

## Mexico Real Estate

### Mexico Real Estate Weekly (May 03 – May 09)

#### 05/09 Mexico Real Estate ESG Handbook

Following our Mexico ESG Handbook, we are publishing a Mexico Real Estate ESG Handbook, homing in on many of the same metrics of our original report. We are focusing particularly on Governance, extending it in this case to include an analysis of the operating cost for FIBRAs under coverage given the sector's mélange of internal and external management structures.

This report analyzes key ESG metrics for the 11 Mexican real estate stocks that we cover at BTGP in addition to four hospitality and two homebuilding stocks that we do not yet cover. In all, we have delved into the ESG metrics of 17 Mexican property stocks that operate in the retail, office, industrial, leisure, and residential sectors and that includes four C-Corps (Vesta, Plani, Hoteles City, and Grupo Hotelero Santa Fe) nine FIBRAs, of which two are internally-managed (Fibra Monterrey and Fibra Inn) and seven are externally-advised (FUNO, Fibra PL, Danhos, Terra, Fibra MQ, Fibra Hotel, and FSHOP), and four homebuilders (ARA, Cadu Javier, and Vinte). In all, this report covers 98% of the sector's ADTV. [Full report.](#)

#### 05/05 FINN: Hotel indicators for April – occupancy up 208bps but 26bps down vs '19

Fibra Inn published its hotel indicators for April. In same-properties terms (considering 32 hotels), Rev-par rose 78% YoY, driven by an improvement in occupancy of 2,080bps to 58% and a significant increase of 14% YoY in ADR. This resulted in monthly revenues of P\$135.5mn (79% YoY). Compared to April '19, ADR is up 4%, but occupancy is still down 260bps. As a result, revenues are only 1% above 2019 levels.

As of April 2022, Fibra Inn's portfolio is comprised of 38 properties with 6,442 rooms, of which 88% are in operation, and the remainder remain closed.

#### 05/08 Nissan announces investment of US\$700mn in Bajío

Nissan announced that it plans to invest more than US\$700mn in Mexico over the next three years in the improvement, re-equipment, and development of automation for its plant in Bajío (Aguascalientes). The announcement was made within the framework of the San Marcos National Fair 2022, where the company exhibited its manufacturing facilities. Jérémie Papin, Nissan's Americas Director, said the investment would ensure their leadership in the country. Mexico is one of Nissan's main export centers to 12 countries.

Guillermo Rosas Zarate, president of the Mexican Association of Automotive Distributors (AMDA), explained that the industry could return to "close to normal" rates by the end of 2023, while this year it will remain stagnant, at similar levels to 2021.

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#### ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 5

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**05/09 CBRE 1Q22: Office vacancy keeps going up, but rents were stable**

Excluding 4Q21, when absorption was essentially flat, 1Q22 marks the 7th quarter of negative absorption (-12.5k sqm), which compares to -98k sqm in 1Q21. Vacancy was 24.5%, up 212bps YoY and 62bps QoQ. Santa Fe, Periferico Sur, and Lomas Altas (suburban corridors) registered the highest increases in vacancy. For their part, monthly rents remained stable in the last six months at US\$22.41/sqm but are down 2.9% YoY. The corridors with the highest rents were Lomas Palmas, Reforma, and Bosques, with an average rent of US\$27.6/sqm.

In 1Q22, inventory closed at 7.2m sqm (+200bps YoY), while the pipeline comprises 629k sqm of projects under construction to be delivered over the next four years (116k in 2022). Polanco, Insurgentes, and Reforma account for 80% of this new GLA.

**05/09 CBRE 1Q22: Bajio recorded its lowest vacancy in four years**

In 1Q22, vacancy rate closed at 4.3%, 200bps down vs. 1Q21 and its lowest figure since 2018. Net absorption was 51k sqm (-2% YoY), but gross absorption was 83k sqm (+24% YoY) because of slower leasing activity during the quarter.

CBRE expects the leasing activity pace to accelerate during the year, reaching higher levels compared to 2021. This was mainly driven by expansions. Guanajuato and Queretaro accounted for ~70% of net absorption, mainly driven by manufacturing tenants, followed by San Luis Potosi (~30%) and its automotive tenants.

As for rents, monthly rent stood at US\$4.15/sqm, but CBRE expects that new developments in Queretaro and Guanajuato will drive rents up in the coming months. Inventory closed 1Q22 at 12.9m sqm (+2% YoY) and the pipeline comprises 268k sqm of projects under development to be delivered in 2022.

