



**Grupo Aeroportuario del Sureste  
3Q20 Earnings Call Transcript**

**C O R P O R A T E P A R T I C I P A N T S**

**Adolfo Castro Rivas**, *Chief Executive Officer*

**C O N F E R E N C E C A L L P A R T I C I P A N T S**

**Alan Macias**, *Bank of America*

**Alejandro Zamacona**, *Credit Suisse*

**Mauricio Martinez**, *GBM*

**Pablo Monsivais**, *Barclays*

**Marcos Barreto**, *Citi*

**Rodolfo Ramos**, *Bradesco BBI*

**Fernanda Oliveira**, *BTG*

**Gabriel Hienalasarb**, *Scotiabank*

**P R E S E N T A T I O N**

**Operator:**

Good day, ladies and gentlemen, and welcome to ASUR's Third Quarter 2020 Results Conference Call. My name is Apryl and I'll be your operator. At this time, all participants are in listen-only mode. We will conduct a question and answer session towards the end of today's conference. Instructions will be provided at that time. As a reminder today's call is being recorded. Now, I'd like to turn this call over to Mr. Adolfo Castro, Chief Executive Officer. Please go ahead, sir.

**Adolfo Castro, ASUR Chief Executive Officer:**

Thank you, Apryl and good morning, everyone. Thank you for joining our conference call to discuss ASUR's Third Quarter 2020 financial and operating results. I hope each of you and your families have managed to stay healthy and safe since our previous earnings call.

As a reminder, please note 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, including the impact from COVID-19. For an explanation of these risks, please refer to our filings with the US Securities and Exchange Commission and the Mexican Stock Exchange.

Results this quarter were also significantly impacted by the ongoing effects of the global Covid-19 pandemic. Airlines continue to operate with limited capacity, while few passengers are taking flights, either due to government travel restrictions or because of health concerns.

However, the lower rates of decline in monthly traffic that emerged in May and June continued into September. At the same time, ASUR's balance sheet has remained strong, which I will expand upon shortly.

**Starting with the overall travel environment**, neither Mexico nor Puerto Rico have issued flight bans, to date, and ASUR's airports in both countries have remained open. These airports, however, continue operating with significantly lower traffic levels. In line with Colombia's gradual connectivity plan, commercial travel has progressively resumed, starting September 1. Our airports in Rionegro, Medellin and Monteria began operations on September first, while those in Carepa and Quibdo restarted on September 21<sup>st</sup>. Our airport in Corozal resumed operations more recently on October second.

Within this context, ASUR's total traffic for the quarter was down 70% year-on-year to three million passengers, with declines of 64% in Mexico, 59% in Puerto Rico and 95% in Colombia.

Both Mexico and Puerto Rico posted relatively better performance in domestic traffic – decreasing in the low to mid-50s range – while international traffic was down 78% and 88% year-on-year, respectively. In September, certain airlines resumed some flights between Cancun Airport and Latin America. And this month some flights with Europe restarted.

In Colombia, given strict travel bans during most of the quarter, both domestic and international traffic showed similar performance levels as the previous quarter, with year-over-year declines in the mid-to-high 90s.

For the nine-months, our total passenger traffic declined 57% year-on-year.

As a reminder, because most of our commercial agreements with tenants include a minimum guaranteed payment per passenger, they are not obliged to pay rent in the absence of passengers.

As regards the airlines, three of our main airline customers that recently filed for bankruptcy protection, namely Aeromexico, Avianca Holdings and LATAM Airlines, continue to make regular payments. Accordingly, we believe ASUR maintains sufficient liquidity to meet its obligations and continue operating normally, and we continue to minimize cash burn outside fixed costs. While maintaining effective health and safety protocols for employees and passengers is also allowing us to operate normally. Terminal 2 at Cancun Airport was reopened in July, while we expect to reopen Terminal 3 at the end of October. These, of course, will have an impact on our operating cost and expenses.

Moving on to ASUR's financial position.

