

HOTEL

Quarterly Report

April 27, 2021

Better recovery outlook, albeit gradual

- **HOTEL recorded significant annual declines, but managed to maintain a positive EBITDA, after a complex early year, which led hotel occupancy rates to show no improvement q/q**
- **Inflection point in the changes to positive figures will be in 2Q21, on an easier comparative basis and better demand. Maintaining liquidity will continue to be the main company focus**
- **We set a PT2021 of MXN 5.70, -FV/EBITDA 2022e of 17.7x, below the sector median of 18.3x-. The recovery outlook is interesting, although risks prevail in the sector**

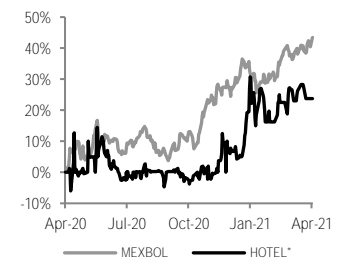
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| | |
|------------------------|-------------|
| BUY | |
| Current Price | \$4.95 |
| PT | \$5.70 |
| Upside Potential | 15.2% |
| Max – Min LTM (\$) | 6.80 – 3.65 |
| Market Cap (US\$m) | 153.25 |
| Shares Outstanding (m) | 616.1 |
| Float | 46.1% |
| Daily Turnover (\$m) | 4.9 |
| Valuation metrics LTM | |
| FV/EBITDA | -63.3x |
| P/U | -24.7x |
| MSCI ESG Rating* | N.A. |

Quarterly numbers affected by a tough 2021 start. HOTEL's 1Q21 results showed significant year-over-year decreases and halted sequential improvement that had been taking place in previous quarters, due to a rebound in the pandemic at the beginning of the year and restrictive measures for travelers from the US and Canada. As a result, revenues fell 54.3% y/y, due to a 26.3pp decline in occupancy at owned hotels (the main contributors to revenues) to 33.2% (-0.3pp y/y), as well as a 10.2% contraction in the average rate to MXN 1,192. Lower revenues and lower operating leverage were partially offset by the company's cost and expense reduction initiatives (-34.2% y/y), which caused EBITDA to fall 97.3% to MXN 4 million, although it managed to remain in positive territory. On the other hand, at a net level, the lower majority loss of MXN 139million (vs. MXN -399 million in 1Q20), was due to the operating setback, partially offset by a less adverse FX effect. Finally, the company's net debt rose 6.5% y/y, but the ND/EBITDA indicator was distorted by the negative LTM EBITDA. With a more dynamic end of the quarter, expectations for demand seem to become a little more favorable; nevertheless, there are still risks in the sector regarding the pace of recovery.

Relative performance to MEXBOL LTM



| Financial Statements | 2019 | 2020 | 2021E | 2022E |
|----------------------|--------|--------|--------|--------|
| Revenues | 2,238 | 1,071 | 1,322 | 1,796 |
| Operating Income | 379 | -227 | -47 | 132 |
| EBITDA | 646 | 47 | 225 | 404 |
| EBITDA Margin | 28.8% | 4.4% | 17.0% | 22.5% |
| Net Income | 179 | -384 | -161 | -139 |
| Net Margin | 8.0% | -35.8% | -12.2% | -7.7% |
| Total Assets | 10,240 | 10,319 | 10,181 | 10,112 |
| Cash | 180 | 539 | 505 | 511 |
| Total Liabilities | 4,208 | 4,282 | 4,305 | 4,374 |
| Debt | 2,782 | 2,889 | 2,973 | 2,973 |
| Common Equity | 6,032 | 6,037 | 5,877 | 5,738 |

Source: Banorte

| Valuation and financial metrics | 2019 | 2020 | 2021E | 2022E |
|---------------------------------|-------|--------|--------|--------|
| FV/EBITDA | 9.8x | 140.2x | 29.9x | 16.6x |
| P/U | 13.6x | -7.9x | -19.0x | -22.0x |
| P/VL | 0.4x | 0.5x | 0.5x | 0.5x |
| ROE | 3.8% | -7.9% | -3.4% | -3.1% |
| ROA | 1.8% | -3.7% | -1.6% | -1.4% |
| EBITDA/Interest | 3.5x | 0.4x | 1.7x | 3.0x |
| Net Debt/EBITDA | 4.0x | 50.0x | 11.0x | 6.1x |
| Debt/Equity | 0.5x | 0.5x | 0.5x | 0.5x |

