



**Grupo Aeroportuario del Sureste
4Q19 Earnings Call Script**

Operator:

Good day, ladies and gentlemen, and welcome to ASUR's Fourth Quarter 2019 Results Conference Call. My name is Lauren 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 * followed by 1. You may withdraw your question at any time by pressing * followed by 2. If you are using a speakerphone, please lift the handset before making your 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.

Adolfo Castro, ASUR Chief Executive Officer:

Thank you, Lauren, and good morning, everybody. Thank you for joining our conference call to discuss ASUR's fourth quarter 2019 financial and operating results.

As a reminder, please note that certain statements made during the course of our discussion today 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. For an explanation of these risks, please refer to our filings with the US Securities and Exchange Commission and the Mexican Stock Exchange.

As you read news from around the world these days, it is clear that many economies and countries are facing various disruptions, challenges and uncertainties. Thus, we are pleased to report solid results during the fourth quarter and full year. Our diverse portfolio of airports is driving our good financial results, which saw a 6.3% increase in revenue excluding construction in the quarter driven by strong performance in Puerto Rico, followed by Colombia. Now let me walk you through some of the specifics for the quarter.

Total passenger traffic accelerated to 7.1% YoY in the quarter up from 4.1% YoY growth in the prior quarter, with 14 million passengers travelling across our airports. This brought total traffic for the year to nearly 56 million, a 6.5% increase from 2018 levels.

The good performance during the quarter was due to increased passenger traffic year over year in our three key markets, which I will now discuss in more detail.

Starting with **Mexico**, which accounted for 60% of total traffic in the quarter Traffic for the quarter was up nearly 3.6% year-on-year, driven mainly by domestic traffic, which rose close

to 4.7%. On a positive note, we saw resumed growth in international traffic up slightly over 2.3% year-on-year compared to a similar decline in the prior quarter. International traffic was affected during the quarter by the bankruptcy of Thomas Cook and XI Airways which significantly impacted traffic from Europe, while traffic from the US remained stable.

For the full year, Canada posted a 10% year-on-year increase in traffic, followed by South America that was up 8% and Europe 3%, more than offsetting the 4% decline in US traffic.

As we enter 2020, we anticipate that the negative of weaker traffic from Europe will continue to weigh on international traffic throughout the year. During the second half of 2020 we expect to see an improvement from the negative impact on capacity from the 787 Max, with US traffic improving year-on-year.

Moving on to Puerto Rico, which accounted for 17% of total traffic and was our strongest performing market in the quarter. Traffic growth accelerated to 18% year-on-year from 6% in the prior quarter with traffic recovering to the levels observed before Hurricane Maria hit Puerto Rico in September 2017. This was mainly driven by domestic traffic, which rose 19% doubling international traffic growth. We expect domestic traffic growth to normalize throughout this year.

Finally, in Colombia traffic was up slightly over 9% year-on-year decelerating slightly from the 14% growth rate experienced in the third quarter, and accounted for 23% of ASUR's total traffic in the quarter. Domestic Traffic growth was up 9% year-on-year with international traffic increasing 11%.

Now turning to the financial results for the quarter:

Consolidated Revenues Ex-Construction were up slightly over 6% year-on-year to 3.8 billion pesos. Mexico accounted for 68% of revenues ex-construction, Puerto Rico nearly 20% and Colombia close to 12%. Puerto Rico delivered the strongest growth this quarter, up 15%, followed by Colombia with 9% and Mexico up 4%.

Aeronautical Revenues increased 8% year-on-year, with Mexico up nearly 5%. Puerto Rico saw a 23% increase in Aeronautical revenues, while Colombia rose just 3%

Commercial Revenues were up slightly over 3% year-on-year reaching 1.3 billion pesos in the quarter. On a per passenger basis, commercial revenues were down 3% to 92.3 pesos impacted by the change in passenger mix, particularly by the drop in higher-spending European traffic.

Now I will review commercial revenue by country.

Starting with **Mexico**, which represented 70% of ASUR's Commercial Revenues. Commercial revenues increased low single digits, below traffic growth. On a per passenger basis commercial traffic declined 2.5% to 108.8 pesos despite the opening of

seven new commercial spaces over the past 12 months. This partially reflects the 60 basis points mix-shift to domestic traffic from international experienced in the quarter and the 10% decrease in the European traffic particularly in duty free and foreign exchange services. Lower duty-free revenues also reflect the impact from the peso appreciation, while we saw difficult comps in advertising revenues as the year ago quarter benefited from a recovery in accounts payables of 37 million pesos.

