



**Grupo Aeroportuario del Sureste  
2Q17 Earnings Call Transcript  
Draft 3**

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**Operator:** Good day, ladies and gentlemen, and welcome to the ASUR Second Quarter 2017 Results Conference Call. My name is Denise and I'll be your operator. At this time, all participants are in a listen-only mode. We will conduct a question and answer session towards the end of today's conference. If you would like to ask a question, please press \* followed by 1. You may withdraw your question at any time by pressing \* followed by 2. If you are using a speakerphone, please lift the handset before making your selection. As a reminder today's call is being recorded.

For opening remarks and introductions, I'd like to turn this call over to Mr. Adolfo Castro, Chief Executive Officer. Please go ahead.

**Adolfo Castro, ASUR Chief Executive Officer:** Thank you, Denise, and good morning, everyone. Thank you for joining us on our conference call to discuss our second quarter results.

Allow me to remind you that certain statements made during the course of our discussion today may constitute forward-looking statements which are based on current management expectations and beliefs and are subject to a number of risks and uncertainties that could cause actual results to differ materially, including factors that may be beyond our Company's control. For an explanation of these risks, please refer to our filings with the Securities and Exchange Commission and the Mexican Stock Exchange.

Now, onto the results. We reported a strong quarter, driven by solid results in both our Mexican and Puerto Rican operations.

Starting with traffic, which was strong this quarter. A total of 10.4 million passengers travelled through our airports, up 12.3% year-on-year, driven by solid growth in Mexico and Puerto Rico.

Traffic in Mexico was up 14.6%, benefitting from the positive impact of the Easter Holiday in April and the depreciation of the peso. This brought domestic traffic up 18% reaching 3.6 million passengers as more people are traveling to leisure destinations in the country, with Cancun posting an impressive 24% increase.

International traffic growth remained strong at 12% also supported by the attractive exchange rate. In general, traffic at our other Mexican airports was healthy, while Minatitlan continued to face the challenging oil industry environment. Passenger traffic between Mexico, Canada and the United States represented 88% of the total traffic.

Puerto Rico also reported solid traffic growth in the quarter - up 5%, driven by a good performance in both international and domestic traffic.

Now moving to the financials. An important event during the quarter was our increased ownership in Aerostar to 60% from our prior 50% stake. Accordingly, starting June 1, we began to fully consolidate Aerostar results on a line by line basis, while prior to that ASUR's ownership in Aerostar was accounted for by the equity method.

As you read in the press release published yesterday, we provided both as reported consolidated results, as well as the stand-alone results for Aerostar for June 2017, and for the full quarter and first half of the year. This should better help you understand the impact and assist you for modeling purposes.

In the interest of time, I will go over our consolidated results and then review the performance of Aerostar for the full second quarter of 2017 compared to 2Q16 to give you a better perspective of this operation.

Consolidated revenues for the quarter, excluding construction services, rose 35% year-on-year, with Aerostar June results representing 12% of revenues ex-construction.

Aeronautical revenues were also strong - up 37% year-on-year, reflecting traffic growth and the inclusion of one month of aeronautical revenues from Aerostar which represented 10% of total aeronautical revenues for the quarter.

We posted another quarter of strong commercial revenue growth - up 34%, with Aerostar June results representing 7% of consolidated commercial revenues.

Consolidated commercial revenues per passenger increased 5% to 102 pesos. In Mexico, where we have been operating our airports for a much longer term, commercial revenues per passenger were approximately 105 pesos. Note this was a slight decline from the 1Q17 levels, which has to do with the spending behavior of the passengers that traveled in the second quarter, which includes a larger number of families with children that spend on a per passenger basis less. We believe we have found a new level for commercial revenues per passenger and expect the opening of Terminal 4 at Cancun airport to give this another boost. Do not forget to apply the seasonality for commercial revenues per passengers.

Commercial revenues per passenger at Aerostar in June were slightly over 80 pesos. I will provide more color on the trends we have been seeing at Aerostar and our goals in a few minutes when I go over the stand-alone Aerostar results.

Operating costs and expenses, ex-construction costs, were up 36% year-over-year, with Aerostar operations in June representing 19% of costs of services.

In Mexico, costs ex-construction, rose 17% mainly driven by cost of services, as a result of higher energy costs, as the cost per kilowatt hour increased by 46% year over year. Also during the quarter, we had higher maintenance expenses, as well as additional costs in connection with the acquisitions we are making. Higher cost of sales from the 21% increase in revenues from commercial revenues from direct operations, also contributed to the increase in cost of services.

Looking ahead, we expect costs in Mexico to increase further in the third quarter as we will begin the hiring process in anticipation of the opening of Terminal 4 planned for the fourth quarter of the year. These new employees will need training prior to the opening of our terminal.

Consolidated EBITDA was up 34% year-on-year, reaching 1.8 billion pesos, with Aerostar June results contributing 7% of EBITDA. Adjusted EBITDA margin, which excludes construction revenue and costs, declined roughly 50 basis points year-on-year to 71.3% reflecting the lower comparative EBITDA margin of Aerostar. Note however, that EBITDA margin at Aerostar has improved year-to-date.

