



Grupo Aeroportuario del Sureste
First Quarter 2017 Earnings Call Transcript
April 21, 2017

Operator: Good day, ladies and gentlemen, and welcome to the ASUR First Quarter 2017 Results Conference Call. My name is Kyle 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, Kyle, and good morning, everybody. Thank you very much for being here with us on our conference call to discuss our first 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.

I will start today's call briefly discussing our recently announced international expansion and afterwards I will provide a review of the results for the quarter.

As announced on April 10, we agreed to acquire a controlling stake in two airports operators in Colombia – Airplan and Aeropuertos de Oriente – for a combined aggregate price of 262 million U.S. dollars. We expect to fund this transaction with a combination of cash on hand and financing. After closing, ASUR will own approximately 92.42% of Airplan and 97.26% of Oriente. Closing remains subject to a number of customary conditions, including regulatory approval by the Colombian authorities.

In 2016, these airports served a total of 15.6 million passengers, equivalent to 51% of the total 28.4 million passengers that traveled through our Mexican airports last year.

The majority of the traffic at these airports is domestic.

Airplan has concessions to operate airports in Medellín, Montería, Carepa, Quibdó and Corozal, serving 10.4 million passengers in 2016. This includes the International Airport in Medellín, the second busiest in Colombia.

Oriente, in turn, served 5.2 million passengers last year through its concessions to operate the International Airport in Santa Marta, as well as airports in Riohacha, Valledupar, Cúcuta, Bucaramanga and Barrancabermeja.

The terms of the concessions vary according to the amount of revenues they will generate in the future, with Airplan expiring between 2032 and 2048 and Oriente between 2033 and 2049.

Results from these operations will be consolidated into ASUR's financial statements. While there is not too much detail I can discuss at this moment, transparency is at the core of ASUR and we look forward to providing in-depth information on these operations once the transaction is closed, which we expect will take place by the end of the second quarter of this year. These companies are private, and we have confidentiality agreements.

We remain focused on building value for our shareholders by taking cautious but firm steps in selectively investing in high-potential airport operations, while leveraging our balance sheet to optimize our capital structure and drive growth.

Now moving on to results, we started the year with a solid quarter. Total passenger traffic increased by more than 8% year-on-year, reaching a record 7.8 million passengers. Note that this quarter we faced more difficult comps as last year the impact of Holy Week on passenger traffic began on March 18, while this year it started on April 7.

Traffic continued to benefit from the peso depreciation both driving higher traffic from the US as well as fueling domestic passengers who are prioritizing travelling within Mexico given the weaker peso.

As in the fourth quarter, growth was primarily driven by domestic traffic which was up 12% year-on-year, reaching nearly 3.1 million passengers. Traffic was strong across most airports, with Cancun logging a 15% increase. Minatitlan continued to face the challenging oil industry.

International traffic was up 6% year-on-year, reaching over 4.7 million passengers, mainly driven by a similar increase in traffic at Cancun airport supported by an

attractive exchange rate as I just mentioned. Passenger traffic between Mexico, Canada and the United States represented 88.22% of the total traffic, compared with 87.90% a year ago.

Total revenues for the quarter, excluding construction services, rose 23% year-on-year. Commercial revenues were up 28% with commercial revenues per passenger up almost 19% to a record of 118 pesos. Beyond this seasonal increase, we expect to see additional pick-up in commercial revenues per passenger once we open Terminal 4 at Cancun airport in the fourth quarter of this year.

Operating costs and expenses, excluding construction costs, were up 14% year-over-year, but remained fairly unchanged sequentially. This was mainly due to higher cost of services reflecting higher energy tariffs and the 16% increase in revenues from direct commercial operations. Looking ahead, we expect costs to increase in the third quarter as we prepare for the opening of Terminal 4 planned for the fourth quarter of the year.

EBITDA was up 25% year-on-year, reaching 1.8 billion pesos. Excluding construction revenue and costs, Adjusted EBITDA margin increased by over 150 basis points to 74.7% as we continued to leverage our fixed cost base.

Our participation in Aerostar resulted in a gain of 68.8 million pesos, up 38% YoY, as we continued to drive commercial revenue growth even despite the soft traffic which was down by 2 percent YoY, reaching 2.3 million passengers.

Shareholders' equity in the quarter was impacted by a 236 million peso loss from the translation effect of Aerostar's financial statements which are denominated in U.S. dollars, compared with a loss of 3 million pesos in the first quarter of 2016, due to the appreciation of the Mexican peso by 8.85% against the US dollar during the first quarter of this year.

