Research Input to AMEFIBRA – June 2023
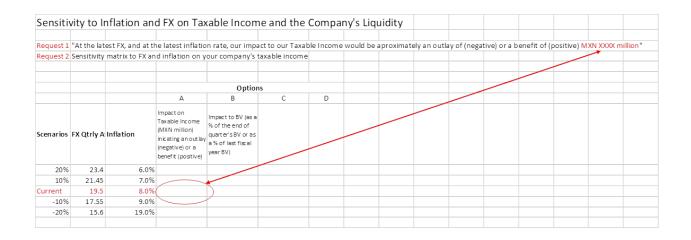
Vanessa Quiroga, CS
Francisco Suárez, Scotia
Francisco Chávez, BBVA
Gordon Lee, BTG Pactual

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<u>The Main Course: Visibility on Taxable Earnings</u>

The ask: Provide more data/clarity on taxable earnings along the year to help assess expected minimum distributions for the year.

Why does this matter to analysts? This has become topical in the past two years and especially in the past six months. The unusual combination of high inflation and MXN strength over the past two years has led to a series of extraordinary distributions that has resulted in unusually high payouts and, in some cases, a slower deleveraging than would have been otherwise expected. This has made forecasting dividends a challenge, which, given how important dividend yield is for some investors, is relevant. Having a better understanding of the taxable income as the year progresses would help us gauge i) what the year's potential yield may be and ii) how much AFFO is left over for other sorts of capital deployment (debt reduction, CBFI repurchases, acquisitions, development, etc.).

How? Perhaps this disclosure can be as simple as providing one additional line at the bottom of the P&L summary with "Estimated taxable income per CBFI" for the quarterly and cumulative periods. Including a sensitivity analysis or an Inflation/FX matrix would also help to get an idea on the potential ballpark for annual fiscal result. We paste below an example of a possible sensitivity table.

Sensitivity to Inflation and FX on Taxable Income and the Company's Liquidity							
Request 1	"At the latest FX, and at the latest inflation rate, our impact to our Taxable Income would be aproximately an outlay of (negative) or a benefit of (positive) MXN XXXX million"						
Request 2	Sensitivity matrix to FX and inflation on your company's taxable income						
			Options				
			A	B	C	D	
Scenarios	FX Qtrly A	Inflation	Impact on Taxable Income (MXN million) inicating an outlay (negative) or a benefit (positive)	Impact to BV (as a % of the end of quarter's BV or as a % of last fiscal year BV)			
20%	23.4	6.0%					
10%	21.45	7.0%					
Current	19.5	8.0%					
-10%	17.55	9.0%					
-20%	15.6	19.0%					

The Nice to Have: Spread vs. Market for leases rolling over

The ask: Provide a sense of the spread between in-place and market rents for contracts that are due to roll over during the following 12 months.

Why does this matter to analysts? In an environment of rapidly rising rents (which is true presently in the industrial space), having a sense of how quickly leasing spreads can translate into higher in-place rents, revenue, and NOI would be very helpful for the accuracy of our projections. Moreover, one of the questions we receive often from investors (especially generalists that are not that as familiar with the sector as specialists) is why it is that leasing spreads are not immediately (or more swiftly) translated into revenues or in-place rents. Understanding both what share of contracts are coming due in the following 12 months along with the average spread between market and in-place rents for those contracts would help us quantify for investors how quickly those spreads will hit cash flows.

How? Most issuers already provide (at least in their supplementary packages) charts showing the next few years' worth of lease maturities (either by GLA, rents, or both). The ideal presentation for us would be to see for each of these years the spread to current market rents for each year. But, if this is too much to disclose, at least a notation for what that is for the following 12 months would be helpful.

The "I've been good this year, Santa" request: Investment in properties at cost

The ask: This is a repeat of what we asked for last year and is simply to have balance sheet disclosure on the historical cost of the investment portfolio (i.e., without the impact of appraisals).

Why does this matter to analysts? Mark-to-appraisal accounting is helpful because it gives us a better sense of liquidation value and, thus, NAV. But it makes it difficult to gauge ROIC and ROCE in the way done for companies that use traditional historical cost accounting. This is relevant because for many investors (again, mostly generalists) understanding how well companies allocate capital and whether they are earning a return above their WACC is an important driver of their investment process. This is difficult to do for FIBRAs because the IC and CE that can be gleaned from reported accounts already reflects an assessment of the fair value of the property portfolio, diluting ROIC and ROCE and making companies seem less effective at allocating capital than they truly are. Being able to provide a ROIC and ROCE for investors would help clarify this and make the sector's returns more comparable to those of other industries.

It may also be helpful for FIBRAs in the retail and office space in which there are questions on the accuracy/reliability of NAVs, explaining to a large degree the material discounts to NAV at which many of these stocks are trading. Showing to investors that a narrower discount to Book Value is not justified in the context of ROICs/ROEs on actual capital deployed may help put a floor on NAV discounts.

How? A footnote to the Investment Properties on the balance sheet with the historical cost for the portfolio would allow analysts to rebuild the balance sheet and calculate ROEs, ROICs, and ROCEs. Fibra PL already discloses this as a footnote on a quarterly basis; Terrafina does too. Similar disclosures across the board would be very helpful.