



Grupo Aeroportuario del Sureste 4Q21 Earnings Call Transcript Script

Operator:

Good day, ladies and gentlemen, and welcome to ASUR's Fourth Quarter 2021 Results Conference Call. My name is April 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 Fourth Quarter 2021 financial and operating results. I hope that you and your loved ones have managed to stay healthy and safe, and the pandemic will soon be behind us.

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.

Now a review of our operating and financial results as well as some color on travel demand.

Starting with passenger traffic, total traffic nearly doubled year-on-year and exceeded 4Q19 pre-pandemic levels by nearly 7%. This good performance was driven by improvements across the board, with nearly 15 million passengers travelling through our airports during the fourth quarter.

- **Colombia** posted the strongest recovery, surpassing 4Q19 traffic by 11%, with domestic and international travel up 11% and 14%, respectively.
- **Puerto Rico** also performed well with traffic up nearly 6% against 4Q19. Domestic traffic was up nearly 9% and continues to drive stronger overall traffic, more than offsetting softer international passenger traffic, which reached 77% of 4Q19 levels.
- **Traffic in Mexico** continued to recover beating 4Q19 levels by 5%, reflecting a high-single digit increase in international traffic, with growth across all airports. Domestic passengers, in turn, were up a low single-digit, as the nearly 12% increase in domestic traffic at Cancun airport was partially offset by a lower growth rate at our smaller airports.

Looking ahead, while we maintain a cautious stance given the Omicron variant which impacted traffic mainly Mexico and Puerto Rico and slowed the pace of the recovery in January, we are seeing a better performance in the second half of February. Current expectations of a continued harsh winter in North America would result in a good travel season for our airports. As anticipated, we are also seeing a recovery in European passengers, although somewhat dampened by the Omicron variant. However, it remains to be seen how the invasion of Ukraine will impact Europe's economy, and the rest of the world.

Although the rate at which Mexico's economy recovers is unknown at this time, we expect domestic traffic to continue its gradual recovery. The lifting of other countries' travel restrictions and their own economic recoveries are also expected to benefit our Mexican airports. But as I advised during the previous earnings call, a recovery in business travel is expected to lag that of leisure travel. This should result in slower recoveries at airports like Mérida, Veracruz, Minatitlan and Villahermosa, which were in average nearly 20% below 2019 traffic levels during the quarter.

In sum, as I noted on our last call, we remain cautiously optimistic about global travel demand, and should fully Omicron dissipate and travel is not hindered by a fourth wave, we expect total traffic to reach, by second quarter this year, the level of 2019, in terms of passenger traffic.

Moving on to ASUR's balance sheet. Our ample liquidity position has allowed us to continue ramping up operations to meet the rising travel demand we are seeing across our airports. In summary:

- **We closed the year with a strong cash position with cash and cash equivalents** reached 8.8 billion pesos, nearly 70% above December 2020 levels, and after paying a total of 2.5 billion pesos in cash dividends last October. Mexico contributed with nearly 6 billion in cash, Puerto Rico with over 2 billion and Colombia with nearly 1 billion.
- At the same time, we maintain a **healthy balance sheet** with Net debt to LTM EBITDA of 0.5 times at the close of the quarter and an interest coverage ratio of 8.4x. Our debt maturity profile is also strong with slightly over 3% of principal debt payments due this year and nearly 15% next year.
- In addition, **accounts receivables** increased 38% year-on-year, up 116% in Mexico reflecting increased business activity. This was partially offset by declines in the low 80s in Puerto Rico and mid-teens in Colombia.

Now turning to ASUR's income statement, starting with our top line results:

Revenues, ex-construction, nearly doubled year-on-year reaching 4.8 billion pesos in the fourth quarter. Revenues also saw a good recovery – up over 24% - when compared to pre-pandemic levels of 4Q19. Non-aeronautical services increasing in the mid-thirties and aeronautical services high-single digits.

We saw sustained recovery across geographies with Mexico accounting for 70% of total ex-construction revenues in the quarter, Puerto Rico 19% and Colombia 11%.

Commercial revenues were up 112% YoY driven mainly by the 94% recovery in passenger traffic, with increases of 112% in Mexico, 117% in Puerto Rico and nearly 96% in Colombia.

Commercial revenues per passenger reached nearly 116 pesos, compared with the pre-pandemic level of 92 pesos achieved in 4Q19. By country, we posted commercial revenues in the range of 140 to 142 pesos in Mexico and Puerto Rico, and 39 pesos in Colombia.

Note these figures remain distorted by what we call “pandemic behaviour” where we are seeing higher use of car rentals, parking lots as well as in convenience stores as people “grab and go” while activity in restaurants is lower than expected. In the future, we expect commercial revenues per passenger to normalize.

