July 29th, 2022

FINN: Positive results, driven by higher hotel occupancy in northern Mexico and an increase in rates.

In line with estimates?

Positive report, with results in line with our estimates, due to higher occupancy rates (mainly in the northern part of the country), and a higher average rate of the portfolio as a result of the inclusion of luxury and upper scale hotels.

Operating Profile

The hotel sector has shown a solid recovery during the last few months, derived from the full reopening of the economy and the recovery of business hotel activity, which has improved occupancy levels mainly in the north of the country.

FINN's portfolio ended the quarter with a total of 38 hotels, of which seven are limited-service, 17 select-service, 13 full-service and one extended-stay, as well as one property, totaling 39 properties in its portfolio. The 38 hotels in operation total 6,442 available rooms, while the issuer maintains a minority interest in 2 properties in the process of external development under the "Hotel Factory" model, which will represent an addition of 426 rooms. Likewise, of the total portfolio, 33 hotels remained in operation while 5 remained closed. Of the total number of closed hotels, 4 will be sold, while the remaining property (Holiday Inn Coyoacán) is pending major repairs after the earthquakes that affected Mexico City.

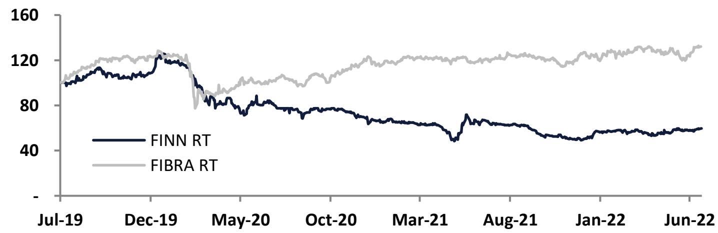
At the close of 2Q22, Occupancy stood at 57.9%, the highest percentage recorded since December 2019, with a recovery of 17.3 pp compared to 2Q21. Likewise, the Rate registered significant advances, derived from i) the recovery in occupancy levels; ii) the inclusion of luxury and upper scale hotels to the portfolio; and, iii) the closure of limited service hotels in the Bajio area. As a result, the rate reached Ps.1,564.1, an increase of 21.4% with respect to the Ps.1,288.3 recorded in 2Q21.

As a result of the increases in Occupancy and Fare, RevPAR benefited, ending at Ps.905.0, 73.0% above the same quarter of the previous year, as well as an increase of 20.2% with respect to the figure shown in 2Q19.

BUY	T.P. JUN23	Ps.6.20
Price (FINN 13)		3.70
Max./min. (2Y)		3.02 / 8.4
Expected return		67.6%
Market value (Mill.)		1,863
Yield per dist. 12m fwd (Ps.)		0.0%
Outstanding shares (Mill.)		504
Float		90.0%
Avg. amount 2 years (Mill.)		<1.0

Source: APL Global and BMV
Prices as of 07/28/2022

FINN RT VS FIBRAS RT
(base 100 last three years)



Quarterly Results			
	2Q22	2Q21	Var.
Lodging revenues	465.4	272.9	70.5%
Rental revenues	20.2	6.9	194.2%
Fibra Revenues	486.8	282.3	72.5%
NOI	162.5	59.6	172.6%
EBITDA	133.9	47.8	180.2%
FFO	36.9	(46.2)	n.c.
Hotels and rooms			
Hotels in operation	38	39	-1
Land Lots	1	1	0
Properties at the of the quarter	39	40	-1
Footprint (States)	13	13	0
Total rooms	6,442	6,641	-199

Ps. millions except calculations per CBFI

Reconsiliation of the FFO and AFFO			
	2Q22	2Q21	Var.
FFO	36.9	(46.2)	n.c.
Maintenance Capex	17.0	9.8	103.0%
Adjusted FFO	19.9	(56.0)	n.c.
FFO per CBFI	0.0733	(0.0917)	n.c.
Adjusted FFO per CBFI	0.0396	(0.1111)	n.c.

Financial Highlights as of 2Q22	
Occupancy	57.9%
ADR	1,564.1
RevPAR	905.0
LTV	34.3%

Source: elaborated by APL Global with BAFAR and BMV data.

Revenues

Due to the low comparable base, Total Revenues for 2Q22 increased 72.4% to Ps.486.8 million. By components, Ps.465.4 million corresponded to Lodging Revenues, Ps.20.2 million to Property Lease Revenues (leasing of meeting rooms, coffee breaks, lounges and restaurants) and Ps.1.2 million from asset management fees from the administration of The Westin and JW Marriott Monterrey hotels.

By segment, the breakdown of revenues was as follows: limited service Ps.34.0 million (+68.3% YoY); select service Ps.222.0 million (+54.1% YoY); full service Ps.218.4 million (+105.3% YoY); and extended stay Ps.11.1 million (+23.3% YoY).