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HOTEL – Results 1Q21

MXN, million

| Concept | 1Q20 | 1Q21 | Var % | 1Q21e | Diff% vs Estim. |
|------------------|---------|---------|---------|---------|-----------------|
| Revenue | 586 | 268 | -54.3% | 274 | -2.2% |
| Operating Income | 86 | -65 | N.A. | -63 | N.A. |
| Ebitda | 156 | 4 | -97.3% | 4 | -2.5% |
| Net Income | -399 | -139 | N.A. | -118 | N.A. |
| Margins | | | | | |
| Operating Margin | 14.7% | -24.1% | -38.8pp | -23.0% | -1.0pp |
| Ebitda Margin | 26.7% | 1.6% | -25.1pp | 1.6% | 0.0pp |
| Net Margin | -68.2% | -51.9% | 16.2pp | -43.1% | -8.8pp |
| EPS | -\$0.81 | -\$0.23 | N.A. | -\$0.19 | N.A. |

Income Statement (Million pesos)

| Year | 2020 | 2020 | 2021 | Change | Change |
|-------------------------------|---------|--------|---------|----------|----------|
| Quarter | 1 | 4 | 1 | % y/y | % q/q |
| Net Revenue | 585.5 | 288.9 | 267.8 | -54.3% | -7.3% |
| Cost of goods sold | 204.2 | 123.4 | 115.6 | -43.4% | -6.3% |
| Gross profit | 381.3 | 165.6 | 152.2 | -60.1% | -8.0% |
| General expenses | 295.1 | 237.0 | 216.7 | -26.6% | -8.5% |
| Operating Income | 86.2 | (71.4) | (64.5) | N.A. | -9.7% |
| Operating Margin | 14.7% | -24.7% | -24.1% | (38.8pp) | 0.6pp |
| Depreciation | 60.7 | 57.4 | 58.6 | -3.5% | 2.0% |
| EBITDA | 156.4 | 5.9 | 4.3 | -97.3% | -27.5% |
| EBITDA Margin | 26.7% | 2.0% | 1.6% | (25.1pp) | (0.4pp) |
| Interest income (expense) net | (692.4) | 283.5 | (120.2) | -82.6% | N.A. |
| Interest expense | 153.6 | 31.4 | 33.5 | -78.2% | 6.6% |
| Interest income | 116.9 | 3.5 | 4.5 | -96.2% | 27.1% |
| Other income (expenses) | (1.2) | (1.7) | (2.1) | 72.8% | 27.5% |
| Exchange Income (loss) | (654.5) | 313.1 | (89.1) | -86.4% | N.A. |
| Unconsolidated subsidiaries | 0.5 | (0.3) | (0.1) | N.A. | -75.8% |
| Income before taxes | (605.8) | 211.8 | (184.8) | -69.5% | N.A. |
| Income taxes | 0.0 | 6.3 | 0.0 | N.A. | N.A. |
| Discontinued operations | 0.0 | 0.0 | 0.0 | N.A. | N.A. |
| Consolidated Net Income | (605.8) | 205.5 | (184.8) | -69.5% | N.A. |
| Minorities | (206.6) | 93.9 | (45.7) | -77.9% | N.A. |
| Net Income | (399.1) | 111.6 | (139.1) | -65.1% | N.A. |
| Net margin | -68.2% | 38.6% | -51.9% | 16.2pp | (90.6pp) |
| EPS | (0.813) | 0.181 | (0.226) | -72.2% | N.A. |

Balance Sheet (Million pesos)

