



**Grupo Aeroportuario del Sureste
3Q18 Earnings Call Transcript**

Operator: Good day, ladies and gentlemen, and welcome to the ASUR Third Quarter 2018 Results Conference Call. My name is Cathy 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.

For opening remarks and introductions, I'd like to turn this call over to Mr. Adolfo Castro, Chief Executive Officer. Please go ahead.

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Adolfo Castro, ASUR Chief Executive Officer: Thank you, Cathy and good morning, everyone. Thank you for joining us on our conference call to discuss our third quarter results.

Allow me to remind you that certain statements made during the course of our discussion today may constitute forward-looking statements, which are based on 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 Securities and Exchange Commission and the Mexican Stock Exchange.

Before entering into the discussion of our results for the quarter, let me make a brief comment about the potential Rivera Maya Train. Over the past months we have met on several occasions with the transition team of the new government that has presented this project, which includes an origination station at Cancun airport. We will continue to work with them to establish the most effective way in which our Cancun Airport subsidiary can participate in the coordination of this project and, if it moves ahead, in the construction of this train terminal.

Moving on to our performance, our Mexican operations posted another quarter of solid results with strong passenger traffic growth, despite a higher cost base as we continue to ramp up Terminal 4

opened towards the close of last year. We also saw positive traffic growth in Puerto Rico this quarter following the impact of Hurricane Maria last year, and improved overall dynamics in Colombia, particularly a sharp pick up in domestic traffic following capacity adjustments at a leading carrier.

More than 13.3 million passengers traveled across our 16 airports during the third quarter, with total traffic picking-up to almost 7% year-on-year, driven by growth in our three countries of operations.

In Mexico, traffic increased 6.7% year-on-year reaching 8.3 million passengers. Domestic traffic rose almost 11%, while international traffic rose close to 3%. Growth was driven by a solid performance at Cancun and further supported by traffic growth across all of our airports.

Traffic in Puerto Rico continues to recover, up almost 4% to 2.2 million passengers – although total traffic remains impacted by airline capacity reduction following the effect of Hurricane Maria last year. Domestic traffic rose 5% while international traffic continues to post negative comps down almost 6%.

Colombia posted a strong recovery, up over 7% year-on-year reaching 2.8 million passengers, up from a 4% decline in the prior quarter. Domestic traffic rose over 6%, while international traffic growth remained stable at 12%. Looking ahead, we expect traffic in Colombia to continue recovering gradually reaching normalized levels next year.

Moving on to our financial results, remember that financials for the quarter reflect the full consolidation of our Puerto Rico operations in 3Q17 and 3Q18, while we began consolidating Colombia starting October 19th of last year.

Consolidated Revenues, excluding construction, was up over 27% year-on-year to 3.7 billion pesos driven by positive contributions across our operations. Revenues ex-construction increased 14% in Mexico and 9% in Puerto Rico, while Colombia contributed with over Ps.480 million. On a stand-alone basis, revenues ex-construction in Colombia increased 19% year-on-year.

Aeronautical revenues remain strong – up 30% year-on-year reaching 2.3 billion pesos, reflecting growth of almost 14% in Mexico and 4% in Puerto Rico. Colombia contributed with over Ps.320 million in aeronautical revenues in the quarter, representing a 16% increase on a stand-alone basis.

We remain focused on driving growth in **Commercial Revenues**, which increased 25% year-on-year to 1.2 billion pesos, reflecting a robust performance across the board. Mexico continues to post solid commercial revenue growth– up 15% as we continue to ramp up operations of Terminal 4 at Cancun Airport. We are also pleased with the 17% increase in commercial revenues achieved In Puerto Rico, while Colombia contributed with 100 million pesos in commercial revenues. On a stand-alone basis, commercial revenues in Colombia increased 28% year-on-year.

Commercial Revenues per Passenger fell to Ps.92.5 this quarter, from Ps.99.5 in the same quarter of last year, reflecting the consolidation effect.

On a standalone basis, however, we delivered another quarter with higher commercial revenues per passenger across our three countries of operations:

- **Mexico** posted a 7.6% increase in commercial revenues per passenger reaching 108 pesos. This was mainly driven by continued ramp up of Terminal 4 at Cancun airport and a strong performance of our retail operations. With Terminal 4 basically completed, and almost all commercial spaces rented, we are now focusing on finetuning operations there to better understand passenger needs as we strive to maximize commercial revenues per passenger. We are also working with the concessionaires of Terminal 2 to adjust the offering for the new passenger mix at this terminal.
- Commercial revenues per passenger rose 13% **Puerto Rico**, to 108 pesos. Commercial revenues increased across all categories, with growth mainly driven by a strong performance in ground transportation, advertising, car rentals and parking lots. We believe the reconstruction efforts in the island are driving a great part of the increase in transportation related categories.
- Finally, **Colombia** reported a 20% increase reaching 35 pesos per passenger as we continue to make headway in upgrading these operations. As you know, increasing commercial revenues is our main objective in Colombia. We expect to re-establish duty free operations at Rio Negro airport before year-end, which should continue to drive higher commercial revenues per passenger going forward.

