

# Grupo GICSA

## MX: Equity Research

July 25, 2022 | Quarterly Results

### Showing its Strong Commercialization Muscle

#### Adjusted Occupancy Rebounded +430bp QoQ

**Strong Leasing Activity in 2Q22.** Grupo GICSA's 2Q22 report reflected an impressive top-line recovery QoQ, underpinned by a strong leasing activity, as new signed contracts nearly three-folded vs 1Q22 with ~12.2k SQM in additional GLA rented during the quarter and that should support earnings momentum going forward, in our view. On the other hand, expected operating expenses' comeback –inherent to traffic's recovery- eroded the company's profitability slightly. Hence, all-in-all, we deem GICSA's report as mixed.

**2Q22 in a Nutshell.** GLA decreased –3.0% QoQ to 951,405 SQM (–1.5% YoY), on the back of the sale of Lomas Altas office property completed during the quarter. Meanwhile, leasing activity sequentially soared +189% vs 1Q22 reaching 12.2k SQM. Thus, adjusted occupancy sequentially recovered +430bps standing at 83.3% (–1.9pp vs 2Q21) and evincing the company's strong commercialization muscle. Said performance was driven by the sound improvements delivered in City Walk (+18pp QoQ), Explanada Culiacán (+14%) & Capital Reforma (+1000bps), hand in hand with mild increases or stable performance in the rest of the properties, except for Paseo Interlomas, La Isla Acapulco & Masaryk 111 that reported lower occupancy rates *vis-à-vis* 1Q22. Meanwhile, average rental rate pSQM advanced +0.5% QoQ to P\$380.00 (+1.6% YoY), aided by +3.1% lease spread. That said, rental revenue sequentially increased +0.8% to P\$761 M (+5.3% YoY), while variable income did so by +7.0% (+23.8% vs 2Q21) on the back of traffic's rebound, prompting operating revenues to reach P\$1,006 M (+2.2% vs 1Q22 & +8.8% YoY). On top of that, the sale of two additional units of the Cero5Cien residential project (now 58% sold) bolstered sales of RE inventory +51.8%. However, a +4.1% QoQ increase on property expenses, explained by traffic's growth, hindered NOI generation's growth to +0.7%, eroding profitability by –100bps vs 1Q22 to 82%, while EBITDA dropped –8.0% QoQ to P\$762.4 M hurt by the recognition of P\$286 M in other expenses, related to the write-off of some capitalized expenses on La Explanada Aguascalientes' project that was sold at the commercial value of the land. Finally, GICSA reported a –P\$439.3 M net loss, on the back of aforementioned operating performance, a +39.5% higher net comprehensive financial result, amid lower non-cash FX gains and a higher effective tax rate.

**Sells La Explanada Aguascalientes Land for ~P\$400 M.** In addition to the sale of the Lomas Altas office property for P\$1.324 Bn, whose proceeds were partially used for paying down the guaranteed P\$407 M credit with BBAJIO and P\$335 M in loans with Fondo H, Sofoplus, Ficein and Exitus; hence implying over P\$582 M in additional firepower as to further reduce leverage, on which the company continues evaluating their potential use for improving its debt profile, GICSA also announced that on July 7th signed the sale of Explanada Aguascalientes' land for ~P\$ 400 M and that such resources (to be received in 4 equal installments), as agreed on the [CEBUREs restructure](#), will be used for amortizing GICSA15, GICSA17 & GICSA19 issuances by paying 1/2 of aforementioned installments when received, and the remainder upon completion of the transaction. Once available resources were fully deployed, LTA could lower by –130bps to 36.9% vs the 38.2% reported in 2Q22 (38.3% in 1Q22), as per our estimates.

Consolidated Estimates	2Q21A	2Q22A	1Q22A	YoY	QoQ
Total GLA (SQM)	965,534	951,405	980,643	-1.5%	-3.0%
Implied Occupancy Rate (%)	85.2%	83.3%	79.0%	-1.9%	4.3%
Total Revenues (P\$ M)	974.4	1,357.1	1,215.9	39.3%	11.6%
Net Operating Income (NOI) (P\$ M)	743.3	800.3	794.6	7.7%	0.7%
NOI Margin (%)	82.0%	82.0%	83.0%	0.4%	-1.0%
EBITDA (P\$ M)	681.4	762.4	833.2	11.9%	-8.5%
EBITDA Margin (%)	69.9%	56.2%	68.5%	-13.7%	-12.3%
Net Income (P\$ M)	588.5	-439.3	262.6	N.A.	N.A.
Net Margin (%)	60.4%	-32.4%	21.6%	N.A.	N.A.
EPS (P\$)	0.3833	-0.2862	0.1711	N.A.	N.A.

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#### GICSA

#### Speculative Buy

Local Ticker:	GICSA B
Last Price:	P\$ 2.90
Price Target YE2021:	Under Review
Expected Return	
Dividend Yield 2021E:	
Total Potential Return:	
Liquidity:	Low
Market Cap. (P\$ M)	4,350
Enterprise Value (P\$ M):	35,596
52-Week Price Range (P\$):	(1.08 - 3.70)
Free Float:	28.8%
Avg. Daily Trade (P\$ M):	0.7

#### GICSA Price vs. MEXBOL (IPC)