Ample liquidity and near-term principal payments that are quite low mean we continue operating from a position of financial strength, one that will allow us to effectively ramp up our airport operations when travel demand accelerates. For perspective:

- We ended the quarter with cash and cash equivalents of 6 billion pesos, roughly the same as year-end 2019. Declines in cash of 106 million pesos in Mexico and 206 million in Colombia, were partially offset by a 132 million pesos cash increase in Puerto Rico.
- Total debt at quarter-end was 14.7 billion pesos, up 8% from year-end 2019. The increase was mainly due to the depreciation of the peso against the US dollar, a drawdown of 10 million dollars from the committed line of credit for working capital in Puerto Rico, and a new 67 million pesos bank loan in Colombia.
- We maintain a healthy maturity profile, with principal payments of less than 1% of ASUR's total debt maturing in the fourth quarter and only 6% of total debt maturing in 2021.
- As regards the currency exposure of ASUR's debt, the majority of it – 53% - is denominated in US dollars, which is at the Aerostar subsidiary in Puerto Rico, while 27% is denominated in Mexican pesos and the remaining 20% in Colombian pesos.
- As a final point on ASUR's liquidity and balance sheet strength, our leverage ratio stood at 1.5 times at the close of the third quarter, compared with 0.8 times in the same quarter last year.

Now turning to the top line:

**Revenues, ex-construction**, declined 56% year-on-year to 1.7 billion pesos, as ASUR continued to experience similar declines in aeronautical and non-aeronautical revenues during the quarter. Mexico was the main contributor, accounting for nearly 60% of total ex-construction revenues. Puerto Rico accounted for approximately 37% of total revenues while Colombia remained impacted by strict travel bans for most of the quarter. On a sequential basis, revenues ex-construction increased 86% from slightly over 900 million pesos in the second quarter.

**Total commercial revenues per passenger** were slightly over 137 pesos, compared to the 99 pesos per passenger in the same period last year. As we saw in the prior quarter, the increase reflects the sharp contraction in passenger traffic in combination with few commercial spaces with fixed rent.

In turn, **operating costs and expenses** - excluding construction costs – declined 28% year-on-year, driven by reductions across our three countries of operation:

- In Mexico, costs declined 25% on lower maintenance and energy expenses, due to the temporary closures of Terminals 2 and 3 at Cancun airport. Lower cost of sales from directly operated convenience stores, along with lower technical and concession fees, also contributed to the decrease in Mexico's costs. These declines were partially offset by higher provisions for doubtful collections, in light of the low demand levels that our commercial clients continue experiencing.
- In Puerto Rico, we obtained a 33-million-dollar grant under the US Cares Act, during the third quarter to be applied for reimbursement of Airplan's expenses. Of this amount, 8.3 million dollars were reimbursed, which together with lower cost of services and concession fees contributed to a 34% decline in costs during the quarter. This improvement was

partially offset by higher amortization charges, resulting from the impact of FX conversion. In dollar terms, total costs in Puerto Rico were down 35% year-on-year. I note here that a total of 24.7 million dollars remain available under the grant.

- Finally, costs in Colombia contracted 30%, due to savings in maintenance, energy and security expenses, along with lower professional and concession fees.

Moving down the P&L, consolidated EBITDA declined 70% year-on-year to 755 million pesos, due to the various effects of the pandemic that I've been discussing. However, compares to 16 million pesos in second quarter 2020 when excluding the one-time insurance recovery related to Hurricane Maria that quarter.

By country of operations, EBITDA gains of 492 million pesos in Mexico and 312 million in Puerto Rico in the quarter, were offset by an EBITDA loss of 59 million pesos in Colombia.

Ex-IFRIC12, ASUR's Consolidated Adjusted EBITDA margin declined to 45% this quarter, from 64% in the year ago quarter, but improved from comparable 1.8% in 2Q20.

With regard to capex, we invested 835 million pesos in the third quarter.

