



**Grupo Aeroportuario del Sureste
4Q20 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

Alejandro Zamacona, *Credit Suisse*

Mauricio Martinez, *GBM*

Guilherme Mendes, *JP Morgan*

Pablo Monsivais, *Barclays*

Rogério Araujo, *UBS*

Juan Ponce, *Bradesco*

Stephen Trent, *Citi*

Gabriel Himelfarb, *Scotiabank*

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

Operator:

Good day, ladies and gentlemen, and welcome to ASUR's Fourth Quarter 2020 Results Conference Call. My name is Greg 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, Greg and good morning, everyone. Thank you for joining our conference call to discuss ASUR's Fourth Quarter 2020 and financial and operating results. I hope that all of you and your families are managing to stay healthy and safe.

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.

Before starting, I would like to thank all our co-workers for their commitment to the company and the hard work during this difficult time. The global pandemic significantly impacted passenger traffic and our results for the fourth quarter and full year. Looking back, 2020 was the most challenging year ever faced by the travel industry. Airlines continue to operate with limited capacity, with few passengers taking flights given government travel restrictions, quarantines to prevent the spread of the virus and the pace of the roll-out of vaccines regionally and globally. While governments work toward achieving a critical mass of vaccinations, we continue to expect a steady resumption of travel as evidenced by the monthly improvements in passenger numbers. We remain optimistic about long-term global travel demand.

Despite this challenging context, ASUR's balance sheet has remained strong. And I will expand upon that shortly.

Starting with the travel environment across our airports, neither Mexico nor Puerto Rico have issued flight bans, to date, and ASUR's airports in both countries have remained open. Commercial travel in Colombia has progressively resumed, restarting September 1 last year, with international operations resuming on September 19 at our Rionegro airport in Medellin.

ASUR's total traffic was down 54% to 26 million passengers in 2020, compared with the 56 million passengers that travelled across our airports in 2019. Since June, monthly traffic has been progressively recovering with total traffic in December down 41% year-on-year.

During the fourth quarter, traffic declined 45% to nearly eight million passengers. Mexico and Puerto Rico posted total traffic declines in the low 40s. Traffic in Colombia improved significantly contracting 57% as compared to the 95% drop experienced in the prior quarter when travel restrictions were in place during most of the quarter.

Domestic traffic continued to show better performance across the board. By country of operations, domestic traffic was down only 28% in Mexico, compared to declines in the low 40s and the high 50s in Puerto Rico and Colombia, respectively. International traffic, in turn, posted year-on-year declines of 54% in Mexico, 76% in Puerto Rico and 61% in Colombia.

During the fourth quarter we resumed operations with airlines across the four regions we usually work with – the US, Canada, Europe and Latin America. This even with the second wave of the contagion that spread at year-end in different countries.

As we entered January, Mexico saw a slowdown in traffic recovery levels, both for domestic and international travel. This reflected an increase in COVID-19 cases and health alert levels in many areas of the country, as well as travel restrictions in other countries. For example, in early January, Canada established a travel ban to the US, Mexico and the Caribbean until April 30th. Also, starting January 26th the US introduced new measures requiring inbound passengers to provide negative Covid-19 test results taken prior to departure and

recommends that passengers must get tested again 3 to 5 days after arrival to the US and self-quarantine for 7 days.

Looking ahead at travel trends, and as I've mentioned in prior calls, we expect traffic to return to our last twelve months peak that occurred in February 2020 within 36 to 40 months from there. While we see domestic traffic continuing to lead the recovery in the near term given restrictions in other regions, international traffic is anticipated to become more relevant in the medium-term as pent-up demand will drive traffic with the Covid-19 vaccine roll-out. We expect this to be partially mitigated by the slower recovery of the Mexican economy that has been among the most impacted by the pandemic. We expect to see the initial effects from the vaccination process around the World during the summer.