| | | | | | |
|-----------------------------------|-----------------|-----------------|-----------------|---------------|--------------|
| Total Current Assets | 992.0 | 1,092.8 | 1,050.1 | 5.9% | -3.9% |
| Cash & Short Term Investments | 258.7 | 539.1 | 482.0 | 86.3% | -10.6% |
| Long Term Assets | 9,378.3 | 9,226.2 | 9,134.8 | -2.6% | -1.0% |
| Property, Plant & Equipment (Net) | 8,654.1 | 8,543.5 | 8,471.9 | -2.1% | -0.8% |
| Intangible Assets (Net) | 354.8 | 354.8 | 345.6 | -2.6% | -2.6% |
| Total Assets | 10,370.3 | 10,319.0 | 10,184.9 | -1.8% | -1.3% |
| Current Liabilities | 895.5 | 731.4 | 815.5 | -8.9% | 11.5% |
| Short Term Debt | 308.6 | 227.5 | 279.8 | -9.3% | 23.0% |
| Accounts Payable | 227.0 | 162.8 | 164.9 | -27.3% | 1.3% |
| Long Term Liabilities | 4,066.5 | 3,550.2 | 3,559.7 | -12.5% | 0.3% |
| Long Term Debt | 3,184.1 | 2,661.7 | 2,693.1 | -15.4% | 1.2% |
| Total Liabilities | 4,962.0 | 4,281.6 | 4,375.2 | -11.8% | 2.2% |
| Common Stock | 5,408.2 | 6,037.3 | 5,809.7 | 7.4% | -3.8% |
| Preferred Stock | 1,072.0 | 1,189.1 | 1,115.8 | 4.1% | -6.2% |
| Total Equity | 4,336.2 | 4,848.2 | 4,693.9 | 8.2% | -3.2% |
| Liabilities & Equity | 10,370.3 | 10,319.0 | 10,184.9 | -1.8% | -1.3% |
| Net Debt | 3,063.8 | 2,245.4 | 2,391.0 | -22.0% | 6.5% |

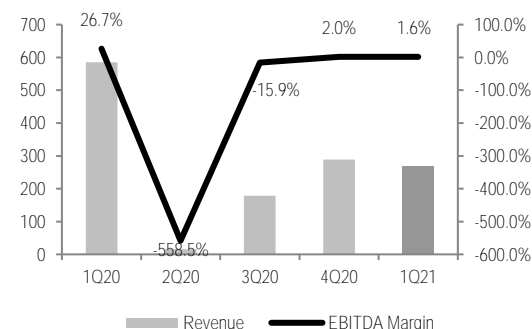
Cash Flow (Million pesos)

| | | | | | |
|-------------------------------------|---------|--------|--------|--|--|
| Cash Flow from Operating Activities | 172.2 | 10.1 | 14.2 | | |
| Cash Flow from Investing Activities | (9.9) | (38.9) | (33.5) | | |
| Cash Flow from Financing Activities | (115.0) | 449.4 | (39.2) | | |
| FX effect on cash | 31.6 | (12.0) | 1.4 | | |
| Change in Cash Balance | 78.8 | 408.5 | (57.1) | | |

Source: Banorte, MSE.

