



Grupo Aeroportuario del Sureste

1Q19 Earnings Call Transcript

Operator:

Good day, ladies and gentlemen, and welcome to ASUR's First Quarter 2019 Results Conference Call. My name is Nicole 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, Nicole and good morning, everyone. Thank you for joining our conference call to discuss ASUR's first 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 know, yesterday was ASUR's annual shareholders' meeting. I would like to start with this subject, because the board approved two dividends at the meeting. In addition to an ordinary cash dividend of 7.46 pesos per share, we are also paying holders of ASUR's Series B and BB shares an extraordinary dividend of 2.54 pesos. Both dividends will be paid in a single installment on or after June 6th.

Now a review of ASUR's first quarter performance, beginning with passenger traffic at our 16 airports. Total traffic increased 8% year-over-year to 13.8 million passengers.

In Mexico, our largest market, passenger traffic rose 2.4% and accounted for 63% of ASUR's total traffic. Domestic and International Traffic increased 4.4% and 1.0%, respectively. Please note that we had more difficult comps this quarter, as Holy Week was in April this year versus March last year. Cancun airport continued to be the primary driver of our passenger traffic, with a 4% increase in Domestic Traffic and 1% in International Traffic. Most of our other airports in Mexico also contributed to the quarter's higher traffic. As anticipated, US passenger traffic remained weak, down 500 basis points year-on-year in the first quarter, and we expect this trend to continue throughout the year.

In Puerto Rico, passenger growth remained high, due to last year's lower comps related to Hurricane Maria. Domestic Traffic there increased 23%, while International Traffic rose 30%, producing an aggregate increase of 24% year-over-year. The island's air passengers accounted for 17% of our total traffic in the first quarter.

Passenger traffic in Colombia was 20% of ASUR's Total Traffic, rising 15% during the quarter. Domestic and International Traffic increased 17% and 8%, respectively. Bear in mind that in last year's quarter Domestic Traffic was still adversely affected by a leading carrier's capacity adjustments in this country. The current quarter also reflects the continued normalizing of Domestic Traffic following the September 2017 pilots' strike in the country.

I will now review ASUR's financial results for the first quarter.

Excluding Construction Revenues, our **Consolidated Revenues** increased 9% year-over-year to 3.9 billion pesos, with Mexico accounting for 71% of revenues and Puerto Rico and Colombia accounting for 18% and 11%, respectively.

Aeronautical Revenues were up 8% year-on-year, driven by increases of 7% in Mexico, while in **Puerto Rico** and **Colombia** these revenues rose 11% and 10%, respectively.

We are also pleased to report a 13% increase in **Commercial Revenues**, reaching 1.5 billion pesos in the quarter, which was above the 8% increase in passenger traffic, as we continue to enhance our commercial offering

- In **Mexico**, which accounted for 74% of Commercial Revenues, these revenues grew 10%, mainly due to the opening of new commercial spaces and in spite of a shift in passenger mix – domestic traffic accounted for 42.7% of total traffic, compared to 41.9% in last year's quarter.

- In **Puerto Rico** and **Colombia**, our Commercial Revenues posted higher growth, up 24% and 23%, respectively. In addition to favorable traffic comps in Puerto Rico, we have opened nine new commercial spaces at LMM Airport over the last twelve months. In Colombia, we have opened 39 new commercial spaces during this period, which, in addition to the increase in passenger traffic, helped drive commercial revenues in this country.

On a per passenger basis, Commercial Revenues increased 5% to 104.6 pesos, driven by good performance across our operations:

- **Mexico**, reached a record high of 122 pesos, helped by enhanced direct advertising together with positive contributions from most business lines;
- In **Puerto Rico**, commercial revenues per passenger rose slightly to 118 pesos, also a record level for a first quarter. Here we continue to benefit from the country's reconstruction efforts, particularly with regard to ground transportation sales, which posted strong increases; these revenues were further supported by growth across all commercial segments.
- Finally, in Colombia, this revenue category increased 6% to 39 pesos, also a record level for this operation. This was mostly due to new retail stores

Moving now to ASUR's profitability, Consolidated EBITDA increased 8% year-over-year to 2.7 billion pesos, with the margin expanding to 65% from 63% in the prior year's quarter. Our EBITDA rose 7% in **Mexico** and 35% in **Puerto Rico**, which continued to benefit from higher revenue comps and a 41 million peso insurance claim recovery related to Hurricane Maria. In **Colombia**, our EBITDA decreased 13%. This was primarily due to a 76% increase in Cost of Services, mostly a 37 million peso expense related to early termination of an agreement with a concessionaire at Rio Negro Airport.