In terms of ASUR's financial position, we maintain a strong balance sheet with high liquidity and low near-term principal payments that will allow us to navigate the current choppy travel environment and ramp up operations when demand accelerates. For example:

- We closed the year with cash and cash equivalents of 5.2 billion pesos, a 16% decline from year-end 2019. Declines in cash of 933 million pesos in Mexico and 173 million in Colombia, were partially offset by a 106 million pesos cash increase in Puerto Rico after investing a total of 3.3 billion in capex across the three regions.
- Debt at year-end was 13.9 billion pesos, relatively flat from year-end 2019.
- We keep a healthy maturity profile, with principal payments of less than nearly 2% of ASUR's total debt maturing in the first quarter and just over 6% of the total maturing this year.
- In terms of currency exposure, 52% of ASUR's debt is denominated in US dollars and held at the Aerostar subsidiary in Puerto Rico. The remaining 29% is denominated in Mexican pesos and 20% is in Colombian pesos.
- Finally, net debt to Last-Twelve-Months EBITDA stood at 1.8 times while interest coverage was 6.3 times at the close of the year. This compares with leverage of 0.7 times and interest coverage of 10.8 times at the end of 2019.

Let me also note that three of ASUR's main airline customers - Aeromexico, Avianca Holdings and LATAM Airlines Group - that filed for Chapter 11 bankruptcy protection in the United States, have continued to make regular payments.

In short, ASUR maintains a solid balance sheet and we have a strong track record of managing cash and expenses prudently to effectively navigate the pandemic.

Now let me go over the other key highlights of our fourth quarter 2020 results. More details can be found in the press release issued yesterday evening.

Revenues, ex-construction, decreased 36% year-on-year to 2.4 billion pesos, as ASUR continued to experience similar declines in aeronautical and non-aeronautical revenues during the quarter. Mexico accounted for nearly 67% of total ex-construction revenues, while Puerto Rico represented 25% of revenues and Colombia contributed with nearly 9%, a slight sequential improvement as travel bans were gradually lifted. On a sequential basis, revenues ex-construction were up 42%.

On a per passenger basis, commercial revenues were nearly 106 pesos, above the 92 pesos per passenger in the fourth quarter last year. Similar to what we have been seeing since the second quarter last year, this resulted from the combination of the sharp reduction in passenger traffic along with a few commercial spaces with fixed rent.

Keeping a strict focus on cost controls, operating costs and expenses, ex- construction costs were down 27% year-on-year, driven by reductions across our operations:

- **Starting with Mexico, costs were down 16% year-on-year.** This was mainly due to lower maintenance and energy expenses, partly reflecting the temporary closure of Terminal 3 at Cancun airport which reopened end of October. We also saw lower cost of sales from directly operated convenience stores, along with lower technical and concession fees given lower levels of activity. Higher provisions for doubtful collections, in light of the low demand levels that our commercial clients continue experiencing, partially offset these declines in costs.
- **In Puerto Rico, costs contracted 44% in the period.** Note that a total of 227 million pesos, equivalent to 10.7 million dollars, were reimbursed through the US Cares Act obtained in 2Q20. A total of 8.1 million dollars remain available under the grant. Costs also benefitted from a nearly 21 million pesos reduction in the valuation of the maintenance reserve as per IFRIC 12. This was partially offset by a 32 million pesos increase in provisions for bad debts as a result of the pandemic. Measured in dollars, total costs in Puerto Rico declined 4.4% year-on-year.
- **Finally, in Colombia expenses declined nearly 33%**, mainly reflecting savings in maintenance, energy and security expenses, lower professional fees as well as a drop in concession fees reflecting the lower revenue base impacted by the pandemic.

In terms of profitability, consolidated EBITDA declined 45% year-on-year to 1.3 billion pesos impacted by COVID19. However, this was a sequential improvement from the 755 million pesos reported in the prior quarter.

Importantly, all country of operations posted EBITDA gains in the quarter. Mexico led with an EBITDA gain of 1 billion pesos, followed by Puerto Rico with 258 million pesos. Colombia achieved an EBITDA gain of 62 million pesos reversing the loss posted in the third quarter.

Excluding-IFRIC12, ASUR's Consolidated Adjusted EBITDA margin was 55% in the quarter, a decline from the 64% posted in the same quarter of 2019. However, we saw an improvement from the 45% margin reported in the third quarter, and the comparable 1.8% in 2Q20.

Moving on to capex, we made capital expenditures of 1.5 billion pesos during the fourth quarter reaching a total of 3.3 billion invested during the full year.

Nearly 95% of the capex for the quarter was allocated in Mexico as we 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. We invested a total of 2.9 billion pesos in Mexico during 2020, and we remain on schedule initiating the construction of the parallel taxiway to the second runway at Cancún airport and are starting the first expansion phase of Terminal 4.

Of note, last month our President announced plans to build a new airport in Tulum. However, as of today, there has not been an official information about where exactly it will be located.

