

ASUR Conference Call Transcript

ASR - Q4 2010 Grupo Aeroportuario del Sureste (ASUR) Earnings Conference Call

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CORPORATE PARTICIPANT

Adolfo Castro

Grupo Aeroportuario del Sureste (ASUR) - CFO

Operator

Good day, ladies and gentlemen, and welcome to the ASUR Fourth Quarter 2010 Results Conference Call. My name is Louisa, and I'll be your operator for today. At this time, all participants are in listen-only mode. We will conduct a question and answer session towards the end of this conference.

(Operator Instructions)

For opening remarks and introductions, I would like to turn the call over to Mr. Adolfo Castro, Chief Financial Officer. Please proceed, sir.

Adolfo Castro - Grupo Aeroportuario del Sureste (ASUR) - CFO

Thank you, Louisa, and good morning, everybody. Thank you for joining us today for the conference call of our fourth 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 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 filings with the Security and Exchange Commission and the Mexican Stock Exchange.

I will start with a brief comment on recent developments, including an update on Tulum Airport. Afterwards, I will discuss passenger traffic performance and the results of the quarter. As you know, at the end of January, COFECO, the antitrust agency in Mexico, released its decision not allowing ASUR to bid in the bidding process for the construction, management, operation, and exploitation of public airport that is to be built in the town of Tulum in the state of Quintana Roo.

As we have said before, we disagree with this decision and the views expressed by the Commission. Basically, they are eliminating participants in the competition to offer the lowest rate at the airport.

Remember that the criteria established in the bidding process was the big winner will be the one who offers the lowest rate. Because of this, we have initiated legal proceedings in accordance with the Mexican legislation to defend ASUR's rights. However, we cannot provide any assurance that any legal proceedings to challenge the COFECO decision would be successful, or that COFECO will be required to delay the bidding process or permit ASUR to participate in it as a result of such proceedings.

Also, keep in mind that as we have previously announced if the airport were to be granted, the granting authority agreed to adjust Cancun's MDP and maximum rate, as a result of the negative effect that this airport will have in Cancun's passenger traffic. The agreement is to make the adjustments within 90 days after the concession is granted.

Now moving to the results, passenger traffic during the quarter increased by 1.7% year-over-year, in line with our expectations. Traffic was up 5.1% in October, 1% in November, and fell 0.1% in December.

Remember that in December airlines operate at full capacity and these, together with the exit of Mexicana, resulted in a supply constrain and lower traffic. In the two previous months, the airlines were not operating at overcapacity and it was easier to capture passengers left by Mexicana.

Looking ahead, even if Mexicana and Aviacsa reinstate operations this year, we see capacity constraints on domestic markets. This situation should be normalized until the year 2012.

International traffic continued to show a recovery, although at a slower rate, up 4.2% year on year, mainly driven by the strong performance of Cancun Airport. Continuing the trend seen during the year, traffic growth reflected easier comps from the H1N1 influenza outbreak and the economic crisis in the fourth quarter 2009.

As a result, international passenger traffic continues to increase its share of total traffic, up to 55% from the 53.4% in the fourth quarter 2009. Passenger traffic between Mexico, Canada, and the United States represented 89.2% of total traffic compared with the 91.2% in the fourth quarter 2009.

Consolidated revenues increased 58.3% this quarter, mainly driven by the adoption of INIF 17, related to service construction contracts, which resulted in the addition of MXN401 million in revenues from the recognition of improvements to our concession assets. Keep in mind that this was offset by a charge to operating income in the same amount as we hired third parties to provide construction services.

Excluding construction services, total revenue would have increased 5.1%. Commercial revenues to passenger in turn remains strong, up 4.1% year on year to MXN63.88 and above the record high of MXN61.33 achieved in the fourth quarter 2009.

This quarter, we continued to expand the spaces for commercial activities. For example, last year we took over 14 convenience stores from a concessioner that was in Chapter 11. We opened eight of these stores at the end of the fourth quarter and the remaining will be opened during the first quarter this year, all of them operated directly by us.

Operating costs and expenses rose 76.1% year on year this quarter, mainly as a result of the application INIF 17 related to the service construction contracts. Excluding the impact from applying INIF 17, operating costs and expenses have increased 5.4% year on year. Operating profit rose 29.6% to MXN373.7 million, although operating margin declined to 31.3% from the 38.2% in the same quarter last year.

And while EBITDA rose 4.8% this quarter, EBITDA margin was down to 39.1% from the 59.1% in the fourth quarter 2009. This reflects the negative impact from the inclusion of construction revenues and expenses as a result of INIF 17, while there wasn't a corresponding increase in the EBTIDA.

