

Conference Call Transcript

ASR - Q1 2009 Grupo Aeroportuario del Sureste (ASUR) Earnings Conference Call

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PRESENTATION

Operator

Ladies and gentlemen, welcome to the First Quarter 2009 ASUR Earnings Conference Call.

(Operator Instructions)

I would now like to turn the presentation over to your host for today's call, Mr. Adolfo Castro, CFO. Mr. Castro, please proceed.

Adolfo Castro - ASUR - CFO

Thank you, Tanya. Good morning, everybody. Thank you for joining us today for the conference call covering our first quarter results.

ASUR 1Q09 EARNINGS CONFERENCE CALL TRANSCRIPT

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 management's current expectations and beliefs and are subject to a number of risks and uncertainties that could cause actual results to differ materially, including risks that may be beyond our Company's control. For an explanation of these risks, please refer to ASUR's filings with the Securities and Exchange Commission and the Mexican Stock Exchange.

On today's call I want to focus on three key topics, the approval of the Master Development Programs for the next five years, the dividend announcement made yesterday, and finally the results for the quarter and overall environment.

As you know, this month we received approval from the Ministry of Communications and Transportation for the Master Development Programs for the years 2009 through the year 2023 and the applicable efficiency factor as well as the maximum tariffs per work load unit for the years 2009 through the year 2013.

In summary, between 2009 and 2013 we have committed a total CapEx for MXN4.7 billion, of which MXN1 billion has already been invested as of December 2008. The agreement also contemplates a total indicative investment of MXN2.1 billion for the five years ended in the year 2013, of which MXN0.6 billion has already been invested as of the end of last year. An indicative investment of MXN1.4 billion was also approved for the five-year period ended in the year 2013. Keep in mind however that these figures do not take into consideration the proposed Riviera Maya Airport, which is included in the National Infrastructure Plan for the year 2007 to the year 2012.

The SCT has agreed to revise the Master Development terms within three months and if a new concession is awarded. For the year 2009, the SCT also agreed to a 0.75% year-on-year decrease -- no, increase for the weighted average maximum rate. If we consider the production price index, excluding petroleum, inflation using this index was 10.48 for the year 2008. The concession agreements for each airport also provide an annual reduction in maximum rates to account for the projected improvements in efficiency. For the five-year period ending December 31, 2013, the maximum rates applicable to ASUR Airports will be reduced by an annual factor of 0.70% in real terms.

The second topic I want to address today is the cash dividend approval at yesterday's shareholders meeting. This consists of a MXN3.24 ordinary dividend and MXN3.04 for extraordinary dividend that will be paid in one installment on May 13, 2009. Basically, we have MXN1,961.7 million in retained earnings, of which MXN52.4 million will be used to increase the legal reserve in accordance with Mexican regulations and MXN1,884 million for the approved dividend. The remaining MXN25.3 million will be pending to be applied.

Now let me briefly discuss the results. This was a -- this was quite a good quarter, taking in consideration the challenging global situation. EBITDA margin rose to 69.6% compared from the 67.0% in first quarter 2008, despite the slowdown in total passenger traffic, reflecting today's uncertain environment. In fact, passenger traffic declined 3.3% compared with a 1.71% increase in the previous quarter and 9.32% posted in fiscal 2008.

Total passenger traffic rose 2.1% year-over-year in January and fell 2.2% in February and 8.7% in March. Keep in mind, however, that Easter and Holy Weeks during 2008 were in March, while in 2009 those were in April. Domestic traffic, in turn, was down by 13.9% this quarter, more than offsetting the 3.04% increase in international passenger traffic.

International passenger traffic accounted for 66.7% of total traffic for the quarter, up from 62.6% during the first quarter 2008. Domestic passenger traffic faced the impact of loss of some airlines and a reduction in flight frequencies and routes as a result of the macro slowdown that more than offset the decline in fuel costs.

Total passenger traffic for Cancun Airport was relatively unchanged year-over-year, as the 4.54% increase in international traffic was offset by a 16.44% reduction in domestic traffic. We believe that the international traffic at Cancun continues to be driven by the strong appreciation of the peso in relation to the dollar, promotion packages offered by hotels to maintain occupancy and their proximity to the US. Of our other eight airports, only Huatulco, Oaxaca and Tapachula showed increases in total passenger traffic.