We do know that the Army will construct and operate the airport and it should be a mix of a military and commercial airport.

- In Puerto Rico we made capital investments of a total of 75 million pesos in the quarter, mainly for major maintenance repairs to runways and taxiways. In total, we invested 400 million pesos in Puerto Rico in 2020.
- And in Colombia we invested nearly three million pesos in the fourth quarter for a total of nearly 7 million pesos in the year. Remember this relates only to maintenance capex as our capex commitment for our Colombian operations was met in 2019.

Finally, an update on the Master Development Plan renegotiations. We filed our Extraordinary Maximum Tariff Revision request in the fourth quarter, and we believe results could be out toward the end of the first quarter or early in the second quarter of this year.

Before opening the call for questions, I would like to reiterate that ASUR's financial strength, and our focus on careful cash management while calibrating variable costs to best align them with demand conditions, are allowing us to successfully navigate this pandemic. We are confident that these strengths, together with our attractively located airport network make us resilient, positioning us well as travel conditions strengthen.

That ends my prepared remarks for today. _____, 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.

First from Credit Suisse we have Alejandro Zamacona.

Alejandro Zamacona

Thank you. Hi, Adolfo. Thank you for the call. Thank you for taking my questions. Just a couple for us.

The first one on the MDP renegotiation. What's your expectations, if there are any, in terms of tariffs or discount rate? Mostly how the ongoing process could be affected considering the resignation of the Federal Civil Aviation Agency.

Adolfo Castro Rivas

Hi, Alejandro. Good morning. Thank you for your question.

In terms of maximum tariff renegotiation process, if the comments accept what we have proposed, this may result in a Capex reforming plus a tariff increase.

Alejandro Zamacona

Okay. Any comments on the resignation of the Federal Civil Aviation? I mean, could this potentially delay the process?

Adolfo Castro Rivas

There are some people have been named and assigned as from January 1st this year. So we are in that sense completed (inaudible) with people that can take the decision about this request.

Alejandro Zamacona

Okay. My second question, if I may. On the dividends, any color for 2021 dividend? Any color for the pending 2020 dividend for this year? Thank you.

Adolfo Castro Rivas

In the case of last year's dividend, remember that the shareholders assembly approved to put this in terms of the payment date in the hands of the Board of Directors as from May 11, 2021. That's for the moment what I can say to you.

Alejandro Zamacona

Okay, thank you Adolfo.

Adolfo Castro Rivas

You're welcome.

Operator

Next question will come from Mauricio Martinez with GBM.

Mauricio Martinez

Hi. Good morning, Adolfo. Thanks for taking my questions.

Just to confirm because I didn't hear well, the end of the year review, you expect it to be completed before the first quarter ends and to kick-in in the second quarter. Is that correct?

Adolfo Castro Rivas

Mauricio, the maximum tariff renegotiation process, the extraordinary maximum tariff renegotiation process is what we filed in the fourth quarter. What we are expecting is to get an answer from the government at the end of this quarter or early in the second quarter.

Mauricio Martinez

In case you reach a reply, at that time when do you expect to the tariff increase in kick-in if it's approved, the tariff can commence—you expect that to be immediately reflect that?

Adolfo Castro Rivas

That will depend from the government in terms of what is in their hands.

Mauricio Martinez

All right. Perfect, Adolfo.

My second question would be on the airlines' capacity, especially into Cancun, mainly from the U.S. airlines, after all these impacts of the requirement of the tests to come back to the U.S. How have you seen the deployment of capacity from the U.S. airlines? Do you expect this to deteriorate or decrease somehow in this first and second quarter, or have you seen any improvement in February?

Adolfo Castro Rivas

The problem today is not the capacity at the airports. It's not the capacity of the airlines. The problem is demand, what we are seeing today, it's of course less flights in terms of frequency, with a lower load factor. But in terms of connectivity, we're almost at 90% of where we were before. It's true that we need to reconnect the other 10% that we had in 2019. But in terms of, let's say, available seats, it's clearly the problem is the demand.

Mauricio Martinez

Perfect, there you go. Very helpful, Adolfo. That's all from my side. Thanks.

Operator

Moving on, our next question will come from Guilherme Mendes, with JP Morgan.

Guilherme Mendes

Hi, Adolfo. Good morning. Thanks for taking the question. Actually, I have two questions.

The first one is regarding the commercial part of the business. Just wonder what is your strategy for 2021 in terms of potential discounts to tenants? How they have been operating, any consideration, discounts towards this year?