EBITDA of our Mexican operations, in turn, posted a solid performance up 24% year-on year with Adjusted EBITDA increasing to 1,658 million pesos.

Our participation in Aerostar during April and May resulted in a gain of 44 million pesos, down 25% from 58 million in the full second quarter of 2016.

Moving on to capital expenditures, ASUR invested a total of 308 million pesos in the quarter; of which 276 million were allocated to our Mexican operations, in particular the construction of Terminal 4 which we expect to open in the fourth quarter of this year. The remaining 33 million were invested at San Juan airport in June.

In terms of our financial position, total debt increased to 11 billion pesos in the quarter, from 4 billion in 2Q16, mainly reflecting debt held at Aerostar. As a result, we closed the quarter with a healthy balance sheet, with a net debt to last twelve months EBITDA ratio of 1.3 times, compared with 0.3 times at the close of 2Q16.

Note that 100% of our debt is denominated in US dollars, for a total of 634 million dollars, with no major maturities until the year 2020. Of this, 60% represents senior secured notes at Aerostar and the remainder 40% are syndicated credit facilities at Cancun.

Now, let me review the key highlights of our Aerostar stand-alone results for the full second quarter.

To put results in perspective, this is the first full year of operations after completing the strategic plan that we began to implement when we were awarded this concession four years ago. The implementation of our original concept concluded in the second quarter of 2016. This plan was centered on two key objectives. The first was to increase commercial revenue per passenger and bring it closer to the levels at Cancun airport. While we have made significant progress to-date, we continue to fine-tune operations to get closer to our goal. The second objective was to reduce operational costs. We have achieved a 14% cost reduction in dollar terms and a 60% increase in commercial revenues taking into account the last twelve months of Aerostar results, against the first twelve months after we took over.

Revenues at LMM Airport rose by slightly over 4% year-on-year to 667 million pesos, mainly due to the 4% growth in aeronautical revenues, which represented 67% of LMM's top line. Commercial revenues, in turn, rose around 5% in the quarter reflecting the positive impact from the remodeling completed last year and traffic growth. In the first half, revenues at LMM were up 8% year-on-year.

Commercial Revenues per Passenger for the quarter rose 10 basis points to 89.8 pesos. Note that in the first half of the year, commercial revenues per passenger rose an impressive 730 basis points to almost 98 pesos, from 91 pesos in the first half of 2016.

Operating costs were up 3% year-over-year driven mainly by higher cost of services, which represented 72% of total costs. While concession fees, paid to the Puerto Rican government rose 10%.

Finally, Aerostar EBITDA rose 4% year-on-year, to 385 million pesos, with EBITDA margin up 7 basis points to 57.8% in 2Q17 reflecting higher operating leverage and the benefit from the completion of the remodeling plan last year. Notably, in the first half of the year, Aerostar posted a 204 basis points year-on-year improvement in EBITDA margin.

Before we open the floor for questions, note that we are still waiting for the approval from the Colombian Government to conclude the acquisition of a majority interest of two airport groups in that country. We expect to receive such approval during the third quarter this year and if that occurs, we will consolidate the financial results of these operations into our third quarter financial reports.

This completes my prepared remarks. I will now open the call for questions. Operator - Please Denise, go ahead.

**Operator:**

Thank you. Again, to the audience, it is star, then one for questions. Again, please make sure your mute function is turned off or that your handset is picked up before pressing the corresponding digits.

We'll take our first question from Mauricio Martinez GBM.

**Mauricio Martinez:**

Hey. Good morning Adolfo. Thank you for taking my question. My question will be on the acquisition of Aerostar and specifically in the cash paid for this business, should we expect that the Ps.726 million is the amount that you paid for these 10% of the business?

**Operator:**

Please stand by. Please stand by ladies and gentlemen. Please stand by as we reconnect our presenter.

**Adolfo Castro:**

Hello.

**Operator:**

Senor Castro.

**Adolfo Castro:**

Sorry. I'm here.

**Operator:**

It's okay.

**Adolfo Castro:**

Sorry.

Mr. Martinez, if you would repeat your question.

**Mauricio Martinez:**

Sure. Sure.

**Adolfo Castro:**

Sorry, I don't know why the phones are not working properly. Mauricio, I was saying that the price for the 50% of the equity in LMM was US\$430 million, and also in the case of the 10% is something that you can see in our financials.

**Mauricio Martinez:**

Thanks. My second question would be on the working capital changes that if you can elaborate on the main effects within the hike in accounts payable, and if this has anything to do with the Aerostar consolidation.

**Adolfo Castro:**

Well, a piece of that is the consolidation of course, but the other piece is reflecting the higher volumes during the first quarter of the year...

**Mauricio Martinez:**

Okay.

**Adolfo Castro:**

... in terms of sales.