We also saw an improvement in the traffic mix this quarter, with the share of higher spending Europeans back to the levels observed in 2019 and continued growth in US tourism. The share of domestic traffic returned to the levels of 2019 while the mayor difference is that Canadian travelers are still far beyond the pre-pandemic levels. Once this normalizes, we expect to see this reflected in a commercial revenue mix closer to the pre-pandemic composition.

Moving down our P&L, operating expenses, ex- construction costs, increased 48% YoY, but were up just nearly 8% when compared with 4Q19 despite the 24% in revenues ex-construction.

- **In Mexico,** costs ex-construction rose 30% year-on-year, mainly due to higher technical assistance and concession fees driven by higher revenues and EBITDA, along with higher cost of services. Higher cost of sales from directly operated stores are also contributing to the increase in costs as many passengers are buying meals to go at our convenience stores instead of going to a restaurant. We are seeing this happening as well in Puerto Rico. Back to Mexico, compared to 4Q19, operating costs and expenses, ex-construction were up 28% with revenues ex-construction up 30%.
- **In Puerto Rico,** costs more than doubled as 4Q20 benefited from a 227 million pesos expense reimbursement from the grant under the Cares Act. However, on a comparable basis, expenses were up 20% year-on-year, reflecting a higher maintenance provision, concession fees and cost of sales of directly operated stores as I just mentioned. When compared to 4Q19, comparable costs were up 27% while revenues rose 47%.
- **Finally, expenses in Colombia,** were up 27% year-on-year mainly driven by higher concession fees as travel demand rebounded. Compared to 4Q19, expenses were up by 27% significantly below the 157% increase in costs – both ex-construction.

That brings us to profitability. Consolidated EBITDA more than doubled to 3.3 billion pesos this quarter, from 1.3 billion in 4Q20. Mexico was the main EBITDA contributor with 2.5 billion pesos, followed by Puerto Rico with nearly 460 million pesos and Colombia close to 340 million pesos.

When comparing to 4Q19 levels, EBITDA was up 35% driven by EBITDA increases of 37% in Mexico, 14% in Puerto Rico and 57% in Colombia, basically resulted from the revenue increase originated by more passengers, better commercial revenue per passenger and higher tariffs.

Adjusted EBITDA Margin Ex-IFRIC 12 increased to 68% in the fourth quarter from 55% in the year ago quarter and also surpassing the 64% margin reported in 4Q19. By country of

operations and compared to 4Q19, Adjusted EBITDA margin posted expansions of nearly 5 percentage points in Mexico to 75% and 17 percentage points to 61% in Colombia, while in Puerto Rico the margin contracted 2 percentage points to 52%.

Regarding capex, during the quarter we invested a total of 2.2 billion pesos in Mexico - a significant achievement in just three months and meeting our capex commitments for the year. We also invested 97 billion in Puerto Rico and nearly 1 million in Colombia.

Taking a deeper look at our capital investment plans in Mexico, for the full year we invested a total of 3.5 billion almost equal to the committed investments for the year. Let me provide you an update on the key projects. The expansion of the terminal building in Merida remains on track, with the second phase of the project inaugurated during December. We now began with the third phase of the Terminal expansion project, that we expect to conclude by year-end. At Cancun airport, we completed the construction of the parallel taxiway of the second runway last December and are working on the first phase of the Terminal 4 expansion. This entails adding two board gates on the international front.

For this year, our capex commitment is of approximately 2.2 billion pesos for Mexico, which includes work on Terminal 4 and emergency aprons at Cancún, Phase three for the Terminal expansion in Merida and a Terminal expansion at Tapachula.

In Puerto Rico, we expect to invest close to 30 million dollars this year as we continue with major maintenance repairs to runways and taxiways and remodel Terminal D.

Before opening the call for your questions, I would like to reiterate a couple of points. Our still strong financial position gives us ample flexibility to ramp up ASUR's operations to meet pent-up travel demand in each of our markets. Also, this year and beyond, we intend to fully leverage ASUR's attractive airport network to grow our passenger base, anticipating the longer-term growth trends that we expect will manifest themselves across markets. However, we will remain disciplined with cash use and expenses, as the course of the pandemic, although encouraging at this time, could worsen again.

This concludes my review of our fourth quarter results. April, please open the lines for questions.

Operator

Thank you. We'll first hear from Guilherme Mendes of J.P. Morgan.

Guilherme Mendes

Hi, Adolfo. Good morning, and thanks for taking the question. Actually I have two questions. The first one is how has been the implementation of your MDP tariffs? Have you already fully passed it through to airlines?