Total revenues were up 13.2% this quarter, driven by an 8.5% increase in our aeronautical revenues and 23.36% growth in non-aeronautical revenues. Commercial revenues remained strong, up 26.73% year-on-year, reaching an all-time high of MXN60.62 per passenger from MXN45.94 in the year-ago quarter and MXN57.86 in the fourth quarter 2008. Commercial revenues benefited from the 32.9% depreciation in peso against the US dollar since the first quarter 2008 as contracts with some concession holders are US dollar denominated.

Operating costs and expenses in turn rose 4.87% year-over-year, as expected. Here the reorganization implemented in the second quarter 2008 and the expiration of warranties on documented baggage equipment resulted in an increase in personnel and maintenance costs. These, together

with a higher depreciation, as well as concession and technical assistance fees, more than offset the declines in energy and insurance and administrative expenses. As a result of all of these, operating profit for the quarter rose 21.57 percent to MXN527.4 million.

This quarter we also made CapEx investments of MXN70.28 million on the second runway of Cancun Airport. The construction on the runway remains on track and we expect to open these during the fourth quarter 2009.

ASUR closed the quarter with cash and short term investments of MXN1,945 million. The majority remains in short term investments. We may also take some debt to fund the CapEx program for the year 2009 that was approved by the Mexican authorities. Now let me open the floor for questions. Please, Tanya, go ahead.

QUESTION AND ANSWER

Operator

(Operator Instructions) And your first question will come from the line of Dan McGoey with Deutsche Bank. Please proceed.

Dan McGoey - Deutsche Bank - Analyst

Thanks. Good morning. Congratulations on the results and also on the dividend announcement. Adolfo, can you back up a little bit and I guess repeat some of the numbers on the fiscal retained earnings, how much will be used up and how much will be left? I guess what -- also adding to that, if you can comment a little bit on the ordinary dividend at MXN3.24 per share and what we might expect on a future basis.

Adolfo Castro - ASUR - CFO

Okay. Hello. Good morning, Dan. Thank you for your kind words. In the case of the return on earnings, we have MXN1,961.7 million of retained earnings at the end of the year 2008. Of those, we applied MXN52.4 million to increase the legal reserve and we will use MXN1,884 million for the approved dividend. So the remaining will be MXN25.3 million and those will be pending to be applied.

Why we divided in MXN3.24 and MXN3.04? Basically because the MXN3.24 are resulting from last year's profit and the rest was what we had from previous years. For the future, we are not changing our way to do the thing, so every year we will revise and see what was the result of the year and then what do we have for the future and finally we will make our proposal to the shareholders.

Dan McGoey - Deutsche Bank - Analyst

Okay. If I could follow up with that, just can you say how much of the fiscal retained earnings was generated either on a trailing 12 -- what's the level of fiscal retained earnings generation on a trailing 12-month basis or what would you expect for 2009?

Adolfo Castro - ASUR - CFO

When you're saying fiscal retained earnings, you're talking about taxes?

Dan McGoey - Deutsche Bank - Analyst

Oh, sorry, fiscal -- I should say fiscal net earnings from which you can distribute dividends. What is that running that on an annualized basis and can we use that as a guide for your dividend paying capacity?

Adolfo Castro - ASUR - CFO

Well, basically, Dan, what we did was to almost clean up all the retained earnings that we had in the Company. I don't know if this is going to be or could be the same for the future. As I have said, we will evaluate the situation every year and we do once we have the results for the year and the CapEx in front.

Dan McGoey - Deutsche Bank - Analyst

Okay. And, sorry, last question for me on this subject is that if the dividend payment (inaudible) that accumulated was from more than the last year, can you mention what strategically or from an outlook perspective what it changed to have increased the dividend from such a low rate historically to the payment today?

Adolfo Castro - ASUR - CFO

Well, first of all, we have visibility in terms of the investments for the next five years. Also, I have to say that the current situation and the global environment requires more from the companies and I think we were able to see what the future outcome is going to be. So what we decided was to, as I said before, to clean up the retained earnings.