P&L

During the second quarter of the year, Operating Expenses amounted to Ps.324.3 million (+45.6% YoY), representing 66.6% of Revenues, a more efficient level of spending vs. 2Q21 when this item represented 78.9% (compared to 68.6% prior to the health restrictions in 2Q19). This efficiency is due to FINN's expense containment strategy and the synergies achieved with the hotel operator Aimbrigde Hospitality, which contributes to the generation of economies of scale through the global reach of the operator and its use of technology for asset management.

As a result, hotel Net Operating Income (NOI) for 2Q22 totaled Ps. 162.5 million (vs. Ps. 59.60 million in 2Q21), which translated into a hotel NOI margin of 33.4% (vs. 21.1% in 2Q21).

EBITDA totaled Ps.130.8 million, an increase of Ps.85.0 million compared to the Ps.45.8 million recorded during 2Q21, representing an increase of 185.9%. EBITDA margin was 26.9% (vs. 16.2% in 2Q21).

Due to the good performance of the portfolio, 2Q22 FFO was in positive territory (a situation that had not occurred since 1Q20), reaching Ps. 36.9 million, with a margin of 7.6%. AFFO was Ps.19.9 million, with a margin of 4.1% during the quarter.

Balance Sheet

As of the last day of June, the Cash and Cash Equivalents balance stood at Ps.395.3 million, 29.3% higher than the Ps.305.8 million recorded at the end of 2021. The customer portfolio stood at Ps.89.9 million, due to credit card and corporate customer balances. It should be noted that Ps.76.6 million of assets available for sale were recorded, mainly related to the three Bajío hotels and the Coatzacoalcos, Veracruz hotel (vs. Ps.77.1 million in 1Q22).

The Value Added Tax (VAT) credit balance decreased Ps.32.7 million with respect to the previous quarter, ending at Ps.150.2 million, for which reason we are still in the process of obtaining the respective tax refund.

As a result of the improved operating results and the strengthening of the balance sheet before the VAT refund, the loan to value (LTV) was 34.3% as of June 30.

Debt with Cost after amortizable expenses was Ps.4,060.5 million at the end of the quarter, of which Ps.3,174.9 million corresponds to stock market debt (FINN18) and Ps.885.6 million to short- and long-term bank debt. The weighted average gross cost of debt ended at 9.52%. It is important to note that FINN is in compliance with its financial covenants at the end of the quarter.

Our Recommendation

During the quarter, FINN's results have been positive, as a result of the progress in occupancy and the cost containment policy, which has led to a positive FFO generation, a situation that has not been observed since the beginning of the pandemic in 1Q20. In addition, we believe that nearshoring may benefit the portfolio's occupancy, derived from a higher volume of business travelers, mainly in the northern part of the country, a region where there is ample availability of FINN rooms. In this regard, after updating our valuation model and revising our projections, we have maintained our 12-month (Jun 23) Target Price (TP) unchanged at Ps.6.20 per CBFI, with a fundamental BUY recommendation, which translates into a 67.6% return on capital appreciation.

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Assumptions for calculating the WACC	
Risk-free rate (M 10):	8.0%
Risk premium over capital:	2.5%
Beta:	0.83
Beta-adjusted risk premium:	2.0%
Sovereign risk premium:	3.8%
Share capital cost (*ka*):	**13.8%**
Residual Growth:	3.0%

Source: APL Global and various recognized sources

Dividend Discount Model (DDM)	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
AFFO (Ps. millions)	86	220	248	279	313	349	390	434	482	535
CBFIs en circulación (millions)	504	504	520	520	520	535	535	535	545	545
Distribution per CBFI (Ps.)	**0.17**	**0.44**	**0.49**	**0.54**	**0.60**	**0.67**	**0.73**	**0.81**	**0.90**	**0.98**
Present Value FCF Year2-	2.90									
Residual growth:	3.0%									
Residual value:	9.36									
Present Value of the residual:	2.57									
Intrinsic value per CBFI:	**5.47**									

Source: APL Global

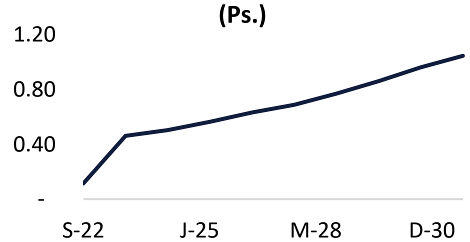
Sensibility of the IV calculated by DDM: Residual vs. *ka*						
		Residual Growth Scenarios				
		2.00%	2.50%	**3.00%**	3.50%	4.00%
	14.8%	4.73	4.82	4.92	5.02	5.14
	14.3%	4.97	5.07	5.18	5.30	5.43
Scenarios for ka levels	**13.8%**	5.23	5.34	**5.47**	5.61	5.76
	13.3%	5.51	5.65	5.79	5.95	6.12
	12.8%	5.83	5.98	6.14	6.32	6.53

Source: APL Global

Valuation Method	Price	Weig.
Dividend Discount Model (DDM)	5.47	70%
Valuation by Net Asset Value (NAV)	7.91	30%
Intrinsic Value (IV) (12 months)	**6.20**	100%
Actual price	3.70	
Return by price	67.6%	
Return by distributions	0.0%	
Total Return	**67.6%**	
Recommendation	**COMPRA**	

Source: APL Global

Distribution projected per CBFI (Ps.)



