



Grupo Aeroportuario del Sureste 4Q22 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 Fourth Quarter 2022 Results Conference Call. My name is Colin 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. If you want to withdraw your question at any time, 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, Colin and good morning, everyone. Before I begin discussing our results, 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.

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. Following my presentation, I will be available for Q & A.

Now onto the results. We closed the year with another strong quarter, reporting record high passenger traffic, revenues and EBITDA.

We are pleased to continue seeing an uptick in passengers flying. Travel demand remained strong with a record of 17.6 million passengers taking the skies and passing through our airports— an 18% year-on-year increase and nearly 26% higher when compared to 4Q19. For the full year, a total of 66.3 million passengers traveled through our airports. Our three geographies contributed to this solid performance.

Now taking a look at performance by country of operations compared against 4Q19:

- **Colombia** again posted the strongest recovery, maintaining a steady 37% increase in traffic, with domestic travel expanding in the low 30s and international travel in the high 60s. On the cautious side, we do not expect this strong level to continue over the coming months, as VAT in Colombia was raised to 19% from 5% effective this year and may have an impact on traffic trends.

- Traffic in **Mexico** rose 26% during the quarter driven by growth across all airports. International traffic increased in the high-twenties while growth in domestic traffic lagged slightly increasing in the mid-twenties. This overall robust performance was driven by travel demand above 2019 across all regions, with the exception of Canada, which remains at 77% of 2019 levels. Going forward, travel from Canada is likely to return to winter season levels during the first quarter of this year, while traffic from the United States and Europe is expected to continue posting steady growth. In turn, domestic corporate travel is expected to continue lagging leisure travel. As anticipated in our prior call, traffic at Merida airport recovered this quarter beating 2019 levels, while we continue to expect Veracruz, Minatitlan and Villahermosa airports to fully recover this year.
- Lastly traffic in **Puerto Rico** increased by a single digit. Domestic travel was up over 10% partially offset by a nearly 1% decline in international travel.

In sum, we forecast good traffic demand over the winter season, with recoveries expected in certain remaining regions, such as Canada, in the first quarter, helping to compensate for any possible slowdown caused by the inflationary global environment.

Now turning to a review of ASUR's income statement. As a reminder, all references to revenues and costs exclude construction revenues.

Starting with our top-line results, revenues were up 23% year-on-year to a record 5.9 billion pesos and up nearly 54% when compared to pre-pandemic levels of 4Q19. This strong performance was driven by both aeronautical and non-aeronautical revenues across our three geographies. Mexico accounted for 74% of total revenues, Puerto Rico 15% and Colombia 11%.

Commercial revenues maintained their solid trend, up 50% against 4Q19 and in the mid-teens year-on-year reflecting increases of 16% in Mexico, 14% in Colombia, and 7% in Puerto Rico.

On a per passenger basis, commercial revenues contracted by a low single digit normalizing to nearly 112 pesos, but above the 92 pesos posted in 4Q19.

- By region, commercial revenues per passenger were in the range of 137 to 147 pesos in Mexico and Puerto Rico, up 25% and 39% from 4Q19 levels. Of note, these figures include the effect of the strong Mexican peso.
- Our results in Colombia were impacted more by the currency depreciation, declining 11% in Mexican peso terms. By contrast, commercial revenues per passenger increased 18% when measured in local currency driven by the opening of 38 commercial spaces over the past twelve months.

The share of domestic travel over total traffic remained steady at 65% when compared to 4Q19.

Moving down to the P&L, total operating expenses increased in the mid-teens, but below the 20% revenue growth in the quarter.

- Costs in **Mexico** were up slightly but below revenue growth mainly driven by higher cost of energy, personnel costs, as well as increased technical assistance and concession fees in line with higher EBITDA.

- **In Puerto Rico**, costs declined by a mid-single digit as a reduction in the maintenance reserve and savings in water consumption more than offset higher costs of services.
- **Costs in Colombia** were up nearly 12% reflecting the sustained pick up in business activity, higher cost of energy, concession fees and cost of services. However, this was below the 20% year-on-year increase in revenues.

