

## Grupo Aeroportuario del Centro Norte

# Q4 delivered double-digit Y/Y growth; Focus is on navigating 2024

Maintain Rating: BUY | PO: 182.10 MXN | Price: 151.63 MXN

## Traffic & higher tariffs drive Q4 cash revenue, +13.5% Y/Y

Oma's Q4 cash revenue totaled P\$2.9bn, in line BofAe but 3% below the Visible Alpha (VA) consensus. Double-digit Y/Y growth was driven by a 5% Y/Y increase in traffic coupled with higher Y/Y tariffs. Q4 aeronautical revenues totaled P\$2.2bn, growing 13.4% Y/Y, while non-aeronautical (commercial) revenues reached P\$687mn, increasing 13.9% Y/Y.

## Adj. EBITDA margin rose 191bps Y/Y ending at 77.7%

Q4 EBITDA totaled P\$2.3bn, increasing 16% Y/Y and beating BofAe by 1% and came in line with VA consensus. Double-digit Y/Y growth was supported by top-line growth coupled with good cost and expense controls with payroll costs decreasing 10% Y/Y.

## And EPS rose 11% Y/Y beating BofAe by 1%

Q3 EPS totaled P\$3.24, 3% below VA consensus. EPS growth was supported by operating results that were partially offset by higher taxes Y/Y.

## Maintain Buy on nearshoring exposure

Oma trades at a 2024E EV/EBITDA multiple of 7.6x, which is 1% below its three-year historical average multiple, while it offers a 2.8% decrease in 2024E EBITDA. Oma is set to deliver a 2% traffic growth in 2024E on the back of nearshoring tailwinds and despite an expected economic slowdown in Mexico, higher concession fees, and airline aircraft capacity constraints. Over 70% of Oma's airport traffic has exposure to nearshoring, the highest among Mexican peers (Gap: 65% and Asur: 0%). In addition, we estimate that Oma will maintain the highest 2024E EBITDA margin versus Mexican peers (Oma: 73.5%, Asur: 68.1%, Gap: 64.9%).

Estimates(Dec) (MXN)	2021A	2022A	2023E	2024E	2025E
EPS	7.32	10.10	12.95	12.60	13.60
EPS Change (YoY)	161.4%	38.0%	28.2%	-2.7%	7.9%
Consensus EPS (Bloomberg)			13.21	12.18	13.65
DPS	5.07	17.10	5.96	6.56	7.22
ADR EPS (US\$)	2.88	4.04	5.70	5.08	5.36
ADR DPS (US\$)	1.96	6.68	2.66	2.62	2.78
Valuation (Dec)					
P/E	20.7x	15.0x	11.7x	12.0x	11.1x
Dividend Yield	3.3%	11.3%	3.9%	4.3%	4.8%
EV / EBITDA*	11.8x	8.5x	6.7x	6.9x	6.3x
Free Cash Flow Yield*	5.4%	5.6%	6.3%	7.6%	8.5%

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

23 February 2024

### Equity

**Carlos Peyrelongue >>**

Research Analyst  
Merrill Lynch (Mexico)  
+52 55 5201 3276  
carlos.peyrelongue@bofa.com

**Alan Macias >>**

Research Analyst  
Merrill Lynch (Mexico)  
+52 55 5201 3433  
alan.macias@bofa.com

**Daniel Rojas Vielman >>**

Research Analyst  
Merrill Lynch (Mexico)  
+52 55 5201 6248  
daniel.rojas2@bofa.com

### Stock Data

Price (Common / ADR)	151.63 MXN / 70.96 USD
Price Objective	182.10 MXN / 85.50 USD
Date Established	19-Feb-2024 / 19-Feb-2024
Investment Opinion	B-1-8 / C-1-8
52-Week Range	112.00 MXN - 213.64 MXN
Market Value (mn)	58,555 MXN
Free Float	80.6%
Average Daily Value	9.07 USD
Shares Outstanding (mn)	386.2 / 49.6
BofA Ticker / Exchange	GAERF / MEX
BofA Ticker / Exchange	OMAB / NAS
Bloomberg / Reuters	OMAB MM / OMAB.MX
ROE (2023E)	54.4%
Net Dbt to Eqty (Dec-2022A)	80.0%

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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: 23 February 2024 02:30AM EST

