

HOTEL

Quarterly Report

August 3, 2020

Hotels closing resulted in operating losses

- **HOTEL reported weak results, although with a lower than expected loss in EBITDA, stemming from the impact of COVID-19 that led to the closing of almost all its hotels in 2Q20**
- **With more than 90% of its hotels open as of today, we expect a gradual recovery, although it will be difficult to normalize the occupancy levels that will also depend on the evolution of the pandemic**

Relevant COVID-19 impact in 2Q20. HOTEL results were weak due to the negative impact from the pandemic, which derived in the closure of most of its hotels during April, May and part of June, severely impacting hotel demand. Thus, revenues registered a relevant 97.1% y/y drop, given a stout 58.4pp decrease to 2.3% in occupancy in self-owned hotels (the main income generator) along with a 20.2% fall in the average rate to \$1,028. Even though costs and expenses initiatives were put on the run, the significant revenues fall led to a \$87 million loss in EBITDA, being lesser than our estimates. In the same line, a \$51 million net loss was posted, better than estimated, given that the operating loss was partially offset by a positive FX effect.

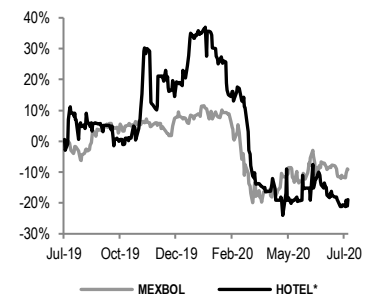
A gradual sector recovery is foreseen. HOTEL is focused in continuing with measures to minimize the impact from the complex environment (costs and expenses reduction, wages cuts and non-essential CAPEX). It seems that the worst is now left behind, but it will be difficult to resume growth. We believe that a gradual recovery in 1H20 that will depend on the pandemic evolution, could help the company to surpass its breakeven point of 25%-35% of occupancy. On the other hand, attention must be kept on the implemented strategies in order to decrease its high leverage level (ND/EBITDA 8.2x). We will be reviewing our estimates, PT and recommendation for the stock.

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Under Review

Current Price	\$4.01
PT2020	
Dividend 2020	
Dividend yield (%)	
Upside Potential	
Max – Min LTM (\$)	6.80 – 3.75
Market Cap (US\$m)	87.5
Shares Outstanding (m)	491.1
Float	46.1%
Daily Turnover (\$m)	4.0
Valuation metrics LTM	
FV/EBITDA	16.9x
P/U	-5.1x

Relative performance to MEXBOL
 LTM

Financial Statements

MXN, million	2018	2019	2020E	2021E
Revenues	2,065	2,238	2,351	2,472
Operating Income	451	393	402	426
EBITDA	676	646	689	727
EBITDA Margin	32.7%	28.8%	29.3%	29.4%
Net Income	266	179	108	234
Net Margin	12.9%	8.0%	4.6%	9.5%
Total Assets	10,175	10,240	10,549	10,869
Cash	103	180	178	183
Total Liabilities	4,331	4,208	4,408	4,495
Debt	2,995	2,782	2,832	2,872
Common Equity	5,844	6,032	6,140	6,374

Source: Banorte

Valuation and financial metrics

	2018	2019	2020E	2021E
FV/EBITDA	8.9x	9.1x	8.6x	8.2x
P/U	7.4x	11.0x	18.1x	8.4x
P/VL	0.3x	0.3x	0.3x	0.3x
ROE	4.6%	3.0%	1.8%	3.7%
ROA	2.6%	1.8%	1.0%	2.2%
EBITDA/Interest	4.9x	3.3x	4.9x	5.1x
Net Debt/EBITDA	4.1x	4.0x	3.9x	3.7x
Debt/Equity	0.5x	0.5x	0.5x	0.5x

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HOTEL – Results 2Q20

MXN, million

Concept	2Q19	2Q20	Var %	2Q20e	Diff% vs Estim.
Revenue	542	16	-97.1%	31	-49.9%
Operating Income	65	-152	N.A.	-235	N.A.
Ebitda	134	-87	N.A.	-166	N.A.
Net Income	27	-51	N.A.	-117	N.A.
Margins					
Operating Margin	11.9%	-978.4%	-990.3pp	-758.7%	-219.7pp
Ebitda Margin	24.8%	-558.5%	-583.3pp	-535.2%	-23.3pp
Net Margin	5.1%	-327.1%	-332.2pp	-378.6%	51.5pp
EPS	\$0.06	-\$0.10	N.A.	-\$0.24	N.A.

Income Statement (Million pesos)