Moving on to capital expenditures, we invested 84 million pesos in the quarter, mainly in the construction of Terminal 4 which remains on track to open in the fourth quarter of this year.

Let me also highlight our strong balance sheet, closing the quarter with a cash position of 4.5 billion pesos and total debt of 4 billion pesos.

Before opening the floor for questions, let me note that this coming Wednesday we will be holding our General Annual Ordinary Shareholders' Meeting. Among other items, the agenda includes the proposal by the Board of Directors to pay an ordinary cash dividend from retained earnings in the amount of Ps.6.16 per share.

Now, let me open the floor for questions. Please Kyle, go ahead.

Operator: Thank you. Once again to the audience, it is star, then one for questions. Please make sure your mute function is turned off or the handset is picked up before pressing the corresponding digits. We will take our first question from Pablo Zaldivar with GBM.

Pablo Zaldivar: Hello Adolfo. Good morning. Thank you for taking my question and congratulations on the results. I was just wondering if you could give us a little bit of insight regarding the non-aeronautical revenues seen during this quarter. We saw a really strong uptick when measured on a per passenger basis. We were just wondering what were the main drivers that delivered these figures and what should we expect going forward?

Adolfo Castro: Hi Pablo. Good morning and thank you for being here with us today. In the case of non-aeronautical revenues, as you have seen in the documents, the most important activities were duty free and basically food and beverage. It was an extraordinary quarter. The results were excellent. Going forward, please take note that the first quarter is always higher than the second one if we see these per passenger, so please try to see this seasonality in the case of the commercial revenues per passenger.

Pablo Zaldivar: Okay, thank you. Another question. I was wondering if you could give us some insight on the Colombian airports that you're looking to purchase. Regarding the concession, how does it work there regarding how do you pay the government and what is regulated and not regulated? Is it similar to the Mexican concessions or is it under a different scheme?

Adolfo Castro: Pablo, for the moment I cannot give you more details of the ones that are in the documents we have released. The only thing that I will say with respect of your question is that of course every country has its own particular regulatory regime. In the case of Colombia, it's not exactly as it is in the case of Mexico City.

Pablo Zaldivar: Great, thank you very much.

Adolfo Castro: You're welcome.

Operator: We'll take our next question from Rusty Johnson with Harding.

Rusty Johnson: Hi. I was wondering if you could expand a bit on the impacts of these terminal changes. You mentioned major efficiency pickups and traffic flow leading to commercial revenues on 3 and 4, we know they're opening but I don't know how to gauge their size and magnitude, whether it's a volume uplift, obviously 4 is, but maybe talk a little bit about the impact of these two changes in Cancun please.

Adolfo Castro: Well, as you have seen last year in the first quarter what happened when we increased or expanded the Terminal 3, expansion of Terminal 3 at the moment it was just operational space, so basically it was an increase in the checking area and also the opening of six boarding gates, so in reality we didn't expand the commercial space. But, the benefit of that was that we were able to move some passengers from Terminal 2 to Terminal 3. Terminal 2 was pretty congested and of course the service—or not the service but the passenger flow and the commercial offering in Terminal 2 is not in the same way as it is in Terminal 3. So, when you move these people from Terminal 2 to Terminal 3 they have a better experience and because of this they spend more. This Terminal 3 was constructed in the year 2007, it was opened second quarter 2007, so once we opened Terminal 4, which we will expect to open in the fourth quarter this year, we believe that this will improve our commercial revenues per passenger because we basically are applying everything that we have learned from 2006 up to 2016. So, that's why I'm saying that we should expect a pickup on commercial revenues per passenger once this is open.

Rusty Johnson: Okay, thank you.

Operator: And we'll take our next question from Alexander Falcao with HSBC.

Alexander Falcao: Good morning Adolfo. I have two questions. First one is, we saw a massive margin pickup, 160 bps on margin gain. Just wondering—we know that that part of it has to do with higher commercial revenues, but how sustainable is that going forward? In terms of number of stores, we saw a difference from first half of the year to the second half of the year of around nine stores. Is that a carry-over event that's probably going to impact second half of this year as well or it's probably going to be mitigated going forward? Thank you.

Adolfo Castro: Hi, good morning. In the case of the margins, be careful with our costs from the third quarter this year. As I have said during the initial remarks, we expect a cost increase once we reach third quarter because in third quarter we will be hiring people to be trained for the opening of Terminal 4 during the fourth quarter. So, the margin is a result of revenues and cost, so the only thing that I can say is that cost should increase in the future and revenues should depend on the passenger traffic.