During the fourth quarter, we made capital investments of MXN381.2 million as we continue with the terminal expansions in Veracruz, Villahermosa, and Oaxaca airports begun in the first quarter this year and the passengers flows operation at Cancun airport. In terms of our balance sheet, cash and short-term investments at the end of the quarter increased 50% to MXN1,442.88 million. Bank debt at year end totaled MXN890.6 million.

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

QUESTION AND ANSWER

Operator

(Operator Instructions)

And your first question comes 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 related to the receivables from Mexicana that were provisioned in the third quarter of last year. Is the airline legally required to pay down those debts to the airport groups in order to resume operations?

Adolfo Castro - Grupo Aeroportuario del Sureste (ASUR) - CFO

Well, two things. First, you know that we have decided to reflect in the results of the last year the accounts receivables that were not paid by Mexicana. So every peso that we, in the case of this company, start -- restart operation receive, it's going to be positive news for the Company.

We are not obliged to negotiate with them. Basically, we have been talking with them in order to try to recover as much as we can. Our basic principal is to recover the passenger fee and we are not accepting anything less than that.

Why the passenger fee? Because the passenger fee is an amount of money that they have taken that didn't belong to them. This passenger fee is something that they collect on our behalf and they should be at least paying this amount to us. Of course, in accordance with Mexican laws and if more than 50% of the creditors accept what they are offering, the remaining 49% we'll have to accept.

At this moment, I cannot say what -- well, at this moment I can say that there's not yet an agreement with more than 50% of the creditors.

Alan Solis - Credit Suisse - Analyst

Okay, but --

Adolfo Castro - Grupo Aeroportuario del Sureste (ASUR) - CFO

The end -- the final comment is if they restart operations, yes, they will have to pay us something and then we will see positive numbers in the case of the Company.

Alan Solis - Credit Suisse - Analyst

Okay. But not necessarily the full amount. Now it will have to be some sort of negotiation, if I understood correctly.

Adolfo Castro - Grupo Aeroportuario del Sureste (ASUR) - CFO

Yes, it could be a negotiation or it could be the final result of the creditors' position.

Alan Solis - Credit Suisse - Analyst

Okay. Thank you, Adolfo.

Operator

Your next question comes from the line of Tomas Lajous with UBS. Please proceed.

Tomas Lajous - UBS - Analyst

Hi, Adolfo. Thank you very much for the call. Could you talk a little bit about what happened with CapEx? If I'm not mistaken, CapEx for 2010 was well below the MDP. So if you can update us on what's happening there, if and when that CapEx is going to come through and how should we be thinking about CapEx going forward, and about how this affect the MDP.

Adolfo Castro - Grupo Aeroportuario del Sureste (ASUR) - CFO

Okay. First, the CapEx of last year had two different impacts. The first one was that we were able to comply with some of the works with a less amount that was originally considered in the MDP. So in other words, we made savings and we complied with the concept.

Because of this, we have presented to the authority some different options to use that amount of money. From a regulation perspective, we have to spend that amount of money - the fully amount. And let me put this in numbers.

If I had to repave the runway with a cost of MXN1,000 and we were able to repave the runway with MXN900, the other MXN100 were saved, but they would have to -- we would have to spend those during this year. And we will spend those once the authority approved the concept of where we are going to spend those MXN100. So, it's not a final or a definitive saving in CapEx.

The second thing is the situation with Veracruz and Villahermosa, where we have requested the authority to diminish the amount of CapEx due to the fact that the passenger traffic in those airports were not at the same level that was originally considered for the MDP because of the situation with the domestic airlines mainly in -- after June 2008.

The authority has approved to reduce the amount of CapEx so the next step is to talk with them and see what kind of impact these will have on the maximum rate of these two specific airports. And that's what we will have to do during the next quarter of this year.

Tomas Lajous - UBS - Analyst

Okay. Great. Thank you very much, Adolfo. But more generally, I mean, does this mean that your capital intensity is falling? You are able to sort of continue delivering on revenues on EBITDA with less CapEx, and I guess that's what you have to talk about with the regulators.

And also, could this be sort of joined into the discussions about what happened with 2009 with the GDP falling more than 5% and passenger traffic falling? Could that sort of come into the fold?

Adolfo Castro - Grupo Aeroportuario del Sureste (ASUR) - CFO

The reason why we are able to negotiate or we are able to request a CapEx reduction is because the drop in GDP of -- during the year 2009 for more than 5% and that this impact had also a decrease in the level of passengers.

Tomas Lajous - UBS - Analyst

Okay. Thank you.

Adolfo Castro - Grupo Aeroportuario del Sureste (ASUR) - CFO

You're welcome.

Operator

Your next question comes from the line of Berenice Munoz with Santander. Please proceed.

Berenice Munoz - Santander - Analyst

Hi. Good morning, Adolfo. The question is regarding this year the operating level and do you have moderate increases in your working and capital -- in your working capital and CapEx.

So free cash flow to equity increased by a solid 56%. Is it possible for a better dividend to be paid in 2011?