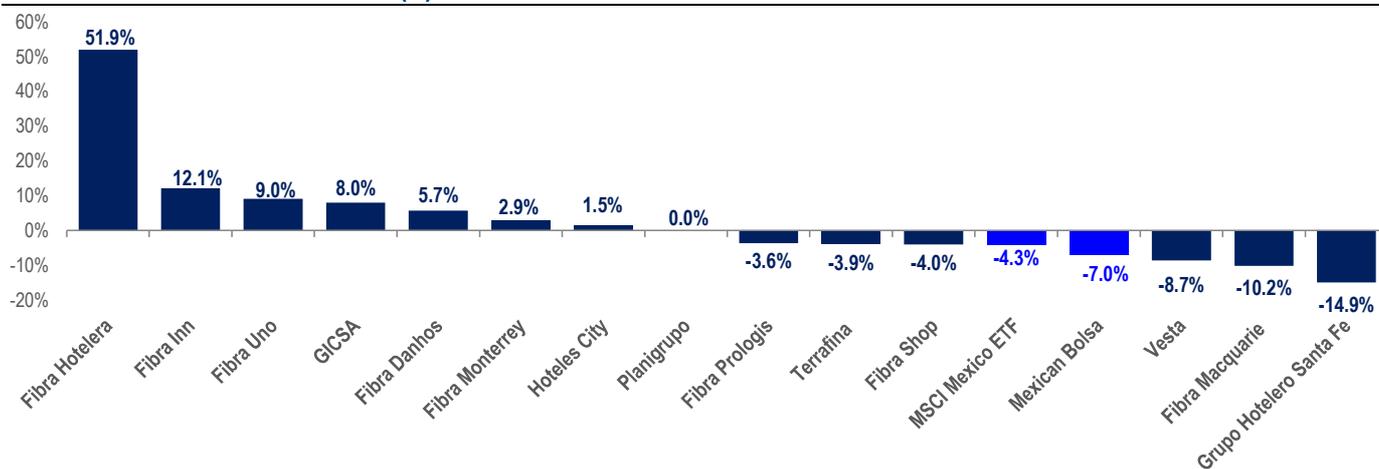
## Mexico Real Estate Weekly May 03 – May 09

Table 3: Week of Weekly May 03 – May 09, 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
<b>BTG Pactual Coverage</b>																		
Fibra Uno	FUNO11 MM	Buy	25.4	22.4	4,171	17.2	8.6	2.1%	1.7%	6.8%	0.2%	9.0%	25.1	19.0	7.7%	10.5%	6.3%	0.52
Fibra Danhos	DANHOS13 MM	Buy	26.8	23.2	1,685	0.1	1.2	4.5%	-3.6%	1.6%	7.5%	5.7%	25.9	21.1	10.4%	11.1%	9.6%	0.58
Fibra Prologis	FIBRAPL MM	Buy	59.4	52.4	2,198	0.9	0.9	-2.2%	-2.4%	5.6%	27.4%	-3.6%	58.9	42.7	6.4%	6.9%	4.7%	0.96
Terrafina	TERRA13 MM	Buy	34.7	26.3	1,015	0.5	0.9	0.0%	-6.2%	-3.9%	-7.5%	-3.9%	31.8	24.3	8.7%	12.5%	7.4%	0.65
Vesta	VESTA* MM	Buy	49.2	36.6	1,242	2.3	2.8	-2.6%	-1.2%	-3.1%	2.1%	-8.7%	42.7	34.3	7.2%	6.5%	4.4%	0.86
Fibra Macquarie	FIBRAMQ MM	Buy	31.8	22.6	842	1.7	0.7	0.4%	-4.6%	-6.9%	3.0%	-10.2%	27.1	21.6	10.4%	14.7%	8.9%	0.56
Fibra Monterrey	FMTY14 MM	Buy	15.0	12.4	587	0.1	0.1	-1.4%	0.0%	2.3%	12.7%	2.9%	13.6	11.0	7.1%	8.3%	8.0%	0.98
Fibra Shop	FSHOP13 MM	Neutral	6.9	6.2	138	0.0	0.0	0.8%	-5.1%	-4.3%	-4.9%	-4.0%	7.5	5.6	9.5%	20.5%	13.3%	0.26
Planigrupo	PLANI* MM	Neutral	17.9	16.9	263	0.0	0.0	0.0%	0.0%	0.0%	0.0%	0.0%	19.0	19.0	8.0%	7.8%	-	0.96
<b>Non-BTG Pactual Coverage</b>																		
GICSA	GICSAB MM	-	n.a.	2.7	199	0.0	0.0	-7.5%	-2.1%	20.9%	-4.7%	8.0%	3.7	1.1	11.8%	27.8%	-	0.16
Hoteles City	HCITY* MM	-	n.a.	4.6	84	0.1	0.1	-3.0%	-9.7%	-1.0%	-32.7%	1.5%	7.7	3.9	10.5%	16.7%	-	0.22
Fibra Hotelera	FIHO12 MM	-	n.a.	8.4	323	0.1	0.2	-2.0%	7.3%	44.3%	46.5%	51.9%	8.9	5.3	8.2%	10.2%	0.0%	0.58
Fibra Inn	FINN13 MM	-	n.a.	3.5	86	0.0	0.0	4.8%	-2.5%	-1.7%	-7.4%	12.1%	5.0	3.0	2.2%	12.9%	0.0%	0.36
Grupo Hotelero Santa Fe	HOTEL*MM	-	n.a.	4.0	97	0.0	0.0	-0.4%	-3.6%	-3.4%	0.0%	-14.9%	5.9	3.9	8.9%	13.6%	-	0.42
<b>Market Indices</b>																		
Mexican Bolsa	MEXBOL Index	-	n.a.	49,542	-	-	-	-3.6%	-10.4%	-3.3%	1.2%	-7.0%	-	-	-	-	-	-
MSCI Mexico ETF	EMW US EQUITY	-	n.a.	48.4	-	-	-	-2.0%	-9.4%	0.3%	6.4%	-4.3%	-	-	-	-	-	-