In terms of taxes, in terms of cuffing, what I can say to you is that this payment will generate more or less MXN220 million in taxes on dividends because we have some cuffing from the holding company. Holding company was paying income tax last year, so we had some cuffing account and not all the dividend payment will generate tax on dividends, as it was in the past.

Dan McGoey - Deutsche Bank - Analyst

Okay, thank you.

Adolfo Castro - ASUR - CFO

You're welcome.

Operator

And your next question will come from the line of Alan Solis with Credit Suisse. Please proceed.

Alan Solis - Credit Suisse - Analyst

Yes, good morning, Adolfo. Thanks for the call. My question is regarding commercial revenues. In the press release in Spanish you mentioned that some renegotiations took place with concession holders and that benefited the commercial revenues in addition to the peso depreciation. So what can you expect going for the coming quarters in terms of commercial revenues per backs?

Adolfo Castro - ASUR - CFO

Alan, good morning. Well, basically, I would say in all the cases, once every contract is due or is finished, we try to negotiate or renegotiate commercial conditions. Of course, most of the cases are better than they were in the past. What we should expect for the future, well, you know that our objectives are all the time to increase the commercial revenue per passenger.

I think that we have done our job very nice and you have the results in front. We cannot assure that we will be increasing these in the future, but our objective is to increase that from the level that we have today. We still believe that we can do better.

Alan Solis - Credit Suisse - Analyst

Okay, thank you, Adolfo.

Operator

And your next question will come from the line of Carla Beatriz Pena with Interacciones. Please proceed.

Carla Beatriz Pena – Interacciones - Analyst

Hi. Good morning, Adolfo. A follow-up question on the commercial revenues. I wonder if you could tell us what is the proportion of the commercial revenues that are denominated in dollars and which airports besides Cancun would be benefit from further depreciation of the peso? Thank you.

Adolfo Castro - ASUR - CFO

I can't give you an exact number because let me give you an example. If we have a contract that has a minimum guarantee payment per passenger in US dollar in the case of Veracruz Airport, I cannot say that that revenue, it's going to be driven by dollars because in most of the cases the concession holder says, hey, guy, I cannot increase my prices with the depreciation of the peso because the market will not accept or will stop buying my product. So it is not just if the contract is in US dollar denominated.

Of course, in the case of Cancun, most of the commercial revenue is driven by the international passengers and that is, of course, US dollar denominated. If I can say, my best guess could be something between 55% to 60% US dollar denominated.

Carla Beatriz Pena - Interacciones - Analyst

Okay, thank you.

Adolfo Castro - ASUR - CFO

You're welcome.

Operator

And your next question will come from the line of Nicolai Sebrell with Morgan Stanley. Please proceed.

Nicolai Sebrell - Morgan Stanley - Analyst

Hi, Adolfo. I wonder if you could comment on two things. First, your performance on margins this quarter was better than we expected, particularly with respect to cost of services. And I'm wondering if we can see similar performance going forward in the year in that line and whether we should probably have a cost of services in second, third quarter more like what we saw in the first.

Second question regards change in debt. With the dividend and a dividend policy that pays out seemingly maybe a little bit higher cash in the future, would it be likely that you'd see your debt levels increase?

Adolfo Castro - ASUR - CFO

Hi, good morning.

Nicolai Sebrell \ - Morgan Stanley - Analyst

Good morning.

Adolfo Castro - ASUR - CFO

In the case of the margins, well, we are working really hard in the Company to try to reduce our cost levels as much as we can, as maybe any other company in the world, due to the circumstances. The most -- or the large impact this quarter was the reduction in energy prices that we saw from the second week of January due -- or as a result of a decree from the Mexican President. Remember, if you were here in the previous conference call, the energy costs increased a lot last year. If I remember, the increase was, in terms of prices, more than 40%.

So in the second week of January, the Mexican President reduced the energy by 17%. So that was a very good element in terms of the cost reduction. Of course, also the insurance policies we were able to negotiate better agreements with the companies. And we're working also in some other areas -- specific areas. I'm not so sure that we will be able to maintain this in the future in terms of margins. But of course we're trying to do our best in terms of reducing the cost level.