# iQprofile<sup>SM</sup> Grupo Aeroportuario del Centro Norte

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

(MXN Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	16.3%	21.8%	26.7%	22.7%	21.7%
Return on Equity	25.9%	39.4%	54.4%	44.3%	39.2%
Operating Margin	47.1%	50.8%	56.4%	53.9%	54.3%
Free Cash Flow	3,148	3,301	3,695	4,449	4,994

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

(MXN Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	1.8x	1.5x	1.3x	1.6x	1.5x
Asset Replacement Ratio	4.0x	4.8x	4.5x	4.7x	4.0x
Tax Rate	25.3%	26.0%	26.9%	26.9%	27.0%
Net Debt-to-Equity Ratio	15.2%	80.0%	87.3%	71.5%	59.2%
Interest Cover	15.0x	7.9x	7.5x	8.0x	8.3x

## Income Statement Data (Dec)

(MXN Millions)	2021A	2022A	2023E	2024E	2025E
Sales	8,720	11,935	14,009	14,132	15,092
% Change	62.5%	36.9%	17.4%	0.9%	6.8%
Gross Profit	7,938	11,011	12,916	12,961	13,833
% Change	72.5%	38.7%	17.3%	0.3%	6.7%
EBITDA	5,110	7,088	9,036	8,780	9,581
% Change	100.5%	38.7%	27.5%	-2.8%	9.1%
Net Interest & Other Income	(275)	(772)	(1,053)	(955)	(993)
<b>Net Income (Adjusted)</b>	<b>2,857</b>	<b>3,901</b>	<b>4,999</b>	<b>4,865</b>	<b>5,252</b>
<b>% Change</b>	<b>161.1%</b>	<b>36.5%</b>	<b>28.2%</b>	<b>-2.7%</b>	<b>8.0%</b>

## Free Cash Flow Data (Dec)

(MXN Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	2,857	3,901	4,999	4,865	5,252
Depreciation & Amortization	487	551	647	663	724
Change in Working Capital	1,000	(111)	(1,302)	(47)	(314)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	766	1,612	2,257	2,093	2,226
Capital Expenditure	(1,962)	(2,653)	(2,906)	(3,125)	(2,895)
<b>Free Cash Flow</b>	<b>3,148</b>	<b>3,301</b>	<b>3,695</b>	<b>4,449</b>	<b>4,994</b>
<b>% Change</b>	<b>NM</b>	<b>4.8%</b>	<b>12.0%</b>	<b>20.4%</b>	<b>12.2%</b>
Share / Issue Repurchase	(465)	31	(1,430)	0	0
Cost of Dividends Paid	(1,980)	(6,616)	(2,303)	(2,533)	(2,786)
Change in Debt	3,161	2,488	491	1,000	0

## Balance Sheet Data (Dec)

(MXN Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	5,987	3,336	2,103	2,981	3,020
Trade Receivables	1,309	1,276	2,108	1,837	1,957
Other Current Assets	480	981	1,066	1,318	1,417
Property, Plant & Equipment	2,724	2,566	3,079	5,541	7,712
Other Non-Current Assets	12,388	14,910	16,683	16,723	16,765
<b>Total Assets</b>	<b>22,889</b>	<b>23,070</b>	<b>25,038</b>	<b>28,401</b>	<b>30,872</b>
Short-Term Debt	2,700	2,700	0	0	0
Other Current Liabilities	2,202	2,559	2,174	2,108	2,013
Long-Term Debt	4,997	7,484	10,675	11,675	11,675
Other Non-Current Liabilities	1,752	1,772	2,367	2,463	2,563
<b>Total Liabilities</b>	<b>11,651</b>	<b>14,515</b>	<b>15,217</b>	<b>16,247</b>	<b>16,252</b>
<b>Total Equity</b>	<b>11,238</b>	<b>8,555</b>	<b>9,821</b>	<b>12,154</b>	<b>14,620</b>
<b>Total Equity &amp; Liabilities</b>	<b>22,889</b>	<b>23,070</b>	<b>25,038</b>	<b>28,401</b>	<b>30,872</b>

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

## Company Sector

Airports

## Company Description

Grupo Aeroportuario del Centro Norte (OMA) operates and maintains 13 airports in central and northern Mexico with a market share in Mexico passenger traffic of 14%. OMA serves more than 23 million passengers. Its largest airport is located in Monterrey, Mexico's third largest city.

## Investment Rationale

The stock price correction due to new government regulation on airport tariffs has been overdone as we expect a small change to the IRR of OMA's concessions. Thus, our OMA PO offers an upside potential that supports our Buy rating.