In the case of the additional spaces we have opened, and this is sustainable, I would say yes, I believe we have found a new level in the case of commercial revenues per passenger. As I have said before, be careful of the seasonality. The passengers we receive during the first quarter end up the same as the ones we receive in the second quarter. A very clear example, during the second quarter we receive more families, so father, mother and children and they of course on a per passenger basis they do not spend the same. So, take consideration of that for the future.

Alexander Falcao: Okay. If I can make a quick follow-up. It's clear that the next round of the master development plan since you're opening 4 you don't have a huge demand for CapEx. That's probably behind the rationale of the acquisition in Colombia, but still if in fact you're betting, you're probably going to post very decent free cash flow generation. Can we expect that for this acquisition that everything that is not—that is excess of cash will be directed to dividends? In the past, that's exactly what you guys did when you didn't have a big CapEx cycle. Can we expect all this cash flow generation to go into dividends?

Adolfo Castro: Okay, many, many questions in one. So, for the future MDP, yes I believe the major works have been concluded or will be concluded with these current MDP. One of the main questions we have today is if we'll have or not to expand terminal—or to do this the first expansion of Terminal 4 within the next MDP. Apart from this, what I believe the effort of Merida will have an important expansion in the future.

Going into your question of cash flow, our intention of course in the case of Colombia is to fund these with leverage, so we will take leverage once we receive the approval from the government to go ahead with the operation. Yes, of course in the future as it has been in the past, if we do not have—though we have not been able to find a place to locate the money, of course we will have to send it back to shareholders.

Alexander Falcao: Thank you so much.

Adolfo Castro: You're welcome.

Operator: We'll take our next question from Stephen Trent with Citi.

Stephen Trent: Hey, good morning Adolfo and thanks very much for taking my questions. Some quick ones for you. The first is, just wondering about your maximum tariff in 1Q17. I noted that it was some 9-some-odd-percent above the max tariff you guys reported in the fourth quarter of last year and on that basis should we expect the tariff to go down this year in order to comply with the regulation?

Adolfo Castro: If you're talking about the revenue for the quarter or if you're talking about the MDP, because when you're saying 9%, that is similar to the inflation we have for the first quarter last year—for the first quarter year-over-year. So, if your question is for the quarter, remember that the maximum rate is adjusted with the PPI. Inflation in Mexico for the first quarter of this year was extremely high. It was extraordinary because of the fuel adjustment in terms of the energy thing. If you are asking about the previous MDP, we're working today as we speak in the draft of the document that we will have to present to the government at the end of this year. The things that I see differently from the previous MDPs, of course, the thing that I have mentioned in relation with expansions in terms of the CapEx, and the

second one of course has to do with the rates and the country risk and all of these rates are today higher than they were before.

Stephen Trent: Okay, very helpful. Another question for you Adolfo. When I think about the commercial revenue, I noticed that on a per passenger basis, the commercial revenue for direct operations—excuse me, commercial revenue per passenger from direct operations was up 7%, then the indirect operations was up a lot. Could you remind me, the indirect operations is a result of an advertising contract? If you could refresh my memory?

Adolfo Castro: So, in the case of direct commercial operations, remember that we only consider the parking lot and the convenience stores. So, what you are basically saying is that during the quarter, the non-direct commercial operations grew more than the direct commercial operations on a per passenger basis. That means that the other activities, like I said, duty free and food and beverage, were really successful during the quarter and they were more successful than we were in our convenience stores and parking lots.

Stephen Trent: Okay, got it, got it. Then finally, thinking about the regulation as we think about the MDP, is it too early to start thinking about allowable returns given your CapEx expectations, given long-term interest rates now lower than they were five years ago, or is this something maybe you revisit by the middle of next year?

Adolfo Castro: Well, I believe it's too early to talk. My only recommendation will be try to see what is the behavior of the UMS long-term documents in the market and see how these rates are moving and this will help you understand what we will be seeing in the end, in the next MDP.

Stephen Trent: Okay, very helpful. I'll let someone else ask a question. Thanks Adolfo.

Adolfo Castro: Thank you.

Operator: We'll take our next question from Pablo Monsivais with Barclays.

Pablo Monsivais: Hi Adolfo. Good morning. I have a few questions. Sorry, I know that you cannot disclose a lot of information on Colombia, but I just want to understand what was your main motivation to invest in the airports in Colombia, if it was a matter of looking for higher penetration or to improve existing operations, and you're more profitable in the airports. Also, my last question is regarding Puerto Rico. I mean, we saw a pretty good number in the quarter but I want to understand a bit more, how was the commercial revenue per passenger in the quarter in Puerto Rico? Thank you very much.

