FIHO

Company Note

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Focuses on portfolio stabilization

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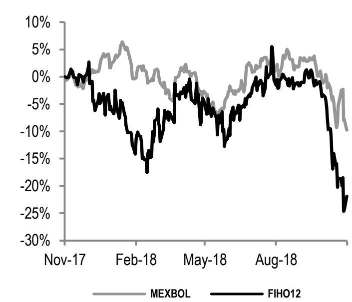
- **Within a context of uncertainty, FIHO stressed that it represents an interesting investment opportunity, given its current valuation level combined with its proven business plan**
- **The REIT is approaching its final stage of properties under development. It highlighted its low-risk profile -most of its portfolio stabilized by 2019- and outlined its sound financial structure**
- **We reiterate our 2019E PT of MXN13.7 per CBFI with a Buy recommendation. We point out that its main risk (inherent to REITSs) is an interest rate hike**

FIHO has characteristics that work in its favor during times of uncertainty. FIHO Day was held last Friday. During such event, the REIT mentioned that despite the current climate of uncertainty, it has different elements that play in its favor to help place it as an interesting investment opportunity. In addition to having a diversified and high-quality asset portfolio, FIHO stressed that it is presently on the final stretch of the properties under development stage. Thus, the FIBRA will now channel its efforts to increase rates and focus on efficiency and cost reduction programs (mainly energy), as it is currently going through a consolidation stage- most of its hotels will be stabilized by 2019. The latter combined with its sound financial structure translates into a low risk profile. FIHO indicated that although there are several investment opportunities, the best thing to do would be to allocate resources to repurchase CBFIs, given the attractive valuation level. On the other hand, we must emphasize the fact that demand uncertainty will linger throughout 2019. We point out that a considerable risk for the REIT is a hike on interest rates.

BUY	
Current Price	$9.55
PT 2019	**$13.70**
Distribution payment 19e (%)	10.5%
Upside Potential	43.5%
Max – Min LTM (MXN$)	12.96 – 8.41
Market Cap (US$m)	387.81
Shares Outstanding (m)	827
Float	84%
Daily Turnover (P$ m)	7.9
Valuation metrics TTM	
P/AFFO	9.0x
EV/EBITDA	9.3x

Relative performance to Mexbol
LTM



Financial Statements

MXN, million	2016	2017	2018E	2019E
Revenues	2,635	3,436	4,055	4,455
Operating Income	359	534	734	863
EBITDA	656	902	1,164	1,336
EBITDA Margin	24.9%	26.2%	28.7%	30.0%
Net Income	214	438	516	648
Net Margin	8.1%	12.7%	12.7%	14.5%
Total Assets	12,430	17,237	17,070	17,258
Cash	449	4,728	836	277
Total Liabilities	3,052	3,676	3,909	4,037
Debt	2,599	3,063	3,232	3,232
Common Equity	9,378	13,561	13,162	13,221

Source: Banorte

Valuation and financial metrics

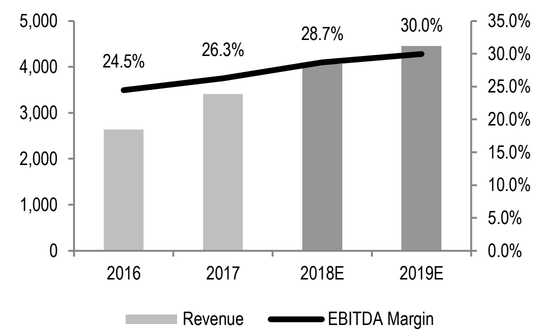
	2016	2017	2018E	2019E
EV/EBITDA	10.3x	7.0x	8.9x	8.2x
P/U	22.3x	18.0x	15.3x	12.2x
P/VL	0.5x	0.6x	0.6x	0.6x
P/FFO	9.3x	9.8x	8.3x	7.1x
P/AFFO	9.7x	11.8x	9.9x	8.6x
Cap Rate (NOI/EV)	11.9%	16.8%	13.4%	14.5%