Moving down the P&L, consolidated EBITDA increased 19% year-on-year reaching 2.3 billion pesos, mainly driven by a 12% increase in EBITDA in our Mexican operations and a contribution of Ps.200.6 million from the consolidation of Colombia starting October of last year. While results at our Puerto Rico operations are slowly improving, EBITDA at this operation declined 6% year-on-year still impacted by higher costs and expenses.

Consolidated Adjusted EBITDA Margin, which excludes the effect of IFRIC 12 with respect to the construction of or improvements to concessioned assets in Mexico, Puerto Rico, and Colombia was 63% in 3Q18 compared to 68% in 3Q17 due to the consolidation effect.

Regionally on a standalone basis, Adjusted EBITDA margin in Mexico declined by 122 basis points to 70%, mainly impacted by additional costs from the new Terminal 4 as we continue to ramp up operations, as well as an average increase of 63% in the price per kilowatts per hour compared with the same period last year.

In **Puerto Rico**, Adjusted EBITDA margin declined to 48% from 56% in the same quarter of last year. This resulted mainly from a concession fee of 32 million pesos this quarter, equal to 5% of revenues, up from a fixed 2.5 million pesos during the first five years of the concession. A 70% increase in insurance costs along with higher security expenses to meet authorities' requests also impacted Adjusted EBITDA in Puerto Rico.

Adjusted EBITDA margin in **Colombia**, in turn, declined 360 basis points to 48%, mainly impacted by higher cost of services resulting from the new areas we opened at the end of last year at Rio Negro Airport and concession fees originating from the increase in revenues.

Note that our bottom line for the third quarter was impacted by a 125% year-on-year increase in depreciation and amortization. This was mainly driven by higher depreciation in Colombia resulting from the increased concession value and the new areas opened at Rio Negro Airport, and to a lower extent

from the impact of IFRS 3 on the valuation of our investment in our concessions in Colombia and Puerto Rico.

Results for the quarter were also impacted by a higher consolidated Comprehensive Financing Loss of 280 million pesos compared to a 103 million pesos loss in the year ago quarter. This resulted mainly from a higher non-cash foreign exchange loss in the quarter, and to a lesser extent due to an increase in interest expenses.

Now, turning to the balance sheet, we maintain a solid financial position with net debt down by 1.2 billion pesos sequentially, and a Net Debt to Last Twelve Months EBITDA ratio of 1.2x times.

During the course of the nine months we made capital expenditures close to 1.4 billion pesos. Of this, over 640 million were invested in Puerto Rico's LMM Airport, and more than 390 million pesos in Colombia. In addition, we also invested almost 330 million pesos in Mexico, mainly in Cancun's Terminal 4 and major maintenance works at the other 8 airports.

In Puerto Rico we are talking care of major maintenance works like the change from asphalt to concrete in a taxiway, as well as making investments in connection to the reconstruction process following Hurricane Maria and the construction of a building for cargo activities. We estimate that total damages amount to approximately 60 million dollars, of which 50 million dollars should be reimbursed by the insurance company. So, we will see some temporary capex as receive the reimbursements. In Colombia we continue with mandatory works like the cargo area expansion at Rio Negro Airport.

This completes my prepared remarks. I will now open the call for questions. Cathy, please go ahead.

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 picked up before pressing the corresponding digits.

We will now go first to Mauricio Martinez of GBM.

Mauricio Martinez:

Hi, good morning, Adolfo. Thank you for taking my question. My first question would be on commercial revenues per passenger in Mexico, as we only saw mid-single digit growth there. I'm wondering if you can share with us your thoughts regarding such performance and your expectations for next quarters. Also the second question will be—I mean, having a steeper slowdown for international passengers in Cancun, it is well known that security issues have been one of the drivers there, but if you can give us any color on what are you seeing for the fourth quarter and if we should expect a recovery on that front.

Adolfo Castro Rivas:

Mauricio, hi, good morning. Well, you are also answering your first question because if you see the passenger mix for the third quarter against last year, you clearly see that there was a huge increase in domestic traffic against international traffic, and of course they spend more, the internationals spend more in comparison with domestic, so that is probably why we are just seeing 7% increase on commercial revenue per passenger.