Adolfo Castro: Okay. In the first question you have raised, what is our motivation, we have been in this mood since the end of the year 2010, so we have been looking

for places to—where to invest our money and basically what we really want is to go with leverage, that is the main objective and we need to correct the equity structure we have. So, in the past we have presented offers in the case of Guarulhos Airport, of course we presented an offer in the case of Puerto Rico and we were able to acquire that airport, and that is why we have been basically looking for some other opportunities. Apart from the one that we have mentioned in the case of Colombia, we're still looking as we speak some other opportunities that I cannot share with you for the moment, but yes we are still looking at some other opportunities basically to correct the equity structure and basically to grow with leverage.

In the case of Puerto Rico, your question is important because as you know we concluded during the second quarter last year our original concept, the one we started four years ago, and basically the first year, the first full year with the concept completed it's going to be 2017, so these 38% year-on-year growth is the result of this. Of course, this increase in the number, the result is basically driven by the commercial revenues per passenger. So, if you'll remember the objectives we had in Puerto Rico were basically two; one to increase commercial revenue per passenger and the second one to reduce operational cost.

In the case of commercial revenue per passenger, I have to say that our statement four years ago was that this airport will have in the future more commercial revenues per passenger in comparison with Cancun. We have not yet reached this level but we believe, we still believe in that statement. So, we're still working in the fine-tuning of this process of a commercial revenue per passenger there. So, happy to see these results. Keep an eye on the commercial revenues per passenger or the result of Puerto Rico for this year.

Pablo Monsivais: Okay, thank you.

Adolfo Castro: You're welcome.

Operator: Our next question comes from Andrew West with Harding Loevner.

Andrew West: Hey Adolfo. Can you provide some observations about the environment around Cancun in terms of where incremental new passenger volumes are coming from or likely to come from, and also things like construction activity and hotel capacity?

Adolfo Castro: Of course. So, in the case of passenger traffic, of course the huge growth we have seen since December last year have been domestic traffic, and at the moment I said to myself why domestic traffic is growing by 20-something percent. The main question is of course the exchange rate, so people traveling inside Mexico instead of going outside. That is the first thing.

The second one was a question to see if this domestic traffic that was going to Cancun was really domestic or this traffic was connecting Mexico coming from

somewhere else. I have to say to you that the connection of the traffic that goes to Cancun from Mexico City is just 10% and it's exactly the same as it was in the previous year. So, this additional growth is really coming from Mexicans leaving Mexico.

In the case of your second question which was—sorry, what was your second question?

Andrew West: It was about stuff like hotel capacity, construction.

Adolfo Castro: Okay, yes. In the case of hotel capacity, yes, there are some projects under construction and there's some new hotels as we speak, but also it's important to say that we see something that is what's not in the past which is Airbnb. So, you can get into the internet and see this page and there's a lot of properties today that are there to be leased and these are properties that we cannot count, that we cannot say how many there are and it's clear that this is an additional offer for the passenger and this is growing in a significant way. But, for the moment I'm not really concerned about this hotel capacity, as a summary.

Andrew West: Thank you.

Adolfo Castro: You're welcome.

Operator: We'll take our next question from Augusto Ensiki with HSBC.

Augusto Ensiki: Hi Adolfo. Thanks for the question. Just a follow-up on Terminal 4. Can you comment on when it does open if how much of the commercial space is already contracted out. I mean, will there still be some store or some spaces that are not occupied or how many spaces there are and how many stores are already going to be open when it does become operational in the fourth quarter?

Adolfo Castro: I would think—I would say that almost 100% of the space, of the commercial space, has been selected. Selected means that we have (unintelligible) of the space, and of course from a legal perspective, of course they are not paying us rent because we are not yet in operation. But, I would say day one 100% of the commercial spaces are going to be in place.

Augusto Ensiki: Thank you. Can you say how many additional stores that would represent?

Adolfo Castro: I don't have the number on the top of my head.

Augusto Ensiki: Okay, we'll follow-up. Thank you very much Adolfo. Appreciate it.

Operator: If anyone else does have a question, please press star, one at this time.

It appears we have no further questions at this time. I'll turn things back over to Mr. Castro for any closing remarks.

Adolfo Castro: Thank you and thank you everybody for joining us today on this conference call. Also, do not hesitate to contact me if there's any further questions. Have a great day. Good-bye.

Operator: That will conclude today's conference call. Thank you everyone for your participation. You may now disconnect.