Mn)	\$ 1.01



Opinion and recommendation

NORTE 19 reported positive quarterly results supported by the ADR maximization strategy which resulted in higher-than-expected revenue growth. However, profitability decreased due to higher costs.

We reiterate our BUY recommendation with a MXN\$11.0/share target price given NORTE 19's excellent prospects, supported by its "asset light" strategy. In addition, we believe that some of its business units (hotel operation, development and Altabix) could benefit from Marriott International's recent announcement to expand the "City Express" brand in the United States, Canada and South America. On the other hand, NORTE 19 expects to sell non-strategic assets to reduce debt and management mentioned in the conference call that the company could start paying dividends in the future.

NORTE 19 shares' valuation is attractive with a 0.3x P/BV, 5.5x projected EV/EBITDA and 7.7x estimated P/E.

3Q24 Results

NORTE 19's total revenues were up 17.6% YoY to MXN\$1.04 billion (vs. MXN\$956 million we expected). At the total portfolio level (152 hotels with 17,533 rooms), the main driver was a 10.6% ADR increase, the highest in recent quarters, given NORTE 19's strategy of maximizing its rates. This indicator reached MXN\$1,332, a historical high level for the company, slightly exceeding our MXN\$1,313 projection. Despite this rate adjustment, occupancy improved 0.8 percentage points to 57.3% in the current quarter (vs. our 54.6% projection). RevPar rose 12.2% to MXN\$763 (vs. MXN\$717 estimated) while hotel revenues rose 16.2%. The company expects to open the City Express Tijuana El Dorado hotel under a co-investment in 4Q24. This property will have 123 rooms.

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The hotel operator's revenues advanced 5.6%. This business unit has a pipeline of 12 hotels for the coming months, taking advantage of the certifications it received to operate third-party brands from IHG, Choice, Wyndham, Hilton, Marriott, Hyatt and Accor.

Hotel development sales fell 44.2%. This unit will begin to develop other brands, categories and segments during the coming months and has 9 projects.

Altabix (IT services) revenues fell 3.0%. However, it is evaluating the gradual development of additional cloud modules under the "Stackup" platform.

NORTE 19's profitability fell as a result of a 28.6% increase in hotel operating costs, resulting from a higher hotel activity level and salary adjustments, which was partially offset by a 19.1% reduction in administrative and sales expenses. In addition, the company recorded non-recurring expenses from hotel openings. Adjusted EBITDA and EBITDA margins experienced a 2.3 PP contraction to 22.5% in both cases. Adjusted EBITDA grew 7.0% YoY to MXN\$235 million (vs. MXN\$249 million E), while EBITDA rose 6.8% to MXN\$234 million (vs. MXN\$248 million E).

Meanwhile, net loss improved 77.1% YoY to MXN\$9 million due to operating growth.

The net debt to EBITDA ratio was 3.5x at the end of 3Q24, up from 2.9x at the end of 3Q23 due to the payment of taxes related to the sale of the "City Express" brands to Marriott International and investments in hotels. NORTE 19 is evaluating the sale of non-strategic assets to reduce its leverage. If this were to occur, the company could start paying dividends. On the other hand, it has 34.9 million shares in treasury. Management mentioned that such shares could represent a source of liquidity, that they could be cancelled or that they could be sold to a strategic investor.

(Figures in Millions of Pesos)	3Q24	3Q24E	Diff.	3Q23	Chg.
Total Revenues	1,042	956	9.1%	886	17.6%
Operating Profit	125	143	-12.8%	115	8.3%
<i>Operating Margin</i>	12.0%	15.0%		13.0%	
EBITDA	234	248	-5.3%	219	6.8%
<i>EBITDA Margin</i>	22.5%	25.9%		24.8%	
Financial Gains	22	8	163.1%	26	-14.6%
Financial Cost	-157	-134	17.5%	-162	-3.0%
Net Profit	-9	14	n.a.	-39	-77.1%

Discounted Cash Flow Model

(Figures in Millions of MXN\$)	2025E	2026E	2027E	2028E	2029E	Perp.
OPERATING PROFIT	794	920	1,084	1,271	1,470	1,524
Tax Rate	20%	20%	20%	20%	20%	30%
Adjusted Taxes	-159	-184	-217	-254	-294	-305
NOPLAT	635	736	867	1,017	1,176	1,220
Depreciation	443	466	490	515	541	561
Working Capital Changes	-24	-24	-24	-25	-25	-26
CAPEX	-385	-413	-443	-475	-509	-774
FCFF	670	766	890	1,032	1,182	980
Perpetuity Growth Rate						3.7%
PV of Explicit Period (2025E - 2029E)						3,141
Perpetuity Value						11,413
PV of Perpetuity Value						5,685
Enterprise Value						8,826
Net Debt						3,660
Minority Interest						1,231
Market Value						3,936
Land Properties						600
Adjusted Market Value						4,536
<i>Outstanding Shares</i>						412
Target Price						P\$ 11.00
Current Market Price						P\$ 5.45
Potential Return Incl. Dividends						101.8%
Target Forward EV/EBITDA						7.4x
Target Forward P/E						15.6x
Average Cost of Debt						14.1%
LT Tax Rate						30.0%
After-Tax Cost of Debt						9.8%
Cost of Equity						14.4%
Market Risk Premium						6.0%
Risk-Free Rate						10.1%
Beta						0.71
% Total Debt						36.0%
% Capital						64.0%
WACC						12.3%

