

Mexico Real Estate

Mexico Real Estate Weekly (Feb 22 – Feb 28)

02/25 FUNO 4Q21: The best quarter since the pandemic began...

Revenues of P\$5.8bn (9% above forecast) recovered 8% QoQ and 12% YoY (+14% vs 4Q19) on higher than expected rental revenue. Implied rents of P\$519/sqm (7% up QoQ and 12% YoY) consider significantly lower COVID-19 relief (P\$82m vs P\$263m in 3Q21 and P\$265m in 4Q20), and a reversal of COVID-19 reserve of P\$21m. NOI of P\$4.6bn (8% above estimate) further increased by 12% YoY (and 6% vs 3Q21) on a margin of 79.1% (flat YoY). In 4Q21, lower administrative expenses (-14% YoY), were partially offset by higher maintenance (+29% YoY), property taxes (+10% YoY) and insurance (+23% YoY). Reflecting higher capitalized interests (P\$458m vs P\$231 in 4Q20), financial expenses declined by 11% YoY. As a result, FFO rose 39% YoY to P\$2.5bn (+14% QoQ) and was 22% above estimate.

FUNO announced a P\$0.68/CBFI distribution for 4Q21. The quarterly payment translates into an FFO payout ratio of 98% and comes entirely from taxable earnings (i.e., there was no capital return during the quarter), represents YoY and QoQ growth of 120% and 85%, respectively. Despite the highest stock liquidity in the sector, FUNO trades at one of the most heavily discounted valuations at a P/NAV of 0.5x and at what we estimate to be a 40% discount to a SOTP to current market valuations of its listed comps for its industrial and commercial businesses. We maintain our Buy rating on FUNO.

02/25 Terra 4Q21: Surfing the wave of industrial strength...

Revenues rose 4% YoY to P\$1,029m (+4% above forecast), mainly impacted by higher rents in USD (2% YoY) and weaker MXN vs 4Q20 (+1%). NOI margin decreased 62bps YoY to 93.6%, on higher maintenance (+126% YoY) and insurance (+23% YoY) expenses. NOI and EBITDA decreased 5% and 7% YoY and were both slightly above our estimates (by 4% and 2%, respectively). Reflecting a 6% YoY drop in financial expense, FFO of P\$618m declined by only 7% YoY and was 4% above expectation.

Occupancy expanded sequentially, rents increased across all regions. Terra declared DPCBFI fell by 25% YoY (+7% QoQ) to P\$0.455 (5% above estimate), reflecting a payout ratio of 70% and resulting in a dividend yield of 7.2%. DPCBFI for the year of US\$0.0959/CBFI were above the high range of 2021 adjusted guidance of US\$0.083-US\$0.084/CBFI and slightly below the low range of initial 2021 guidance of US\$0.1020-US\$0.1030.

We recently upgraded to Buy in our recent sector note (*Mexico Real Estate: Distribution Defensiveness, Take 3*).

02/25 Planigrupo 4Q21: Marching towards recovery...

Reflecting higher revenues and an expansion of 155bps in NOI margin to 79%, NOI of P\$311m increased +11% YoY (also 2% above expectations). The margin

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expansion was explained by a significant decline of 59% YoY in provisions for doubtful accounts and 7% lower operating costs as Plani continues exercising its cost-savings plan. EBITDA of P\$222m increased by +6% YoY as a decline in operating expenses and other income (-3% and -30% YoY, respectively) were offset by negative non-operating expenses P\$74m vs. P\$18m in 4Q20. Foot traffic in Plani properties grew to 27m in 4Q21, rebounding 12% QoQ and 14% YoY. However, traffic was still 20% below 4Q19 levels. Plani's traffic recovery was positively impacted by a rebound in movie theaters sales, as the release of new films attracted more visitors.

Low stock liquidity, concerns globally around brick-and-mortar retail, and valuations (2022E 0.9x P/NAV, 10.6% implied NOI cap rate, and 8.1% FFO yield) that seem fair in the context of some heavily-discounted peers, lead us to stick to our Neutral rating.

02/24 FSHOP 4Q21: Operating rebound continues

NOI of P\$300m (+6% YoY) and EBITDA of P\$289m (+5% YoY) came 5% and 6% above our estimates on higher than expected margins of 78% and 75%, respectively, (vs 76% and 72% in 4Q19). Operating expenses decreased 5% YoY and were only partially offset by higher advisory fees (+17%) and insurance (+18%). Management believes that a large part of savings implemented in response to the pandemic will be permanent. FFO of P\$147m fell 1% YoY and was negatively impacted by higher net interest expenses, which rose 15% YoY. Implied interest cost was 6.2% vs. 6.5% in 4Q20, but interest-bearing debt was higher in 4Q21.