- Of this amount, we invested over 90%, or 759 million pesos, in Mexico to continue executing the expansion of the Merida Airport Terminal. For example, the expansion of the check-in area at this terminal has been completed and now is operational. During the first nine months, we invested a total of 1.5 billion pesos in Mexico, and we remain on schedule initiating the construction of the parallel taxiway to the second runway at Cancún airport and with the beginning of the first expansion phase of Terminal 4. Note that while our Master Development Plan in Mexico calls for investments of approximately 5.3 billion pesos in 2020, stay-at-home orders in Mexico continue to result in disruptions at each of the projects under the plan. We have kept the Government apprised of these delays and have received related approvals to proceed with 2.1 billion pesos of construction work during 2021. As a final note on Mexico, last month our President announced plans to build a new airport in Tulum. However, as of today, there has been no official information about where exactly it will be located, who will operate the airport, nor the type of aviation it will serve.
- In Puerto Rico we invested a total of 74 million pesos, mainly for major maintenance repairs to runways and taxiways.
- For major maintenance of our airports in Colombia, we invested nearly two million pesos during the quarter. Because our capex commitment for these operations was reached last year, only maintenance capex remains in this country.

Before taking questions about the quarter, I wish to emphasize once again that ASUR continues operating from a position of financial strength, enabling us to successfully navigate the various adverse effects of the pandemic on our business. In addition to our solid balance sheet, we continue carefully managing cash while reducing variable costs where we can, to better align them with existing travel demand. We therefore remain confident that ASUR will be well positioned when travel conditions begin sustainably strengthening.

That ends my prepared remarks. Apryl, please open the lines for questions.

**Operator**

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

Our first question comes from Alan Macias from Bank of America.

**Alan Macias**

Hi. Good morning, Adolfo. Thank you for the call.

Just a quick question on Colombia. What have you seen on traffic recovering in Colombia? The numbers, are they encouraging? And is it a fair assumption that it will be a slower recovery than what we have seen in Mexico? Thank you.

**Adolfo Castro Rivas**

Alan, hi. Good morning. Thanks for your question.

In the case of Colombia, I have to say that we may probably see the same kind of recovery process that we saw in Mexico. The only point that could be a negative effect for this recovery process is the situation that some of this traffic, principally from Medellin to Bogota, is business traffic, so let's wait and see how the recovery process is there.

**Alan Macias**

Thank you.

**Operator**

Alejandro Zamacona of Credit Suisse.

**Alejandro Zamacona**

Adolfo, thank you for the call. Two questions for us. The first one is on the MDP potential renegotiation. As far as we understand, you haven't requested a renegotiation. So, I'm curious on the current status, and do you have some sort of time for this renegotiation?

**Adolfo Castro Rivas**

Hi, Alejandro. Good morning.

In the case of what you are mentioning - in accordance with our contract, it stated that in the case that the Mexican GDP drops by more than 5% over the last 12 months, and that has an impact on traffic, we may request a (inaudible) maximum tariff revision. That number of 5.3 negative GDP for Mexico over the last 12 months was provisional expected this year, so then we are working to construct a request, and we are in the process to deliver that to the authorities. I believe it may be filed during the fourth quarter this year.

**Alejandro Zamacona**

Okay, thank you. My second question is on the CARES Act reimbursement in Puerto Rico. Considering that you have used roughly \$5 billion this third quarter and there are an additional \$25 million available, what's the expectation going forward to use it for the next quarter? Is it going to be fully deployed in the fourth quarter, or it's going to be a gradual deployment going forward?

**Adolfo Castro Rivas**

It will be a gradual deployment, and I'm sure that some of this will be in 2021.

**Alejandro Zamacona**

Okay. Thank you, Adolfo.

**Adolfo Castro Rivas**

You're welcome.

**Operator**

Next, we'll hear from Mauricio Martinez of GBM.

**Mauricio Martinez**

Hi. Good morning, Adolfo. Thank you for taking my question.

Just a follow-up question on the MDP. Do you at this moment have any expectation regarding Capex or maximum tariff or discount rate that could be used in the formula, something you can gauge the progress that you have made at this point that you can share with us?