ASUR's Consolidated Adjusted EBITDA margin, which excludes the effect of IFRC 12, contracted 59 basis points to 67.5%

Mexico's Adjusted EBITDA margin decreased 57 basis points to 73.9%, mainly a result of a 13% increase in Cost of Services due to a 58% increase in the cost of energy per kilowatt/hour, which was higher than the 31.9% increase during the fourth quarter of 2018.

In **Puerto Rico**, our Adjusted EBITDA Margin increased 825 basis points to 57.6%, due to slower cost increases and the insurance recovery I just mentioned.

Colombia's Adjusted EBITDA Margin contracted 130 basis points to 43.9%, due mainly to the higher Cost of Services, primarily the fee for terminating the concessionaire agreement.

ASUR's first quarter **Majority Net Income** increased 1.0%.

Moving on to the Balance Sheet, Total Debt decreased 4%, partly the result of paying down a portion of the US dollar denominated debt of our Puerto Rico subsidiary. At the end of the quarter, the ratio of Net Debt to Last Twelve Months EBITDA improved sequentially to 0.9x. Cash and cash equivalents rose 28% to 5.9 billion pesos.

Capital Investments during the quarter totaled 270 million pesos, compared to 600 million pesos in last year's quarter. Of this amount, 149 million pesos was allocated to modernizing ASUR's airports in Mexico under our Master Development Plan in the country. In Puerto Rico, we invested 121 million pesos to modernize LMM Airport.

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

Operator:

Thank you. Again to the audience, it is star, and 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. Please limit yourself to one question and one follow-up question.

Our first question comes from Alan Macias, Bank of America.

Alan Macias:

Hi. Good morning, Adolfo. Thank you for the call. Just one question on—are there any opportunities, in order to lower cost and expenses, especially in Mexico and Colombia? What are your expectations for Adjusted EBITDA margins for this year, if you can share that? Thank you.

Adolfo Castro Rivas:

Hi, Alan. Good morning. Well, basically, in the case of Mexico, what we're seeing is a very strong increase in the cost of kilowatt hour. We are, as we speak, preparing some additional initiatives to reduce

the consumption, and we're expecting that the solar panels we have hired at the end of 2015 will be in place and in operation during the third quarter this year, and that will help us to reduce the cost of energy which is what it's burning today.

In the case of Colombia, the payment we have made for the parking lot in Rio Negro is a one-time event. Also, it's important to mention the major maintenance provision of \$6.6 million. That will be there from now on, and additionally, it was \$8 million from a bad account from an airline that is having trouble. I believe that is just, again, a one-time event. That will improve profitability as well in the case of Colombia.

Alan Macias:

Thank you.

Operator:

Thank you. Ladies and gentlemen, you are welcome to queue up for follow-up questions. Again, that is star, and then one.

We have our next question from Alejandro Zamacona from Credit Suisse.

Alejandro Zamacona:

Hi, Adolfo, thank you for taking my questions. My first question is regarding the recent traffic deceleration. See, I want to ask if you have any comments on the recent seaweed and security issues in Cancun, and how can it affect the traffic going forward?

Adolfo Castro Rivas:

Alejandro, hi, good morning. Well, basically what we have seen in the traffic for a couple of months now is a decrease in the case of the U.S. traffic. This is not just for ASUR, it's also for the entire country, as I have mentioned. What we saw during the first quarter in comparison with the first quarter a year ago, it was a decrease of 500 basis points. What I believe is that this will continue.

We do not see (inaudible) or something to change this view for the moment. Of course, we don't know exactly what is the real reason of these. What I can say is that it's not just for Cancun; it's also for the entire country.