In terms of changing debt, we decided to pay this MXN1.8 billion in dividend and we may also need some debt in the future for the -- for to comply the CapEx program for this year. You know that the CapEx program for this year, it's close to MXN700 million. And if you make your math, we may be short in sometime in the year and probably we will start hiring some debt.

Nicolai Sebrell - Morgan Stanley - Analyst

Okay, thank you.

Adolfo Castro - ASUR - CFO

You're welcome.

Operator

And your next question will come from the line of Stephen Trent with Citi. Please proceed.

Stephen Trent - Citi - Analyst

Good morning, Adolfo. Just two questions for me. The first, getting back to the debt side, do you have a sense as to over the long term what you might think of as ASUR's target capital structure?

And then my second question regarding the CapEx plan for this new five-year regime, outside of Cancun, I seem to recall Veracruz and some of the smaller airports seem to be rather meaningful numbers. And could you give us a sense as to what are those plans entail, sort of a renovation in many cases, upgrade of facilities or some degree of expansion. Thank you.

Adolfo Castro - ASUR - CFO

Okay. Hi, good morning, Steve. In terms of equity structure, we don't have at this moment a specific number of a specific percentage. But I can say to you, as I have said many times, we will not be an aggressive company. You know that with Latin American levels of debt, we will be debt twice, once in September 11 and then in the Hurricane Wilma 2005. So we will be -- we will be careful on this and we will not take aggressive positions on that.

In the case of the CapEx, you are absolutely right. The smaller airports have apparently a higher CapEx than it was in the past. In the case of Veracruz, the clear example, Veracruz has reached a saturation level in terms of the terminal building. If you see the numbers, Veracruz was managing around half a million passengers annually in the year 2005. Today, they're very close to one million. That means 100% more of what they have in the past. So the terminal building is, I would say, completely saturated so we will expand that building. The same in the case of Oaxaca and the same in the case of Villahermosa.

Some other examples is Huatulco with a runway expansion. We will expand the runway 300 meters in order to attract the European -- or to be able to attract the European airport. And on top of these we have some issues about new rules, new safety rules in the world that apply to the airports. And these have to do with expansions of the runway and safety area. That means the end of the runway must be larger in order that if a plane cannot stop, doesn't crashes with obstacles in front. So that's why the smaller airports have more than what the people were expecting.

Stephen Trent - Citi - Analyst

Oh, great. Thank you, Adolfo. And just one quick follow-up on that. Speaking of these new safety rules you mentioned, do you get any sense as to what we might be able to read through with respect to potential changes at Mexico City's airport given the runway there? I know it's certainly not ASUR's airport, but if you had any color on that as to what might be the implications?

Adolfo Castro - ASUR - CFO

Well, it's very, very tough question because what I believe is that they are not or they will not be complying with these new kind of rules. The runway and safety areas in Mexico City are completely restrained with physical space. So I really don't know what they're going to do. Maybe they will say to the world that they are not in compliance with this rule or they will short the runway and the current runway will be used as a safety area. I really don't know. I don't have a clear answer to that. It's a tough question.

Stephen Trent - Citi - Analyst

Very clear, Adolfo, and thanks for the time.

Operator

And your next question will come from the line of Andrew West with Harding Loevner. Please proceed.

Andrew West - Harding Loevner - Analyst

Good morning, Adolfo. Thanks for the call. Could you talk about the expanded investments for the next five years? Is there any potential for some of this investment to add incremental returns or to drive revenues up or is it -- should I think of it as primarily an expense that had to be -- that you just had to do to keep up? And then a second question, just what kind of tax rate would you expect for this year?

Adolfo Castro - ASUR - CFO

Okay. Most of the CapEx for the next five years, it's going to create, in my opinion, an expense. If we talk about again this expansion of terminal building in Veracruz, of course that will generate an expense, the additional MXN300 million in the case of the Huatulco runway will generate in the future in expense. It's clear that we have some projects to improve costs or to improve efficiency in the operations of the airport, but of course those are not the majority of the projects. So, yes, it's clear that in the future the costs will be higher due to the larger infrastructure at the airports.