When compared to pre-pandemic 4Q19 levels, costs under our control increased in the low twenties and significantly below the 60% increase in revenues reflecting the efficiency measures implemented over the past few years. As a reminder, costs under our control refers to total costs minus construction, depreciation and amortization, together with technical and concession fees.

We achieved another quarter of record high EBITDA reaching 4.4 billion pesos – up 38% YoY and 82% from 2019 levels.

This also translated to higher margins, with Adjusted EBITDA margin reaching 75% - improving 6 percentage points year-on-year and over 11 percentage points when compared to pre-pandemic 4Q19 levels. Again this quarter, solid passenger traffic growth along with increased commercial revenues and operating leverage more than offset higher concession fees.

Importantly, we achieved higher profitability across our three regions of operations:

- EBITDA in Mexico increased by 30% year-on-year to 3.2 billion pesos. Colombia saw EBITDA up 25% to nearly 420 million pesos.
- In Puerto Rico, EBITDA increased nearly 5% year-on-year on a comparable basis. Note this excludes the recognition of non-recurring other revenues of Ps.300.4 million this quarter from a judgment ruled in favor of Aerostar in connection with the right to charge a fee for each gallon of aviation fuel that was dispatched at the airport during 2013 to 2021.

By geography, Adjusted EBITDA margin in Mexico was relatively stable at nearly 75%. In turn, Colombia and Puerto Rico continued to deliver year-on-year margin improvements – both up 2 percentage points, to 63% and over 53%, respectively. Compared to pre-pandemic levels of 4Q19, the Adjusted EBITDA margin increased nearly half a percentage point in Mexico and 19 percentage points in Colombia and was stable in Puerto Rico when excluding the one-time event this quarter.

In summary, we delivered another robust quarter with traffic and revenues at record highs, which together with operating leverage resulted in a 27% increase in **net majority income** to 2.6 billion pesos in the quarter – up from 2 billion in 4Q21 and 1.3 billion in 4Q19.

Looking at the balance sheet, we maintain a strong cash position and healthy debt profile. We ended the quarter with just over 13 billion pesos in cash and cash equivalents. Net debt to LTM EBITDA and interest coverage stood at healthy levels of 0.1 times and 12.6 times.

Account receivables were up 35% when compared to the prior year, reflecting the higher passenger traffic across our airports together with an increase in Puerto Rico in connection with the non-recurring revenue recognition I mentioned earlier, which we expect to collect during the first half of 2023.

Lastly, we made **capital investments** of nearly 1.5 billion pesos during the quarter, the majority of which was allocated to Mexico, slightly over 14% to Puerto Rico, and nearly 10 million were invested in Colombia. During the full year, capital expenditures totaled 2.3 billion pesos.

For 2023 we are planning a capex program of almost 1.2 billion pesos with funds expended mainly in Mexico and Puerto Rico.

Before we move to the Q&A portion of the call, some brief closing remarks.

We delivered extraordinary 2022 results, including record passenger traffic, revenue and EBITDA. These results underscore the higher consumer demand for travel and our ability to consistently deliver strong profitability while investing for the future. Our balance sheet remains strong while at the same time, we remain mindful of maintaining our financial flexibility.

As we look to 2023, many uncertainties remain in the macro-economy, whether from economic policies, consumer demand, inflation, supply chain, war, and geopolitics. And while Canadian traffic still lags our other markets, we are cautiously optimistic we will see a pick-up in winter traffic and being able to recuperate 2019 levels during the first quarter 2023.

Our solid results throughout the year are a great testament of the quality of our team and consistent execution of our strategy. And, as I mentioned earlier, we will continue to invest in the business to fuel and sustain growth. With the underlying strength of the core business, we are confident we have positioned ourselves for sustained profitable growth, strong cash flow generation and value creation for our shareholders.

Operator, please open the call for questions.

