



**Grupo Aeroportuario del Sureste
2Q22 Earnings Call Transcript**

P R E S E N T A T I O N

Operator:

Good day, ladies and gentlemen, and welcome to ASUR's Second Quarter 2022 Results Conference Call. My name is Ana 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, Ana and good morning, everyone. Before we get started covering the highlights from the quarter and then taking your questions, 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 several 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.

As usual, 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.

Now, moving on to a review of passenger traffic and travel demand during the quarter.

Total traffic was up over 39% year-on-year and exceeded 2Q19 levels by 19% to a record of 16.7 million passengers in the quarter. We continued to see steady growth throughout the quarter across our three geographies.

Now looking at the recovery trend by region against pre-pandemic levels of 2Q19:

- Once again **Colombia** posted the strongest recovery, up 43%, with domestic travel increasing in the low 40s and international travel in the low 50s.
- **Puerto Rico** saw a 15% increase in traffic, mainly driven by domestic travel that was up in the high-teens, although relatively flat sequentially. In turn, international travel continued its gradual recovery reaching 88% of 2Q19 levels.

- Traffic in **Mexico** surpassed 2Q19 levels by nearly 13%, with international travel up in the high-teens despite higher airfares driven by strong leisure travel demand from all key regions, with the exception of Canada which remains at 57% of the last 12 months of 2019. This has been more than offset by strong US traffic while last twelve months European tourism is just 8% below to pre-pandemic levels.

Looking ahead, starting with **Mexico**, we expect traffic from Canada to resume during the winter season, mainly November through April next year, while we expect to see a steady performance from the US and Europe. We also anticipate domestic traffic to continue its gradual recovery. As I have mentioned before, business travel is expected to continue to lag leisure. As a result, we believe that traffic at our Veracruz, Minatitlan and Villahermosa airports, which this quarter were an average of 7% below 2Q19 levels will continue to recover at a slower pace.

In Puerto Rico, we are seeing domestic traffic tending to normalize after a very strong performance over the past several quarters.

Lastly, traffic in Colombia remains surprisingly strong, and we expect this to continue throughout the year driven by addition of routes and investments in tourism which are driving a structural shift in demand.

Traffic trends remain solid underscored by pent-up demand. We believe that if any deceleration resulting from the increasingly inflationary global macro environment could be mitigated with the recovery expected to come from some markets like Canada.

Now, turning to the P&L, starting with our top line. Note that all references to revenues and costs exclude construction revenues and that all comparisons are against pre-pandemic levels of 2Q19.

Revenues increased in the mid-forties reaching 5.7 billion pesos – a record high for any given quarter. This good performance was driven by growth in both aeronautical and non-aeronautical revenues. All geographies posted sustained revenue growth, with Mexico accounting for over 70% of total revenues in the quarter, Puerto Rico 17% and Colombia 12%.

Commercial revenues were up 44% driven mainly by passenger traffic growth, with increases of 39% in Mexico, 60% in Puerto Rico and nearly 41% in Colombia.

Commercial revenues per passenger amounted to nearly 120 pesos, above the 100 pesos reported in 2Q19 and slightly above the level achieved in the prior quarter. By geography, commercial revenues in the quarter were in the range of 143 to 149 pesos in Mexico and Puerto Rico. In Colombia, commercial revenues per passenger reached 40 pesos, fairly in line with 2Q19 levels. Note that twelve months levels more than doubled those achieved over the same period of 2019.

In terms of the traffic mix, the share of domestic passengers remains at 2019 levels. But while we continue to see growth in US tourism and the share of higher spending Europeans back to pre-pandemic levels, the number of Canadian travelers remained at 56% of 2019 levels.

Now moving on to costs, total operating expenses increased by a high single digit. Excluding a Ps.175 million expense reimbursement in Puerto Rico, operating costs and

expenses would have increased 18%. Nonetheless, this was significantly lower than the 45% growth in revenues.