And your second question was?

Andrew West - Harding Loevner - Analyst

The tax rate expectations.

Adolfo Castro - ASUR - CFO

Tax rate expectations. Let me talk about the taxes for a second during the quarter. As you can see in the report, there was a huge increase in the flat tax rate provision that is the IETU tax. You can see that the first quarter was 17 million and during this quarter it was almost 76 million. The difference is due to the rules of this tax.

Remember that this tax, it's based on gross profit but also on a cash basis. So if you see that we have --we are giving some credit to the airlines between 50 to 90 days, and you go back to the year 2008, during the first quarter a major portion of what we collected during the months of January, February and March was related to revenue that was generated in the year 2007. And that revenue was not subject to IETU tax and that's why you are seeing this large difference.

My expectation for this year is that the rate, the effective rate will be higher to the 28% and this is because basically the IETU tax, what I expect is that Cancun, which is the largest airport that we have, will be paying IETU tax for this year, so that will generate a pressure on the 28% corporate rate.

Andrew West - Harding Loevner - Analyst

Thank you.

Operator

And your next question will come from the line of Mauricio Santos with GBM. Please proceed.

Mauricio Santos - GBM - Analyst

Hello, Adolfo. Good morning. I just had a follow-up on the issuance of debt. Do you have already an estimate of how much debt would you -- will you look for? Thank you very much.

Adolfo Castro - ASUR - CFO

Well, Mauricio, I don't have a precise number but that can go, in my opinion, up to MXN500 million.

Mauricio Santos - GBM - Analyst

Okay, thank you.

Operator

And your next question will come from the line of Francisco Lasso with Larrain Vial. Please proceed.

Francisco Lasso - Larrain Vial - Analyst

Hi. I have -- hello?

Adolfo Castro - ASUR - CFO

Yes?

Francisco Lasso - Larrain Vial - Analyst

Yes, I have a short question about booking in advance packages. You said that revenues were driven by peso/dollar depreciation. And these packages, do you know how many days from the day which the person contracts the tourist agency until he travels here, if he travels, do you have an estimate on the number of days of that? Thank you.

Adolfo Castro - ASUR - CFO

Yes, my estimate number in the case of the US and Canada could be between two to three months and in the case of European traffic could be six months to one year.

Francisco Lasso – Larrain Vial – Analyst

Thank you. Thank you very much.

Operator

And your next question will come from the line of Pablo Ramos with Armada Capital. Please proceed.

Pablo Ramos - Armada Capital - Analyst

Hi, Adolfo. Good morning. My question is also regarding the commercial revenues. I was wondering if you could tell us what percentage of these revenues comes from percentage of sales of the different stores and what percentage it takes from rents do you charge the different establishments.

Adolfo Castro - ASUR - CFO

Pablo, good morning. Most of, I would say, probably 90% if we exclude the parking lots. Most of the revenue that we are recording here comes from concession fees which are a portion of the sales from the concessionaire. It's very -- I would say it's strange or it's not common that a concession holder, it's paying us a minimum guarantee payment per passenger, because if they are paying all that minimum guarantee payment is because they are not complying with what they have to sell and they will be, in some cases, losing money. So they will left the airport. So most, I can say that most of this is coming from concession fees.

Pablo Ramos - Armada Capital - Analyst

Okay, thank you. And how much does parking lots represent from the sales?

Adolfo Castro - ASUR - CFO

Parking lots, I'm talking about parking lots because parking lots is something that we operate directly. So I don't have a percentage on sales there. I have the whole sales.

Pablo Ramos - Armada Capital - Analyst

But you do charge some -- I mean you have some sales from the parking lots, right?

Adolfo Castro - ASUR - CFO

Yes.

Pablo Ramos - Armada Capital - Analyst

So --.

Adolfo Castro - ASUR - CFO

Yes, but I don't have a scheme where I have a concession in front. So I don't have an amount in terms of rent.

Pablo Ramos - Armada Capital - Analyst

But in terms of revenues, how much does parking represent?

Adolfo Castro - ASUR - CFO

I don't remember the number.