Determination of the NAV 12 months	
Period	20232
Properties, plant and eq. (net)	11,013
Cash, equivalents and investments	292
Total Debt	4,066
NAV	7,240
Outstanding CBFIs (millions)	504
Target Price by NAV	**14.37**

Source: APL Global

P&L	2020	2021	2022 E	2023 E
Total revenues	**706**	**1,184**	**1,889**	**1,985**
Property expenses	424	498	649	682
Administrative expenses	1,190	152	648	647
Operating Income (Loss)	**(1,213)**	**113**	**278**	**287**
Net finance income (expenses)	(305)	(393)	(381)	(331)
Income taxes	7	-	-	-
Net profit (loss)	**(1,525)**	**(280)**	**(366)**	**(44)**
NOI	(41)	268	642	667
FFO	(388)	(233)	156	278
AFFO	(412)	(271)	93	214
Growths in:				
Total revenues		67.6%	59.6%	5.0%
NOI		n.a.	139.4%	3.9%
FFO		-40.0%	n.a.	78.5%
AFFO		-34.2%	n.a.	130.3%
Margins:				
NOI	-5.9%	22.7%	34.0%	33.6%
FFO	-54.9%	-19.6%	8.2%	14.0%
AFFO	-58.4%	-22.9%	4.9%	10.8%
Figures per CBFI:				
Outstanding CBFIs (millions)	493	504	504	504
NOI per CBFI	(0.08)	0.53	1.27	1.32
FFO per CBFI	(0.79)	(0.46)	0.31	0.55
AFFO per CBFI	(0.84)	(0.54)	0.18	0.42

CBFIs calculated at the end of the year

Cash Flow	2020	2021	2022 E	2023 E
Net profit (loss)	(1,525)	(280)	(366)	(44)
Net finance income (expenses)	(305)	(393)	(381)	(331)
Working capital	(183)	184	(4)	6
NET CASH FLOWS FROM OPERATING ACTIVITIES	**(267)**	**321**	**(130)**	**83**
(-) Purchase of long-term assets	-	-	-	-
(-) Investment in properties, plants and eq.	535	64	(288)	(500)
(+) Interest collected	16	10	14	1
NET CASH FLOWS FROM INVESTING ACTIVITIES	**(166)**	**184**	**302**	**501**
(+) Increase in debt	1,265	204	(4)	(83)
(+) Amounts for issuance of shares	-	-	-	-
(-) Dividends paid	64	-	-	-
CASH FLOWS FROM FINANCING ACTIVITIES	**136**	**(466)**	**(394)**	**(415)**
INCR. (DEC.) CASH AND EQ.	(298)	39	(221)	168
CASH AND EQ. AT THE BEGINNING OF THE PERIOD	564	266	305	83
CASH AND EQ. AT THE END OF THE PERIOD	266	305	83	252

Source: APL Global

Balance Sheet	2020	2021	2022 E	2023 E
Total Assets	**10,474**	**11,915**	**11,689**	**11,818**
Current assets	**899**	**666**	**505**	**566**
Cash and equivalents	266	305	83	252
Financial investments	80	37	40	41
Accounts receivable	128	88	114	127
Other current assets	426	236	267	147
Non-current assets	**9,575**	**11,249**	**11,184**	**11,252**
Properties, plant and eq. (net)	9,419	11,070	10,951	11,013
Other non-current assets	156	179	233	238
Total Liabilities	**4,676**	**4,538**	**4,494**	**4,414**
Current liabilities	**472**	**453**	**473**	**373**
Short-term debt	149	152	182	81
Other current liabilities	324	302	291	292
Non-current liabilities	**4,204**	**4,084**	**4,021**	**4,040**
Long-term debt	4,077	4,012	3,967	3,985
Other non-current liabilities	127	73	54	56
Total debt	4,226	4,163	4,149	4,066
Net debt	3,960	3,859	4,066	3,814
Shareholder's Equity	5,798	7,377	7,195	7,404

Operational indicators and financial ratios	2020	2021	2022 E	2023 E
Liquidity	1.9x	1.5x	1.1x	1.5x
Leverage (TL/TA)	44.6%	38.1%	38.4%	37.3%
Total debt/NOI	-102.0x	15.5x	6.5x	6.1x
Net debt/NOI	-10.2x	-16.6x	26.1x	13.7x
LTV (Total Debt/Inv Prop.)	44.1%	37.0%	37.1%	36.1%
Implicit Cap Rate	-0.4%	2.4%	5.9%	6.1%

Source: APL Global

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