In terms of what you're mentioning, basically what we are seeing is a decrease in the case of the traffic to and from the United States for Cancun Airport - could be the security, could be the warnings, could be restructuring capacity from the airlines basically in the region of L.A., and that restructuring process is also for the entire country. It's not just for Cancun, it's also for Mexico City. Going forward what we see is strong domestic traffic and probably the same trends for international.

Mauricio Martinez:

Okay, so we can expect a recovery on the international front for next quarters, probably going back to mid-single?

Adolfo Castro Rivas:

No, what we can expect is to see what we are seeing during the third quarter.

Mauricio Martinez:

Okay, great. Thank you.

Adolfo Castro Rivas:

You're welcome.

Operator:

We will now go to Josh Milberg of Morgan Stanley.

Josh Milberg:

Hi Adolfo, thank you very much for the call. My first question also relates to international traffic and the slowdown there. You touched on the point about security and the travel warnings, and I was hoping you could sort of elaborate on that, and also just touch on the issue of this year's seaweed outbreak in the region. We had understood that that was also something that might be pressuring your traffic, and just wanted to understand if this year's infestation is—how that compares to, I think, what was the prior big one that you had in 2015 and just understand your thinking about how both of those issues can play out from here.

Adolfo Castro Rivas:

Hi Josh. In terms of international traffic, basically as I said, what we are seeing is a decrease in the case of the U.S. traffic. It's not the case for the rest of the regions we are working in, so Canada is well, Europe is well, and also Latin America. In the case of the U.S., I believe this has to do with bad press and all the things that have happened in terms of relations of these two countries.

The other thing that we are seeing is a reduction specifically in the region of L.A., and this has to do with the restructuring process of the capacity of the airlines that work there.

The seaweed, I don't see this as the reason why the U.S. traffic is not coming. This may affect all the regions if they are aware of the situation before they make their reservations, which I believe in the case of international traffic is harder because normally they book in advance two to three months. This is a natural situation, basically originated for a change in the temperature of the water of the

Atlantic sea between the United States and Europe, and it's not something that we can call but is cyclical. It goes and comes. I believe it's now almost ending because of the time of the year, and we don't know when this will come again. But again, I don't see this as the major reason why U.S. traffic is changing.

Josh Milberg:

Okay, got it. That was very helpful color, Adolfo. My second question was just on your Mexico margins. I think you indicated that what explained the moderate contraction, about 120 bps year-over-year, was one, the ramp-up of Terminal 4 and also the issue of higher electricity costs. Should we expect those two variables to continue to weigh on your profitability in the fourth quarter and early next year, or do you think that by next year we should start seeing a turnaround in profitability and a resumption of an upward trend?

Adolfo Castro Rivas:

Well, in the case of Terminal 4, of course those are going to stay there forever; but in the case of the 53% increase in the price per kilowatt hour that we are suffering now, it's something that I really do not understand. It's not coming from a peso devaluation, it's not coming from a huge oil price increase, so this is something that is in the hands of the government, and of course I do not expect this to continue in the coming quarters but of course we do not control this, and we don't know what or how they're going to react. It is clear to me with a change in government that he will receive a lot of complaints of what is happening today in the cost of energy for the entire country, and moreover in the commercial activities.

Josh Milberg:

Okay, understood. Thanks very much.

Adolfo Castro Rivas:

You're welcome.

Operator:

We will now take a question from Alejandro Zamacona of Credit Suisse.

Alejandro Zamacona:

Hi Adolfo, thank you for the call. We were wondering what's behind the difference between the construction revenues and the construction costs for Airplan. I don't know if you can give us more color on this difference.

Adolfo Castro Rivas:

Alejandro, that's a good question. As you can see in the documents, we are presenting, roughly speaking, 17 million negative for the construction revenue during the quarter, and a cost of construction of 63 million. Normally speaking, these numbers should be equal if we just talk about construction costs and construction revenue in terms of the improvements, or the capex, that we construct during the period. The point is that in the case of Airplan, we have to evaluate the contract every quarter, and what we are seeing here is a negative result of around 80 something-million, so

the sum of the 17 plus the 63 in the construction costs has a negative impact in the valuation of the contract. This has to do with basically two things: one is the change in the rate, and the other one has to do with the comparison of expected income from one quarter to the other.

This is something that will be there forever so we will have to evaluate these every quarter, and you will see from time to time positive and negative things there. It's important that you understand that this is non-cash, so be careful when you are making your calculations on the EBITDA for Airplan.