The second one, in terms of growth, are there any opportunities outside Mexico that ASUR could be analyzing? Any interests on the Brazilian assets? Thanks.

Adolfo Castro

Hello. Good morning. Well, in the case of the maximum rate tariff compliance you are talking about, I also said during the third quarter that we've not been able to achieve those because

of several situations. At the end of the year, the weighted maximum average tariff was 205 pesos. You can see it in the report. We expect to reach close to 100% this year. Of course, that will depend on the situation of inflation. Once again, we are seeing that inflation is very high in Mexico as it is in the rest of the world. It's going to be hard again to transfer the current inflation into the rates. But of course, we're trying our best to reach the maximum tariff compliance we used to.

In the case of outside opportunities, in Brazil, no, we are not seeing any of those.

Guilherme Mendes

Okay, very clear. Just to confirm, on your initial remarks you mentioned about being back to pre-pandemic levels on the fourth quarter of this year. Is that correct?

Adolfo Castro

Could you repeat your question, please?

Guilherme Mendes

In terms of the traffic recovery, you mentioned on your initial remarks that you expect it to be back to full pre-pandemic levels by the fourth quarter of this year, just wanted to confirm if that's correct.

Adolfo Castro

No, in terms of lack of more passenger traffic in the second quarter of the year.

Guilherme Mendes

Okay, second quarter. Okay, clear. Thanks.

Adolfo Castro

Thanks.

Operator

Next, we'll hear from Rodolfo Ramos of Bradesco BBI.

Rodolfo Ramos

Good morning, Adolfo. Thanks for taking my question. I have two, if I may. The first one is just wanted to get your—any feedback that you can share. I understand that you have begun your MDP negotiations this year. I just want to understand how, if at all, you're going to be reflecting in these negotiations the potential operation of Tulum? Any update that you have there beyond what we hear on the news? That'll be my first question. Thanks.

Adolfo Castro

Rodolfo, thank you. In terms of the MDP, what we are doing today is to prepare the document that we will have to deliver to the government at the end of this year. Negotiations will be done next year. In the case of Tulum airports, what we know is that this project was approved

by the federal government. They are applying some funds to this project. This project should start construction once they open Santa Lucia Airport. They're expecting to conclude this project and starting operations by the end of 2023. Of course, that should be included in the document we are preparing for the government.

Rodolfo Ramos

Thank you. Just a follow-up there. Do you have any sense of what the traffic level could be? We've heard AMLO saying that it would have a 4 million passenger capacity. I don't know if you have any sense of the magnitude there.

Adolfo Castro

Well, not yet. We have not been able to see the project that they are supposed to construct. But if we go back to 2009, the government was talking about 3 million passengers.

Rodolfo Ramos

Okay. Thank you. Just a second question here. What is your sense of the upside risk that you see from perhaps Canada and other countries that haven't really participated or have not been—really been seen throughout this recovery from the pandemic?

Adolfo Castro

Well, again, it was a shame to see that in the high season for also the winter for them, that Omicron variant was there. We saw effects of Omicron variant in the second half of December, the whole January and the first part of February. There's some months to recover some Canadians. But as I said during my remarks, they are far beyond where they were pre-pandemic levels. I believe it's going to be up to the next winter season when we see them going back.

Rodolfo Ramos

Thank you.

Adolfo Castro

You're welcome.

Operator

We'll now hear from Pablo Monsivais of Barclays.

Pablo Monsivais

Hi. Good morning, Adolfo. Thanks for taking my question. Traffic from the U.S. to Cancun has recovered significantly. But is this a normalized and sustainable level, or do you think there could be some adjustments once other leisure destinations in the Caribbean reopen more steadily? Thank you.

Adolfo Castro

Hi, good morning. Well, of course, you are right. I don't believe that once the world is open again that we will be able to maintain or sustain the level we have seen. We have seen of course extraordinary traffic level from the U.S. because of these travel restrictions. Of course, we will have to wait and see what is going to happen in Europe in the case of the summer. But it's true, it's very clear that when they are able to go somewhere else, probably some of them will go outside Mexico.

Pablo Monsivais

Perfect. I have a second question if I may. Colombia, the traffic in your Colombia operations posted roughly 9 million passengers in 2021. Do you have an estimate of how much of that represents the Bogota to Medellin route?

Adolfo Castro

I don't have exact figure on the top of my head but it is extremely important, the traffic between Bogota to Medellin, and as you are probably, I'm really surprised of what we are seeing because travel—business travel is not something that I believe is going to be able to recuperate very fast, which is not the case in Colombia in this route. But this route may represent 40% to 50% of the traffic in that airport in general.