FIHO –Financial Statements
MXN, million

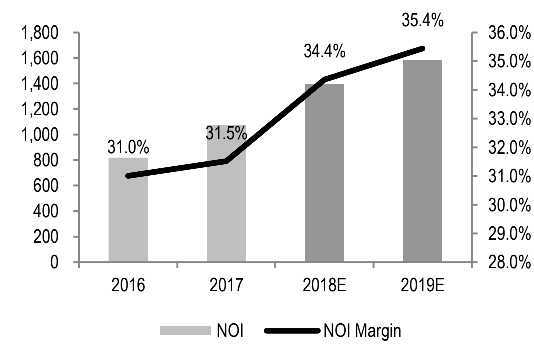
Income Statement					
Year	**2016**	**2017**	**2018E**	**2019E**	**CAGR**
Net Revenue	**2,638**	**3,413**	**4,055**	**4,455**	**19.1%**
Cost of goods sold	1,511	1,945	2,231	2,365	16.1%
Gross profit	1,127	1,468	1,824	2,090	22.9%
General expenses	778	939	1,090	1,227	16.4%
NOI	**818**	**1,075**	**1,393**	**1,579**	**24.5%**
NOI Margin	**31.0%**	**31.5%**	**34.4%**	**35.4%**	**4.6%**
Operating Income	**348**	**528**	**734**	**863**	**35.3%**
Operating Margin	**13.2%**	**15.5%**	**18.1%**	**19.4%**	**13.6%**
Depreciation	297	368	430	473	16.8%
EBITDA	**645**	**896**	**1,164**	**1,336**	**27.4%**
EBITDA Margin	**24.5%**	**26.3%**	**28.7%**	**30.0%**	**7.0%**
Interest income (expense) net	**(41)**	**(66)**	**(181)**	**(179)**	
Interest expense	(40)	(186)	(195)	(195)	
Interest income	(11)	(122)	14	15	-211.1%
Net Income before taxes	**216**	**443**	**519**	**651**	**44.5%**
Provision for Income taxes	2	5	3	3	20.6%
Consolidated Net Income	214	438	516	648	44.7%
Minorities					
Net Income	**214**	**438**	**516**	**648**	**44.7%**
Net Margin	**8.1%**	**12.8%**	**12.7%**	**14.5%**	**21.5%**
FFO	**511**	**806**	**946**	**1,120**	**29.9%**
AFFO	**494**	**669**	**797**	**918**	**23.0%**
Distribution payment	**1.02**	**1.05**	**1.06**	**1.21**	**6.0%**
Balance Sheet (Million pesos)					
Total Current Assets	**937**	**5,079**	**1,311**	**734**	**-7.8%**
Cash & Short Term Investments	449	4,728	836	277	-14.9%
Long Term Assets	11,493	12,158	15,759	16,524	12.9%
Property, Plant & Equipment (Net)	**9,970**	**11,061**	**15,376**	**16,516**	**18.3%**
Total Assets	**12,430**	**17,237**	**17,070**	**17,258**	**11.6%**
Current Liabilities	**453**	**613**	**677**	**805**	**21.1%**
Short Term Debt	98	103	103	103	1.7%
Accounts Payable	319	445	508	629	25.4%
Long Term Liabilities	**2,599**	**3,063**	**3,232**	**3,232**	**7.5%**
Long Term Debt	2,599	3,063	3,232	3,232	7.5%
Total Liabilities	**3,052**	**3,676**	**3,909**	**4,037**	**9.8%**
Common Stock	9,378	13,561	13,162	13,221	12.1%
Preferred Stock					
Total Equity	**9,378**	**13,561**	**13,162**	**13,221**	**12.1%**
Liabilities & Equity	**12,430**	**17,237**	**17,070**	**17,258**	**11.6%**
Net Debt	**2,248**	**(1,562)**	**2,499**	**3,058**	**10.8%**

Source: Banorte, MSE.