Alejandro Zamacona:

Okay, thank you. Just a second question, if I may. According to the future director of Fonatur, the plan is that ASUR builds the train station of the Maya train in the Cancun International Airport, and the plan is also for ASUR to operate the terminal station, so what's your sense on these thoughts, and what about the Merida station? Can we think about the same, you guys being the operator and the constructor, or just in Cancun?

Adolfo Castro Rivas:

Well, in the case of Cancun, as I stated in my initial remarks, I said that we are working to coordinate the efforts of these projects. These projects originate in Cancun Airport, and because of that, we believe that we will have to construct the train station. The train station means the point where passengers from the airport and from the city will originate their journey or will end their journey. This is an important point for us because we believe we need to control the situation, and that is why we will construct—I believe we will construct the train station. When you are saying operationally speaking, basically if there is any commercial space, yes, we will control those, but basically the train operation will be controlled by them.

Alejandro Zamacona:

Okay, and what about Merida station?

Adolfo Castro Rivas:

Well, I really don't know what will happen with Merida. We are not yet there in terms of the design of the project, or they have not shared with us all the details of that.

Alejandro Zamacona:

Okay, thank you very much, Adolfo.

Adolfo Castro Rivas:

You're welcome.

Operator:

Our next question will come from Samuel Alves of BTG.

Samuel Alves:

Thank you. Good morning, Adolfo. Good morning everyone. My question is regarding the level of capex, especially looking at non-Mexican assets. We noted an acceleration of investments in Colombian assets and in Puerto Rico this quarter. The question is if you could recall us the level of investment that you should disburse in those assets over the next few quarters, I mean net of reimbursements from the insurance company, and when do you expect to conclude the mandatory investments there? Thank you.

Adolfo Castro Rivas:

Hi Samuel, good morning. Basically, in the case of Colombia, we are almost completing the mandatory capex. This mandatory capex is related to a cargo area that we are constructing at Rio Negro airport, and we are almost completing that project. After that, it will be just major maintenance capex.

In the case of Puerto Rico, we have basically three elements. One has to do with the reconstruction process that we will have to recover later on from the insurance company. The second one is major maintenance that has do with the reconstruction of a taxiway - we are changing the surface of the taxiway from asphalt to concrete, and we are also constructing a building for cargo activities that will be leased once this is completed, and we will have to complete that during the coming months. The number you are seeing there is not something that will occur next year.

Samuel Alves:

Okay, thank you very much.

Adolfo Castro Rivas:

You're welcome.

Operator:

We will now take a question from Alberto Valerio of UBS.

Rogelio Araujo:

Hi, good morning, Adolfo. This is actually Rogelio speaking. Thanks for taking the call. I have a couple of questions. One is regarding COFECO Opinion of Probable Liability which is alleging monopolistic prices in Cancun on the ground transportation, so if I'm not mistaken, I think two investigations on the same matter already took place in Cancun beginnings of 2000's, but there was no fine at the time, so my question is, is this correct, and also how this case currently in COFECO is different from before, and could you give me a little bit more details on this matter specifically? This is the first question, thank you.

Adolfo Castro Rivas:

Well, it's not exactly the same as the one you mentioned. I really don't know if this is—if this will end up in a fine or not. If that is the case, we will of course try to defend our interests with the legal process. We have given the answer of what they said. I believe this will take some time, so probably

for the first quarter next year we will see what they say about what we responded. That's for the moment what I can say to you.

Rogério Araujo:

Pretty fair. My second question is a follow-up on the commercial revenue. In terms of the stores opened, how can we think about the ramp-up? Are there still stores that weren't open in the third quarter and should be open in the fourth or going forward, or can we think already about in terms of commercial air rates already at normalized levels and the only thing that is affecting commercial revenue is the mix of international passengers?

Adolfo Castro Rivas:

Well, in the case of Terminal 4, there is one space that is not open and I believe is not going to be open, which is the bank branch. We will have probably to change the nature of this space because apparently banks are not willing to spend money on branches. Also, we are in the process to open VIP lounges. Excluding these, everything is up and running.

Rogério Araujo:

Okay, thanks very much for the answers.

Adolfo Castro Rivas:

You're welcome.

Operator:

We will now take a question from Stephen Trent of Citi.

Stephen Trent:

Thank you, Adolfo, for taking my questions. Good morning. The first one, to some extent a follow-up on Rogério's question on the Maya train, could you give us a sense as well if you happen to know what sort of approvals are needed - regulatory, environmental, etc., where the project is in this sense?