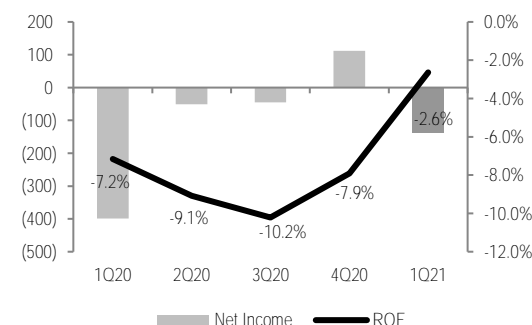
Revenue & EBITDA Margin

MXN, million



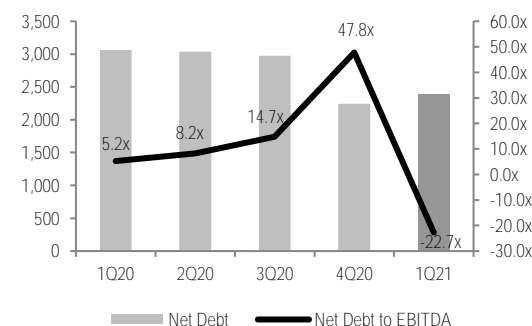
Net Income & ROE

MXN, million



Net Debt & Net debt to EBITDA ratio

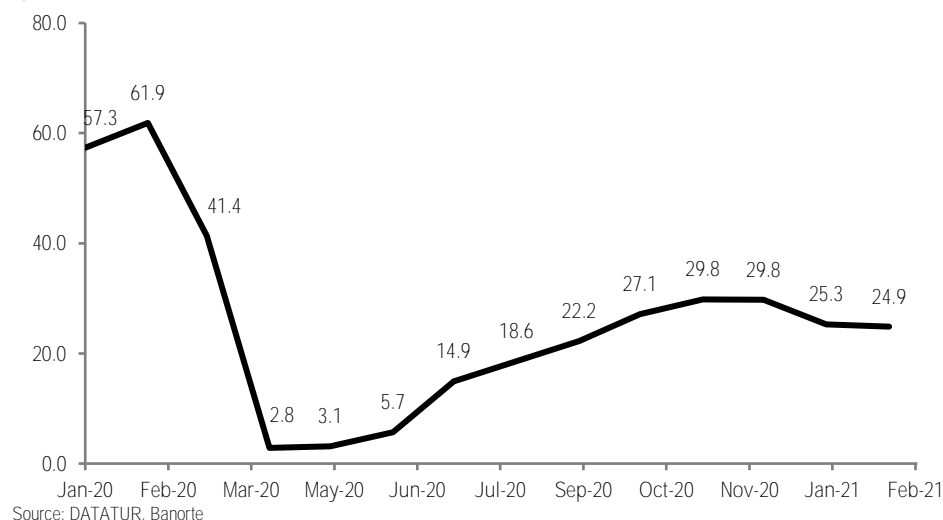
MXN, million



Strong coronavirus impact on the hotel industry. One of the sectors that has been one of the most impacted by COVID-19 -on March 11, 2020 it was classified as a pandemic by the World Health Organization- is the hotel industry, in which demand was significantly reduced with the consequent impact on the results of the participants. This, together with the containment measures, led to the closure of many hotels, which resulted in April and May 2020 registering the lowest levels at the national level (an average of 3%). Particularly, occupancy at HOTEL's own hotels stood at 2.3% in 2Q20. However, it is important to mention that since June of the previous year there has been a recovery, albeit very gradual.

At the beginning of 2021, there was again an increase in coronavirus cases and, consequently, some countries implemented more restrictive measures for air travelers, especially the US, which is our main international tourist supplier, and Canada, which represented a setback to the sequential improvement that was occurring in the hotel industry. However, some participants' comments allude that in March expectations were exceeded, so they foresee a better performance in hotel demand, which they expect will continue to drive the recovery. It is worth mentioning that, according to estimates by the Ministry of Tourism, it is projected that this year hotel occupancy could be between 46.1% and 56.6%, with the mid-point being a level of just over 50%.

Monthly hotel occupancy in Mexico
%



Although growth is on the way back, focus on maintaining liquidity continues. HOTEL implemented some measures to try to minimize the health contingency's impact and preserve liquidity, such as: cost and expense reductions, salary cuts and non-essential CAPEX deferral. Additionally, in order to strengthen its capital structure, it carried out [a capital increase](#) in November 2020, through share subscription for an amount of MXN 500 million. Finally, it is important to mention that the company is focused on resuming growth, which will also benefit from greater operating efficiencies.

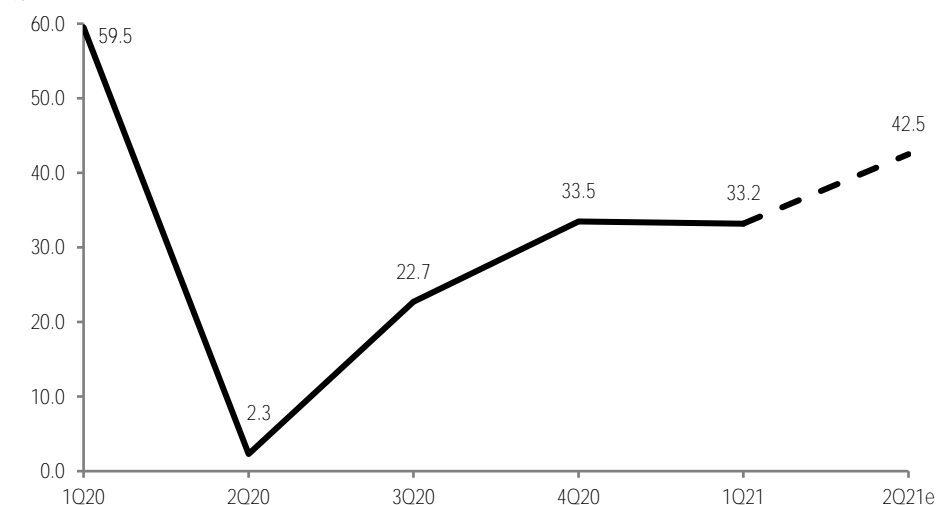
Estimates 2021

We forecast significant advances in results in view of the sector's recovery.

HOTEL's numbers fell sharply in 2020 due to the health contingency; however, it should be noted that it managed to close with a positive EBITDA, albeit small. Thus, given the expected better hotel demand performance and a much simpler comparative base, we expect significant growth for the company in 2021. It is worth mentioning that we must continue to monitor the performance of the sector, which depends to a large extent on the pace of the vaccination process, as well as the restrictions established for air travelers by some countries.