Second question is regarding costs. We know that you had some limitations in terms of cost reduction given most of the costs are fixed. If you could comment a little bit what are the main initiatives ASUR is taking and should continue to offset a part of the decrease in traffic. That would be great. Thank you.

Adolfo Castro Rivas

You're welcome. In terms the cost situation. As you have seen in the reports, the most important and relevant measures we have taken were the shutdown of Terminal 2 and 3. In terms of Cancun Airport, Terminal 2 was open in July and Terminal 3 was re-opened in October. From now on, I would say there will be fully operational in all of our terminals. Of course, there is some additional measures we have taken, but the important ones were those. As soon as we approach the normal situation, costs we will have to come back let's say to the levels we had in '19.

In terms of the tenants, as we have mentioned before, the way we collect from them or the money we charge to them is the higher between two numbers. One is a minimum payment per passenger or percentage of sales and we collect the higher of these two things. So, in that sense, we have not been forced to renegotiate the 400 contracts we have with them. We are not giving any discounts. If there aren't passengers, they don't have to pay rent. So as of today, we continue with the same strategy and we will continue that for 2021.

Guilherme Mendes

Very good. Thank you.

Adolfo Castro Rivas

You're welcome.

Operator

Your next question will come from Pablo Monsivais with Barclays.

Pablo Monsivais

Hi. Good morning, Adolfo, thanks for taking my questions. I have just a few questions on Colombia.

What are your thoughts in terms of traffic for the first half of this year? Do you think that we should see more activity picking up? Or, what's your take? Thank you.

Adolfo Castro Rivas

You're welcome. Basically, Colombia has seen a positive (inaudible) in terms of the recuperation process. If you see what we have presented in terms of our filings, the restrictions have been higher than what we saw in terms of Mexico and Puerto Rico. Remember that Colombia was shut down completely from the third week of March last year up to the last day of August. Some of our airports resumed operations in September, some others in October. If we see the numbers, let's say two months from or three months from when we started operations. Those are actually great.

For this year, of course, the important point will be the vaccination process around the region. That will be the first important matter. The second one, will be what will be the effect of the pandemic situation in the business travel. Remember that a lot of our passenger traffic in Colombia goes or comes from where they need to go back and most of this is business traffic, so that will be also a key element to see in terms of the recuperations process.

Pablo Monsivais

Perfect. Thank you very much.

Adolfo Castro Rivas

You're welcome.

Operator

Next from UBS, we have Rogerio Araujo.

Rogerio Araujo

Thanks. Adolfo, thanks for the opportunity.

I would like to hear on the capacity of the terminals. First of all, how was the capacity in the terminals, the extra utilization in the terminals back in 2019. If there was spare capacity and by how much. Also, about the current distancing measures that ASUR is following Cancun? If it does limit the airport's capacity and to which level. Also, your expectations for any potential changes in those distancing measures; the timing and what exactly should drive the airport capacity to go back to pre-crisis level? Thank you very much.

Adolfo Castro Rivas

You're welcome. Thank you for your question.

It's an important question in terms of all the infrastructure at work. The question is if these social distancing measures are going to be there to stay forever, because today it's clear for us that we cannot go back to the same amount of passengers we had before if we continue with these measures. If these measures do not disappear when the situation normalizes so that we can say that COVID-19 has been controlled, of course we will have to make adjustments in our capacity at the terminals. Of course, if we go back to 2019, we had some spare capacity at our airports. You know the process. Today, this capacity has been impacted with the social distancing measures. We have taken some additional measures to increase this capacity to change some of the space of the corridors in the case—just an example, in the case of the space in front of the ticket counters. At the end of the day, if these social distancing measures stay there forever, this would represent some adjustments in our areas in our (inaudible) as from 2024.

Rogério Araujo

Okay. Thank you Adolfo.

Adolfo Castro Rivas

You're welcome.

Operator

Moving on, we have Juan Ponce with Bradesco.

Juan Ponce

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

This question is on passenger traffic from the U.S. Given that you have the cash requirement to enter the country, how are your tourists taking them in February? I mean, is it having a material impact? It's been recovering, but I just want to know what's you're take on the impact of that recovery in the short term? Thank you.