- **Next, Puerto Rico** which also posted soft commercial revenue growth – up nearly 2% despite the 18% increase in passenger traffic and opening of 16 new commercial spaces in the year. While advertising revenues continued to show a strong performance this quarter, along with retail operations and ground transportation, we saw declines in duty free and car rental operations. On a per passenger basis, commercial revenues declined 14% to 105 pesos as a result of a higher mix of flights during the night hours.
- Finally, **Colombia** again posted strong growth in commercial revenues - up 27% year-on-year and 17% on a per passenger basis reaching 41 pesos. We opened additional new commercial stores during the quarter for a total of 36 new stores opened during 2019. We also saw sustained strong revenue growth across most business lines, particularly retail, car rentals, parking lot revenues. This quarter also includes the full impact from the new Duty-Free operations that resumed last September.

Moving on to profitability, EBITDA growth this quarter was impacted by a non-recurring insurance recovery of 135 million pesos in in 4Q18 in connection with Hurricane Maria. Excluding this recovery, EBITDA would have increased 5% to 2.4 billion pesos versus a reported decline of 1% year over year.

Ex-IFRIC12 and without taking into account the insurance recovery in 4Q18, Adjusted EBITDA margin declined 90 bps to 63.7% this quarter from 64.6% in the year ago quarter.

Note that this was mainly due to a 22% increase in operating costs and expenses, ex-construction, this quarter, as 4Q18 results included certain items that were a benefit to costs for a total of 281 million pesos.

Of this, Ps.108 million were reported in Mexico in connection with a tax refund at Cancun airport and the reversal of a provision for bad debt; Ps.78 million in Puerto Rico related to a reduction in the valuation of the maintenance reserve as per IFRIC12, and Ps.95 million in Colombia due to reversal of bad debt provision and a higher provision for the future replacement of fixed assets as per IFRS12. A detailed explanation of these items can be found in the release published yesterday.

4Q18 also benefitted from several items, including an asset tax refund, reduction in the valuation of the maintenance reserve as per IFRIC, among others. Excluding these specific items operating costs and expenses ex-construction in 4Q19 would have increased 3% year-on-year, below the 6% year-on-year increase in revenues ex-construction.

By region, starting with **Mexico** our largest country of operations. EBITDA was down 0.5% year-on-year and the margin ex-IFRIC12 declined 299 bps. However, excluding the reversal of the provision for uncollectible accounts and the asset tax refund that benefited 4Q18 results for a total of Ps.108.3 million, Adjusted EBITDA margin would have increased 70 basis points to 70.3% from 69% in 4Q18.

In **Puerto Rico**, EBITDA declined 27% year-on-year to 400 million pesos while the margin ex-IFRIC12 declined to 54% in 4Q19 compared to 84% in the fourth of 2018. However, excluding the non-recurring insurance recovery last year, EBITDA would have declined 3% YoY.

Finally, **Colombia** reported a 167% year-on-year increase in EBITDA with Adjusted EBITDA margin (ex-IFRIC) expanding to 38% from 19% in the year ago quarter. Note that 4Q19 results benefited from a higher maintenance provision versus the same period in 2018 and the effect of the change in how we calculate depreciation.

Moving to the bottom line, majority net income was Ps.1.3 billion pesos, down 15% year-on-year. However, excluding the benefit from the insurance recovery last year, majority net income for the quarter would have declined 5% mainly reflecting the specific items I just discussed as well as an FX loss this quarter versus an FX gain in the same period of the prior year.

Now looking at the balance sheet, net debt was down 25% year-on year to Ps.7.5 billion pesos, with a net debt to last twelve months EBITDA of 0.7 times and interest coverage of 10.8 times.

We remain committed to making the required investments to help position us for our long term growth and success. To that end, we invested over 1.7 billion pesos during 4Q19. Of this, over 1.5 billion pesos were allocated to the Master Development Program in Mexico. In particular, the expansion of Merida Airport, advances for the parallel taxiway to the second runway at Cancun and first expansion of Terminal 4 at Cancun airport. In addition, we invested 138 million pesos in Puerto Rico for major maintenance work on taxiways, and 70 million pesos in Colombia to finalize the cargo terminal at Rionegro airport, thus concluding committed works at this Country.

During the full year we made capital investments of 2.6 billion pesos, of which 2 billion were allocated to the Master Development Program of our airports in Mexico, nearly 380 million in Puerto Rico and 176 million were invested in Colombia.

Looking into 2020, our Master Development Plan in Mexico calls for investments of approximately 5.3 billion pesos. The most relevant projects this year are continuation of the parallel taxiway to the second runway at Cancún airport and the beginning of the first expansion of Terminal 4. We plan to conclude phase 1 of expansion of the Merida Terminal and to begin the second phase this year. The second and third phases at this airport are expected to be concluded in 2021.

As we have consistently stated, we take a long-term view of our business, and we continue to be well positioned for long-term growth.

This concludes my prepared remarks. Lauren, please open the call for questions.

Operator:

Thank you. Again, to the audience, it is star, then one for questions. Again, please make sure your mute function is turned off or the handset is picked up before pressing the corresponding digits.