Adolfo Castro - Grupo Aeroportuario del Sureste (ASUR) - CFO

Well, it's something that I have to figure out. We have concluded -- we are in the process to conclude the audit of our numbers. Once this is concluded, I will present my proposal to the strategic partner, then to the operations committee, the Board of Directors, and finally to the shareholders assembly.

The only thing that I can say to you is that the maximum dividend possible is the result of the retained earnings plus the profit of the year -- making a reduction of the legal reserve. That's the maximum possible that could be declared dividend.

Berenice Munoz - Santander - Analyst

Okay. Thank you.

Adolfo Castro - Grupo Aeroportuario del Sureste (ASUR) - CFO

You're welcome.

Operator

Your next question comes from the line of Claudia Medina with Itau Asset Management. Please proceed.

Claudia Medina - Itau Asset Management - Analyst

Hola, Adolfo. Berenice just asked my question. So, could you please remind me what the full amount of the maximum dividend would potentially be and how that compares with the dividend paid last year, please?

Adolfo Castro - Grupo Aeroportuario del Sureste (ASUR) - CFO

Well, Claudia, good morning. Basically, you know that we do not have a written dividend policy and that we evaluate this every year. Concerning the circumstances of the moment, one of the major elements that we have in front is -- or was the situation of the Riviera Maya project.

What I believe today is that this situation with COFECO will not change, so I don't think that we are going to be able to be there. So that's giving us some kind of relief in that sense in terms of the cash requirements. But again, the maximum possible has to be with the written earnings plus the profit of the year minus the legal reserve. So that's what I have to see right now. And then to make my proposal to the proper authorities here in the Company.

Claudia Medina - Itau Asset Management - Analyst

Excellent. Okay. Thank you, and congratulations on the report.

Adolfo Castro - Grupo Aeroportuario del Sureste (ASUR) - CFO

Thank you.

Operator

(Operator Instructions)

And your next question comes from the line of Augusto Ensiki with Morgan Stanley. Please proceed.

Augusto Ensiki - Morgan Stanley - Analyst

Hi, Adolfo. Good morning. Just a question regarding your taxes. I guess it came in a bit lower than they were looking for this quarter -- still pretty reasonable for the year, I guess. But is the annual tax rate -- I guess it came in around 32% or so. Is that what we can expect going forward on a -- I guess, on an annual basis?

Adolfo Castro - Grupo Aeroportuario del Sureste (ASUR) - CFO

Hi. Good morning. Well, basically, the annual tax is very close to the corporate -- let me put it that way -- to the corporate rate. Remember that the corporate rate in Mexico will be decreasing in the future. So when you are saying the future, keep in mind that the corporate rate will diminish to -- from 30% to 28% in the future.

Basically, what we have seen during the fourth quarter in terms of taxes has to do also with the effect of Mexicana in terms of making a reduction from a tax perspective of what we have not collected from their side. So yes, that -- probably it was a positive surprise for you during the fourth quarter. But remember that, on an annual basis, it should be very close to a corporate rate.

Augusto Ensiki - Morgan Stanley - Analyst

Great. And just going back to what you said about the decreasing rate, when is that expected to come down?

Adolfo Castro - Grupo Aeroportuario del Sureste (ASUR) - CFO

As far as I understand -- and please check this with Mexican legal laws, but it should be 29% next year and 28% the year after.

Augusto Ensiki - Morgan Stanley - Analyst

Great. I'm sorry, 29% is in 2012?

Adolfo Castro - Grupo Aeroportuario del Sureste (ASUR) - CFO

Yes.

Augusto Ensiki - Morgan Stanley - Analyst

Okay. Great. Thank you very much, Adolfo.

Adolfo Castro - Grupo Aeroportuario del Sureste (ASUR) - CFO

You're welcome.

Operator

Your next question comes from the line of Andrew West with Harding Loevner. Please proceed.

Andrew West - Harding Loevner - Analyst

Hi. Good morning. My question is just about the basics of the business. Do you have any outlook in terms of what are costs looking like, how many new hotel openings coming in Cancun? The sort of things that are going to be driving both your passengers, fees per passenger, and your costs?

Adolfo Castro - Grupo Aeroportuario del Sureste (ASUR) - CFO

Okay. In terms of costs this year, I don't see any major surprise apart from or any other extraordinary expense apart from what we are having today because of the Riviera Maya project. From May last year up to probably this moment, we have spent some amount basically to prepare our offer.

Probably from now on, the amount that we are going to spend, it's going to be on legal fees. But apart from these, I do not see any major change in our cost structure in the Company. Of course, in terms of what I have said during the opening, in terms of the direct commercial operations, if we are going to operate more stores and we are going to sell more products, the cost of these products compared with last year is going to be higher.

