



**Grupo Aeroportuario del Sureste  
4Q18 Earnings Call Transcript**

**Operator:** Good day, ladies and gentlemen, and welcome to ASUR's Fourth Quarter and Full-Year 2018 Results Conference Call. My name is Greg 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.

**Adolfo Castro Rivas:** Thank you, Greg and good morning, everyone. Thank you for joining our conference call to discuss ASUR's fourth quarter and full-year results.

Before I begin, 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 Securities and Exchange Commission and the Mexican Stock Exchange.

**Starting with our traffic performance,** I am pleased to report that robust growth in passenger traffic continued in Mexico, which rose 7.5% year-over-year during the fourth quarter, while there was strong traffic growth in Puerto Rico and Colombia, up 30% and 28%, respectively, benefiting from easier comps. Note that over the past twelve months, passenger traffic in Colombia was 10.7 million, compared with 10.5 million annual passengers prior to the pilots' strike.

In total, we moved 13.1 million passengers, representing a nearly 15% increase in total traffic over fourth quarter 2017. In 2018, we served 52 million passengers across our 16 airports.

**The quarter's nearly 8% increase to 8.1 million passengers** in Mexico continued to be driven mostly by our airport in Cancun, where domestic and international traffic grew slightly over 14% and 3%, respectively, reflecting similar growth levels at the country level. The majority of ASUR's airports contributed to this growth.

**The share of traffic to and from the US, Canada and Mexico decreased slightly to 86.3%** from 86.9% a year ago. However, the share of traffic to and from the US declined year-over-year by 230 basis points to 26.6% in the quarter and we expect US traffic to remain weak through the year.

In Puerto Rico, both domestic and international traffic continued to recover strongly from the impact of Hurricane Maria back in September of 2017, rising 30% and 35%, respectively. In total, ASUR's passenger traffic increased just over 30% in this country.

**While Colombia's domestic traffic was up 31%** compared to last year's quarter, when a leading airline made capacity adjustments, international traffic continued to expand robustly, increasing nearly 13%. Our total passenger traffic in Colombia rose almost 28%. For 2019, we continue to expect domestic growth levels to normalize before the pilots' strike that occurred in September 2017.

**I'll now discuss ASUR's fourth quarter financial results.** As a reminder, we began to fully consolidate our Puerto Rico operations in June 2017 and our Colombia operations in October 19 of that year.

**Consolidated Revenues**, excluding construction, increased over 18% versus last year's quarter to 3.6 billion pesos, driven by increases of 15% in Mexico, 13% in Puerto Rico and over 52% in Colombia.

**Aeronautical Revenues** posted solid growth of almost 18% year-on-year. Mexico contributed just over two-thirds of the 2.2 billion pesos in Aeronautical Revenues, while Puerto Rico and Colombia accounted for 18% and 15%, respectively.

**Commercial Revenues**, the focus of our growth plan, rose nearly 20% over last year to 1.3 billion pesos, largely due to the nearly 15% increase in total passenger traffic. Mexico accounted for almost three-quarters of this revenue. A nearly 16% increase in commercial revenues in Mexico came mostly from the opening of Terminal 4 at Cancun Airport in the same quarter of 2017.

**Commercial revenues in Puerto Rico and Colombia** grew at faster rates, rising approximately 23% and 57%, respectively. In Puerto Rico, in addition to the recovery related to the hurricane, the increase in commercial revenues was due to the opening of 8 new commercial spaces last year. Also last year, we opened 32 new commercial spaces at our airports in Colombia, which contributed to the strong increase in commercial revenues there, in addition to the higher traffic levels that I discussed earlier.

**On a per passenger basis**, Commercial Revenues were relatively flat, at 96 pesos per passenger, although in Mexico commercial revenues per passenger rose nearly 8% to 112 pesos. At Terminal 4 in Cancun, we have been working to better understand passenger needs so we can calibrate our commercial activities there, in order to optimize per passenger revenues. At Terminal 2, where the passenger mix had shifted, we continue working with concessionaires to adjust the service offering. We are in the process of changing the concepts for some units that are not performing optimally following the shift. We expect to finalize the implementation of these changes over the next three quarters.

**Commercial revenues per passenger in Puerto Rico decreased 6%** to 122 pesos, but we consider this a robust level. Our commercial sales on the island are still benefiting from reconstruction efforts. We delivered growth across most commercial revenue categories, particularly ground transportation and car rentals.

**In Colombia, commercial revenues per passenger remained relatively flat year-on-year at 35 pesos.** At Rio Negro Airport, Colombia's second-largest, we were not able to re-establish duty-free due to delays in construction and legal permits by the concessionaire. We expect this to happen during the first quarter 2019.