## Stock Data

Average Daily Volume	1,024,632
Shares / ADR	NA

## Quarterly Earnings Estimates

	2022	2023
Q1	1.94A	2.79A
Q2	2.39A	3.29A
Q3	2.84A	3.65A
Q4	2.93A	3.21E

## Q4 review

### Exhibit 1: Oma: 4Q23 results summary (P\$mn, except for EPS)

Q4 adjusted EBITDA grew 16% Y/Y that beat our estimate by 1%

	4Q22A	4Q23A	Difference 4Q23A / 4Q22A	BofA 4Q23E	4Q23A / 4Q23E	Visible Alpha consensus 4Q23E	4Q23A / Consensus
Cash revenues	2,559	2,905	14%	2,903	0%	3,003	-3%
Adjusted EBITDA	1,939	2,256	16%	2,236	1%	2,262	0%
Majority net income	1,130	1,252	11%	1,239	1%	1,320	-5%
Majority EPS	2.93	3.24	11%	3.21	1%	3.35	-3%
Adjusted EBITDA margin	75.8%	77.7%	191bps	77.0%	64bps	75.4%	231bps

	4Q22A	4Q23A	Difference 4Q23A / 4Q22A	4Q23A	4Q23A / 4Q23E	Visible Alpha consensus 4Q23E	4Q23A / Consensus
Traffic, PAX (millions)	6.5	6.8	5%	6.8	0%	7.1	-4%

**Source:** BofA Global Research estimates, company report, Visible Alpha consensus

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## Price objective basis & risk

### Grupo Aeroportuario del Centro Norte (GAERF)

Our OMA price objective of P\$182.1 per share (US\$85.5 per ADS) is based on a discounted free cash flow to equity (FCFE) valuation model. Our discounted FCFE analysis uses a 12.5% cost of equity in nominal pesos. Our cost of equity assumes a risk free rate of 3%, sovereign risk premium of 3.5%, a long-term Peso/USD devaluation of 200bps, a 5.7% equity risk premium and a Beta of 1.06. To calculate the termination value in our valuation method we apply a perpetuity of 4% in Peso nominal terms.

Downside risks to our PO: If economic growth is slower than expected, then OMA's results could surprise to the downside. Moreover, the approval of new legislation regarding Mexican concessions could also put downward pressure on OMA's stock price. Finally, if the engine recall impact is larger-than-expected, OMA's results could surprise on the downside.

Upside risks: higher-than-expected recovery in economic growth and faster-than-expected recovery in business travel.

### Grupo Aeroportuario del Centro Norte (OMAB)

Our OMA price objective of P\$182.1 per share (US\$85.5 per ADS) is based on a discounted free cash flow to equity (FCFE) valuation model. Our discounted FCFE analysis uses a 12.5% cost of equity in nominal pesos. Our cost of equity assumes a risk free rate of 3%, sovereign risk premium of 3.5%, a long-term Peso/USD devaluation of 200bps, a 5.7% equity risk premium and a Beta of 1.06. To calculate the termination value in our valuation method we apply a perpetuity of 4% in Peso nominal terms.

Downside risks to our PO: If economic growth is slower than expected, then OMA's results could surprise to the downside. Moreover, the approval of new legislation regarding Mexican concessions could also put downward pressure on OMA's stock price. Finally, if the engine recall impact is larger-than-expected, OMA's results could surprise on the downside.

Upside risks: higher-than-expected recovery in economic growth and faster-than-expected recovery in business travel.

## 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
<b>BUY</b>				
	Cemex	CX	CX US	Carlos Peyrelongue
	Danahos	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
	Grupo Mexico Transportes	GMXTF	GMXT* MM	Carlos Peyrelongue
	Grupo Traxion SAB de CV	GRPOF	TRAXIONA MM	Carlos Peyrelongue
	Vesta	VESTF	VESTA* MM	Carlos Peyrelongue
	Vesta	VTMX	VTMX US	Carlos Peyrelongue

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

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>NEUTRAL</b>	FIBRA Prologis	FBPBF	FIBRAPL MM	Carlos Peyrelongue
	GAP	PAC	PAC US	Carlos Peyrelongue
	Grupo Aeroportuario del Pacifico	GPAEF	GAPB MM	Carlos Peyrelongue
	PINFRA	PYOIF	PINFRA* MM	Alan Macias
<b>UNDERPERFORM</b>	Cencosho	XCWCF	CENCOSHO CI	Carlos Peyrelongue
	Loma Negra Cia Industrial Argentina	LOMA	LOMA US	Carlos Peyrelongue
	Parque Arauco	XNNJF	PARAUCO CI	Carlos Peyrelongue
<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**

