



## Grupo Aeroportuario del Sureste 3Q21 Earnings Call Transcript

### 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 2021 Results Conference Call. My name is Ally 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. If you would like to ask a question please press star followed by one, you want to withdraw your question at any time by please press star followed by 2. If you are using a speaker phone, please lift the handset before making a selection. 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, Ally and good morning, everyone. Thank you for joining our conference call to discuss ASUR's Third Quarter 2021 financial and operating results. I hope that you and your loved ones remain healthy and safely.

Additional details about our quarterly results can be found in our press release which was issued yesterday after market close and is available on our website in the Investor Relations section.

Let me remind you that certain statements made during this call 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.

**Passenger traffic** continued to improve across the board, reaching a total of nearly 14 million passengers in the third quarter, which was only 1.4% below the pre-pandemic levels of 3Q19.

Again, Puerto Rico posted the strongest recovery, beating 3Q19 levels by over 16%. Domestic traffic was up 22%, more than compensating for weaker international travel, which was down in the high 20s.

Mexico delivered the best performance, in terms of international traffic, on the back of the successful vaccination process in the US, nearly reaching the pre-pandemic levels of 3Q19. Our eight smaller airports in Mexico posted a recovery in the high 20s, while traffic in Cancun was just 2% below 3Q19 levels.

At the same time, Domestic traffic in Mexico and Colombia continued to recover during the quarter:

- Compared to the pre-pandemic levels of 3Q19, domestic traffic in Mexico was down only 9%, improving from the 12% drop posted last quarter. Note that Cancun airport reached the domestic traffic levels of 3Q19.
- In Colombia, domestic traffic was only 4% below 3Q19 levels, compared to the previous quarter's 30% decline against 2Q19.

On a monthly basis, traffic continued to gradually recover throughout the quarter with total traffic in September beating 3Q19 levels by 3%, driven by Puerto Rico and Colombia which were both above pre-pandemic levels, while Mexico was slightly down by 1%, as domestic traffic lagged behind the international recovery.

**Looking ahead at the travel trends**, the ongoing vaccination rollout in the US, with 57% of the population fully vaccinated and 62% with at least one dose, should contribute to a continued recovery of international traffic in our Mexican operations, a better outlook for the winter travel season.

We also expect Mexico's domestic traffic to continue its gradual recovery as the vaccination rolls out and the economy recovers. This further supported by the gradual advance of vaccination campaigns and the lifting of travel restrictions across various countries. However, we expect that business travel will take more time to recover, resulting in slower recoveries at airports like Mérida, Veracruz and Villahermosa in Mexico, which are more than 20% below 2019 during the quarter.

We also remain cautiously optimistic about global travel demand, and therefore expect total traffic to reach the twelve-month record that we set in February 2020, during the second quarter of 2022.

**Moving on to ASUR's financial performance.** Our strong balance sheet enables us ramp up operations to meet demand as travel conditions continue to gradually recover.

- We closed another quarter with a solid financial position. Cash and cash equivalents reached 11 billion pesos, more than doubling December 2020 levels. All three of our countries' operations contributed to the higher cash position, with increases of over 8 billion pesos in Mexico, 2 billion pesos in Puerto Rico and slightly over half a billion pesos in Colombia.
- Total financial debt at quarter end was 14.1 billion, up just over 1% from year-end 2020 levels. Net debt to LTM EBITDA was 0.4 times at the close of the quarter, while the interest coverage ratio improved to 6.9 times from 5.0 times in the prior quarter.
- We also maintain a healthy maturity profile. Note that on October 19th we refinanced our loan with BBVA at Cancun Airport extending its maturity by 7 years, with principal payments now starting in 2023. This brought down our principal debt payments to 0.4% of total debt for the fourth quarter of the year and to 3.5% next year.

Note that on October 1, we paid an ordinary net cash dividend of 8.21 pesos per share that had been approved at our AGM of 2020, or a total of 2.5 billion pesos.

**Accounts receivables**, in turn, dropped 18% sequentially, mainly driven by declines of 58% in Puerto Rico, 3% in Mexico and 10% in Colombia.

**Revenues, ex-construction**, rose 154% to 4.3 billion pesos year-on-year. Importantly, we achieved an 11% increase in revenues over pre-pandemic levels in 3Q19, with non-aeronautical services up 17% and aeronautical services nearly 8%.