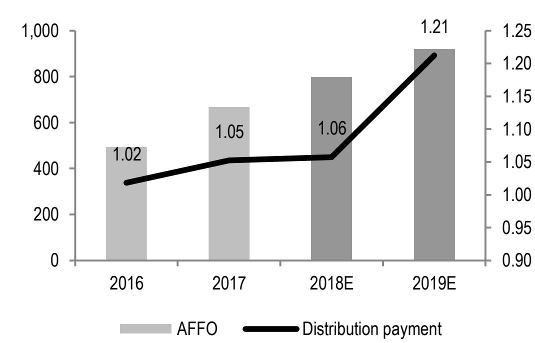
Revenue & EBITDA Margin
MXN, million



NOI & NOI Margin
MXN, million

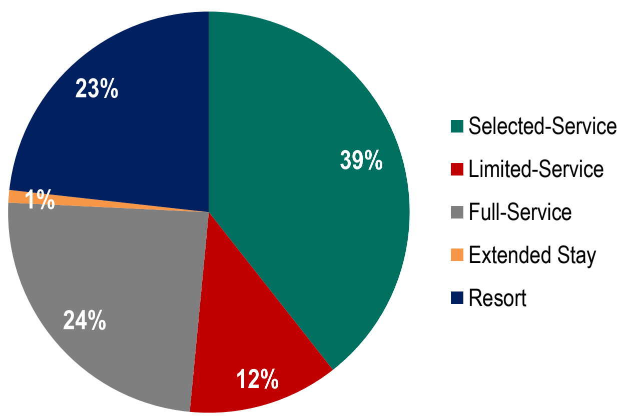


AFFO / Distribution payment
MXN, million



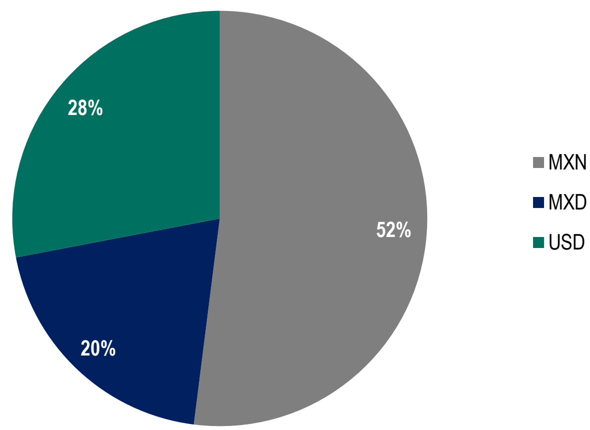
Attractive and diversified portfolio in hotels in Mexico. The FIBRA has 85 hotels under operation (12,300 rooms) and one hotel under development, for a total of 12,555 rooms distributed throughout the 26 states of the Mexican Republic. These are operated by 13 different brand names, among which we highlight Fiesta Inn, Fiesta Americana, Live Aqua, Sheraton, Courtyard Marriot and Camino Real. In addition, FIHO has Grupo Posadas, Marriot and Grupo Real Turismo as operation partners. By asset value, 73% are city and 27% are beach destination hotels.

FIHO – Segment by Asset Value
Percentage



Source: FIHO, Banorte.

FIHO – MXN/MXD/USD by Asset Value
Percentage



Sourcee: FIHO, Banorte.

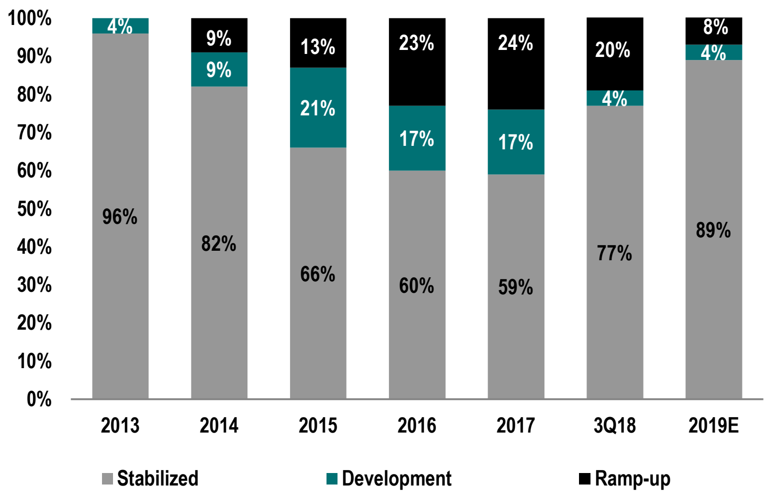
A climate of demand uncertainty, especially in business hotels. A focus on higher rates to push the RevPar. After reporting sluggish occupancy figures during 3Q18, FIHO expects a moderate recovery in operations ahead of the fourth quarter of the year, as a higher number of business trips and conferences are reported in business hotels during the months of October and November, in addition to the fact that operators have carried out initiatives to increase occupancy volume. Moreover, bookings for November and December have improved in the Fiesta Americana Condesa Cancún hotel (FACC). However, the REIT pointed out that demand uncertainty will continue, especially in business hotels, due to the change of government transition period. Furthermore, additional supply is expected to be restricted.

FIHO is undergoing a stage of portfolio stabilization, therefore it will now channel its efforts to increase rates, in such a way that revenue per available room (*RevPar*) continues to increase as it has historically reported (~6.5% Compound Annual Growth Rate for the 2013 - 2018 year-to-date period)

FACC hotel: Higher performance outlook. In addition to a higher number of bookings foreshadowed for 4Q18 in relation to those of the previous quarter, (during which there were factors that negatively impacted the performance of FACC), FIHO indicated that onward expectations for the hotel are positive, supported by a stronger U.S. dollar and a solid expansion of tourists arriving by air to said destination.