Adolfo Castro Rivas

Of course, that will have an impact on our recovery process. I believe that February is not going to be the greatest month for that in the case of U.S. traffic. November 2019 was an excellent month for the case of the U.S. traffic. Then we go back to November 2018. From November 2018 we saw a decrease in the U.S. traffic. This decrease was basically to go from plus five to minus five, no. February 2020 was the first month that we saw a positive trend after Covid. So the comparison number of 2021 to 2020 is going to be a harder comparison.

Also remember that 2020 in the case of February had 29 days, and this year we have just 28 days.

Again, you are right in the sense that any additional measures that have been in place as from January 26 in the case of the U.S. traffic, it may have an impact on February's traffic and also on the recovery process.

Juan Ponce

Okay. Thank you very much.

Adolfo Castro Rivas

You're welcome.

Operator

The next question will come from Stephen Trent with Citi.

Stephen Trent

Good morning, Adolfo. Thanks very much for taking my question. Two for you, and I apologize if I missed part of your comments, my phone briefly shut off.

Could you just give me a sense as to how ASUR itself is fitting into this ecosystem with international travelers having to do these 72-hour tests. I know in some places hotels are offering their services. In some case airlines are offering this service for a fee. Is ASUR directly getting involved with any of that in any other airports in Mexico or elsewhere?

Adolfo Castro Rivas

Hi, Steve.

Well, once we were aware of these new additional measures, we started to work with hotel owners and also with the state authorities, in order to have the necessary spaces for the U.S. passengers, and Canadian passengers to be tested. So the first option they have is at some hotels where they can be tested, let's say 24 hours before departure at the hotel, and they receive the results there. Also, the state government has implemented some additional points where the U.S. passengers and the Canadian passengers can be tested. And finally, the airport dedicated some spaces as well so that if that someone forgot to be tested or forgot the paper at the hotel, they can be tested at the airport and can have the results and be able to fly back again. This is working well in both cases, in the case of U.S. and the case of Canada, of course.

In the case of Canada, after they implement the testing measure, they also basically said that they would be cancelling all the flights up to April 30, so the Canadian traffic basically disappeared from our airports. In the case of the U.S., it is working very well.

Stephen Trent

Okay. I appreciate it. Just one more for me in case I missed it.

In the case of Colombia, could you give us a sense of your discussions on potential force majeure relief. I recall that the concession there has some flexibility in terms of being able to prevent regulatory revenue around the expiration date.

Adolfo Castro Rivas

Well, in the case of Colombia, remember that the contract states that when we recuperate, let's say the investment plus a return, the concession (inaudible) with a minimum term of 2032 and a maximum of 2048. Before COVID we were expressing that in accordance with our estimates, the concession will be over in 2032. So, in that sense we have a 15-year tail to recover what we have been losing as a result of the COVID-19 situation. In fact, the contract will adjust this automatically; so, it's clear for us that the way that it was written, it's protecting us from this situation.

Stephen Trent

Okay. Appreciate. That's it for me. Thanks, Adolfo.

Adolfo Castro Rivas

You're welcome.

Operator

Moving on, from Scotiabank we have Gabriel Himelfarb.

Gabriel Himelfarb

Hi. Thanks for the call. Just a quick follow up question.

Have you seen any trend in accounts receivable, some deterioration in such accounts as tenants have—no traffic has made the tenants make less profit? Thanks. Have you seen in the case of Interjet how much it will impact you balance—your balance sheet that you have. Thanks.

Adolfo Castro Rivas

I couldn't hear all your question correctly, but in terms of account receivables, we have seen some problems with some tenants. Basically, tenants that had operations in some of our airports. Basically, they have flat rates in the other airports, and as result of this they have liquidity problems. In some cases, some tenants have left their spaces at our airports. I would say a few cases. Some others have requested additional time to pay what they owe to us. In some cases, we have granted this additional time and some others we have received the space from them and replaced that with some other new tenants, as you could see in the report.

The other case, I would say the case of Interjet where basically they have not paid since last year and I have to say if you see the reports, our reserve accounts have been increased and all what they owe to us has been reserved. In that sense we don't see major problems going forward.

Gabriel Himelfarb

Okay. Thanks.

Adolfo Castro Rivas

You're welcome

Operator

With nothing remaining in the queue, that will conclude the question-and-answer portion of today's call. I'd like to turn the floor back over to Mr. Castro for any additional or closing remarks.

Adolfo Castro

Thank you, Greg and thank you again for participating in our fourth 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 Fourth Quarter 2020 Results conference call. We would like to thank you again for your participation. You may now disconnect.