

## Vesta

# Q4 EBITDA grew 11% Y/Y, in line BofAe; Positive view supported by nearshoring

Reiterate Rating: BUY | PO: 73.60 MXN | Price: 60.52 MXN

## Pre-tax FFO per share = US\$0.0384; beats BofAe by 3%

Vesta's 4Q23 pre-tax funds from operations (FFO) totaled US\$32.6mn, which rose 19% Y/Y and came in line with our estimate. Growth was driven by operating results & lower-than-expected net interest expenses Y/Y. Q4 DPS totaled US\$0.0173, in line with BofAe & Visible Alpha (VA) consensus. Q4 DPS decreased 14% Y/Y due to Vesta's 3Q23 & 4Q23 equity offerings. Finally, Q4 annualized dividend yield totaled 1.9%.

## EBITDA totals US\$44.1mn; up 11% Y/Y, in line with BofAe

Q4 revenue totaled US\$55.9mn, growing 18% Y/Y and came in line with our estimate. Growth was driven by an increase in gross leasable area (GLA) of 11% Y/Y due to the incorporation of new developments and a rise in average rent of 9% Y/Y. Occupancy decreased 171bps Y/Y (up 95bps Q/Q) ending at 93.4% in 4Q23 due to the incorporation of new developments. Moreover, stabilized portfolio occupancy decreased 60bps Y/Y and sequentially ending at 96.7% in Q4. Finally, we highlight that Vesta was able to increase rents by 6.5% on renewals during 2023.

## 2024 revenue growth guidance set at 16% to 17%

A 2024 revenue growth guidance at the top of the range of 17% implies a 2024 revenue guidance of US\$251mn, which is in line with our estimate. Vesta also expects 2024 NOI margin of 94% (in line with BofAe) and an EBITDA margin of 83%, which is 100bps above BofAe.

## Reaffirm Buy with PO offering potential upside of 22%

Our positive view on Vesta is supported by nearshoring tailwinds and driven by automatic annual rent adjustments, high single-digit positive lease spreads on renewals, historic high occupancy levels & growing development pipeline at accretive cap rates.

Estimates(Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	0.26	0.35	0.35	0.20	0.22
EPS Change (YoY)	116.7%	34.6%	0%	-42.9%	10.0%
Consensus EPS (Bloomberg)			0.29	0.17	0.19
DPS	0.08	0.08	0.08	0.07	0.07
ADR EPS (US\$)	2.60	3.50	3.50	2.00	2.20
ADR DPS (US\$)	0.85	0.83	0.79	0.71	0.73
<b>Valuation (Dec)</b>					
P/E	11.4x	8.9x	10.2x	17.7x	16.1x
Dividend Yield	2.9%	2.7%	2.2%	2.0%	2.1%
EV / EBITDA*	26.8x	24.2x	20.9x	17.7x	14.3x
Free Cash Flow Yield*	-0.4%	-9.6%	-7.1%	-12.4%	-4.4%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 5.

21 February 2024

### Equity

**Carlos Peyrelongue >>**  
Research Analyst  
Merrill Lynch (Mexico)  
+52 55 5201 3276  
[carlos.peyrelongue@bofa.com](mailto:carlos.peyrelongue@bofa.com)

**Alan Macias >>**  
Research Analyst  
Merrill Lynch (Mexico)  
+52 55 5201 3433  
[alan.macias@bofa.com](mailto:alan.macias@bofa.com)

**Daniel Rojas Vielman >>**  
Research Analyst  
Merrill Lynch (Mexico)  
+52 55 5201 6248  
[daniel.rojas2@bofa.com](mailto:daniel.rojas2@bofa.com)

### Stock Data

Price (Common / ADR)	60.52 MXN / 35.78 USD
Price Objective	73.60 MXN / 42.30 USD
Date Established	12-Dec-2023 / 12-Dec-2023
Investment Opinion	A-1-8 / A-1-8
52-Week Range	50.90 MXN - 69.00 MXN
Market Value (mn)	53,042 MXN
Free Float	92.4%
Average Daily Value	7.22 USD
Shares Outstanding (mn)	876.4 / 87.6
BofA Ticker / Exchange	VESTF / MEX
BofA Ticker / Exchange	VTMX / NYS
Bloomberg / Reuters	VESTA* MM / VESTA.MX
ROE (2023E)	12.9%
Net Dbt to Eqty (Dec-2022A)	48.4%