**Moving on to profitability for the fourth quarter, Consolidated EBITDA** increased 27% to 2.5 billion pesos. Contributing to the increase were Mexico rose over 16%; a strong recovery in Puerto Rico, where EBITDA increased 78% on lower costs related to the hurricane; and a 44% increase in Colombia on higher passenger traffic and commercial revenues.

**Consolidated Adjusted EBITDA margin**, which excludes the effect of IFRIC 12, expanded to 68.3% from 63.6% in the prior year's quarter.

**Regionally, Adjusted EBITDA Margin in Mexico** increased 98 basis points to 73%, mainly driven by the mid-teen increases in aeronautical and commercial revenues, which more than offset the impact of higher administrative expenses, together with the increase in technical assistance and concession fees resulting from improved performance.

**In Puerto Rico**, Adjusted EBITDA Margin expanded to 84% from 53% in 4Q17. This was mainly due to a 35% decline in cost of services, which resulted from a one-time reduction in the maintenance provision by 99 million and a one-time Ps.135 million insurance claim recovery in connection with Hurricane Maria during 4Q18. Comparisons also benefitted from a Ps.22 million extraordinary expense in 4Q17 as a result of the hurricane.

Excluding these extraordinary items in both quarters, Adjusted EBITDA Margin in Puerto Rico would have decrease to 51.7% in 4Q18 from 57.2% in 4Q17, mainly because of Ps.29 million pesos increase in the concession fee starting 2018.

Finally, Adjusted EBITDA Margin in **Colombia** declined to almost 18% from 37% in the same quarter of 2017, impacted mainly due to higher cost of services. This includes an important increase in the provision for future replacement of fixed assets, per IFRIC 12 by 199 million pesos higher costs from new areas opened at Rio Negro and Monteria airports and concession fees related to the increase in revenues.

ASUR's Majority Net Income for the fourth quarter of 2018 declined nearly 36% to 804 million pesos versus 2.3 billion pesos in the prior year's quarter, when we recorded a 1.4 billion pesos valuation gain resulting from our investment in Aerostar.

**Turning to ASUR's Balance Sheet**, we finished the year with a Net Debt to Last Twelve Months EBITDA ratio of 1.1 times, down sequentially from 1.2 times at the end of September.

Of the 267 million pesos in capital investments that we made during the fourth quarter, 120 million pesos were invested in modernizing ASUR's airports in Mexico, under master development plans. Most of these funds were for the completion of Terminal 4 in Cancun. Another 126 million pesos was invested in reconstructing LMM Airport in Puerto Rico, in addition to continued maintenance reconstruction of a taxiway and completion of a cargo building, while 21 million pesos was invested in Colombia to complete mandatory capex related to a cargo area at Rio Negro Airport. For all of 2018, Capex totaled 1.6 billion pesos.

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

**Operator:**

Just as another reminder to the audience, that is star, one if you have any questions. We would ask that you limit yourself to one question and one follow-up, and then re-enter the queue for anything further. Once again, star, one at this time for any questions.

First from Morgan Stanley, we have Josh Milberg.

**Joshua Milberg:**

Good morning, everyone. Good morning, Adolfo, thanks very much for the call. Two questions on my side; the first one is just on the profitability of your Colombia operation. Both factoring out the effect of the 200 million peso maintenance provision that you highlighted, and also another 45 million related to the decline in the provision for uncollectable accounts. We ended up coming up with a 52% recurring EBITDA margin for the operation, and I just wanted to ask you if that 52% level is reasonably representative of what could be seen as a normalized profitability level of the operation, now that traffic in the country has bounced back?

**Adolfo Castro Rivas:**

Hi, Josh, good morning. Well, basically, in the case of Colombia, as you have mentioned, we are getting normal operations now. Once we have reported the result of (inaudible) which was extremely important for last year's results.

The other thing that I will point out is that we of course expect provision revenues to start—for passengers to start increasing. If the traffic continues with the same kind of growth we are seeing over the last couple of months, of course, as you are mentioning, we will have a better EBITDA margin.

**Joshua Milberg:**

That's great, Adolfo. Did it make sense, as we did in our calculations, to treat the \$45 million uncollectable provision as something that's non-recurring, or?

**Adolfo Castro Rivas:**

Yes, that is a non-recurring thing, yes.

**Joshua Milberg:**

Can you explain a little bit further what happened with that amount, what was behind the reduction?

**Adolfo Castro Rivas:**

Yes, of course. This was coming from a trial that we had against the construction company there in Colombia. Finally, we obtained a positive ruling against this construction company, and that is why we cancelled the provision we made in the past.