Pablo Monsivais

Perfect. Super clear. Thank you very much.

Adolfo Castro

You're welcome.

Operator

Next question comes from Diego Serrano of Credit Suisse.

Diego Serrano

Hi, Adolfo. Good morning and thank you for the opportunity to ask the question. I have a quick question regarding Cancun and a second one regarding growth expectations. For Cancun, we have recently heard about our recent security and crime issues. Could you provide some color on what is the local government doing to address this matter? I would like to hear your opinion. Do you think this could be a risk for the region's tourist activity?

Adolfo Castro

Hi, good morning. Yes, of course, it is a risk. There is no question about it. Of course when we see the level of crime in the region compared with some of other cities, it's not so important. Remember that Cancun is a city of 1.5 million persons. The problem is that it's a tourist destination and we don't like to see these things in a tourist destination. What the government is doing—and they have responded really fast on the recent events and they captured the people who was involved in the matter. Of course, we can see some effects of people that is preoccupied or concerned about the situation. But I believe and I hope that the

state government also together with the federal government will do what they have to in terms of security matters.

Diego Serrano

Okay. Perfect. Thank you. Just another quick one. What are your growth expectations by region for 2022?

Adolfo Castro

No, I don't have a crystal ball. You are better doing than what we are.

Diego Serrano

Sure. Okay. Thank you.

Operator

Next, we'll hear from Juan Macedo of GBM.

Juan Macedo

Hi. Thanks for taking my question. I have two questions actually. One is regarding Puerto Rico. Due to the pandemic-related dynamic, the traffic is still doing well above pre-pandemic levels. But now current figures are slightly below. Do you believe this follows a normalized behavior now, or could you give us some color on that? Thank you.

Adolfo Castro

Well, in the case of Puerto Rico what we saw since the beginning of the pandemic, it was an extraordinary level of traffic by different reasons. One of them being the support by the federal government to the people. The second one, the travel restrictions in the case of the U.S. and somebody found that they were able to fly to Puerto Rico without the passport requirement. In that sense for them it's U.S. soil. What we saw, it was plus 15%, plus 14% above pre-pandemic levels. I have said several times that what we are expecting in that case is the numbers to adjust to normality. That's what we have been seeing recently. Of course, in the case of December and January, we saw the effect of Omicron. But apart from these we expect the traffic there to adjust to normal levels.

Juan Macedo

Great. Thanks. My other question is regarding the commercial front. Commercial revenues have increased significantly. Has there been any change in consumer behavior, or how do you see that?

Adolfo Castro

Well, as I said during the remarks, the passenger mix improved. Europeans went back and they are high spenders. That's why we saw a very nice increase in this front, in the Mexico case. Of course, we are doing some improvements again in the case of Colombia that have helped that front as well. We are very happy to see those results.

Juan Macedo

Great. Thanks for the color.

Operator

Next question comes from Gabriel Himelfarb of Scotiabank.

Gabriel Himelfarb

Hi. Thanks for the call. Well, two quick questions. First, do you think or do you see opening new routes towards longer-haul, routes like Canada or maybe Europe that could bypass Mexico City Airport? My second question is about dividends. Do you believe or do you plan to pay dividends in the near term? Thanks.

Adolfo Castro

Hi. In the case of new routes, I have to say that we are very happy to see new additional routes that we didn't have in the pre-pandemic times going into Cancun. That is the case of some from Poland, some from—some others that we have many, many, many years ago like Sao Paulo, direct flights from Sao Paulo or a direct flight from Vienna.

In terms of connectivity, I have to say that we are almost 95% of how we were in the case of 2019 levels. What we are missing are basically the case of Canada. I believe one is the— or the next winter season is that, we will be able to recuperate more than 100% of what we had before, if we consider this yield that we didn't have before.

Gabriel Himelfarb

Okay. In the case of a dividend, do you plan to pay some dividends this year or maybe next?

Adolfo Castro

Well, I'm preparing—as we speak, I'm preparing my proposal to the Board of Directors that will be sent later on to the Shareholders' assembly.

Gabriel Himelfarb

Okay. Thank you.

Adolfo Castro

You're welcome.

Operator

Okay. It appears there are no further questions at this time. Adolfo, I'll turn the call back over to you for any additional or closing comments.

Adolfo Castro

Thank you, April. And thank you again for participating in our fourth quarter results conference. On behalf of ASUR, we wish you a good day, and please stay safe. Goodbye.

Operator

Ladies and gentlemen, that concludes ASUR's Fourth Quarter 2021 Results conference call. We would like to thank you again for your participation. You may now disconnect.