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**Refer to important disclosures on page 6 to 9. Analyst Certification on page 4. Price Objective Basis/Risk on page 4.**

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Timestamp: 21 February 2024 07:24PM EST

# iQprofile<sup>SM</sup> Vesta

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	3.6%	4.3%	4.2%	3.7%	4.1%
Return on Equity	13.6%	15.7%	12.9%	7.0%	7.6%
Operating Margin	80.0%	79.9%	77.5%	80.9%	82.3%
Free Cash Flow	(11)	(253)	(224)	(384)	(137)

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	0.3x	0.1x	0.4x	0.1x	0.6x
Asset Replacement Ratio	42.5x	194.1x	189.6x	198.4x	130.4x
Tax Rate	32.1%	16.5%	22.5%	32.0%	32.0%
Net Debt-to-Equity Ratio	33.2%	48.4%	21.0%	38.3%	44.6%
Interest Cover	2.6x	3.1x	3.6x	3.7x	3.7x

## Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	161	178	214	251	306
% Change	7.3%	10.7%	20.1%	17.5%	21.8%
Gross Profit	150	167	195	231	283
% Change	7.4%	11.0%	16.8%	18.9%	22.4%
EBITDA	136	150	174	206	254
% Change	7.6%	10.6%	15.9%	18.3%	23.2%
Net Interest & Other Income	127	149	173	51	37
<b>Net Income (Adjusted)</b>	<b>174</b>	<b>243</b>	<b>262</b>	<b>173</b>	<b>196</b>
<b>% Change</b>	<b>163.5%</b>	<b>39.8%</b>	<b>7.9%</b>	<b>-34.2%</b>	<b>13.6%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	174	243	262	173	196
Depreciation & Amortization	2	1	2	2	2
Change in Working Capital	56	(23)	45	(60)	27
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	(174)	(189)	(196)	(90)	(100)
Capital Expenditure	(68)	(285)	(337)	(409)	(262)
<b>Free Cash Flow</b>	<b>-11</b>	<b>-253</b>	<b>-224</b>	<b>-384</b>	<b>-137</b>
<b>% Change</b>	<b>23.3%</b>	<b>NM</b>	<b>11.5%</b>	<b>-71.6%</b>	<b>64.3%</b>
Share / Issue Repurchase	NA	NA	NA	NA	NA
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	90	(3)	(3)	250	330

## Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	453	139	423	215	332
Trade Receivables	NA	NA	NA	NA	NA
Other Current Assets	29	63	76	86	97
Property, Plant & Equipment	2,265	2,739	3,272	3,770	4,132
Other Non-Current Assets	13	11	13	16	20
<b>Total Assets</b>	<b>2,760</b>	<b>2,952</b>	<b>3,784</b>	<b>4,088</b>	<b>4,581</b>
Short-Term Debt	3	5	5	5	5
Other Current Liabilities	64	63	113	30	31
Long-Term Debt	932	927	924	1,174	1,504
Other Non-Current Liabilities	307	318	328	363	404
<b>Total Liabilities</b>	<b>1,306</b>	<b>1,313</b>	<b>1,370</b>	<b>1,573</b>	<b>1,943</b>
<b>Total Equity</b>	<b>1,454</b>	<b>1,639</b>	<b>2,414</b>	<b>2,515</b>	<b>2,638</b>
<b>Total Equity &amp; Liabilities</b>	<b>2,760</b>	<b>2,952</b>	<b>3,784</b>	<b>4,088</b>	<b>4,581</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 5.

## Company Sector

Real Estate/Property

## Company Description

Vesta is a pure-play developer, owner, and operator of industrial real estate properties in Mexico that began operations in 1998. Vesta's portfolio consists of 202 industrial properties that cater to the light manufacturing and logistics sectors. The company has a total gross leasable area of 34.6 million square feet located in four main regions covering the most important trade corridors and economic clusters in Mexico.