- **In Mexico**, costs were up 27%, but still below the 48% increase in revenues. This reflects higher technical assistance and concession fees resulting from higher revenues and EBITDA, together with higher cost of services, including the cost of sales from directly operated stores that continue to see strong activity.
- **Puerto Rico**, in turn, benefited from a 176 million pesos expense reimbursement under the American Rescue Plan Act. Excluding this benefit, costs would have increased 10%, while revenues were up 33%.
- **Finally, costs in Colombia** declined 26% while revenues were up 37%.

In summary, the significant efficiency measures during the pandemic have allowed to maintain costs that under our control at 95% of 2Q19 levels and 79% on a per passenger basis. Even with higher revenue levels than in 2Q19. This includes total costs minus construction, depreciation and amortization, technical and concession fee.

We achieved record high profitability this quarter, with consolidated Adjusted EBITDA up 47% to 4 billion pesos. Passenger traffic growth increased commercial revenue per passenger, higher tariffs and operating leverage contributed to this performance.

Mexico led this growth with Adjusted EBITDA up 57% to 3 billion pesos. Puerto Rico, in turn, posted a 7% increase in EBITDA to 580 million pesos, while profitability in Colombia continued to recover with EBITDA up 62% reaching just over 400 million pesos.

Adjusted EBITDA Margin Ex-IFRIC 12 increased 100 bps nearly 71% this quarter.

By geographical region, the Adjusted EBITDA margin improved over 4 percentage points in Mexico and Colombia, to nearly 76% and 58%, respectively, while the margin in Puerto Rico was close to 59% this quarter compared with 73% in 2Q19.

All in all, we delivered a solid set of results, with traffic and revenues at record high-levels. This, together with operating leverage have contributed to more than doubling **net majority income** to 2.6 billion pesos in the quarter – up from 1.2 billion in 2Q21 and 1.4 billion in 2Q19.

Turning now to our capital investments, we invested nearly 440 million pesos during the quarter, of which 79% was allocated to Mexico, 20% Puerto Rico and 1% to Colombia.

In Mexico, we completed the expansion of the Tapachula terminal as anticipated. We also remain on track with the expansion of the terminal building in Merida, with the third phase of the project to be completed by year-end. At Cancun airport, we are making steady headway to finalize by year end the first phase of the Terminal 4 expansion which consist of adding two boarding gates on the international front.

In Puerto Rico, we continue to advance with the remodeling of Terminal D and major maintenance repairs to runways and taxiways.

Now, a few comments on the balance sheet. We maintain a robust financial position, with cash and cash equivalents of 7.3 billion pesos at the quarter-end. This follows dividend payments of 4.5 billion pesos last June as we returned additional value to our shareholders.

In turn, Net debt to LTM EBITDA was just 0.4 times at June 30th, with Interest Coverage at 10.5 times. Only less than 1% of our debt matures in the second half of the year, with the next major maturity taking place in 2025.

Finally, account receivables were practically flat year-on-year.

Before moving to the Q&A portion of the call, a quick recap: We welcomed a record number of passengers during the second quarter, surpassing 2Q19 levels, with robust growth across our markets that was driven by strong pent-up demand.

Although Canadian traffic remained low versus pre-pandemic levels, despite higher airfares US traffic was particularly strong, while European traffic has nearly recovered. We expect Canadian traffic to normalize this winter season, which would help offset any potential slowdown in traffic that could eventually arise from the still inflationary environment across the world. Nonetheless, today we are seeing healthy traffic trends supported by strong pent-up demand.

Also gratifying, was our record profitability this quarter. Thanks to effective efficiency measures and expense controls that drove our cost levels well below pre-pandemic levels, operating leverage kicked in strongly on the traffic growth.

I will leave it there. Operator, please open the call for questions.

Operator

Thank you. Again to the audience it is star then one for questions and again please make sure your mute function is turned off or the handset is pressed off before pressing the corresponding digits. We'll take our first question from Alejandro Zamacona with Credit Suisse. Please go ahead.