We'll take our first question from Mauricio Martinez with GBM.

Mauricio Martinez

Good morning Adolfo. Thanks for taking my question. My first question will be on the commercial revenues front in Mexico and Colombia. In your remarks, you said that the deceleration or drop in commercial revenues in Mexico comes from a change in the mix in passengers, so maybe you can elaborate a little bit more there. Also, what are your expectations now starting for 2020 for these brackets in Mexico and Colombia? That would be great.

Adolfo Castro Rivas

Hi, good morning Mauricio. As we have said before, the passenger mix was affecting the possibility or the potential in the commercial revenues, the passenger for the case of Mexico. During the years, if you see our passenger mix, 48% was domestic in 2018, and now more than 50% is domestic. Also, we had an impact during the fourth quarter due to the bankruptcy of Thomas Cook and XL Airways which had a significant impact on our traffic from Europe with a decline of 10%.

As I have said during the initial remarks, what I expect for this year is the continuation of the effect from European traffic and probably a slight improvement in the case of the U.S. traffic. The combined effect of these two things will still have some pressure on our commercial revenues per passenger during the first—at least during the first half of the year. I believe we will see a better second half.

Mauricio Martinez

Perfect, thanks. If I may, a second question on Colombia. First, how commercial revenues should perform going ahead there. And also on the capex front, now that you finished the committed investments there, what should we expect in terms of capex in Colombia?

Adolfo Castro Rivas

In the case of commercial revenues, you are seeing very positive numbers despite the huge growth in passenger traffic we saw last year. What I believe for the future is that we will continue improving those in terms of commercial revenues per passenger. It is important to say that we saw an 11% Colombian peso depreciation against the Mexico peso, so if you evaluate those in Colombian pesos, you can add this 11% to the comparatives.

In terms of the capex, what I have said during the initial remarks is that once we've completed the terminal, the cargo terminal at Rionegro Airport, this concludes the committed capex for the case of this country, so for the future what we should expect is basically major maintenance capex.

Mauricio Martinez

Perfect, thank you very much, Adolfo.

Adolfo Castro Rivas

You're welcome.

Operator

Our next question comes from Alejandro Zamacona with Credit Suisse.

Alejandro Zamacona

Hi Adolfo, thank you for the call. Just a follow-up question on commercial revenues per passenger, this time in Puerto Rico. We saw a 14% decline on a per passenger basis, so could you please give more color on what was behind that drop?

Adolfo Castro Rivas

Yes, of course. During the fourth quarter, we saw a very important increase in passenger traffic, but a lot of this traffic is traffic that we receive at night, and of course passengers are not big spenders at those times of the day. What we need to do is to try to find how to improve sales with these passengers that now represent around 15% of our total passengers during the quarter. It's hard to say how we will be able to convince them to buy, because as I said before, these flight times are very difficult towards that situation.

Alejandro Zamacona

Just to have that context, previously to that 15% of passengers flying during the night, what was that number before this change?

Adolfo Castro Rivas

It was around 6%.

Alejandro Zamacona

Okay, thank you.

Adolfo Castro Rivas

You're welcome.

Operator

Our next question comes from Rodolfo Ramos with Bradesco BBI.

Rodolfo Ramos

Good morning Adolfo, thank you for taking my question. My question is regarding costs. Can you talk a little bit about your expectations? You saw very, very limited growth this fourth quarter in terms of cost in Mexico. Can you talk a little bit about your expectations for cost in Mexico and perhaps how this capex plan that you have, how could that push that upwards? Thank you.

Adolfo Castro Rivas

Hi Rodolfo, good morning. Well, in the case of costs, if you read the whole document you will see that there was no major impact on cost during the quarter, and I do not expect any surprises during the year. In terms of what will be the impact of the new capex in terms of cost once it is completed, I would say we probably will see some slight growth in costs for the case of Mérida Airport once Phase 1 of the terminal expansion is completed, which I believe will be completed during the month of July.

In general, I think it will be a very, very minor effect in the overall plan in Mexico, so we do not expect any major surprises through the whole year.

Rodolfo Ramos

Thank you Adolfo. If I may, a follow-up, can you—I don't know if I missed that, but can you remind us on Puerto Rico what is your expected capex for this year?

Adolfo Castro Rivas

We do not have any guidance in terms of the amount, but basically what we are doing to date is major maintenance repairs, and basically in taxiways. We will have some minor spending in the remodeling for a piece of Terminal B, but that's it.

Rodolfo Ramos

Thank you Adolfo.

Adolfo Castro Rivas

You're welcome.

Operator

Once again as a reminder, that is star one to ask a question. Our next question comes from Stephen Trent with Citi.