In 4Q21, traffic continued progressing and closed the year at its highest levels of 2021, surpassing those of 2019. In December, foot and vehicular traffic vs. the average monthly figure in 2019 were 122% and 113%, respectively. However, reflecting seasonal weakness, January foot traffic was down to 85% (vs. 2019 average), still up vs January 2020 levels. DPCBFI of P\$0.11 down 33% YoY, implying 6.8% dividend yield. We maintain our Neutral rating.

02/24 Fibra MTY 4Q21: Putting its cash to work...

EBITDA margin contracted by 192bps YoY to 81.0%, reflecting an increase of 16% in administrative expenses and 4Q21 acquisition/divestment costs. Still, NOI and EBITDA margins are in line with the company's long-term targets. EBITDA rose 4% YoY to P\$284m, directly in line with forecast. FFO declined by 3% YoY to P\$240m on significantly lower interest income (as cash was deployed) and lower provisions for doubtful accounts (vs. 4Q20), only partially offset by reduced interest expense (which declined by 6% YoY). AFFO only fell by 2% (and was 2% above estimate) mainly due to a decrease of 24% YoY in same-properties capex.

FMTY announced a DPCBFI of P\$0.25, above our estimate of P\$0.23. FMTY's distributions imply a 100% payout ratio and an 8% annualized dividend yield. For the year, FMTY paid DPCBFI of P\$0.90, which is above the upper end of pro-forma 2021 DPCBFI guidance of P\$0.88 (considering official guidance of P\$0.81-0.83 and additional distributions of P\$0.05 from acquisitions in 2021). Trading at 1.0x P/NAV and a dividend yield of 8%, we find FMTY's valuation attractive; we maintain our Buy on FMTY.

02/28 Planigrupo acquires majority stake in two malls of its portfolio

Planigrupo concluded the acquisition of a company that owns a portfolio of assets made up of two malls in Michoacán and Coahuila (*Plaza Bella Frontera* and *Macropiazza Estadio Morelia*). Planigrupo held a minority stake of 5% in the properties, but now, the company will consolidate the two assets. The properties total GLA of 26,613 sqm and generate annual NOI of P\$37.5m. Planigrupo funded the purchase with equity and debt. As a reminder, Planigrupo still holds a minority stake in the mall "Tijuana" (40%), through the CKD.

02/24 Mars Petcare invests US\$100m in expanding its plant in Querétaro

Mars Petcare announced an investment of US\$100m in the next three years to expand its production plant in El Marqués, Querétaro. According to Francisco Fernández, general director for Mars Petcare Mexico, the plant will double its operating capacity with +70k tons of annual production.

Once the project is finished, the facility will have GLA of 7,000 sqm, and is expected to be completed by 3Q23. Mars Petcare aims to obtain the building's LEED (Leadership in Energy and Environmental Design) certification.

The company said that the pet food category is expected to grow double digits this year, and that Mexico is one of its ten main markets where the company is planning to expand in the coming years.

02/23 JLL expects office sector to recover by 2H23

According to Arturo Bañuelos, JLL's Projects and Developments Executive Director, the office sector recovery could take place in 2H23. Real Estate platform Solili reported that at the end of 4Q21, gross demand in the office sector increased by an average of 26% YoY nationwide. However, in Mexico City, gross demand was just 330k sqm in 2021, flat YoY.

According to JLL, two forces have impacted the office sector: the contraction in demand and the number of new spaces that continue growing inventory, although the construction of projects slowed down due to the health crisis. The return to face-to-face activities is expected to benefit the office sector, although, according to Mr. Bañuelos, the challenge now lies in making offices attractive again, something that coworking spaces have been able to do.