Operator

Thank you. Your first question comes from Juan Ponce from Bradesco BBI. Please go ahead.

Juan Ponce

Hi Adolfo. Good morning. Thank you for taking my question. The first one is on the MDP negotiation. On one hand, you have a higher traffic base with tariffs below the maximum rate. On the other, you have high inflation pressure, OpEx, Capex estimates. My question is, how do you see the higher level of bond yields and the broader inflationary environment impacting the negotiations of a potential adjustment in maximum tariffs. Related to this, what are your thoughts on the new PACs estimate for the Tulum Airport? I've seen in the news, it's like \$5.5 million right now. I understand that you have included \$3 million in the negotiation, but I just wanted to confirm whether it will be updated with the new estimates? Or, how do you see this play out? Thank you so much.

Adolfo Castro

Hi. Good morning. Thank you for your question. Well, in the case of the MDP, what I can say is we have delivered our proposal to the government at the end of last year, and we will be reviewing that document during the entire year. In terms of rates, I believe we're going to be discussing those towards the end of the year, let's say, fourth quarter. Today, we cannot say too much about it.

In terms of the Tulum Airport (interruption). Juan, I did not say that I have included 3 million in the case of Tulum Airport. We have made our estimate of how much this airport will have and that will—and how the effect is going to be in our airport of Cancun. But again, we will be discussing that towards the second half of this year. So, that's what I can say today, Juan.

Juan Ponce

Understood. Thank you so much. Just a follow-up on one of your comments. You said \$1.2 billion in Capex for 2023. Just wanted to confirm this.

Adolfo Castro

Yes. That's around 700 in Mexico and the rest in Puerto Rico.

Juan Ponce

Thank you so much Adolfo.

Adolfo Castro

You're welcome.

Operator

Your next question comes from Alan Macias from Bank of America. Please go ahead.

Alan Macias

Hi, good morning Adolfo. Thank you for the call. Just a follow-up question on Capex. Any capex requirements that you see during your next development plan term? If you can just give us any guideline in terms of Capex levels for this period. Thank you.

Adolfo Castro

Hi Alan. Your line is not so well, but basically, in terms of Capex for the next MDP, the most important expansion projects are, of course, in the case of Cancun Airport. Maybe some expansion in the case of Oaxaca Airport and no further expansion in the others. We will be able to disclose or to talk about these numbers once the government reviews the document and approve it. For the moment, I do not have any guidance to share with you.

Alan Macias

Thank you.

Operator

Your next question comes from Philip/Felipe Nielsen from Citigroup. Please go ahead.

Philip/Felipe Nielsen

Hi guys. Thanks for taking my question. I have two questions on my side. The first one would be if the Company has any room for additional capacity in Colombia, and if you're seeing or there could be any airline using Colombia as a staging base for broader South America service.

The second one would be if you could give us any sense regarding plans to build a new hotel infrastructure in Southeast Mexico or Puerto Rico? Thank you.

Adolfo Castro

Hi, good morning Philiiie. In the case of Colombia, one of the main problems we have, and I have been saying this for a while, is that the airport in Rio Negro is almost complete in terms of capacity. The government has authorized at the end of the fourth quarter, additional awards to expand more—to expand the capacity of these similar building. But of course, all of these works will last for a very few months, I would say, probably two years once those are completed. The reality of Colombia is that it is important to say that they need another terminal building, and this is something that we have been talking and discussing with the government over the last couple of years. We will let you know once we know more about this.

In the case of flights from Colombia to the United States, the most important situation of Colombia today is that they have been expanding flights to Mexico and also there's one that is going to be to Puerto Rico, that's in progress, and some to the United States. In the case of the United States, we're talking basically with more frequencies to the places where they are flying today.

Philip/Felipe Nielsen

Thank you. Regarding the new hotel infrastructure in Mexico and Puerto Rico, do you have any color?

Adolfo Castro

You are talking about the Capex program for this year?

Philip/Felipe Nielsen

Yes. If you have any plans regarding building new infrastructure for those regions?