**Joshua Milberg:**

Okay, understood. Then, Adolfo, my second question just relates to international traffic, which was a little light in January. Just hoping you could comment on what was behind the weakness at the start of the year, and maybe what we could reasonably expect for international traffic growth in Mexico for this year.

Related to that, last quarter I'd asked you about the seaweed situation and you would expect—that wasn't something that was significantly affecting demand. If you could just comment if you still are of the view that that is not sort of a relevant factor, and maybe just touch on, what is the status of the seaweed situation today? Thank you.

**Adolfo Castro Rivas:**

Okay, too many questions in one, but basically, the reduction we have seen in passenger traffic in the region of Mexico and the case of Cancun airport for the first month of the year. These are results of a decline, basically, in the U.S. traffic, as I mentioned during my remarks. Remember that the first quarter for us is the most important. The first quarter represents 26% of the traffic in Mexico, while the fourth quarter is around 24%. It's a little bit more important. Of course, we will have to see what will occur during the first quarter because the passenger traffic to and from the United States, basically, is declining.

I will not say that this is just because of seaweed; this is declining in the whole country of Mexico. I would say, with the numbers I have, traffic to and from the United States to Mexico is declining around 5.6%, and you can see negative figures also in the other tourist destinations in comparison with Cancun. It is not just because of the seaweed, as I mentioned to you before. It is because of a different reason.

What to expect for the future; I do not think—I do not believe that this trend will change. That is why I am saying in my initial remarks that I believe traffic to and from the United States will remain weak for the year.

**Joshua Milberg:**

That's great, Adolfo. Thank you very much.

**Adolfo Castro Rivas:**

You're welcome.

**Operator:**

Moving on, from Credit Suisse, we have Alejandro Zamacona.

**Alejandro Zamacona:**

Hi, Adolfo, thanks for the call. Just a follow-up question about the international traffic. At this time, does your traffic expectations for Cancun have changed in the long-term? That's my first question.

**Adolfo Castro Rivas:**

Well, Alejandro, traffic to and from the United States is extremely important. As I mentioned during the fourth quarter, that decreases 230 basis points to 26.6%. What to see about the future is, if the other regions—so, means Latin America, Colombia—Latin America, Canada and Europe, does not grow or the growth is not enough to recuperate the traffic, or the declining traffic to and from the United States, of course we will see a negative number for the year in the case of international traffic.

Of course, as you have seen lately, also, domestic traffic has been growing really nice, so this is the other region that can compensate the decline in the U.S. traffic. That's more or less what I can say. Of course in the long-term, I believe the U.S. behavior will not be forever.

**Alejandro Zamacona:**

Okay, thank you. My second question is about the (inaudible) investigation that the Company disclosed in the third quarter. I don't know if you can provide any update on this investigation?

**Adolfo Castro Rivas:**

There is no update yet, Alejandro. They have to follow their own procedures. I believe that we will see the results of this during the second quarter this year.

**Alejandro Zamacona:**

Okay. Thank you. Thank you for the call.

**Adolfo Castro Rivas:**

You're welcome.

**Operator:**

Next up we have Natalia Zamora with Grupo Bursatil Mexicano.

**Natalia Zamora:**

Hi, good morning. Thank you for taking my question. Just a short question on my side; could you provide us with some color on what we could expect for cost of service in Colombia, and for Puerto Rico going forward? Thank you.

**Adolfo Castro Rivas:**

You said construction...

**Natalia Zamora:**

Cost of services.

**Adolfo Castro Rivas:**

Cost of service. Well, I do not expect major changes of the ones we are seeing today, of course excluding the non-recurring items. Remember that in the case of Puerto Rico, last year we had to report concession fees at a higher amount. In the case of Colombia, the changes, in terms of what we have to do to comply with (inaudible) and many other things have been done. I do not expect major changes there anymore. Of course, in the case of Puerto Rico, there were some additional cost in security that probably trigger during the second half of the year, so probably the amount in the full year comparison will be slightly higher. But apart from these, I do not see any major changes on the cost side in both regions.

**Natalia Zamora:**

Okay, great. Thank you.

**Operator:**

Next from Santander, we have Ruben Lopez.

**Ruben Lopez:**

Good morning, Adolfo, and thanks for the call. I have two questions; the first one is on cost in Mexico. We saw a deceleration in cost of services in 4Q versus previous quarters, so where did the savings come from, and whether these levels are sustainable? That's my first one.