Year	2019	2020	2020	Change	Change
Quarter	2	1	2	% y/y	% q/q
Net Revenue	541.9	585.5	15.5	-97.1%	-97.3%
Cost of goods sold	197.1	204.2	37.6	-80.9%	-81.6%
Gross profit	344.8	381.3	(22.1)	N.A.	N.A.
General expenses	280.0	295.1	129.9	-53.6%	-56.0%
Operating Income	64.8	86.2	(152.0)	N.A.	N.A.
Operating Margin	11.9%	14.7%	-978.4%	(990.3pp)	(993.1pp)
Depreciation	63.1	60.7	58.6	-7.1%	-3.4%
EBITDA	134.2	156.4	(86.7)	N.A.	N.A.
EBITDA Margin	24.8%	26.7%	-558.5%	(583.3pp)	(585.2pp)
Interes income (expense) net	(40.1)	(692.4)	107.6	N.A.	N.A.
Interest expense	51.6	153.6	33.9	-34.3%	-77.9%
Interest income	(3.8)	116.9	2.4	N.A.	-98.0%
Other income (expenses)	(1.5)	(1.2)	(1.2)	-20.3%	-5.4%
Exchange Income (loss)	16.7	(654.5)	140.3	>500%	N.A.
Unconsolidated subsidiaries	0.6	0.5	0.9	49.3%	103.9%
Income before taxes	25.3	(605.8)	(43.4)	N.A.	N.A.
Income taxes	5.6	0.0	0.0	N.A.	N.A.
Discontinued operations	0.0	0.0	0.0		
Consolidated Net Income	19.7	(605.8)	(43.4)	N.A.	N.A.
Minorities	(7.7)	(206.6)	7.4	N.A.	N.A.
Net Income	27.4	(399.1)	(50.8)	N.A.	N.A.
Net margin	5.1%	-68.2%	-327.1%	(332.2pp)	(259.0pp)
EPS	0.056	(0.813)	(0.103)	N.A.	N.A.

Balance Sheet (Million pesos)

Total Current Assets	795.3	992.0	779.6	-2.0%	-21.4%
Cash & Short Term Investments	104.3	258.7	146.4	40.3%	-43.4%
Long Term Assets	9,506.4	9,378.3	9,301.5	-2.2%	-0.8%
Property, Plant & Equipment (Net)	8,729.4	8,654.1	8,598.7	-1.5%	-0.6%
Intangible Assets (Net)	354.8	354.8	354.8	0.0%	0.0%
Total Assets	10,301.8	10,370.3	10,081.1	-2.1%	-2.8%
Current Liabilities	746.4	895.5	677.5	-9.2%	-24.3%
Short Term Debt	264.1	308.6	170.1	-35.6%	-44.9%
Accounts Payable	146.2	227.0	180.2	23.3%	-20.6%
Long Term Liabilities	3,568.9	4,066.5	4,041.3	13.2%	-0.6%
Long Term Debt	2,691.3	3,184.1	3,158.1	17.3%	-0.8%
Total Liabilities	4,315.3	4,962.0	4,718.8	9.4%	-4.9%
Common Stock	5,986.5	5,408.2	5,362.3	-10.4%	-0.8%
Preferred Stock	1,315.0	1,072.0	1,080.2	-17.9%	0.8%
Total Equity	4,671.5	4,336.2	4,282.0	-8.3%	-1.2%
Liabilities & Equity	10,301.8	10,370.3	10,081.1	-2.1%	-2.8%
Net Debt	2,700.3	3,063.8	3,036.6	12.5%	-0.9%

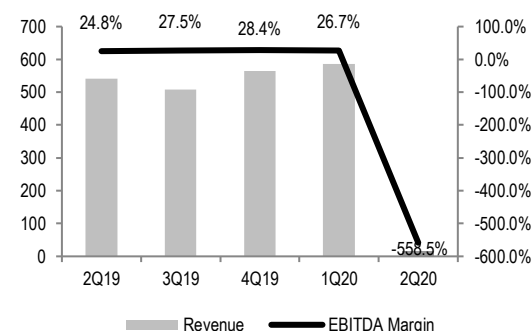
Cash Flow (Million pesos)

Cash Flow from Operating Activities	145.1	172.2	(81.0)
Cash Flow from Investing Activities	(40.6)	(9.9)	(3.7)
Cash Flow from Financing Activities	(143.5)	(115.0)	(17.6)
FX effect on cash	0.0	31.6	(10.0)
Change in Cash Balance	(39.0)	78.8	(112.3)

Source: Banorte, MSE.

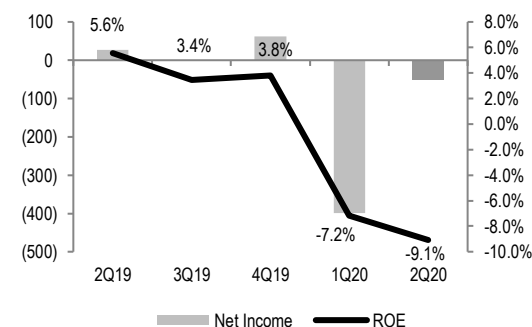
Revenue & EBITDA Margin

MXN, million



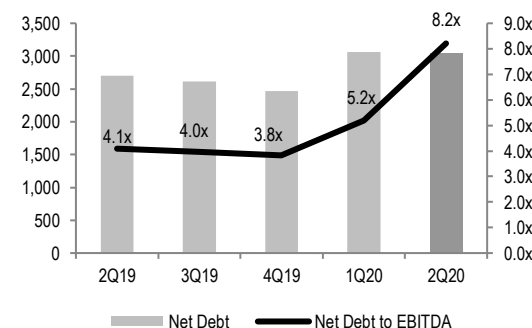
Net Income & ROE

MXN, million



Net Debt & Net debt to EBITDA ratio

MXN, million



Certification of Analysts

We, Gabriel Casillas Olvera, Alejandro Padilla Santana, Delia María Paredes Mier, Juan Carlos Alderete Macal, Manuel Jiménez Zaldívar, Marissa Garza Ostos, Tania Abdul Massih Jacobo, 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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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*	04/24/2020	Under Review	Under Review
HOTEL *	10/24/2019	Hold	\$5.50
HOTEL *	07/25/2019	Buy	\$6.30
HOTEL *	04/25/2019	Buy	\$7.90

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