Alejandro Zamacona:

Okay, thank you. My second question is regarding the Oriente issue. Any updates on that side?

Adolfo Castro Rivas:

What I believe is that will not occur ever. We have presented an offer more than a year ago, and the offer was not accepted, so for us, that is completed, that is done.

Alejandro Zamacona:

Okay, very clear. Thank you so much.

Operator:

Our next question comes from Natalia Zamora with GBM.

Natalia Zamora:

Hi, good morning, thank you for taking my questions. I was wondering, could you give us some additional information as to why the parking lot concessionary, Rio Negro in Colombia, agreement was terminated early? Thank you.

Adolfo Castro Rivas:

Well, this contract was in trouble for probably more than two years. It was in the court. Also, this was generating a lack of service at these airports, due to these—basically, we finally end up paying the \$37 million I mentioned during the initial remarks, to conclude the contract and basically to take over the parking lot, and that's what we did during the first quarter. This parking lot needs a lot of investment and a lot of improvements to increase the level of service, and that's what we're going to do in the benefit of the passenger that is using the airport.

Of course, this will represent additional revenue for us, but it is important to say that one of the most important things was to complete, or to end the situation at the court and basically to improve development.

Natalia Zamora:

Okay, great, thank you. Very helpful. Just a second question if I may, what's your view on Cancun's capacity from the U.S. and other countries? I mean, what do you expect going forward for airlines regarding capacity in this airport?

Adolfo Castro Rivas:

Well, in the case of Cancun, after the opening of Terminal 4, we do not have any short-term problems in terms of capacity, but it's also important to say that, during the current MDP there is a project there to expand or to make the first expansion of Terminal 4. We will be adding, additionally, to what it has today, six aircraft stands. We believe this will be now for some years.

Natalia Zamora:

Great, thank you. Very helpful.

Operator:

We'll take our next question from Ruben Lopez with Santander.

Ruben Lopez:

Hi, good morning, Adolfo. Thanks for the call. My question is on international traffic in Mexico. Of course it was weak in 1Q, but actually international traffic in Mexico turned from negative in January to positive in March, despite having an erratic calendar effect in March. I was wondering whether this improvement sequentially is coming from U.S. passengers, or is this more a matter of other regions offsetting weak traffic from the U.S.? That's my question. Thanks.

Adolfo Castro Rivas:

Well, thank you for your question, because you are absolutely right. March just was, in my opinion, a good month, given that we saw low numbers due to the Holy Week. We can say that this was, at the end, not as bad as we saw in January and February. As I mentioned, the most negative effect we had for the quarter is the U.S. traffic. The other regions are growing and are growing well. I would say, probably, in the case of Europe, more than what we originally expected.

Going forward, I really don't know what will occur, and if we will be able to see the end of these negative trends from the U.S., let's say at the end of this year.

Ruben Lopez:

Perfect, and just a brief second one. This quarter we saw a decline of cost of services, as a percentage of revenue, from Puerto Rico. Of course, this number benefits from the improvement of traffic, but I was wondering if you can give us an idea of a normalized level, either as a percentage of revenue for cost of services per passenger? Thank you.

Adolfo Castro Rivas:

Well, I do not see any—or we do not expect anything in relation with an increase in cost of services in Puerto Rico. I believe we can maintain the level we are seeing now.

Ruben Lopez:

Perfect, thank you.

Adolfo Castro Rivas:

You're welcome.

Operator:

Thank you. Again, ladies and gentlemen, that is star, and then one if you would like to ask a question. We'll move on to Christian Landi with Scotiabank.

Christian Landi:

Hi, good morning, Adolfo. Thank you for the call. You already mentioned some of the impacts that you had in Colombia for this quarter, one-time events. I was wondering if you would be able to share what—is there like an EBITDA target that you have, an EBITDA margin target that you have, where this could be around 50% for Colombia? That's my question, thank you.

Adolfo Castro Rivas:

Hi, good morning. I do not have an EBITDA target. The target we have is to increase commercial revenues per passenger. It is also important to say that we have been waiting a lot for the opening of a new duty-free there. The duty-free has not been able to open yet because they have not yet received the approval from the government. I hope that this will come the second quarter. This will improve also our commercial activity.