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

Table 2: Leverage Update as of 1Q22 for Mexican Real Estate Space

	% of Revs in USD	% of Debt in USD (%)	Gross LTV (%)	Net LTV (%)	Cash / Assets (%)	Total Assets (LC\$m)	Cash as % of Market Cap
<b>Mexican FIBRAs</b>							
Fibra Uno	26%	51%	42%	41%	2%	316,902	5%
Fibra MQ	85%	97%	32%	32%	1%	49,289	2%
Fibra Shop	0%	0%	43%	43%	4%	21,564	7%
Fibra Terrafina	99%	100%	34%	33%	5%	53,143	3%
Fibra Danhos	22%	0%	9%	8%	3%	68,305	5%
Fibra Prologis	63%	100%	30%	30%	1%	75,024	1%
Fibra Monterrey	77%	100%	29%	23%	14%	18,533	22%
Fibra Hotelera	-35%	0%	29%	27%	7%	16,937	10%
Fibra Inn	-5%	0%	35%	33%	4%	11,814	9%
<b>Average</b>	<b>53%</b>	<b>50%</b>	<b>32%</b>	<b>30%</b>	<b>4%</b>	<b>70,168</b>	<b>7%</b>
<b>Mexican C-Corps</b>							
Vesta	84%	100%	34%	21%	7%	2,766	11%
Hoteles City	0%	0%	40%	33%	9%	14,280	58%
GICSA	33%	24%	29%	28%	4%	76,249	11%
Planigrupo	-12%	0%	44%	41%	5%	15,385	9%
Grupo Hotelero Santa Fe	48%	85%	29%	23%	9%	11,040	30%
<b>Average</b>	<b>41%</b>	<b>42%</b>	<b>35%</b>	<b>29%</b>	<b>7%</b>	<b>23,944</b>	<b>24%</b>
<b>Latam Malls</b>							
BR Malls	0.0%	0.0%	23.3%	15.0%	8.3%	19,539	23%
Multiplan	0.0%	0.0%	31.9%	21.0%	10.9%	10,793	9%
Iguatemi	0.0%	0.0%	46.7%	21.0%	25.7%	7,054	36%
Aliansce	0.0%	0.0%	21.5%	8.5%	13.0%	10,121	17%
Parque Arauco	0.0%	0.0%	41.0%	28.8%	12.1%	2,691	58%
Malls Plaza	0.0%	0.0%	32.7%	26.6%	6.1%	3,672	15%
Cencoshopping	0.0%	0.0%	14.8%	14.0%	0.7%	3,744	2%
IRSA CP	0.0%	0.0%	20.4%	18.9%	1.6%	166,438	9%
<b>Average</b>	<b>0%</b>	<b>0%</b>	<b>29%</b>	<b>19%</b>	<b>10%</b>	<b>28,007</b>	<b>21%</b>
<b>Brazilian Commercial Properties</b>							
BR Properties	0.0%	0.0%	25.6%	15.9%	9.7%	11,447	29%
São Carlos	0.0%	0.0%	46.8%	36.4%	10.5%	3,105	18%
CCP	0.0%	0.0%	46.5%	29.1%	17.4%	3,420	65%
Log CP	0.0%	0.0%	26.0%	4.9%	21.1%	5,163	50%
<b>Average</b>	<b>0%</b>	<b>0%</b>	<b>36%</b>	<b>22%</b>	<b>15%</b>	<b>5,784</b>	<b>40%</b>

Source: Company data, BTG Pactual Research

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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%	54%
Neutral	Expected total return between +10% and -10% the company's sector average.	30%	32%
Sell	Expected total return 10% below the company's sector average.	2%	17%

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 <sup>1, 2, 4, 6, 18, 19, 20</sup>	Danhos	Buy	MXN24.00	10-5-2022
Fibra MQ <sup>1, 6, 10, 18, 19, 22</sup>	FIBMQ	Buy	MXN22.11	10-5-2022
Fibra MTY <sup>18, 19, 20, 21, 22</sup>	FMTY	Buy	MXN12.36	10-5-2022
Fibra Prologis <sup>1, 2, 4, 6, 18, 19, 20</sup>	FIBRAPL	Buy	MXN52.47	10-5-2022
Fibra Shop <sup>18, 19, 20, 21, 22</sup>	FSHOP	Neutral	MXN6.17	10-5-2022
Fibra Uno <sup>18, 19, 20, 21, 22</sup>	N.A.	Buy	MXN22.57	10-5-2022
Planigrupo <sup>18, 19, 20, 21, 22</sup>	PLANI	Neutral	MXN16.90	10-5-2022
Terrafina <sup>18, 19, 20, 21, 22</sup>	Terra	Buy	MXN26.74	10-5-2022
Vesta <sup>18, 19, 20, 21, 22</sup>	N.A.	Buy	MXN36.47	10-5-2022

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