Sensitivity Analysis Table, EV/EBITDA vs. EBITDA

	-10%	-5%	<i>Original</i>	+5%	+10%
Projected EBITDA	1,117	1,175	1,237	1,299	1,364
Target EV/EBITDA					
5.9x	4.78	5.62	6.50	7.38	8.30
6.4x	6.14	7.04	8.00	8.96	9.96
6.9x	7.49	8.47	9.50	10.53	11.61
7.4x	8.84	9.89	11.00	12.11	13.27
7.9x	10.20	11.32	12.50	13.68	14.92
8.4x	11.55	12.74	14.00	15.26	16.57

Sensitivity Analysis Table, P/E vs. Net Profit

	-10%	-5%	<i>Original</i>	+5%	+10%
Projected Net Profit	263	277	291	306	321
Target P/E					
12.6x	8.01	8.44	8.88	9.32	9.79
13.6x	8.65	9.11	9.59	10.07	10.57
14.6x	9.29	9.78	10.29	10.81	11.35
15.6x	9.93	10.45	11.00	11.55	12.13
16.6x	10.57	11.12	11.71	12.29	12.91
17.6x	11.20	11.79	12.41	13.03	13.69

(Figures in Millions of Pesos)

INCOME STATEMENT	2023	2024E	2025E	2026E	2027E	2028E	2029E
Total Revenues	3,544	3,991	4,557	4,994	5,486	6,023	6,610
Cost of Sales	-2,425	-2,966	-3,338	-3,627	-3,952	-4,303	-4,682
Gross Profit	1,119	1,026	1,219	1,366	1,534	1,721	1,928
<i>Gross Margin</i>	<i>31.6%</i>	<i>25.7%</i>	<i>26.8%</i>	<i>27.4%</i>	<i>28.0%</i>	<i>28.6%</i>	<i>29.2%</i>
General Expenses	-496	-432	-423	-444	-448	-447	-456
Operating Profit	619	582	794	920	1,084	1,271	1,470
<i>Operating Margin</i>	<i>17.5%</i>	<i>14.6%</i>	<i>17.4%</i>	<i>18.4%</i>	<i>19.8%</i>	<i>21.1%</i>	<i>22.2%</i>
Depreciation and Amortization	-422	-431	-443	-466	-490	-515	-541
EBITDA	1,041	1,013	1,237	1,386	1,573	1,786	2,011
<i>EBITDA Margin</i>	<i>29.4%</i>	<i>25.4%</i>	<i>27.2%</i>	<i>27.8%</i>	<i>28.7%</i>	<i>29.7%</i>	<i>30.4%</i>
Financial Gains	93	76	154	206	226	248	272
Financial Cost	-761	-589	-584	-574	-596	-652	-740
Pre-Tax Profit	-49	70	364	552	713	867	1,002
Income Tax & Profit Sharing	40	15	-73	-110	-143	-173	-200
Discontinued Operations	1,114	0	0	0	0	0	0
Net Profit	1,105	85	291	442	570	694	801
BALANCE SHEET	2023	2024E	2025E	2026E	2027E	2028E	2029E
TOTAL ASSETS	14,110	13,986	14,321	15,084	16,086	16,924	18,402
Current Assets	1,587	1,694	2,165	2,349	2,553	2,773	3,012
LT Assets	12,523	12,292	12,156	12,735	13,533	14,151	15,390
TOTAL LIABILITIES	5,977	5,653	5,759	6,199	6,764	7,055	7,891
ST Liabilities	1,175	1,059	1,166	1,606	2,170	2,462	3,298
LT Liabilities	4,803	4,593	4,593	4,593	4,593	4,593	4,593
Total Debt	4,253	4,697	4,776	5,197	5,739	6,006	6,817
Net Debt	3,244	3,660	3,318	3,599	3,983	4,079	4,702
TOTAL CAPITAL	8,133	8,333	8,562	8,885	9,322	9,869	10,510
Stockholder's Equity	7,009	7,102	7,297	7,572	7,945	8,411	8,958
Minority Interest	1,124	1,231	1,265	1,312	1,377	1,458	1,552
CASH FLOW STATEMENT	2023	2024E	2025E	2026E	2027E	2028E	2029E
Net Profit	1,105	85	291	442	570	694	801
Inv. Related Activities	-74	951	1,007	1,030	1,054	1,079	1,106
Pre-Tax Cash Flow	1,031	913	1,256	690	639	1,016	610
Working Capital Changes	-162	-356	-24	-24	-24	-25	-25
Operating Cash Flow	869	557	1,232	666	615	991	585
Investment Cash Flow	1,236	-389	-277	-305	-335	-367	-402
Financing Cash Flow	-2,065	-133	-529	-216	-117	-447	10
Net Incr. (Decr.) in Cash & Temp. Inv.	93	29	426	145	163	177	193
Beg. of Period Cash and Temp. Inv.	917	1,010	1,038	1,458	1,598	1,755	1,927
End of Period Cash and Temp. Inv.	1,010	1,038	1,458	1,598	1,755	1,927	2,115

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