Moderate inorganic growth to focus on portfolio stabilization. FIHO has concluded its expansion cycle as only one hotel remains under development. This has translated into a more diversified and solid portfolio for the REIT. FIHO recent hotel openings include the Fiesta Americana México Satélite hotel during 3Q18; and the Live Aqua Urban Resort San Miguel de Allende hotel, just a few days ago. Said hotel offers select services and has 153 high-end rooms; the required investment for such project totaled MXN$730 million. On the other hand, the Fiesta Americana Viaducto hotel, the only hotel left under development, is expected to begin operating in 4Q19.

Portfolio proportion: stabilized, development and ramp-up
%



Source: FIHO, Banorte

The REIT indicated that although there are other investment opportunities, it would rather channel resources towards repurchasing CBFIs.

Efforts to continue increasing EBITDA and profitability. Historically, the FIBRA has reported an EBITDA expansion resulting from cost controls and a positive impact of the development of hotels under a process of maturity, as well as from an efficient corporate structure. In 2018, FIHO's EBITDA margin was supported by the integration of FACC. However, the management team pointed out that margins had not reported the expected performance due to sharp increments in energy costs during recent months (mainly electricity). Such costs had historically represented 6% of the total revenue but in 3Q18, such percentage rose to almost 8%. Derived from the latter and combined with growing uncertainty for the coming year, the REIT will allocate efforts towards reducing energy costs and generating operating efficiencies. In terms of energy, FIHO hired a consultant to review the asset portfolio and analyze alternate power suppliers. It would also be seeking to migrate towards the use of natural gas (in some properties) and increase the use of solar energy, among other initiatives.

Higher cash flow generation should translate into higher cash distribution. FIHO's portfolio, mostly stabilized, should sustain an expansion of cash generation onwards. In addition to an increase in rates of its portfolio, the REIT will seek to implement operating efficiencies in order to broaden profitability (margins), and thus offset the sharp increment of energy costs. On the other hand, a higher financing cost will be an adverse factor that would have an impact over the AFFO.

Stable and sound financial balance sheet. FIHO's leverage stands at 20% LTV and 2.3x Net Debt / EBITDA. The REIT continuously analyzes different financing alternatives (including the possible issuance of bonds or additional lines of credit) in order to continue expanding its asset portfolio should an interesting investment opportunity arise.

CBFIs repurchase derived from an attractive valuation. In view of a downward adjustment in the price of CBFIs, the REIT highlights its attractive valuation and mentions that its assets trade at a 41% discount in relation to the all-time cost of its properties, representing an investment opportunity. As a result, FIHO has allocated resources to repurchase CBFIs. We must remember that this year the Board authorized the creation of a CBFI Repurchase Fund, FIHO12, approving the purchase of up to 5% of total CBFIs issued by FIHO during 2018. By November 7th, 2018, the REIT had repurchased the equivalent of 2.9% of the total sum of CBFIs. In addition, the FIBRA plans to call a Board Meeting in December to propose a new repurchasing fund for 2019 to repurchase up to 5% the total sum of CBFIs.

Consultant is committed and aligned with the interest of CBFIs holders. FIHO executives stated that they are completely committed to the REIT and their interests are aligned with those of the CBFIs holders. A pertinent example of this is the almost 25% ownership of total CBFIs by its sponsor. Furthermore, the internalization as well as other practices to achieve better corporate governance are being analyzed.

Certification of Analysts

We, Gabriel Casillas Olvera, Delia Maria Paredes Mier, Alejandro Padilla Santana, Manuel Jiménez Zaldívar, Tania Abdul Massih Jacobo, Katia Celina Goya Ostos, Juan Carlos Alderete Macal, Víctor Hugo Cortes Castro, Marissa Garza Ostos, Miguel Alejandro Calvo Domínguez, Hugo Armando Gómez Solís, Gerardo Daniel Valle Trujillo, José Itzamna Espitia Hernández, Valentín III Mendoza Balderas, Santiago Leal Singer, Francisco José Flores Serrano, Francisco Duarte Alcocer, Jorge Antonio Izquierdo Lobato and Leslie Thalía Orozco Vélez, 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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	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
FIHO12	10/22/2018	Buy	MXN$13.7
FIHO12	02/27/2018	Buy	MXN$15.7
FIHO12	10/18/2017	Buy	MXN$17.5
FIHO12	07/19/2017	Buy	MXN$17.0

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