Alejandro Zamacona

Thank you. Hi Adolfo. A quick question on the cost of service. We have seen a strong customer flow even despite the traffic and inflation. In this context, what could we expect going forward, especially as you just mentioned considering the high inflationary environment, the cost of service unit even excluding the (inaudible) for this quarter was that Ps. 64, while in 2019 it was roughly Ps. 70? So just wondering if you can give us some color on what can we expect. Thank you

Adolfo Castro

Alejandro, thank you and good morning. Yes, we have been facing very difficult times with the high inflationary in all the geographies. As you have seen, that is the case for Puerto Rico with the very strong increase in the cost side. On the Mexico side, we have been able to manage some of these increases. Of course, going forward, we will see some additional impact if these levels of inflation continues. The best case in terms of control has been Colombia, where things are or have been better than expected.

Alejandro Zamacona

Okay. And then my question second, finally, on the long term, I believe you are working on the master development program during this year, so is there any color on that? Thank you.

Adolfo Castro

As you know, we are working to construct that proposal that we have to deliver by year-end to the government, so today we cannot say anything about it yet.

Alejandro Zamacona

Okay. Thank you, Adolfo.

Adolfo Castro

You're welcome.

Operator

Our next question comes from Lucila Gomez with Compass Group.

Lucila Gomez

Hi, good morning. My question is more about the inflation effects during this quarter. I believe that there were a contract that were going to be adjusted for inflation during this quarter. Have you faced any problems so far with the tenant?

Adolfo Castro

No. If you're talking about contracts in terms of the cost side, which is not the tenant, some of them have been adjusted and they are adjusted. Normally, we have annual contracts and when they measure, so those are adjusted with inflation, and so far we have done that as of today. So no major things are going in front.

Lucila Gomez

Perfect, thank you.

Operator

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

Stephen Trent

Good morning, Adolfo, and thanks very much for taking my question. I have two for you. The first, I know that the Federal Aviation Administration did lower Mexico to Category 2 Aviation Safety rating. In that regard, can you tell us whether there are any specific items that ASUR may or may not have to change, or is this something that really doesn't affect you and it's all happening in the eyes of the regulator?

Adolfo Castro

Hello, Steve. Good morning. Thank you for your question. A year ago when this happened, if you'll remember, we published a 6-K, where we basically said that 0.5% of our traffic in 2019 to and from the United States was in domestic carriers. For the year 2020, it was 0.3%. Why is all of this is because what we have is destination airports. Basically Cancun is a destination airport. So the people are coming from the U.S. to Mexico, and basically they are coming in with U.S. airlines, they're not coming in domestic airlines. So that is why we do not see and we do not have a major impact from this Category 2 situation.

Stephen Trent

Okay, that's helpful. As of my follow-up question, we're seeing in the U.S. and places like London, Heathrow and what have you, difficulties in airports and ground staff. Is it fair to say that's not the case with any of your airports? Do you guys feel good about your throughput of ground staff at your various installations inside and outside Mexico?

Adolfo Castro

Well, that's a good question. Why did this happen in Europe, basically, is because they basically fired 50% or 60% of their people, and once the traffic came back again, they were able and they have not been able to recover all the people that was fired. In our case, since day one, we decided to not fire anyone in the Company because of this COVID-19 situation. So today, we have no problems when the traffic has returned, so we are working without the difficulties that you are seeing in the case of the European airports.

Stephen Trent

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

Operator

We'll take our next question from Rodolfo Ramos with Bradesco BBI.

Rodolfo Ramos

Thank you. Good morning, Adolfo. Thanks for taking my questions. I have one follow-up to your initial remarks that was on the pent-up demand. Just wanted to clarify, in the case of Canada and Europe, how much of the percentage impact from 2019 levels and if you can tell us how much of the percent from the total international Mexican traffic.