Adolfo Castro

Well, in the case of the Capex this year, we are basically completing the expansion in the case of Terminal 4 in Cancun, and we are basically refurbishing runways and taxiways in the case of Puerto Rico and the completion of the remodeling of Terminal D.

Philip/Felipe Nielsen

Okay. That's super clear. Thank you.

Adolfo Castro

You're welcome.

Operator

Your next question comes from Javier Gayol from Santander Asset Management. Please go ahead.

Javier Gayol

Hello. Hi Adolfo. Can you hear me? It's Javier Gayol from Santander.

Adolfo Castro

Hello, Javier. Good morning.

Javier Gayol

Good morning. First of all, thank you for the call. Thank you for taking our questions. Congratulations on a great year for ASUR. My question is in terms of the cash balance that I think you imminently will have by the end of 2023. Can you give us how are you looking at it? Where are you guys comfortable in terms of leverage there in terms of—I know you prioritize flexibility right now, and the markets are very volatile. But just to understand, are you guys comfortable with the current cash position—or well, the imminent cash position that you will have for the next year? Or, should we expect more buybacks, dividends or maybe M&A? Just understand how you're looking at capital allocation for the cash that you most certainly have for 2023.

Adolfo Castro

Well, thanks for your question. Yes, you're right. We're closing the quarter with 13 billion pesos in cash in hand. And apparently, that is too much. Of course, we cannot forget what we have went through over the last couple of years, in the case of COVID. But it's true that this is too much. Not just that, the Capex program for this year, the 1.2 billion, of course, is very low when compared with other years. I'm almost ready to present my dividend proposal to the Board and then to the shareholders' assembly. So, you will have to wait for that in the coming, I don't know, 30 days.

Javier Gayol

Super. Thank you Adolfo.

Adolfo Castro

You're welcome.

Operator

Your next question comes from Anton Mortenkotter from GBM. Please go ahead.

Anton Mortenkotter

Hi Adolfo. Also congrats for your results. I just have a quick question. I understand, I mean, on a consolidated basis, the non-aeronautical revenues per tax decrease. I know that most of it comes from peso appreciation because actually in domestic currency it increased a lot.

But, in some Mexican concessions, it did decrease. So, I just wanted to understand what kind of dynamics are you seeing there? Or, if you could provide some color or what's the mixture from the last revenues to pesos to better understand what's around that. Thank you.

Adolfo Castro

Well, as I have said during the initial remarks, the effect of the super peso has an impact on the commercial revenues. When you say non-aeronautical remember that a portion of this is also regulated. So, the best way to see this is total revenue, excluding construction managed commercial revenue that's regulated. But you're right, it was a decrease; 24% depreciation of the Colombian peso in the case of the Mexican peso, and around 5% in the case of the U.S. dollar had an impact on that number.

Anton Mortenkotter

Okay. Thank you Adolfo.

Operator

Your next question comes from Gabriel Himelfarb from Scotiabank. Please go ahead.

Gabriel Himelfarb

Hi. Congrats on the results. Just a quick question, follow-up question about the MDP negotiation. Are you considering any tariff impact based on the Tulum Airport? Also are you considering an additional Capex on Meritas terminal, which I believe is capacity constrained? Thanks.

Adolfo Castro

Hi Gabriel. Well, in the case of Meritas, let me start with your second question. In the case of Meritas, we have an expanded building. Today, Meritas has much more capacity in comparison of what they had a year ago. I don't see that Meritas Airport is constrained.

In terms of the question about Tulum, yes, of course, that will have an implication on the tariff of Cancun because of the passenger traffic that they will take, but that's a normal procedure. Remember that the maximum rate is calculated with the future passengers or the expected future passengers in all the airports, of course. If we are saying that Tulum will have some passengers, that is considered into our calculation.

Gabriel Himelfarb

Sure. Okay. But just if there's like a sort of rule of distance between airports. I believe it's 110 kilometers far from another airport. It triggers the negotiation or the maximum tariff negotiation or can be admitted if it's more distance than the minimum part for competing assets? I don't know if I explained well.