Mexico accounted for 67% of total ex-construction revenues in the quarter, while Puerto Rico and Colombia represented 22% and 11%, respectively. On a sequential basis, revenues ex-construction increased 11%.

Commercial revenues increased YoY across our operations: over 210% in Mexico, 133% in Puerto Rico and nearly 190% in Colombia. **On a per passenger basis, Commercial revenues** remained distorted by the reduction in passenger traffic, reaching nearly 118 pesos compared with the pre-pandemic level of 99 pesos posted in 3Q19.

**Operating expenses, ex- construction costs**, increased 31% YoY, reflecting mainly higher activity in Mexico. By contrast, consolidated costs were down mid-single digits when compared to 3Q19 levels even despite the 11% increase in revenues during the period.

- **In Mexico**, costs ex-construction increased 43% year-on-year, mainly due to higher technical assistance and concession fees driven by higher revenues and EBITDA, along with higher cost of services. Compared to 3Q19, operating costs and expenses, ex-construction rose 7%, below the 10% increase in revenues ex-construction.
- **Costs in Puerto Rico** rose nearly 10% YoY, but declined 27% when compared to 3Q19. During the quarter the airport of Puerto Rico reimbursed 165 million pesos in expenses from the grant under the Cares Act, compared with a reimbursement of expenses of 113 million the same quarter last year.
- **Lastly, expenses in Colombia, increased 33% YoY**, largely reflecting higher concession fees related to the recovery in traffic levels.

**Consolidated EBITDA** increased to 2.2 billion pesos this quarter, up from 755 million in 3Q20, reflecting the gradual recovery in travel demand as vaccinations programs advance worldwide and travel bans are lifted. Compared to 3Q19 pre-pandemic levels, EBITDA was up 18%.

All countries of operations reported EBITDA gains in the quarter, with Mexico contributing Ps.2.1 billion, Puerto Rico over half a billion pesos and Colombia 273 million pesos. In percentage terms, EBITDA in the quarter compared to 3Q19 levels increased by 14% in Mexico, 50% in Puerto Rico and 1% in Colombia.

**Adjusted EBITDA Margin Ex-IFRIC 12** increased to 68% in the third quarter, up from 65% in the prior quarter and 64% in 3Q19. Adjusted EBITDA margin reached 72% in Mexico, 59% in Puerto Rico and 57% in Colombia.

**With regard to capex**, we invested just over 600 million pesos during the quarter, the majority of which was invested in Mexico, while 46 million pesos were invested in Puerto Rico and nearly 2 million in Colombia. Year-to-date, we have invested a total of 1.4 billion pesos. Note that we expect to spend more in capex during the fourth quarter, as we meet our committed investments of 3.5 billion pesos for the year in Mexico.

In Mexico we remain on schedule with the expansion of the terminal building in Mérida, the second phase of the project is expected to open during the fourth quarter and the construction of the parallel taxiway of the second runway at Cancún airport also expected to open during the fourth quarter and are starting the first phase of Terminal 4, while in Puerto Rico we are undertaking major maintenance repairs to runways and taxiways.

Before moving to the Q&A portion of the call, a recap of my third quarter review. We maintained a solid balance sheet, enabling us to ramp up ASUR's operations consistently with the recoveries in each of our markets. We also remain confident in our ability to effectively leverage ASUR's attractive airport network to continue rebuilding our passenger base longer term, given the encouraging growth trends that we still see across all our markets. And because the pandemic remains unpredictable and continues to affect travel demand, we will continue prudently managing our cash and variable costs.

This concludes my remarks for today's call. Ally, please open the lines for questions.

### **Operator**

Our first question comes from Guilherme Mendes from J.P. Morgan.

### **Guilherme Mendes**

Hi Adolfo, good morning, and thanks for taking my question. I had two questions. The first one in terms of traffic recovery, you mentioned that you do expect traffic to go back to peak levels by the second quarter of 2022, just wondering what we should expect after that. Considering that traffic should be back by mid next year, back to '19 levels, what to expect for second half of next year? Should we expect normalization on the growth or still some kind of pent-up demand?

The second question is regarding the MDP tariffs, if you could share how much has already been implemented in terms of your recent renegotiation. Thanks.

### **Adolfo Castro Rivas**

Okay, hi, good morning. Thank you for your questions.