**Adolfo Castro Rivas:**

Well, of course, you have to bear in mind the seasonality of these things. Some of these things have to do with the volume of passengers. But of course, some of these things have to do with the weather. Most of the refurbish or replacements of aprons (phon) and blah, blah, blah occur in a different season.

I believe, once again, that the level of costs that we are seeing today, once before (phon) has been completed and is in operation, to be sustainable for the future.

**Ruben Lopez:**

Okay, perfect, thanks. The second one is on M&A. Are you interested (inaudible) operate in Brazilian airports? I mean, is it an attractive opportunity that you would consider? What are your thoughts? Thank you.

**Adolfo Castro Rivas:**

For the moment, we are not seeing that opportunity. Of course, we are seeing the document and revealing if we're going to participate or not, but for the moment I can say we are not.

**Ruben Lopez:**

Okay, perfect. Thank you.

**Operator:**

The next question comes from Stephen Trent with Citi.

**Stephen Trent:**

Good morning, Adolfo, and thanks for taking my questions. I've got two for you. The first is, I was wondering if you could give us a little color on the Colombian ops as to why depreciation was a positive?

**Adolfo Castro Rivas:**

Well, remember that, last year, we consolidated Colombia from October 19. There were, basically, effects from the investment we made to that, and that is why you are seeing the depreciation in a positive situation.

**Stephen Trent:**

Got it. Is this something that you would—you think is done, or do you think we could see a continued roll-off and a positive impact into 2019?

**Adolfo Castro Rivas:**

No, I would say that is a one-time event.

**Stephen Trent:**

Great, great. Just very quick, last question, Adolfo. On the Mayan train, if you could remind us as well, maybe what is ASUR's thinking in terms of directly or indirectly participating in that project?

**Adolfo Castro Rivas:**

Yes, of course. We have said to the government that we will construct the station at the airport. Basically, what they have expressed is that their project will initiate at the airport of Cancun. We are in the process to—well, not we, but they are in the process to define what will be the prime location or where—what will be the connecting point of the train at the airport's land, to define what we will have to do to connect the passengers from the terminals we have there to the train station. Also, what we are expecting from them is their traffic total, to see what will be the size of these facilities. This facility will be necessary for, let's say, 500 passengers or 300 passengers, so we're in the process to define what will be the size of these buildings.

That's what we intend to do in the case of the train for the Cancun airport.

**Stephen Trent:**

Okay, appreciate that. I'll let someone else ask a question now. Thanks, Adolfo.

**Adolfo Castro Rivas:**

You're welcome.

**Operator:**

Next, we have Rogerio Araujo with UBS.

**Rogerio Araujo:**

Hi, Adolfo and everyone. Thanks very much for the opportunity. I have a follow-up question regarding international passengers, mainly from the U.S. Just confirming, so your expectation is a decrease, in 2019, for international passengers from U.S., and also, the consolidated international passengers. What about consolidated traffic? Should we expect it to increase, and do you have an expectation for that? That's my first question; I have a follow-up one after. Thank you.

**Adolfo Castro Rivas:**

Okay, just to be clear, yes, I do expect the U.S. traffic to represent a negative figure for the full year. What I would say is, in terms of the total international traffic, is if the other regions do not compensate these, of course we would see a negative effect. Considering also that the U.S. traffic represents a larger proportion in comparison with the other regions.

In terms of the consolidated international traffic—so that means that you are including Puerto Rico and Colombia, it's clear to me that, in the case of Puerto Rico, what we expect is the recuperation of the traffic we had before the Hurricane Maria by, let's say, August, September this year. Just to give you numbers in the case of Puerto Rico, traffic before Hurricane Maria the last 12 months was 9.4 million passengers. Today, we are at 8.4 million. That of course will represent a very positive effect in the consolidated. In the case of Colombia, what I am seeing, it's now a more normalized traffic, once we have been able to recover from the pilot strike. As I said during the initial remarks, before pilot strike, Colombia was 10.6 million passengers. For the full year 2018, we have 10.7 million, so we have exceeded the pre-strike levels.

**Rogerio Araujo:**

Sounds good. What about Mexico consolidated traffic, including both international and domestic passengers? The expectation, is that—it increases overall? Do you have kind of a level of expectations for that?

**Adolfo Castro Rivas:**

Well, I do not have a number, but of course what I expect for the full year is a positive number.

**Rogério Araujo:**

Okay, sounds perfect. My follow-up question is regarding commercial revenue per passenger in Mexico. My question is regarding U.S. passengers; do they spend much more commercial revenue at the airport, so if this mix deteriorates, can we expect a decrease in aeronautical revenue per passenger, or maybe a small increase versus previous expectations? How can this impact the commercial revenue front?