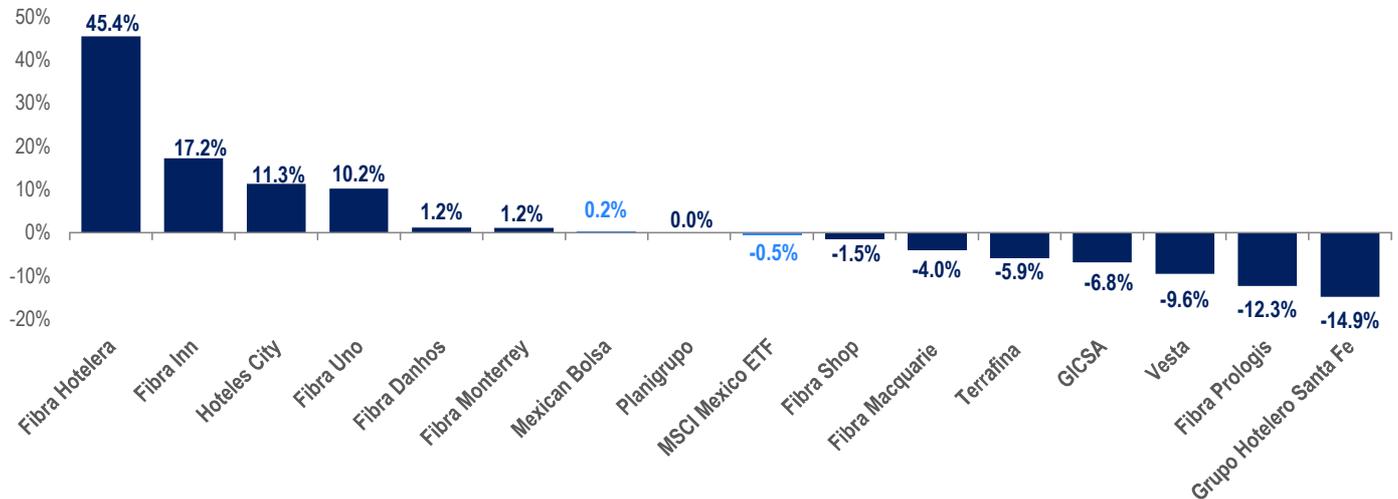
Mexico Real Estate Weekly February 22 – February 28

Table 3: Week of Weekly February 22 – February 28, 2022

Name	Ticker	BTG Pactual Rating	Target Price (P\$)	Current Price (P\$m)	Market Cap USD mm	ADTV (US\$m)		Performance (%) /1					52 Week		2022E Valuation (%)			
						1 week	90 day	1 week	30 day	90 day	1 year	YTD	High	Low	Cap	FFO	Div	P/NAV
BTG Pactual Coverage																		
Fibra Uno	FUNO11 MM	Buy	25.4	23.1	4,333	6.8	5.8	3.4%	15.8%	21.0%	5.6%	10.2%	25.2	19.0	7.6%	10.2%	6.0%	0.54
Fibra Danhos	DANHOS13 MM	Buy	26.8	23.4	1,670	2.2	1.4	-5.3%	6.4%	7.8%	-0.9%	1.2%	26.2	21.3	10.3%	11.0%	9.5%	0.59
Fibra Prologis	FIBRAPL MM	Buy	59.4	49.3	2,044	1.1	0.7	-1.2%	-0.8%	3.3%	20.7%	-12.3%	58.9	41.6	6.7%	7.4%	5.0%	0.91
Terrafina	TERRA13 MM	Buy	34.7	27.0	1,042	1.0	0.8	-3.9%	-1.8%	4.9%	-1.9%	-5.9%	32.5	24.7	8.5%	12.2%	7.2%	0.66
Vesta	VESTA* MM	Buy	49.2	36.9	1,233	2.3	2.3	0.4%	-3.0%	1.8%	-2.4%	-9.6%	45.6	34.3	7.1%	6.4%	4.3%	0.87
Fibra Macquarie	FIBRAMQ MM	Buy	31.8	24.7	918	0.5	0.6	1.6%	4.1%	1.9%	5.7%	-4.0%	27.1	21.6	9.9%	13.5%	8.1%	0.62
Fibra Monterrey	FIMTY14 MM	Buy	15.0	12.3	580	0.1	0.2	0.2%	0.7%	3.3%	13.4%	1.2%	13.7	10.7	7.2%	8.4%	8.1%	0.97
Fibra Shop	FSHOP13 MM	Neutral	6.9	6.4	144	0.0	0.0	-0.8%	-0.3%	2.1%	-4.7%	-1.5%	7.6	5.7	9.4%	19.6%	12.8%	0.27
Planigrupo	PLANIG* MM	Neutral	17.9	16.9	262	0.0	0.0	0.0%	0.0%	0.0%	0.0%	0.0%	19.0	19.0	8.0%	7.8%	-	0.96
Non-BTG Pactual Coverage																		
GICSA	GICSAB MM	-	n.a.	2.5	184	0.1	0.1	-5.4%	18.4%	16.7%	-27.5%	-6.8%	3.7	1.1	11.9%	30.1%	-	0.15
Hoteles City	HCITY* MM	-	n.a.	5.3	96	0.1	0.1	1.7%	21.8%	-9.7%	-8.4%	11.3%	7.9	3.9	9.5%	14.6%	-	0.25
Fibra Hotelera	FIHO12 MM	-	n.a.	8.3	318	0.1	0.3	2.2%	40.5%	42.9%	43.4%	45.4%	8.7	5.3	8.3%	10.3%	0.0%	0.57
Fibra Inn	FINN13 MM	-	n.a.	3.7	91	0.0	0.0	1.4%	3.7%	13.6%	-12.6%	17.2%	5.0	3.0	2.1%	12.3%	0.0%	0.38
Grupo Hotelero Santa Fe	HOTEL*MM	-	n.a.	4.0	96	0.1	0.0	-0.4%	-4.1%	-13.0%	0.0%	-14.9%	5.9	4.0	9.0%	13.7%	-	0.42
Market Indices																		
Mexican Bolsa	MEXBOL Index	-	n.a.	53,401	-	-	-	2.6%	5.4%	7.4%	19.8%	0.2%	-	-	-	-	-	-
MSCI Mexico ETF	EWV US EQUITY	-	n.a.	50.3	-	-	-	0.3%	6.3%	12.6%	26.5%	-0.5%	-	-	-	-	-	-