First in terms of the traffic for next year, what I have said is that we should be reaching the peak of the last 12 months passenger traffic that we reached in February 2020 by the second quarter next year. After that, if everything goes back to normal, so that the pandemic disappears and everything is back, we should be seeing the normalized growth in each one of the regions we are working on.

In terms of the tariff, what I have said in the second quarter earnings call is that we will not be able to reach the 99.8% maximum tariff compliance that we have reached over the last 20 years due to the maximum tariff increase that was approved at the beginning of April this year. The maximum tariff is something that is measured once a year, so once the fourth quarter is over, we will be able to measure how much we are going to reach, but of course as I have said, we are not going to reach 100 this year. We are going to be very far away from that, and we should expect to reach the 99.8% that we normally reach during next year.

### **Guilherme Mendes**

Okay, thanks.

**Adolfo Castro Rivas**

Thank you.

**Operator**

Our next question from Naoki Otsuka from GBM. Please go ahead.

**Naoki Otsuka**

Good morning and thank you for the question. Could you give us some color or some detail regarding the refinancing of your debt with Santander?

**Adolfo Castro Rivas**

Yes, of course. The refinancing was made on a three-year period, so you can see in the report that we have nothing to pay next year and we will start paying on a semester basis during '23 and '24.

**Naoki Otsuka**

Okay, just a follow-up question. We saw that increased the rate on that credit. Could you give us some color on that?

**Adolfo Castro Rivas**

As you can see in the report, you can see the rate, the spread over TIA is 1.5x

**Naoki Otsuka**

Okay, thank you very much.

**Adolfo Castro Rivas**

You're welcome.

**Operator**

Our next question from Alejandro Zamacona from Credit Suisse. Please go ahead.

**Alejandro Zamacona**

Thank you. Hi Adolfo. Just a follow-up question on the airport tariff increase, so when we look at revenues per working unit on a sequential basis, we didn't notice any report in fees increase in this third quarter. We understand that the fee increase negotiated in April kicked-in on July, so can you just confirm if you already implemented at least partially from some of that 17% increase in real terms in Mexican airport?

**Adolfo Castro Rivas**

Yes Alejandro, the 17% you are mentioning is a weighted average, so each one of the airports has its own particular increase and you can see that in the report. It's very clear that if this

approval came in April, so we lost the first three months of the year in terms of the possibility of increasing the rates, and then it takes us between three to four months to increase the rate. It was not possible to reach the 99.8% maximum tariff compliance this year, otherwise the increase that we applied had to be extremely high, so we are going to be very far from the 99.8% and we expect to reach that up to next year.

**Alejandro Zamacona**

Okay, so when we think about the fourth quarter of '21, we should see a sequential increase on revenues per working unit, right?

**Adolfo Castro Rivas**

Yes, that's right, and of course as I said before, the maximum rate is something that we measure on an annual basis, so in reality today, we cannot say how much we are going to reach or how much we are reaching.

**Alejandro Zamacona**

Okay, thank you Adolfo.

**Adolfo Castro Rivas**

You're welcome.

**Operator**

We'll move onto our next question from Stephen Trent from Citi. Please go ahead.

**Stephen Trent**

Good morning Adolfo, and thanks for taking my question.

I recall last month, maybe, there was some news that the AMLO administration wanted to build a second airport in Merida, and I heard you say something about Merida airport and I missed it, but I wasn't sure if this is anything you can substantiate or it's just random news.

**Adolfo Castro Rivas**

Well, I have not heard anything from the president on that respect. I have heard from the governor of the state mentioning that they are trying to see if the airport can be relocated, but that doesn't mean that we will not be the operator in the case of. In the case of someone will have to construct the facilities and then we will be upgrading that airport.

**Stephen Trent**

Okay, perfect. Thanks Adolfo. Just really quickly, in terms of what you see in potential future traffic flow, is there any kind of sense from your side whether a commercial airport, Santa Lucia and Mexico City would align at least with ASUR's long-term traffic flow expectations?

**Adolfo Castro Rivas**

Well, you know that this project is extremely important for us and for the whole system, because most of the traffic of the country in terms of the domestic traffic comes and goes through the metropolitan area. So of course, today Mexico City airport is not congested due to the pandemic situation, it has excess of capacity. Of course, in the future what we expect is the traffic to recover, so the importance of this project is when this happens, of course you will have—we would have some additional capacity for the metropolitan area in order to be able to serve the inflow traffic to our airports.