**Mauricio Martinez:**

Okay, perfect. My last question would be regarding EBITDA margins in Puerto Rico. You just reported the margin closer to 56% for the first half of 2016. Is that level fair to assume margin levels for the second half of 2016, or should be lower, or what kind of normalized margin should we expect in that business?

**Adolfo Castro:**

Okay. Let me try to elaborate on that one. The second half of Puerto Rico in terms of margins is lower because of seasonality things, so if you go back and see the quarters in terms of passenger traffic of last year, you will be able to see the same seasonality this year. So, during the second quarter the margin decreases significantly against the first quarter. That's the first piece. The second piece is that in terms of the concession fee we have to pay for the government in the future, not the second quarter, but in the future it will increase because the first five years it took US\$2.5 million and then it's going to be 5% of the revenues. So, that is important for next year. But, in terms of a normal operation, yes, we have normalized operation if you consider the seasonality for the second quarter.

**Mauricio Martinez:**

Perfect. Very helpful, Adolfo. Thank you.

**Adolfo Castro:**

You're welcome.

**Operator:**

Our next question today comes from Lucas Barbosa. Please go ahead.

**Lucas Barbosa:**

Good morning Adolfo. Thanks for taking my question. My question is just regarding the airline situation. We have seen Mexican Airlines losing profitability in the first half. Airlines are now starting to talk about capacity discipline in Mexico. Do you expect traffic growth to decelerate in the coming quarters? That's my question. Thank you very much.

**Adolfo Castro:**

Well, I have not seen any reduction in terms of capacity for the moment. Of course, what you are saying it's going to be important for them in some of the flights they have. As of today, the load factor we have seen in most of our domestic traffic has been more than 80%, which is extremely good, so I don't believe that with these load factors they will disconnect or cancel some of the capacity they have with us. Of course, there are some specific routes that are

suffering, small ones in terms of the overall, but I do not expect a major reduction in terms of capacity for the second quarter.

**Lucas Barbosa:**

Okay, thank you very much.

**Adolfo Castro:**

You're welcome.

**Operator:**

Once again, ladies and gentlemen, that is star, one if you would like to ask a question.

We'll take another question. Our next question comes from Magdalena Santana.

**Magdalena Santana:**

Hi Adolfo. I just have one question. Do you have any insights regarding the next master development plan review that you will have the next year?

**Adolfo Castro:**

Well, the only thing that I can say to you is that I will have to present my proposal to the government at the end of this year.

**Magdalena Santana:**

At the end of this year. Okay. Do you see that—do you have any estimate that probably they can quote you the—they will do something with the tariff? What is your expectation on tariff review?

**Adolfo Castro:**

I do not have any comments for that at the moment.

**Magdalena Santana:**

Okay. Okay. Thank you very much.

**Adolfo Castro:**

You're welcome.

**Operator:**

Our next question comes from Francisco Suarez.

**Francisco Suarez:**

Hi. Thank you for the call. Sorry if this was asked earlier. I just arrived to the call. I was curious, Adolfo, on the commercial revenues per passenger in San Juan de Puerto Rico, what are the chances to increase the overall—the revenues per passenger on commercial revenues—sorry, per passenger on San Juan?

**Adolfo Castro:**

Well, I would say there's some chances to increase that, that's for sure. We're still working on that. The other probably important thing to see in San Juan Airport is the other activities that are not related strictly to commercial revenues or the commercial revenues definition we have in the case of Cancun. Let me explain myself there. Some other activities that we have or that could receive revenue in the case of San Juan to Puerto Rico that we do not receive in the case of the Mexican airports and those are basically cargo activities and—well the most important, cargo activities and the fuel. Those are things that are also important in the case of San Juan, Puerto Rico.

So, I will recommend you to see or to try to divide the revenue in San Juan Puerto Rico as regulated and the other, okay. So, if we think about regulated revenue, that is the US\$62 million we are allowed to charge every year, plus, something that is called passenger facility charges that is roughly numbers around US\$3.9 per passenger so departing passenger is 3.9 departing passengers. So, if you add these two—those are—those should be regulated revenues as a concept, okay. The rest is of course commercial activities plus what I was mentioning. So, if you make this number, you will get the number of non-regulated revenues per passenger of Ps.112.8 per passenger.

**Francisco Suarez:**

Hmm. Now that makes more sense because I was really surprised to see the low figure of the 88 figure (inaudible). That's very helpful Adolfo. Thank you for that.

**Operator:**

Again, to the audience, it is star, one if you would like to ask a question. Again, please make sure your mute function is turned off or the handset is picked up before pressing the corresponding digits. Again, that's star, one if you would like to ask a question. We'll pause for one more moment.

There appear to be no further questions at this time. I'll turn the conference back over to Mr. Castro.

**Adolfo Castro:**

Thank you, Denise. Thank you everybody for joining us today on this conference call for the second quarter results. Have a great weekend.

**Operator:**

Ladies and gentlemen, that does conclude today's conference. Thank you for your participation. You may now disconnect.