Stephen Trent

Good morning Adolfo, and thanks for taking my questions. I have two for you. First off, when we think about coronavirus and some of the major network carriers rotating capacity out of Asia, any indication whether you've seen any of that capacity come into your airports?

Adolfo Castro Rivas

Hi Steve, good morning. We do not have any direct flights from Asia. Most of the people that come from Asia basically connect in L.A., so we do not—we have not seen any impact from this.

Stephen Trent

Appreciate it, and I probably didn't think through my question very well. I was curious if you've seen any of the U.S. airlines, for example, taking some of their trans-Pacific capacity out of that market and sending it U.S. to Mexico. Have you may be seen any trends like that at all, or haven't?

Adolfo Castro Rivas

These are two different markets. People that travel from the U.S. to China are not people that travel over the weekend to Cancun, so once again I do not see any impact from this.

Stephen Trent

Okay, appreciate that. Just one other from me. Was there any—of the major maintenance that's occurring in Puerto Rico, was any of that at all related to any minor damage from the earthquakes that occurred earlier this year?

Adolfo Castro Rivas

Good question, Steve. The earthquake basically was on the south of the island. San Juan, Puerto Rico is exactly at the north piece of the island, so if we think about it, we didn't have any impact at all in San Juan, Puerto Rico because of the earthquakes.

Stephen Trent

Okay, that's very helpful. I'll leave it there. Thanks Adolfo.

Adolfo Castro Rivas

You're welcome.

Operator

As a reminder, that is star, one to ask a question. We'll take our next question from Gabriel Himelfarb with Scotiabank.

Gabriel Himelfarb

Hi, good morning. Thanks for the call. My question is about the commercial revenue. We are seeing in your results that there is a decline in Mexico's revenue from duty-free and banking and currency exchange services. Can you give us a bit of color what's the trend, what's happening in the sector? Thanks.

Adolfo Castro Rivas

Hi Gabriel, good morning. As I have said during the remarks, the effects that we are seeing is because of the passenger mix, so more domestic, less international. That's exactly what

you are seeing: internationals are the ones that buy duty-free and also the ones that have FX exchange. It's clear that the two main lines that are more affected are those, because of this.

Gabriel Himelfarb

Okay, thanks.

Operator

Once again as a reminder, that is star, one to ask a question. We'll take our next question from Alan Macias with Bank of America.

Alan Macias

Hi Adolfo, good morning. Just one quick question. At this point, do you have any insight into the Sargassum season? Will it be lower or higher versus last year? Any insight into that? Thank you.

Adolfo Castro Rivas

Well, what I have seen in terms of the reports, and there's one from one university in South Florida, is that we are seeing a lot less Sargassum in comparison with the two previous years. My expectation is this year in terms of that is that it will be significantly lower than how it was in the past.

Alan Macias

Thank you Adolfo.

Adolfo Castro Rivas

You're welcome.

Operator

Once again, that is star, one to ask a question. Our next question comes from Andy Jones with AMP Capital.

Andy Jones

Good morning, thanks for taking the question. Three things. Firstly, can you comment on the degree of guaranteed revenues or your minimum guarantees in some of the duty-free, the foreign exchange contracts that you have which might mitigate further downside risk there, and secondly how you're currently thinking about dividends. Thanks.

Adolfo Castro Rivas

Sorry, but I cannot hear you very well.

Andy Jones

Sorry. My first question was around the level of minimum guarantees within some of the commercial contracts, i.e. is there any protection or mitigation to the downside from further declines, and secondly how you are thinking about dividend policy at the moment.

Adolfo Castro Rivas

Okay, so in the case of minimum guaranteed payment per passenger, almost all the contracts we have in the case of Mexico have this number as a protection. Today in the case of duty-free, which are the most important activity in terms of revenue, they are not paying those minimum guarantee payment per passenger, so they are still in the concession fee payment.

For your second question, it's what?

Andy Jones

The second question was around what your current thoughts are on the dividend policy, given the result. But could I just follow-up on the second one? Can you comment on how far from the minimum guaranteed levels we might be in that duty-free contract? Is it a long way or...

Adolfo Castro Rivas

I don't believe—no, I don't remember exactly how far they are from the minimum guaranteed payment per passenger, but it should be—we are, let's say, not charging them that amount.

In the case of dividend policy, we do not have a regular dividend policy. We review this every year depending on the result of the year, the tax position we have, and the investment projects we have in front. Remember, as I have said during the introductory remarks, that we have 5.3 billion pesos to invest in Mexico this year, which is the highest ever for us during this almost 20 years, but nevertheless we will propose something next week to the Board of Directors in terms of dividend payments.

Andy Jones

Okay, thank you very much.

Adolfo Castro Rivas

You're welcome.

Operator

As a reminder, that is star, one to ask a question. We'll pause for just a moment to allow everyone an opportunity to signal.

Thank you, and 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 Rivas

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