**Stephen Trent**

Okay, very helpful. Thanks Adolfo.

**Adolfo Castro Rivas**

You're welcome, Steve.

**Operator**

Our next question from Rodolfo Ramos from Bradesco.

**Rodolfo Ramos**

Thank you. Good morning, Adolfo and congrats on the results. I was just wondering if you can elaborate on your outlook for your operating expenses. We saw some good control this quarter and you're still below the 2019 levels despite inflationary pressures that you've seen. But, as traffic continues to recover, where do you see operating expenses normalizing?

**Adolfo Castro Rivas**

Rodolfo, hi, good morning. Thank you for your question. Basically, as you are mentioning the inflation in this country is really high, as it is in some others. We have put in the brakes on the cost side since the second quarter 2020, and we are doing as much as we can to control these, and you can see some of the results. Of course, the expectation is that once everything is normalized, the cost side should go back to the 2019 levels. Of course, inflation, it's going to be a crucial element on that as well, but yes, it's true we are doing good in terms of managing the cost side of the Company.

**Rodolfo Ramos**

Thank you, and if I may, a follow-up here on traffic. You mentioned that you do expect traffic to recover to peak levels by the second quarter of next year. I'm just wondering if you have a visibility, maybe what we've seen so far in October, but if you have any visibility as to how markets have been largely absent from this recovery - you know, Canada, Europe, or markets that were hit more severely by restrictions, if you have any visibility as to how they're coming back. I don't know if that's a little bit about bookings, or any color that you can give us as to how do you expect these segments to contribute to traffic into this winter season.

**Adolfo Castro Rivas**

Absolutely, that is why I was saying during the initial remarks that we are expecting a better outlook for the winter. Yes, we have some requests from the airlines, but these requests do

not mean that they will in reality use the slots, or they can cancel the slots at the last minute as they have done during the pandemic levels. But, it's clear that we lost Canada basically in the high season at the third week of January this year, so we are expecting them to go back and, if the winter is strong in the north of the Americas, it will be a good season for us.

That is also the case of Europe. In the case of Europe, probably you can see the news and we are seeing some recovery. Just to give you something, or an example, yesterday we had the first flight from Vienna, and in the case of Vienna, the flight was cancelled 14 years ago, so after 14 years they are coming back to Cancun, so yes, we are seeing also a recovery from the case of Europe.

**Rodolfo Ramos**

Thank you Adolfo.

**Adolfo Castro Rivas**

You're welcome.

**Operator**

Our next question from Pablo Monsivais from Barclays. Please go ahead.

**Pablo Monsivais**

Hi Adolfo, thanks for taking my question. I have two. The first one is provided that traffic recovers at some point in 2022 and that you are charging the full tariff, what are the main important concerns for you in terms of what you want to do with ASUR? I mean, are you going to keep looking for other places to invest or to improve your commercial platform in Colombia and Puerto Rico? What are your thoughts here? Thank you.

**Adolfo Castro Rivas**

Well of course, the first concern is that we do not have another rebound of the virus, that we don't see the fourth wave during the winter. That's my major concern. If we go after and if we say the pandemic is over and we are, let's say, third quarter next year, of course we will go back to normal and we will be looking for some of the attractive opportunities for the shareholders. Of course, we will be in a continuous effort to increase and to improve our commercial operations as we have done. We have taken some opportunities in the case of Colombia, as you have seen. We have also been able to manage to replace some spaces that were empty in our airports and also to have new additions, as you have seen in the report as well.

**Pablo Monsivais**

Okay, and a second question here if I may, we've seen very strong recovery in Cancun, and thinking about the Canadians and Europeans going into Cancun in the fourth quarter and first quarter of next year, what do you think is the main constraint for Cancun to keep growing? I mean, can—is the wing capacity not to withstand, I don't know, 10% traffic growth for next two, three years? What are your thoughts?

**Adolfo Castro Rivas**

Well, when we're saying 10%, of course I have to say, okay, this 10% is over 2019 levels. I can say that there are some constructions, hotel construction projects today as we speak, and they should be opening very soon, so additional capacity is being placed in the region, also in terms of AirBnB and things like that. Today, to be honest, I am not concerned about the capacity. We are concerned about not having the fourth wave, and we are working also in terms of the cost control and increasing the commission revenues.

**Pablo Monsivais**

Super clear, many thanks.