Source: Bloomberg, BTG Pactual Research. Notes: 1 Includes dividends. Note: All yields reflect current asset base (i.e. no M&A is assumed in the calculation of our valuation yields); EBITDA Cap Rates (not NOI Cap Rates)

Chart 1: YTD Performance: Total Return (%)



Source: Company data, Bloomberg, BTG Pactual Research

Required Disclosures

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The figures contained in performance charts refer to the past; past performance is not a reliable indicator of future results.

BTG Pactual Rating	Definition	Coverage *1	IB Services *2
Buy	Expected total return 10% above the company's sector average.	68%	52%
Neutral	Expected total return between +10% and -10% the company's sector average.	31%	31%
Sell	Expected total return 10% below the company's sector average.	1%	0%

1: Percentage of companies under coverage globally within the 12-month rating category.

2: Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

Absolute return requirements

Besides the abovementioned relative return requirements, the listed absolute return requirements must be followed:

- a) a Buy rated stock must have an expected total return above 15%
- b) a Neutral rated stock can not have an expected total return below -5%
- c) a stock with expected total return above 50% must be rated Buy

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Statement of Risk

Fibra Danhos [MXDANHOS] - Risks include, but are not limited to: office exposure at a time of material and rising oversupply; a cyclical downturn impacting retail exposure and structural oversupply; a high fee structure; among others.

Fibra Macquarie S.A. de C.V. [MXFIBMQ] - 1) Mexican economic cycles and demand for real estate; 2) Supply of new competing real estate; 3) Regulations, especially at the municipal level; 4) Security concerns as most of the portfolio is concentrated in northern cities; 5) U.S. economic performance and value of the U.S. dollar

Fibra Monterrey [FMTY] - Risks include, but are not limited to: Low stock liquidity, among the least CDMX-metro area exposed, exposed to the office space, maintaining its agility (particularly when it comes to smaller properties) as it grows.

Fibra Prologis [FIBRAPL] - Risks include, but are not limited to: 1. its greater exposure to the domestic economy and therefore more MXN cashflows and recent slowing of the domestic economy. 2. issuing equity at dilutive valuations to buy fully priced assets. 3. Any change in the balance of the relationship with Prologis (parent). 4. Higher interest rates, weaker GDP, a weaker MXN.

Fibra Shop (Trust F/00854) [MXFSHOP] - 1) Mexican economic cycles and demand for real estate; 2) Supply of new shopping malls; 3) Regulations, especially at the municipal level; 4) Geographic concentration as both the Bajío region as well as Cancun & Cabo San Lucas represent sizeable portions of Fibra Shop's portfolio; 5) Potential value leakage from various management and advisory fees Fibra Shop pays its controllers; and 6) Potential value leakage from asset transfers from controllers.

Fibra Uno Administracion, S.A. de C.V. [MXFUNO] - Risks: Office segment - A significant part of FUNO's pipeline comes from the office segment which is set to continue to see supply/demand dynamics worsen. Other risks include dilutive M&A from their pre-announced pipeline (higher CBF payment vs. expectations given lower CBF price), an increase in interest rates, less fees from Helios and a downturn in retail activity in Mexico (60% of NOI comes from retail portfolios).