**Adolfo Castro Rivas**

Hi, Mauricio. Good morning.

We are exactly in that process, as I said. We are in the process to construct the documents and finalizing the cancellations, but I cannot share with you any of those numbers as of today.

**Mauricio Martinez**

Okay, fair enough. My second question, if I may, I hear that some Capex that you mentioned in your initial remarks, but I'm not sure if I heard it right. It's \$2.1 billion for next year?

**Adolfo Castro Rivas**

Yes, \$2.1 billion will be constructed next year.

**Mauricio Martinez**

And in addition to how much net in the fourth quarter?

**Adolfo Castro Rivas**

We were expecting \$5.3 billion for the year. You have the numbers up to third quarter, and you have to deduct this \$2.1 billion, that will be the amount for next year.

**Mauricio Martinez**

For next year? Okay, perfect. Thank you, Adolfo.

**Adolfo Castro Rivas**

You're welcome.

**Operator**

Pablo Monsivais of Barclays.

**Pablo Monsivais**

Good morning. Thanks for taking my questions.

My question is, as traffic recovers and it will probably open Terminal 3 in Cancun, can you please provide some guidance on how you expect your costs going forward, and specifically do you think that cost of services could reach pre-COVID levels by, I don't know, at some point in 2021 or 2022? How do you see costs trending? Thank you.

**Adolfo Castro Rivas**

Hi. Good morning.

Well, apart from the costs and expenses we have saved because of the closure of Terminal 2 and 3, we have made some additional things around the Company. It's important to understand that during the second quarter both Terminal 3 and 2 were closed. As I mentioned during the remarks, Terminal 2 was opened in July and we are expecting to open Terminal 3 at the end of October. I believe that, of course, there will be some increase in the costs for the fourth quarter, not at the level we saw last year.

**Pablo Monsivais**

Okay. In order to get to very close to the levels that you had in 2019, do you think that by 2021 we're going to get there?

**Adolfo Castro Rivas**

Well, it's hard to say. Nobody knows exactly what is going to happen with this pandemic situation. But if things go back to normal, I believe we'll have to go back to normal again, and normality is something that we can compare to 2019.

**Pablo Monsivais**

Okay, perfect. Thank you.

**Adolfo Castro Rivas**

You're welcome.

**Operator**

Next, we'll hear from Marcos Barreto of Citi.

**Marcos Barreto**

Hi, everyone. Thanks for the call and for taking my questions. Adolfo, I hope you're doing well.

Just a couple of questions from my side. First, could you provide some additional color on the CARES Act funding that you received in Puerto Rico, specifically did it come from taxpayer grants?

**Adolfo Castro Rivas**

Hi, Marcos. This is a grant from the U.S. Government to all the airports. In that sense, Puerto Rico airport is considered inside this Act. The approval was \$33.4 million. You have seen what we have disbursed. There is remaining \$24.7 million that will be disbursed in the future.

**Marcos Barreto**

Okay, thank you. My second question is, aside from what has been only minor damage to the Cancun region because of the hurricane, are there any updates on the sargassum situation?

**Adolfo Castro Rivas**

Sargassum was lower in comparison—lower in terms of volumes in comparison with what we saw in 2018. Of course, due to (inaudible), today we do not have almost any sargassum so we will have to expect what is the volume for next year. This is not something that we can predict or that is something that is cyclical. The worst we have seen over the last 20 years was in 2018, and say, probably like to that year, three years in 20 years.

**Marcos Barreto**

Okay, thank you very much.

**Operator**

Next, we'll hear from Rodolfo Ramos of Bradesco BBI.

**Rodolfo Ramos**

Good morning, Adolfo. Thank you for taking my question.

Most of my questions have been answered. Can you give us a little bit of color on how much was profit impacted during the month of October due to the hurricane Delta? Thank you.



**Adolfo Castro Rivas**

Well, in the case of the hurricane, I can say that probably one day and a half have been lost from the airports of Cancun and Cozumel in terms of passenger traffic.