**Adolfo Castro Rivas**

Thanks.

**Operator**

We'll take our next question from Gabriel Himelfarb from Scotiabank. Please go ahead.

**Gabriel Himelfarb**

Hi Adolfo, congratulations on the results. Just a quick question. We're seeing that inflation is rising and there are some constraints on supply chains, but the material costs—steel costs are rising. Do you think this could impact your planned investment in your MDP, for some could be—some planned investments could cost more than you were planning? Thanks.

**Adolfo Castro Rivas**

Well, yes of course, you're absolutely right - the increase in the construction side is really top this year and also the problems of the distribution of some materials, and we are suffering from that as we speak. Of course, that will have an impact on our CapEx, but basically we have to comply with what we have committed with the Mexican government, as I have said in the remarks. We should comply with the 3.5 billion pesos for this year. Next year, it's a lower commitment, and that should be around 1.7, 1.8, so the toughest part is right now, and we have to work really hard this quarter, this fourth quarter to meet the commitment.

**Gabriel Himelfarb**

Okay, thank you. Congratulations on the results.

**Adolfo Castro Rivas**

Thanks.

**Operator**

The next question comes from Andressa Varotto from UBS. Please go ahead.

**Andressa Varotto**

Hi Adolfo, thank you very much for taking my question. My question is on the commercial revenue side. We have seen a very good commercial revenue this quarter in operations, so I just wanted to know what is behind that and what can we expect going forward. Can we say that commercial revenues are normalizing already?

**Adolfo Castro Rivas**

Well, of course as I have said during the remarks, I still believe that commercial revenues during the quarter are still affected with the lack of passengers, or less passengers than normal. That's the first thing. The second thing is I would call it pandemic behavior, which car rental is higher than expected, parking lot is higher than expected, food and beverage is lower than expected, convenience stores are higher than expected. Just to talk about the convenience stores, so the people is not willing—not all the people is willing to stay in a restaurant, so they prefer to grab and go, so that is why convenience store is increasing and this kind of thing.

I believe that in the future this will normalize and we will not see permanent effects from the pandemic in terms of the behavior from one side, and also it's important to say that, as we have seen, the passenger list today is not the same as it was before, so proportionately speaking we have more domestic, less Europeans, more U.S., so that also will have an effect on our commercial revenues in the future once the passenger mix is adjusted as it was before.

**Andressa Varotto**

Great, thank you very much, Adolfo. Have a great day.

**Adolfo Castro Rivas**

Thank you.

**Operator**

Our next question is from Rodolfo Ramos from Bradesco.

**Rodolfo Ramos**

Just to follow up on The CARES Act, do you expect any additional payments, or what is the remaining amount, or I don't know, what we should expect in the next quarter or two?

**Adolfo Castro Rivas**

Yes Rodolfo, in the case of the CARES Act, the first grant that was given by the U.S. government, it's over. We're expecting that the second and third programs, and yes, we can expect more for the coming months.

**Rodolfo Ramos**

You don't have any visibility as to the amounts?

**Adolfo Castro Rivas**

No, I'd prefer not to say the amounts because we are not sure about those yet.

**Rodolfo Ramos**

Thank you.

**Adolfo Castro Rivas**

You're welcome.

**Operator**

We will take our next question from Stephen Trent from Citi. Please go ahead.

**Stephen Trent**

Hi Adolfo, and thanks for taking my follow-up. Apologize if I missed what you said before, but we'd noticed your receivables, days receivables looked pretty strong. How should we think about the trend going forward as you continue negotiating with some of your host airlines that are going through some financial difficulties?

**Adolfo Castro Rivas**

Hi Steve. Well, they have improved during the quarter, basically because of the bad position that the airlines have due to the recovery process. As I have mentioned in the report, we're still working well with all the airlines. The only problem we had in the past was in the case of Interjet, and that's clear and it has been reset. Going forward, I do not expect major problems or major issues from the airlines, so we should be seeing the same or similar numbers that we had pre-pandemic levels in terms of receivables, of course in relation with the percent of the Company.

**Stephen Trent**

Okay, perfect. Thanks again Adolfo.

**Adolfo Castro Rivas**

You're welcome.

**Operator**

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

**Adolfo Castro Rivas**

Thank you, Ally. 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 2021 Results conference call. We would like to thank you again for your participation. You may now disconnect.