Pablo Ramos - Armada Capital - Analyst

Okay, thanks.

Operator

(Operator Instructions) And your next question will come from the line of Andrew West with Harding Loevner. Please proceed.

Andrew West - Harding Loevner - Analyst

Hi. I thought of another question. Could you provide some idea of what you're seeing in terms of new routes, frequencies or carriers versus -- looking forward versus perhaps dropped routes or dropped frequencies, particularly going into Cancun?

Adolfo Castro - ASUR - CFO

Yes, in the case of new routes, I'm trying not to be so specific as the other airport groups because in our case we have probably 170, 180 routes in all of our airports, so it's very hard for me to be in top of these or in top of the 180 routes all the days. But what I can say to you is that basically we suffered last year because we lost some routes from the airlines that were in bankruptcy and the most -- probably the most important of those with Alma.

There's a new line, a new airline in Mexico that is going to be managed by Mexicana that will recuperate most of these routes. They are -- they will start operations almost as we speak. And this probably will help us in the future in the case of the domestic traffic.

In the case of international traffic, we have not lost too many routes. Basically what we have lost is some frequencies. That's what I can say to you.

Andrew West - Harding Loevner - Analyst

Great. Thank you.

Adolfo Castro - ASUR - CFO

You're welcome.

Operator

And your next question will come from the line of Patricio Rivera Torre with IXE. Please proceed.

Patricio Rivera Torre - IXE - Analyst

Yes, hi, Adolfo. Good morning. Just a quick question on the concession rights fee that you pay the government that has been below 5% during the last quarters. Why is this and is there any explanation about it?

Adolfo Castro - ASUR - CFO

Yes, Patricio. In the case of the concession fee, remember that the concession fee is not for all the revenues. You cannot place a 5% to all revenues because the concession fee is charged between brackets and rent for the use of the assets that does not belong to the Company, that belongs to the government. So not all of the assets or not all of the revenues are coming from those assets.

Let me give you a very simple and clear example. If we buy a car and then we resell this car or (inaudible) we are not getting a revenue coming from the concession assets. And also, this can be applied to some of the products that we are selling in some stores. So it's not a direct 5%.

Patricio Rivera Torre - IXE - Analyst

Okay. And one --.

Adolfo Castro - ASUR - CFO

It's almost --.

Patricio Rivera Torre - IXE - Analyst

More question.

Adolfo Castro - ASUR - CFO

It's almost at 5%.

Patricio Rivera Torre - IXE - Analyst

One more question. How --- do you expect international traffic to remain strong during the year? I know it's difficult to say, but what are your expectations on the budget basis and how do you see it?

Adolfo Castro - ASUR - CFO

Well, my personal opinion on this is that the international traffic will remain as it is today. I think or I hope that in the case of the international traffic we have seen the worst.

I'm worried about the domestic traffic because the trend that we are seeing, it's still a declining trend. And remember that we are fewer some airports and that the summer, it's mostly domestic traffic. So I'm concerned about the second quarter. Second quarter could be the worst for us in terms of passenger traffic. And my expectation is that this will start getting better during the third and fourth quarters.

Patricio Rivera Torre - IXE - Analyst

Okay, thank you and congratulations.

Operator

And your next question will come from the line of Francisco Lasso with Larrain Vial. Please proceed.

Francisco Lasso – Larrain Vial – Analyst

Thanks. Question already answered.

Operator

And there are no more questions at this time. I would now like to turn the call back over to Mr. Adolfo Castro, CFO, for closing remarks.

Adolfo Castro - ASUR - CFO

Thank you, Tanya. As you can see, this was another very good quarter. We believe that the approval of the Master Development Plan for the next five years and the SCT agreement to revise these terms in the case that new concession is awarded to the proposed Riviera Maya Airport was a very important step towards reducing market uncertainties. We are confident that our solid business model and healthy balance sheet provide us with a very strong position to continue weather the uncertain global environment. Thank you for your attention and for being here with us on this conference. Bye.

Operator

Ladies and gentlemen, thank you for your participation in today's conference. This concludes the presentation. You may now disconnect, and have a great day.