Adolfo Castro

Rodolfo, hi, good morning. In the case of the European traffic, last 12 months, passenger traffic compared with last 12 months of 2019, Europe is 92%. So we are below 8% of the pre-pandemic levels. In the case of Canada, it's 56%. Why Canada has not come back in that sense is because, normally, the Canadian traffic has a very strong seasonality, which is November through April. So if you'll remember the last season or last November to April, it was mostly because of Omicron. So that's why we have been saying that we will see, or we are expecting to see, the recovery up to this winter season. So in the case of Canada, the other 44% that is planning to be recovered will be or should be recovered in the next winter season.

Rodolfo Ramos

And just to dimensionalize, to put it in perspective this pent-up demand, how many million passengers will this represent if you were to look at it at how much of a percent?

Adolfo Castro

Yes, in the case of Canadians, the maximum that they had in 2019 was 2.7 million passengers. In the case of Europe, in 2019 was 2.1 million.

Rodolfo Ramos

Okay, thank you. Just a follow-up. I want to get your thoughts on the Mexico City system. We've seen a lot of moves around slot restrictions and airlines trying to move to Toluca and then Felipe Angeles. Given how important it is for your system, what are your thoughts there as far as it being an opportunity or a bottleneck for developing domestic traffic?

Adolfo Castro

Well, the good news there is that we have a new complementary airport, which is the Felipe Angeles. The other good news is that some of the airlines that were extremely reluctant to operate in Toluca, they're back again. So in that sense, what we are seeing is that we have additional capacity from these two airports, and of course flights that will start growing as we speak, and I'm expecting to see a very nice level of traffic in those within the next two years.

Rodolfo Ramos

Thank you, Adolfo.

Adolfo Castro

You're welcome.

Operator

We'll take our next question from Anton Mortenkotter with GBM.

Anton Mortenkotter

Hello, Adolfo. Thank you for taking my question, and also congrats on your results. I have two quick questions. One is related to the non-aeronautical revenues. I just was wondering if you could provide some color regarding how is that front behaving with your tenants in the sense of how much of the revenues you're getting come from the fixed part of your rental and how much of it is variable given that you already returned to pre-pandemic traffic levels?

Adolfo Castro

Hi, good morning. In the case of the fixed and variable things, if you'll remember, in the second quarter 2020, we showed a huge increase in the case of Colombia. That was because we—the passengers were almost zero and we had a fixed revenue and the amount on a per passenger basis jumped up to 4,600-and-something pesos.

In the case of Colombia, it's the one that has more fixed revenues per passenger. It's not the case in Mexico. It's not the case in Puerto Rico. So, that is why you are seeing this number coming down from the 4,600-and-something to the 39-point-something during the quarter.

So, the fixed amount or the fixed revenues are less important ones as traffic has come back. In the Colombia, today's 33% more than what we had or what we saw in the case of 2019. So most of the revenues in the case of Mexico and Puerto Rico are coming from the variable side, and in the Colombia side it's now I don't want to say level, but basically the fixed amounts are less important than they were before during the pandemic levels.

Anton Mortenkotter

Okay, thank you. That's pretty clear. And also, another question is kind of a follow-up from Stephen's question. As you mentioned, lots of your traffic is serviced by international carriers, so I was wondering, through your conversations with these international carriers, what are their thoughts on increasing capacity at your airports, what are they thinking, how much fleet are they ordering? How are you seeing those dynamics?

Adolfo Castro

Well, it's too many airlines that are flying to Mexico from the U.S. And basically what has driven the capacity is basically the load factor, and the load factor they have is very nice today, so that is why they have been increasing the fees offered to Mexico, and that is why you see this increase in—this very nice increase from the U.S. traffic.

Anton Mortenkotter

Have they mentioned maybe any specifics on trying to increase 10% of their capacity on your airports or something like that?

Adolfo Castro

No, I don't have any specific numbers to share with you from the U.S.

Anton Mortenkotter

Okay, perfect. Thank you, Adolfo.

Adolfo Castro

You're welcome.

Operator

Our next question will come from Pablo Monsivais with Barclays.