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + 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 &amp; Equivalents

EBIT

**Numerator**

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

**Denominator**

Total Assets – Current Liabilities + ST Debt + 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

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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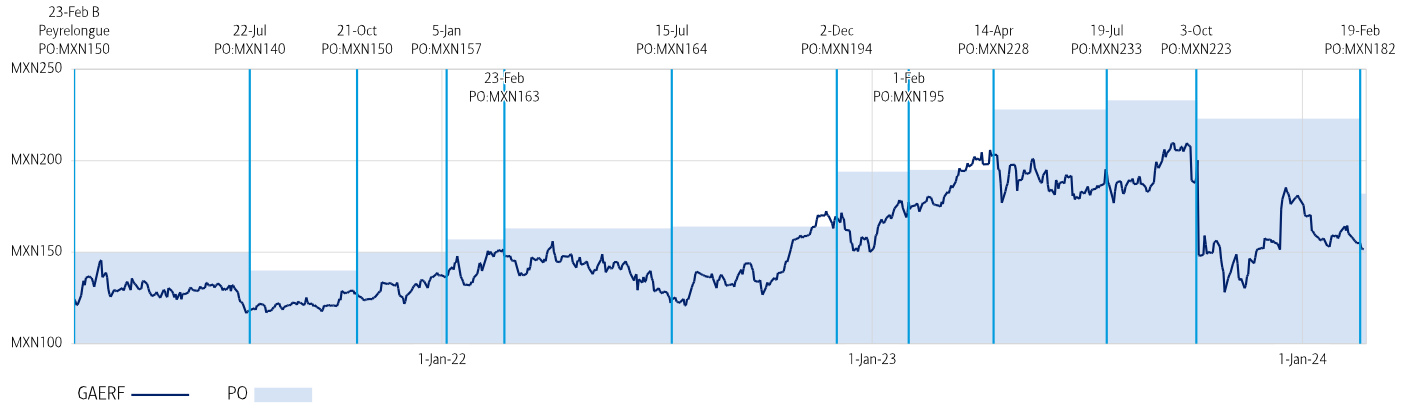
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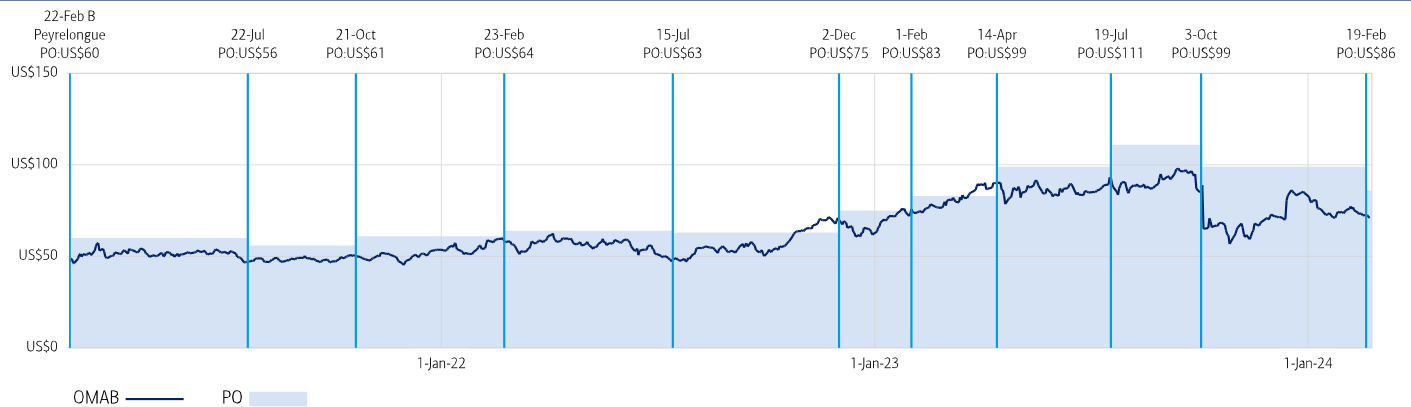
### OMA (GAERF) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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.

### OMA (OMAB) Price Chart



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### Equity Investment Rating Distribution: Transport/Infrastructure Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	67	50.38%	Buy	44	65.67%
Hold	31	23.31%	Hold	13	41.94%
Sell	35	26.32%	Sell	17	48.57%

### 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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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<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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