Adolfo Castro

Yes. Well, in the case of Tulum, the final location is 130 kilometers away from our airports. But some of the passengers that uses our airports today should be using Tulum airport, and that is why this number has been included in our proposals.

Gabriel Himelfarb

Okay. Thank you very much. Congrats on the results.

Adolfo Castro

Thank you.

Operator

Your next question comes from Pablo Monsivais from Barclays. Pablo, please go ahead.

Pablo Monsivais

Hi Adolfo. Thanks for taking my question. I have two quick questions. The first one is on the cost of services for Puerto Rico. I want to check why was there lower maintenance and what should we expect in the future? That's number one.

Number two is a more broad question in terms of commercial revenues in Cancun and Puerto Rico. I remember that earlier when you bid for the concession, the objective was to close the gap to Cancun. How do you see commercial revenues in Puerto Rico reaching that goal a few years after that? Do you think there's still room for upside? Or, should we now expect a more steady state? Thank you.

Adolfo Castro

Hi. In the case of cost of services of Puerto Rico, one of the important elements that I mentioned here in the initial remarks was the maintenance reserve, and we decreased that because we made some savings on the works that have to be performed. In the case of commercial revenues, in the case of Cancun, we are experiencing at some times of the day, congestion at the terminal buildings that are not allowing us to provide the right service. Of course, we are not really taking the potential of commercial revenue. It's clear that today or this year until we expand the terminal buildings, we're going to suffer or we're going to lose some opportunities there.

Today, Puerto Rico has probably the same or slightly over commercial revenues per passenger in comparison with Cancun. Going forward, of course, we will—or we should expect a steady growth or not—the low-hanging fruit is not there anymore. That's very clear. But of course, this is an endless story, and we need to take advantage of the passengers we have. At the end of the day, what we need to do is to convert flyers into buyers and keep taking these opportunities in both cases.

Pablo Monsivais

Thank you very much.

Adolfo Castro

You're welcome.

Operator

Your next question comes from Julia Orsi from JP Morgan. Please go ahead.

Julia Orsi

Hi Adolfo. Good morning. Thanks for your time. We have two questions on our side. So, the first one is, what should we expect from EBITDA margins going forward? This quarter EBITDA margins were pretty solid. Is this sustainable in the midterm? The second question is what's your expectation on the upgrade to category one? Thank you.

Adolfo Castro

Well, in the case of EBITDA margin going forward, you will have to make your own calculations in terms of revenues and costs. What I can say to you is that we have seen—or, we start feeling the inflation in the case of the three airports. You have seen the numbers and those have increased more than inflation to catch up some pieces of what we have saved since 2019 if we see on real terms our costs today in comparison of how it was in 2019 is lower than what it was in real terms.

We will see some effect. Just to give you an idea, in the case of energy, during the quarter, the cost of energy here in Mexico increased 8%. Eight percent for the quarter is a very strong number. That, of course, will have an impact through the rest of the year.

Julia Orsi

Okay.

Adolfo Castro

Thank you.

Operator

Your next question comes from Lucila Gomez from Compass Group. Please go ahead.

Lucila Gomez

Hi. Thank you for taking my question. Sorry, I got disconnected at the beginning so I don't know if you've talked about this, but I just wanted to see if you could give me your outlook for specifically the Mexican traffic moving forward? Are we going to start seeing a slowdown on this higher traffic levels we've had? Or, do you think it's going to keep up at current levels?

Adolfo Castro

Well, Mexican traffic has been very strong, particularly in the case of leisure. It is not the case in the case of corporate travel, as I mentioned, in Veracruz, Villahermosa and Minatitlan. What we expect is these airports to recover 2019 levels during this year. In the case of leisure, we expect this to continue. We are seeing a strong demand there. Of course, that will depend on the tourism activities during the summer.