Adolfo Castro Rivas:

Well, basically Steve, we are not making and we are not participating in the construction process of the train itself. When we are saying a station, that is the point where the train connects to our airport, so basically we will have to do the necessary work in order that the people, our passengers, can take the train or to go from the train to their planes, so that is basically what we will be participating in.

Stephen Trent:

Okay, appreciate that. Also, if I could just get a little color, I appreciate if you're not allowed to say, but a little color on this investigation, if this is something that pertains to the taxis or to the old bus operators or something else. I wasn't quite clear.

Adolfo Castro Rivas:

This is related to taxis.

Stephen Trent:

Got it. Just a final question, at this very early stage, do you see any risk that this COFECO investigation touches on the Mayan train, or this is something that in your mind should be entirely separate?

Adolfo Castro Rivas:

No, this is two separate things.

Stephen Trent:

Okay, perfect. Well, let me leave it there, and thanks for the color, Adolfo.

Adolfo Castro Rivas:

You're welcome.

Operator:

We will now take a question from Manuela Echavarria of Credicorp Capital.

Manuela Echavarria:

Hi, thank you so much for your time. Adolfo, can you explain a little bit on the increase in the concession fee paid to the Puerto Rican government and what we can expect going forward?

Adolfo Castro Rivas:

Of course. That was originally stated in the contract that we signed with the government five and a half years ago, so the changes that instead of a fixed amount of 2.5 million per year is from now on 5% of the revenues, and that will go up to the year '30 where that will increase from 5% to 10% of the revenues.

Manuela Echavarria:

Okay, thank you so much.

Adolfo Castro Rivas:

You're welcome.

Operator:

Now, we'll go to a question from Alan Macias of Merrill Lynch.

Alan Macias:

Hi, good morning, Adolfo. Just one question on the Riviera Maya train. What is your perception of how advanced is the project, and if you have any timeframe, any estimate of when we could see the beginning of the building of the train, or is this still further down the line? Thank you.

Adolfo Castro Rivas:

Alan, hi, good morning. Well, basically what I can comment to you is what I have heard from the people I have met. Basically, what I understand is they are working on the studies for the train. The train, what I understand, will have to be constructed in phases. It's not that from one day to the other you will open the 1,600 kilometers of the train. In these phases, there are pieces that have to be basically refurbished. There is an original train that goes from more or less Merida to Campeche and you have a right of way. There was a rail there, so basically they have to refurbish that and to direct some pieces. It's not like the rest of the train where they have to construct everything.

In the case of, I would say Cancun up to Tulum, I believe that will be the first phase of the train, and that may occur between two to three years.

Alan Macias:

Great, thank you.

Adolfo Castro Rivas:

You're welcome.

Operator:

As a reminder, ladies and gentlemen, that is star one, if you would like to ask a question. We will move now back to Mauricio Martinez with GBM.

Mauricio Martinez:

Hi Adolfo, just a follow-up question, if I may, on Puerto Rico's aeronautical revenues in dollar terms, as it accumulated more than \$60 million now by this quarter. I know there are other services included there, apart from the airline fees, but maybe if you can tell us what is the main driver there and how much could it be above that 60 million going forward?

Adolfo Castro Rivas:

Mauricio, in the case of aeronautical revenues, you have one piece which is the \$62 million fixed amount that the contract states. Probably what you're talking about is the PFC, which is the Passenger Facility Charge that is like the TUA here in Mexico, and that more or less is \$2.80 per departing passenger, so roughly speaking between \$50 million to \$60 million a year. Probably that is what you are seeing.

Mauricio Martinez:

Perfect, very clear. Thank you.

Adolfo Castro Rivas:

You're welcome.

Operator:

We will now take a question from Pedro Pascoal of JP Morgan.

Pedro Pascoal:

Hey Adolfo, good morning. Good morning everyone. A quick one from my end. We'll probably have the options of a few airports in Brazil in the beginning of next year. I was wondering if you guys would have an interest in these assets or if there are any other inorganic growth opportunities that you are seeking at this point. Thank you.

Adolfo Castro Rivas:

Hi, good morning. I would say a very simple answer - not for the moment.

Pedro Pascoal:

Perfect, thank you.

Operator:

Again, that is star, one if you'd like to ask a question, and we'll pause for a moment.

With that, that does conclude today's question-and-answer session. I would like to turn things back to Adolfo Castro for closing remarks.

Adolfo Castro Rivas:

Thank you, Cathy, and thank you everybody for joining us today on this conference call for our third quarter results of 2018. Have a great week, goodbye.

Operator:

With that, ladies and gentlemen, that does conclude today's call. We'd like to thank you again for your participation. You may now disconnect.