Corporación Inmobiliaria Vesta, S.A.B. de C.V. [MXVESTA] - Investment risks include but are not limited to: (i) too lean of a management structure as Vesta plans on growing considerably in the coming years, (ii) financial instability from Bombardier, one of Vesta's key clients, (iii) lack of yield, (iv) macroeconomic instability as Vesta's clients are exposed to cyclical businesses and any potential risk from NAFTA negotiations.

Terrafina [MXTERRA] - Risks include but are not limited to: (i) increases in TIs and leasing commissions, (ii) a potential cut to the dividend payout to preserve capital and lower leverage, (iii) rising interest rates as it is a yield play, (iv) investor defections to other industrial Fibras.

Planigrupo Latam [PLANL] - Risks include (i) the spillover from the global de-rating in cap rates for B and C assets, (ii) faster than expected e-commerce penetration in Mexico, (iii) dilutive expansions abroad, (iv) low stock liquidity, (v) high leverage levels.

Valuation Methodology

Fibra Danhos [MXDANHOS] - Our P\$38.0/CBFI valuation is based on a DDM analysis, discounted at a CoE of 11.5% and assumes a terminal LTV of 10% by 2023, consistent with its existing balance sheet.

Fibra Macquarie S.A. de C.V. [MXFIBMQ] - Our target price is based on a DDM that employs a COE of 7.7% (in USD) and assumes a terminal LTV of 35% by 2023.

Fibra Monterrey [FMTY] - We set our 12-month price target on FMTY on the basis of a four-stage DDM model that discounts dividends at a 8.5% USD cost of equity. The P\$14.6/CBFI target that it produces implies 2022E implied NOI cap are of 7.6%, FFO and dividend yields of 7.3% and 6.3%, and a P/NAV of 1.2x.

Fibra Prologis [FIBRAPL] - Our DDM-driven price target of P\$49.5/CBFI is discounted at a CoE in USD of 7.2%.

Fibra Shop (Trust F/00854) [MXFSHOP] - Our target price is based on a A Dividend Discount Model (DDM) based on 20-year dividend projections for the base portfolio (the current asset base) which yields a TP of P\$9.9/CBFI discounted at a cost of equity in MXN of 12.5%. The TP includes P\$0.6/CBFI for equity investments in La Perla.

Fibra Uno Administracion, S.A. de C.V. [MXFUNO] - Our TP of P\$26.6/CBFI is based on a DDM of FUNO's existing portfolio (P\$25.5) and the NPV of FUNO's 63.6% stake in Helios (P\$1.1/CBFI). Our Ke is 11.0%.

Corporación Inmobiliaria Vesta, S.A.B. de C.V. [MXVESTA] - Our TP for Vesta is based on the sum of the DDM (present value of dividends paid through 2027) and the PV of an Exit Cap rate analysis assuming Vesta is able to sell their fully deployed portfolio in 2027. We use a COE of 7.4% (in USD) and an exit NOI cap rate in 2027 of 8.0%.

Terrafina [MXTERRA] - Our DDM-driven price target of P\$32.3/CBFI id discounted on a CoE of 7.7% assuming a terminal LTV of 35% by 2024E.

Planigrupo Latam [PLANI] - Our price target is derived via a DDM and exit cap rate blend. We use a COE of 10.8% and an exit NOI cap rate in 2025 of 8.5%.

Company Disclosures

Company Name	Reuters	12-mo rating	Price	Price date
Danhos ^{1, 2, 4, 6, 18, 19, 20}	Danhos	Buy	MXN24.42	1-3-2022
Fibra MQ ^{1, 6, 10, 18, 19, 22}	FIBMQ	Buy	MXN23.88	1-3-2022
Fibra MTY ^{18, 19, 20, 21, 22}	FMTY	Buy	MXN12.28	1-3-2022
Fibra Prologis ^{1, 2, 4, 6, 18, 19, 20}	FIBRAPL	Buy	MXN49.31	1-3-2022
Fibra Shop ^{18, 19, 20, 21, 22}	FSHOP	Neutral	MXN6.33	1-3-2022
Fibra Uno ^{18, 19, 20, 21, 22}	N.A.	Buy	MXN22.85	1-3-2022
Planigrupo ^{18, 19, 20, 21, 22}	PLANI	Neutral	MXN16.90	1-3-2022
Terrafina ^{18, 19, 20, 21, 22}	Terra	Buy	MXN25.99	1-3-2022
Vesta ^{18, 19, 20, 21, 22}	N.A.	Buy	MXN37.18	1-3-2022

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