So far, if we see the first month of the year, the numbers have been very strong. Of course, I would say, first quarter of this year, it's going to be strong because first quarter last year was affected by Omicron. The important point during the year is going to be the summer. But again, I can say to you that we expect steady growth on the leisure travel.

Lucila Gomez

Perfect. Thank you.

Adolfo Castro

You're welcome.

Operator

Your next question comes from Regis Cardoso from Credit Suisse. Please go ahead.

Regis Cardoso

Hi Adolfo. Thank you for taking my question. One question from my side with a broader, longer-term perspective. Thinking of your assets in Mexico, where do you think we are in terms of either investing further, or, on the other hand, generating free cash flow to pay back the concession reference value. As we approach the next MDP, should we continue to invest further? Should we be thinking about—does it make sense to allocate—and if it frees up capital, does it make sense to allocate capital into assets that have a longer-term maturity, mixed-use buildings, industrial parking lots? I mean, what would be the use of cash? Or, do you think it will revert to higher shareholder distributions in the future? Thank you.

Adolfo Castro

Well, in the case of Mexico, we're still 20 years away from—25 years away from the end of the concession. We are, I would say, in the middle of the 50-year period. Normally, we invest or we propose our investments in accordance with the demand we expect. That's what I was saying, the most important effect in terms of the proposal we have presented to the government is Cancun because we expect more traffic in the case of Cancun. In the other airports, basically, we do have the capacity for the future demand. So, we do not perform major expansion towards that, with the exception of Oaxaca. So, for the next MDP, if you want to say so, we're going to be, let's say, catching up in terms of that we have the capacity there with the exception of Cancun.

Regis Cardoso

Understood. Probably as we enter sort of the second half of the concession period, I would assume at some point, free cash generation from those concessions will increase. In light of that 25-year remaining, does it make sense to invest in further mixed-use buildings? Or, do you think the majority of that free cash flow would eventually become shareholder distribution?

Adolfo Castro

Yes. I have to agree with you because if we see the results for the first 25 years, basically, most of the cash flow generation has been invested in the airports with the exception of the dividend payment mostly has been invested there. This trend should reverse towards the end of the concession.

Regis Cardoso

Understood. Thank you, Adolfo. Congratulations on the results.

Adolfo Castro

Thank you.

Operator

Your next question comes from Francisco Suarez from Scotiabank. Please go ahead.

Francisco Suarez

Thanks for the call Adolfo. Congrats on the super results. Thank you for your initial remarks. Those were very helpful on your overall outlook. Can you give us an indication what is also happening on room supply in the Riviera Maya? Do you see further investments adding perhaps more to demand in addition to your remarks what you said on trends on air travel from the U.S. and Canada?

Adolfo Castro

Yes. Thank you for your words. In the case of room supply, several comments there. First is there has been a lot of Airbnbs that have been constructed over the past couple of years. To be honest, I do not have visibility as I had in the past because in the past, it was easy to see or to track hotel rooms. In the case of Airbnbs, we do not have a number of how many they are and how many rooms they have by unit. So, you can see Airbnb's growth in what we call North of Cancun. That's one piece of the puzzle. The other piece is the case of Isla Mujeres that has been growing really fast over the last couple of years. All of these north to our airport.

In the case of Cancun, I was saying for many years that there was no more space in the hotel zone of Cancun, and now there is a project there for another 2,500 rooms. So, even that we say there's no space, there are some construction as we speak.

Finally, in the Riviera Maya, the most important region in terms of growth, of course, is close to Tulum, and that should be taken by the new airport there.

Francisco Suarez

Got you. Thank you so much. Congrats, again.

Adolfo Castro

Thanks.

Operator

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

Adolfo Castro

Thank you, and thank you all of you again for participating in the Fourth Quarter results conference call. On behalf of ASUR, we wish you good day. Goodbye.

Operator

Ladies and gentlemen, this concludes ASUR's Fourth Quarter 2022 results conference call. We'd like to thank you for your participation. You may now disconnect.