**Rodolfo Ramos**

Sorry, how much?

**Adolfo Castro Rivas**

One day and a half.

**Rodolfo Ramos**

Thank you.

**Operator**

As a reminder, if you would like to ask a question or make a comment, press star, one at this time.

Next, we'll hear from Fernanda Oliveira of BTG.

**Fernanda Oliveira**

Hi, Adolfo. Thank you for taking my questions, and congratulations on the results.

I have two questions here. You made some comments regarding additional investments being requested in Tapachula airport, and also the situation of a new airport in Tulum. I wanted to hear your opinion about this and if you are planning to include new investments in Tapachula and (inaudible). Thank you.

**Adolfo Castro Rivas**

Hi, Fernanda. Thanks for your words. In the case of Tapachula, we are expecting to hear what are the intentions on that airport. This is an airport of more or less two flights a day, so we'll have to wait and see what their expectations on this project.

**Fernanda Oliveira**

Perfect. And regarding Tulum airport, do you have any thoughts?

**Adolfo Castro Rivas**

In the case of the airport of Tulum, as I said in my remarks, we do not have sufficient information as of today. The most important questions we have at the moment are the ones that I said during the remarks.

**Fernanda Oliveira**

Okay, thank you.

**Adolfo Castro Rivas**

You're welcome.

**Operator**

Gabriel Hienalasarb of Scotiabank.

**Gabriel Hienalasarb**

Hi. Thanks for the call. Just two quick questions.

First, you reported a decrease in accounts receivable for Colombia and Mexico. Can you give us a bit of color of how much was due from—the decrease was from collection and how much from write-offs? Second was you mentioned in the press release that you have been receiving the payments from Aeromexico, LATAM and Avianca. Have you seen any deterioration in the payments of any other carriers? Thanks.

**Adolfo Castro Rivas**

Well in the case of the reduction in accounts receivables, one of the—or the principal effect is, of course, the reduction in sales, so you can track these from the seasonality on one side and compare that with the previous quarter.

In terms of write-offs, as I said during the remarks, we have increased our reserve for doubtful accounts. From the top of my head, because I don't have the exact figure, but let's say that during the quarter, it should be around Ps.30 million.

In terms of the remaining airlines, I would say more or less all of them are being on time with the exception of one, that is the case Interjet.

**Gabriel Hienalasarb**

Okay, thanks.

**Adolfo Castro Rivas**

You're welcome.

**Operator**

Andressa Varotto of... I'm sorry, she removed herself from the queue.

Mauricio Martinez of GBM has a follow-up.

**Mauricio Martinez**

Yes, thank you. Thank you for taking my follow-up question.

I'm wondering if you can give us more color on the cost of service, specifically on your expectations going forward. What's happened this quarter, you will practically maintain the levels of savings that you had in the second quarter, but going forward in fourth quarter and

next year, how much do you think this could go up and—well, I imagine that would be driven by the drop-off in passengers, but what are your expectations on the cost of service?

**Adolfo Castro Rivas**

Mauricio, as I said, the only negative impact we can expect for the fourth quarter is the opening of Terminal 3, so you will see an increase there. Of course, the opening of Terminal 3 has to do with the recovery process and additional measures we have to take as airports in terms of social distancing; and of course, the capacity is not exactly the same as it was before these measures were implemented. So, the only effect again is this increase in the case of Terminal 3.

**Mauricio Martinez**

Perfect, thank you.

**Adolfo Castro Rivas**

You're welcome.

**Operator**

Once again, if you would like to ask a question or make a comment, press star, one at this time. We'll pause for a moment.

That concludes the question-and-answer portion of today's conference call. I would like to turn it back over to Mr. Castro for closing remarks.

**Adolfo Castro**

Thank you, Apryl; and thank you again for participating in our third quarter results conference. On behalf of ASUR, we wish you a good day and please stay safe. Goodbye.

**Operator**

Ladies and gentlemen, that concludes ASUR's Third Quarter 2020 Results conference call. We would like to thank you again for your participation. You may now disconnect.