## Investment Rationale

Our Buy rating on Vesta is supported by automatic annual rent adjustments, high single-digit positive lease spreads on renewals, historic high occupancy levels and a growing development pipeline at accretive cap rates. With sold-out markets and expected multi-year solid demand, we see any capital raise as accretive as Vesta trades at a 5.1% NOI cap rate today, and we estimate that Vesta can develop assets with new capital at 9% to 10% cap rates.

## Stock Data

Average Daily Volume	2,035,206
Shares / ADR	10.00

## Quarterly Earnings Estimates

	2022	2023
Q1	0.07A	0.08A
Q2	0.08A	0.14A
Q3	0.09A	0.09A
Q4	0.11A	0.04E

## Q4 review

### Exhibit 1: Vesta: 4Q23 results summary (US\$mn, except pre-tax FFO per share and DPS)

Q4 EBITDA grew 11% Y/Y, in line BofAe while pre-tax FFO/share decreased 4% Y/Y that beat BofAe by 3%

	4Q22A	4Q23A	4Q23A / 4Q22A	4Q23A / 4Q23E BofA	4Q23E BofA
Revenues	47.4	55.9	17.9%	0.9%	55.4
NOI	44.6	53.0	18.8%	4.0%	51.0
EBITDA	39.8	44.1	10.9%	-0.1%	44.1
Pre-tax FFO	27.5	32.6	18.5%	-0.4%	32.7
DPS	0.0202	0.0173	-14.4%	0.4%	0.0172
Pre-tax FFO per share	0.0400	0.0384	-3.9%	2.8%	0.0374

**Source:** BofA Global Research estimates, company report

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## Price objective basis & risk

### Vesta (VESTF / VTMX)

Our price objective of P\$73.6 per share (US\$42.3 per ADS) for Vesta is based on a discounted cash flow (DCF) to equity model that captures Vesta's expected growth for the next ten years, during which we expect the company to increase the size of its asset portfolio through the development of industrial properties to 84.5mn SF up from 34.6mn SF in 2Q23.

Our DCF base-case scenario uses a terminal growth rate of 4.5% in nominal US dollar terms. Our cost of equity of 9.3% assumes a US risk-free rate of 3%, a country risk premium of 3.5%, a long-term devaluation of 2%, an equity risk premium of 5.7% and a beta of 0.461.

Upside risks to our price objective are 1) higher trade between the US and Mexico, 2) higher-than-expected GDP growth in the US and Mexico, 3) lower-than-expected interest rate hikes, and 4) lower-than-expected competition, translating into lower rental rates, causing higher tenant retention.

Downside risks are 1) a greater-than-anticipated reshoring of manufacturers to the US and not into Mexico and 2) delays in development projects and in leasing ramp-up of recently completed development projects.

## Analyst Certification

I, Carlos Peyrelongue, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

### Latin America - Mexico Construction/Homebuilders & RE Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
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	Danhos	GRFF	DANHOS13 MM	Carlos Peyrelongue
	FIBRA Macquarie Mexico	DBMBF	FIBRAMQ MM	Carlos Peyrelongue
	GCC, S.A.B. de C.V.	GCWOF	GCC* MM	Carlos Peyrelongue
	Grupo Aeroportuario del Centro Norte	OMAB	OMAB US	Carlos Peyrelongue
	Grupo Aeroportuario del Centro Norte	GAERF	OMAB MM	Carlos Peyrelongue
	Grupo Aeroportuario del Sureste	ASR	ASR US	Carlos Peyrelongue
	Grupo Aeroportuario del Sureste	ASRMF	ASURB MM	Carlos Peyrelongue
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	Vesta	VTMX	VTMX US	Carlos Peyrelongue
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<b>RSTR</b>				
	FUNO	FBASF	FUNO11 MM	Carlos Peyrelongue

## iQmethod<sup>SM</sup> Measures Definitions

### Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

### Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

### Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

### Numerator

$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) \times (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

### Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

### Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

$\text{EV} = \text{Current Share Price} \times \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} +$

Other LT Liabilities

Enterprise Value

### Denominator

$\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill}$

Amortization

Shareholders' Equity

Sales

N/A

N/A

### Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

### Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

$\text{Market Cap} = \text{Current Share Price} \times \text{Current Basic Shares}$