Taking into account the above, we forecast occupancy at the company's own hotels at 45.5%, representing a 16.0pp increase, although still below 1Q20 levels. We point out that beach hotels have shown better progress, which we expect to continue going forward, while in business hotels, the dynamism would be more moderate as it depends more on the pandemic's evolution. It is worth mentioning that our projections point to a return to pre-pandemic occupancy levels (61%) in the company's asset portfolio by 2023.

HOTEL – Hotel occupancy
%



Source: HOTEL, Banorte.

In order to promote higher hotel demand, we estimate that the average room rate will be slightly higher compared to 2020, with the average effective rate increasing by 48.1% to MXN 540. We forecast a strong increase in EBITDA of 377.9% to MXN 225 million, with the respective margin at 17.0% (+12.6pp vs. 2020). This would result mainly from an easier comparative base and higher operating leverage, coupled with strategies to reduce costs and expenses.

On the other hand, we forecast a majority net loss of MXN 161 million (vs. -MXN 384 million in 2020), considering that there would still be an operating loss for the year, partially offset by a lower CFC (-25.2%) due to a smaller adverse FX effect.

Regarding leverage, we estimate that the Net Debt to EBITDA ratio will be 11.0x, still a high level, but much lower than the 47.9x recorded at the end of 2020. It is important to mention that we are not considering any acquisitions during the year.

Valuation and PT 2021E of MXN 5.70

To obtain the theoretical value of HOTEL shares, we used the discounted cash flow (DCF) valuation method. Through this approach, **our PT2021 is MXN 5.70**, which represents a 2022e FV/EBITDA multiple of 17.7x, below the industry median of 18.3x. In our view, the expected solid progress in the company's results will translate into significantly lower multiples, and thus be reflected in more attractive valuation levels.

Considering the above, coupled with our potential return on our PO of 15.2%, **we recommend a Buy**. It is worth mentioning that, in our opinion, the share price could show a more accelerated upside when the signs of recovery in the sector gain strength. On the other hand, we should not disregard the elevated risks that persist surrounding the uncertainty related to such recovery, as it is subject to the vaccination progress.

In our assumptions we consider a discount rate for cash flows (WACC) of 8.6%; average cost of debt of 8.7%; Beta of 0.5; risk-free rate of 6.90% (closing of the 10-year 2021e MBoNo by our Fixed Income area), a market risk premium of 6.5% (vs. 6.0% that we usually use as it is a sector with greater uncertainty in the current context) and a terminal FV/EBITDA multiple of 12.6x (average of the last 3 years prior to the pandemic) for the perpetuity value.

HOTEL - Discounted cash flow model
MXN, million

| | 2022e | 2023e | 2024e | 2025e | 2026e | Perp. |
|-------------------------------|-------|-------|-------|-------|-------|-------|
| (+) EBITDA | 326 | 462 | 562 | 599 | 633 | |
| (-) Change in Working Capital | (53) | (54) | (55) | (56) | (57) | |
| (-) Capex | (101) | (103) | (105) | (107) | (109) | |
| (-) Taxes | 52 | (26) | (32) | (34) | (37) | |
| (=) Free Cash Flow | 225 | 280 | 370 | 403 | 431 | |
| (+) Perpetuity | 0 | 0 | 0 | 0 | 0 | 7,985 |
| (=) Total Cash Flow | 225 | 280 | 370 | 403 | 431 | 7,985 |

| | | | YE21 |
|--------------------------|-------|---------------------------------|---------|
| Risk-Free Rate (RF) | 6.9% | (+) Present Value of Cash Flows | 1,308 |
| Equity Risk premium (RP) | 6.5% | (+) Present Value of Perpetuity | 5,290 |
| Beta | 0.5 | = Firm Value | 6,598 |
| CAPM | 10.2% | | |
| | | (-) Net Debt | (1,893) |
| Debt Cost | 8.7% | (-) Minority In | (1,189) |
| Tax rate | 20.0% | (=) Equity value | 3,516 |
| Net Cost of Debt | 7.0% | Shares Outstanding | 616 |
| Debt / Capitalization | 49.4% | | |
| | | Price Target \$ | 5.7 |
| WACC | 8.6% | Current Price | 5.0 |
| Terminal Value | 12.6x | Potential Return | 15.3% |

Source: Banorte. The numbers take into account the proportional Hotel's stake in some assets.