**Adolfo Castro Rivas:**

Of course you are absolutely right in the sense to say that U.S. traffic is able to buy duty-free things, which domestic traffic is not. If we, let's say, replace U.S. traffic with domestic traffic instead of—that the other regions compensate this traffic, we'll have to run faster in order to maintain the objective we always have with this increased commercial revenue per passenger. But it's clear for us that, if the passengers needs changes, as it has been for the last couple of months, it's harder for us to get the same commercial revenue per passenger.

**Rogério Araujo:**

Okay, perfect. Thanks very much for the answers, Adolfo.

**Adolfo Castro Rivas:**

You're welcome.

**Operator:**

Next, from Bank of America, we have Alan Macias.

**Alan Macias:**

Good morning and thank you for the call. Just a follow-up question on the international traffic in Mexico. Here we see other areas in the Caribbean, Jamaica and of course Puerto Rico, growing international traffic or, in the case of Puerto Rico, with the U.S. This has to do with the recovery after the hurricane, but also, are these destinations being more aggressive in terms of attracting tourists than Mexico is?

The second question is, if the Federal government does not have a priority in promoting Mexico in the U.S., has the private sector planned anything to continue the promotion of the Mexican brand, and of course, of Cancun? Thank you.

**Adolfo Castro Rivas:**

Alan, hi, good morning. You are mentioning the other Caribbean destinations, and you are mentioning also Puerto Rico. I would say of course markets are not exactly the same in the case of the U.S. traffic. In the case of—just to give you an example, in the case of Puerto Rico, the U.S. traffic basically comes from what we call VFR, visitor friends and relatives. Puerto Ricans are living in the U.S. and go back and see the family. I will not use these numbers as part of the same market.

In the case of the promotion you are mentioning, yes, a project has been cancelled in the case of Mexico. This promotion, as the government has been expressed, will have to be done by the private sector. We have been doing this for life (phon), and we will continue to support and to make efforts on this respect. We have been in talks with hotel owners and tourist operators, and they will do the same.

**Alan Macias:**

Thank you.

**Adolfo Castro Rivas:**

You're welcome.

**Operator:**

Next, we have Mauricio Arellano with HSBC.

**Mauricio Arellano:**

Good morning, Adolfo. Following up with the last two questions, I was wondering if you could share with us your first impression on the Federal government's tourism strategy and what that could mean for your different airports in Mexico? Thank you.

**Adolfo Castro Rivas:**

Of course, what we saw over the weekend in terms of the new strategy, I would say an important portion of this strategy is, or has to do with the domestic market. I would say, the international market will have, again, to try to compensate some of the passengers that we are losing from the U.S. I believe that is what they are seeing as well, so I agree in that sense, now in that front because we do not see that the U.S. traffic trend will be changing in the coming months.

**Mauricio Arellano:**

Okay, thank you.

**Adolfo Castro Rivas:**

You're welcome.

**Operator:**

Just as another reminder, folks, that is star, one for any questions.

All right, we have one more, from Andres Naeto with Signum Research.

**Andres Naeto:**

Hi everyone, good morning. I have a quick question regarding margins, because in this quarter we've seen a reduction in the net debt to 12-month EBITDA, regarding the support of (inaudible) over the third quarter. We've also seen a significant decrease in the EBITDA margin for this quarter. I don't know if just that—in the (inaudible), we could see these levels, (inaudible) normal levels for these concepts? Thank you.

**Adolfo Castro Rivas:**

Andres, well, basically, margin is a result of revenues, and cost and most of our cost is basically fixed—or an important proportion of that is fixed. The margin will depend on what will happen with the revenue side, and revenue side depends on what will happen with the passenger traffic. As I said before in the case of Puerto Rico, we expect a better passenger traffic, of course, because of the recuperation of the Hurricane Maria. In the case of Colombia, I am expecting a positive traffic as well as in Mexico, so I believe that the margin will be better in comparison of how it was last year, considering these effects.

**Andres Naeto:**

Okay, perfect. Thank you very much, Adolfo.

**Adolfo Castro Rivas:**

You're welcome, Andres.

**Operator:**

Ladies and gentlemen, as a final reminder, star, one for any questions.

Okay, and with nothing further from the audience, I'd like to turn the floor back to Mr. Castro for any additional or closing remarks.

**Adolfo Castro Rivas:**

Thank you, Greg, and thank you again everybody for joining us on our conference call results. On behalf of ASUR, we wish you a good day. Goodbye.

**Operator:**

Once again, ladies and gentlemen, that concludes our call for today. Thank you for joining. You may now disconnect.