Sales

Basic EBIT + Depreciation + Amortization

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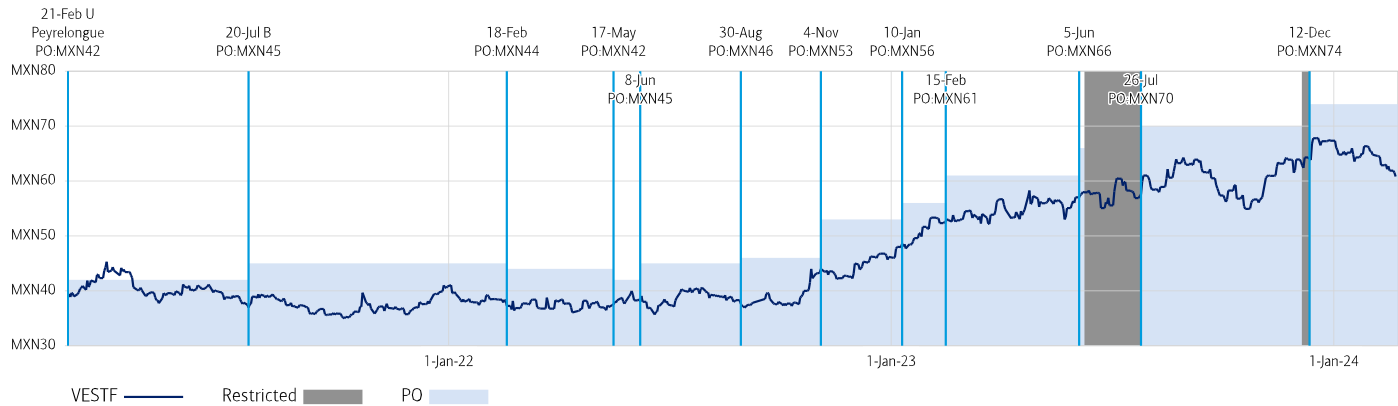
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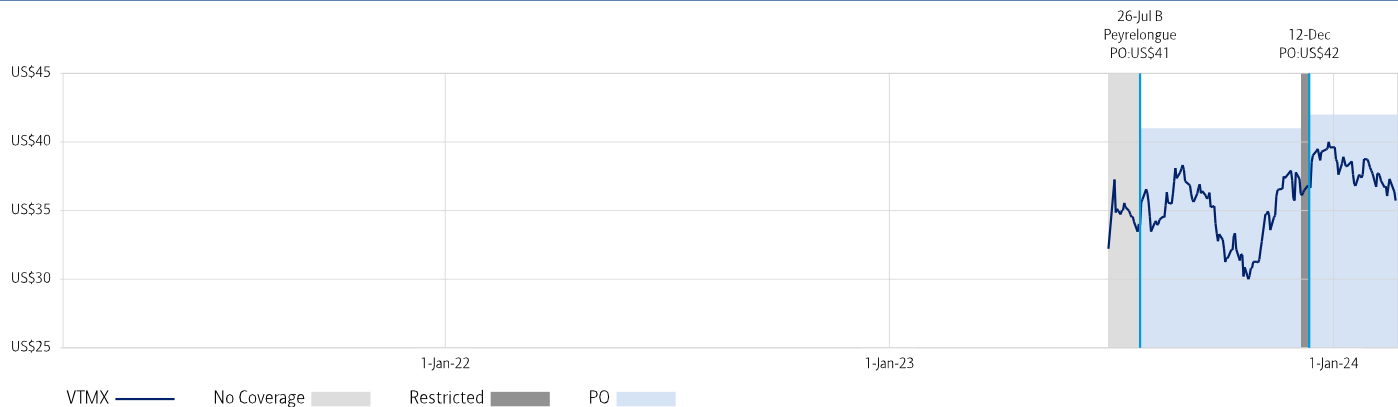
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### Vesta (VESTF) Price Chart



The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

### Vesta (VTMX) Price Chart



The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

### Equity Investment Rating Distribution: Real Estate/Property Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	68	61.26%	Buy	22	32.35%
Hold	20	18.02%	Hold	6	30.00%
Sell	23	20.72%	Sell	7	30.43%

### Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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<sup>R2</sup>Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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