Pablo Monsivais

Hi, Adolfo. Thanks for taking my question. I just have a question on your outlook of the traffic on Colombia. It's been very strong over the recent quarters. In your view, what should we expect going forward? Thank you.

Adolfo Castro

Well, Pablo, as I said during the initial remarks, we are extremely surprised with the traffic levels we have seen in Colombia, despite the fact that around 34% of this traffic is between Medellín and Bogota and this should be related to business traffic. Why is this so strong?

Several things. One is of course some issues in the case of Bogota. So some of the airlines have decided to start connecting in Medellín. Second is the case that new airlines have come to Medellín and they are starting very strong. The third probably is the effect of a country that was closed completely for six months. So, I believe that this has created a lot of pent-up demand in the case of this country.

Pablo Monsivais

Okay. Thank you very much

Adolfo Castro

You're welcome.

Operator

We'll now take our next question from Gabriel Himelfarb with Deutsche Bank.

Gabriel Himelfarb

Hi, Adolfo. Good morning. Just a quick question. Can you give us a bit of color on how are the commercial discussions with Avianca and LATAM Airlines regarding account receivables? What do you expect in the coming months? And, also about Aeromexico. Thank you.

Adolfo Castro

Well, in the case of account receivables, the only problem we have is the case of Interjet that they didn't pay us around Ps. 73 million, and all of this has been reserved in the previous quarters. That is the only real problem we have. The rest of the airlines are paying basically on time. So I don't have any problem with Avianca, LATAM, nor Aeromexico.

Gabriel Himelfarb

Okay. Thank you.

Adolfo Castro

You're welcome.

Operator

We'll now take a question from Guilherme Mendes with JP Morgan.

Guilherme Mendes

Hi, Adolfo. Good morning, and thanks for taking my questions. Two questions, actually. The first one in terms of capital allocation and considering your low leverage, close to net cash position, would it make sense for you to accelerate the dividend payments going forward, in addition to the one already approved? The second question is for a follow-up related to cost and margins. Can I explore a little bit better what are the main cost initiatives that had been achieved and if we should continue to expect margins above that 70% levels? Thank you.

Adolfo Castro

Well, in terms of dividend payments, we just paid a dividend on the first of June. This happened this quarter. It was around Ps. 4.5 billion. This was divided in two pieces: an ordinary dividend of Ps.9.03 and an extraordinary of Ps. 6. So we just paid dividends. Going forward, we will review, as we have done over the last 20-something years every year.

In terms of margins, again, I don't like to talk about margins because the cost and the revenue line are independent, as we have seen during the pandemic period. So, if we see high traffic and we are able to control the cost as we have done today, of course margins should be expanding. That's very simple.

Guilherme Mendes

Okay, got it. Thank you.

Adolfo Castro

You're welcome.

Operator

We'll now take a follow-up from Anton Mortenkotter with GBM.

Anton Mortenkotter

Hi, Adolfo. Me again. I'm sorry, I don't know if you mentioned it in your initial remarks, it's just regarding the Arpaló. Are you expecting any more benefits going forward?

Adolfo Castro

Well, there is something pending. I don't remember exactly the amount. It should not be so significant as it was in the past with the Cares Act. But not too much in front.

Anton Mortenkotter

Okay. Thank you, Adolfo.

Adolfo Castro

You're welcome.

Operator

It appears there are no further telephone questions. That concludes the question-and-answer portion of today's conference call. I would like to turn it back over to Mr. Castro for closing remarks.

Adolfo Castro

Thank you, Anna, and thank you again for participating in our second quarter results conference call. On behalf of ASUR, we wish you a good day. Goodbye.

Operator

Ladies and gentlemen, that concludes ASUR's Second Quarter 2022 Results Conference Call. We would like to thank you again for your participation.

Operator

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

Adolfo Castro

Thank you, Orlando. And thank you again for participating in our first quarter results conference call. On behalf of ASUR, we wish you a good day. Goodbye.