In terms of hotel rooms in the Cancun and Riviera Maya region, what I can say to you is that today we have margin for expansion without any construction hotel rooms. In other words, we have today less load factor that we use do have in the case of this region. Why is this? This is basically because of the international crisis, the swine flu, and the problems with the domestic airlines.

The new projects, in my opinion, were stopped because of the same situations. But we think that the impact is something that we will have to see until the year 2013 in terms of -- from

now on we have some margin to increase passenger traffic because there's some empty hotel rooms. Once these hotel rooms are full, we will need additional ones that have to be initiated during the year 2009, 2010, 2011.

In that sense, I have to say that it's true that's there's no new -- or there were not so many new projects during these, let's say, last 15 months. I don't know if this can -- if this answers your question.

Andrew West - Harding Loevner - Analyst

Yes, that's helpful. Do you have a sense of what occupancy rates are now and sort of if -- how much growth would it be to go from current occupancy rates to normalized occupancy rates?

Adolfo Castro - Grupo Aeroportuario del Sureste (ASUR) - CFO

Well, probably, I don't have an exact figure. Please, again, try to check with the hotel associations. But these figures should be very close to 70% on an annual basis, and normally we at 74%.

Andrew West - Harding Loevner - Analyst

Okay. So you could get more than 5% just from --

Adolfo Castro - Grupo Aeroportuario del Sureste (ASUR) - CFO

In terms of (inaudible) factor for [what the] room - yes.

Andrew West - Harding Loevner - Analyst

Yes. Okay. Thanks.

Operator

(Operator Instructions)

And your next question comes from the line of Augusto Ensiki with Morgan Stanley. Please proceed.

Augusto Ensiki - Morgan Stanley - Analyst

Hi, Adolfo. Sorry, just one additional question. There's a note of a marginal decrease in the concession fees paid. I mean, it's small, but I was wondering, the -- what is the -- is the decline on the taxable base the same thing that you were talking about earlier regarding lower taxes?

Adolfo Castro - Grupo Aeroportuario del Sureste (ASUR) - CFO

No, probably it's because of the way that we are operating our stores and we have a company that it's -- that it's making the agreements with some of the concessionaires and also this is the new company that is managing the direct commercial operations and this company is not subject to that tax. So in the consolidated way, probably the number that you are seeing is, instead of 5%, it's probably 4.9% or 4.8%.

Augusto Ensiki - Morgan Stanley - Analyst

I see. So, it's revenue that doesn't get counted in for the concession fee.

Adolfo Castro - Grupo Aeroportuario del Sureste (ASUR) - CFO

Actually, it's not subject to the concession fee.

Augusto Ensiki - Morgan Stanley - Analyst

Understood. Okay. Thank you very much, once again.

Adolfo Castro - Grupo Aeroportuario del Sureste (ASUR) - CFO

You're welcome.

Operator

(Operator Instructions)

And your next question comes from the line of Francisco Suarez with HSBC. Please proceed.

Francisco Suarez - HSBC - Analyst

Thank you. Congrats on the results, Adolfo. Thank you for the call. Just a brief question. Can you actually share with us what is actually the mood among carriers for the opening of new routes?

Of course, the airfares have risen quite a bit and the oil prices are moving to highs again, but proximity to your -- and your destination should reduce those things, isn't it? So, perhaps you can share with us a little bit of what is the possibility of new routes opening to your airports.

Adolfo Castro - Grupo Aeroportuario del Sureste (ASUR) - CFO

Okay. Let me divide this in two pieces -- international traffic and domestic traffic. International traffic is -- it's moving okay. I don't see major problems there. In the case of the domestic, of course, with the current situation in Libya and with the oil price increases

that we are seeing as we speak, this is not a nice new -- a nice news for Mexicana or for a new company to start.

If you see the newspapers, Mexicana and Aviacsa are basically -- are focusing on the southeast region of the country. If they restart operations, of course, we will see new flights there. Of course, we cannot talk about new routes because they are not going to open a new place -- basically, their routes are going to be Mexico City, Cancun.

So in the case of domestic, the current situation is not the best. In the case of the international, it continues to be the same. So, it's a positive in international.

Francisco Suarez - HSBC - Analyst

Thank you very much for that.

Adolfo Castro - Grupo Aeroportuario del Sureste (ASUR) - CFO

You're welcome.

Operator

(Operator Instructions)

And at this time, there are no questions on the line. Mr. Castro, I will hand the call over to you for closing remarks.

Adolfo Castro - Grupo Aeroportuario del Sureste (ASUR) - CFO

Okay. Thank you, Louisa. And thanks, everybody, for joining us today in our conference call. As always, do not hesitate to contact me if you have any other further question. Thank you for being here, and have a good day. Goodbye.

Operator

Thank you for your participation in today's conference. This concludes your presentation, and you may now disconnect. Have a great day.