Relative Valuation

| STOCK | PRICE | Market Cap (US\$MM) | Enterprise Value (US\$MM) | P/BV | P/E | P/E 2021E | P/E 2022E | FV/EBITDA | FV/EBITDA 2021E | FV/EBITDA 2022E |
|------------------------------|--------------------------|------------------------|---------------------------------|------|--------|--------------|--------------|-----------|--------------------|--------------------|
| MARRIOTT INTERNATIONAL -CL A | USD 146.64 | 47,742 | 58,211 | | | 70.6x | 31.3x | 81.0x | 29.1x | 18.4x |
| HILTON WORLDWIDE HOLDINGS IN | USD 125.50 | 34,955 | 43,369 | | | 64.4x | 31.5x | 1032.6x | 29.9x | 19.4x |
| HYATT HOTELS CORP - CL A | USD 82.11 | 8,356 | 10,127 | 2.6x | | | | | 73.3x | 18.7x |
| INTERCONTINENTAL HOTELS GROU | GBP 5,106.00 | 12,945 | 21,438 | | | 66.9x | 29.6x | | 28.7x | 18.5x |
| MELIA HOTELS INTERNATIONAL | EUR 6.77 | 1,792 | 4,884 | 3.1x | | | | | 39.3x | 12.0x |
| NH HOTEL GROUP SA | EUR 3.82 | 1,798 | 5,147 | 2.0x | | | | | 17.9x | 10.9x |
| MANDARIN ORIENTAL INTL LTD | USD 1.85 | 2,337 | 3,024 | 0.7x | | 616.7x | 77.1x | | | |
| ACCOR SA | EUR 33.42 | 10,496 | 8,424 | 2.1x | | | 65.7x | | 110.5x | 18.2x |
| HOTELES CITY EXPRESS SAB DE | MXN 7.29 | 136 | 529 | 0.4x | | | | | 18.0x | 12.7x |
| | <i>Average</i> | 13,395 | 17,239 | 1.8x | | 204.6x | 47.0x | 556.8x | 43.3x | 16.1x |
| | <i>Median</i> | 8,356 | 8,424 | 2.1x | | 68.8x | 31.5x | 556.8x | 29.5x | 18.3x |
| HOTEL | MXN 4.95 | 153 | 337 | 0.5x | -24.7x | -19.0x | -22.0x | -63.3x | 29.9x | 16.6x |
| | Premium (Disc) vs median | | | | | | | | 1.1% | -9.3% |

Source: Banorte, Bloomberg (04/22/21).

Certification of Analysts

We, Gabriel Casillas Olvera, Alejandro Padilla Santana, Delia María Paredes Mier, Juan Carlos Alderete Macal, Manuel Jiménez Zaldívar, Marissa Garza Ostos, Francisco José Flores Serrano, Katia Celina Goya Ostos, Santiago Leal Singer, José Itzamna Espitia Hernández, Valentín III Mendoza Balderas, Víctor Hugo Cortes Castro, Hugo Armando Gómez Solís, Miguel Alejandro Calvo Domínguez, Luis Leopoldo López Salinas, Leslie Thalía Orozco Vélez, Gerardo Daniel Valle Trujillo, Eridani Ruibal Ortega and Juan Barbier Arizmendi, certify that the points of view expressed in this document are a faithful reflection of our personal opinion on the company (s) or firm (s) within this report, along with its affiliates and/or securities issued. Moreover, we also state that we have not received, nor receive, or will receive compensation other than that of Grupo Financiero Banorte S.A.B. of C.V for the provision of our services.

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Guide for investment recommendations.

| | Reference |
|-------------|---|
| BUY | When the share expected performance is greater than the MEXBOL estimated performance. |
| HOLD | When the share expected performance is similar to the MEXBOL estimated performance. |
| SELL | When the share expected performance is lower than the MEXBOL estimated performance. |

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History of PT and Ratings

| Stock | Date | Rating | PT |
|---------|------------|--------------|--------------|
| HOTEL* | 04/22/2021 | Buy | \$5.70 |
| HOTEL* | 04/24/2020 | Under Review | Under Review |
| HOTEL * | 10/24/2019 | Hold | \$5.50 |
| HOTEL * | 07/25/2019 | Buy | \$6.30 |

MSCI ESG Rating scale

| | | | | | | |
|---------|---|---------|-----|--------|----|-----|
| CCC | B | BB | BBB | A | AA | AAA |
| LAGGARD | | AVERAGE | | LEADER | | |

*The MSCI ESG Rating is an indicator that evaluates companies in Environment, Society and Governance (ESG) metrics.

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