But what we see is—or the objective is to increase commercial revenues to the passenger. It's not an EBITDA or an operating margin.

Christian Landi:

Thank you, very clear.

Adolfo Castro Rivas:

You're welcome.

Operator:

We have a question from Lucas Laghi with Citibank.

Lucas Laghi:

Hi, Adolfo, good morning. We have two questions. The first one, if you could give us a bit more color on the nature of the higher security costs, maybe the reason behind it. The second one, is related to the electricity costs as well, like to what extent solar panels could offset the higher electric bills? Thanks.

Adolfo Castro Rivas:

Hi, good morning. Well, in terms of security, basically it's additional elements to cover or to increase the security at the airport of Cancun. In terms of solar panels, it's not to offset the 58% I mentioned during the call, but of course it's to give us some kind of relief of these huge increases in the cost of energy we have seen for the last eight months. I don't know if you remember the call during the third quarter last year where I mentioned that the increase was 95%.

We are, as I said, we're taking measures to try to decrease the consumption in the first place, and also to try to reduce the cost of energy to lessen the cost of what we're paying per kilowatt hour. I hope that we will have some, at least, kind of relief during the fourth quarter this year.

Lucas Laghi:

Got it. Thanks a lot.

Adolfo Castro Rivas:

You're welcome.

Operator:

Again, ladies and gentlemen, that is star, and then one if you would like to ask a question.

We'll take a question from Samuel Alves with BTG Pactual.

Samuel Alves:

Thanks, good morning, Adolfo. Two quick questions here from my side. The first one, we noted deceleration in investments this time around. The question is if you expect investments to accelerate going forward this year, and, well, how much we should expect for the entire year?

A quick second one, if you have any impact from IFRS 16 on your accounting standards? Thank you.

Adolfo Castro Rivas:

Good morning. Thank you, Alves, for the questions. In terms of investments, you're absolutely right. The number we just mentioned, a hundred-and-something million for the first quarter in Mexico, is due to the process we are taking now to have the executive projects and then to make the bidding process to find the contractor, because the investments for this year—and of course with our new master development plan, is it's a very heavy one. Roughly speaking from the top of my head, it's around 2 billion pesos for the year. So yes, we will have to accelerate in the second and third and fourth quarters this year.

Samuel Alves:

Okay, thank you, and regarding IFRS 16?

Adolfo Castro Rivas:

No, we didn't have any significant impact. As a matter of fact, we just have one lease agreement which is the offices, the corporate offices in Mexico City. It's a very small one in comparison with the size of the Company. Just to say, we do not have any impact at all from this new IFRS.

Samuel Alves:

Perfect, thank you very much.

Adolfo Castro Rivas:

You're welcome.

Operator:

Once again, as a final reminder, ladies and gentlemen, that is star, and then one if you would like to ask a question at this time.

We have a question from Andres Nieto with Signum Research.

Andres Nieto:

Hi, Adolfo, good morning and thanks for the call. We have observed a huge correlation between the U.S. traffic, yearly, and the commercial revenues, yearly also. We were wondering if you think there is another segment of international passengers that will maybe improve the commercial revenues from this year? I don't know if you could give us some idea of the commercial revenues for 2019 due to the deceleration of the U.S. passenger traffic? Thank you.

Adolfo Castro Rivas:

Andres, thank you for the question. As I mentioned during the last eight to nine months, we have seen decreased, or deceleration process and finally negative numbers in the case of the U.S. traffic. Of course, the U.S. traffic is an important portion of our international revenues, and normally, on a per passenger basis, this is a very important region for us.

As I mentioned during the initial remarks, despite the passenger mix we have seen for the quarter where domestic traffic has increased I would say a couple of—almost a percentage, we have been able to manage the increase in commercial revenues per passenger in Mexico. So we are happy of the results

we have obtained during the first quarter on this particular item despite the passenger shift from U.S. to domestic.

Andres Nieto:

Okay, thank you very much. Regarding the Terminal 4 expansion in Cancun, do you have an estimate of how much will the commercial revenues will grow? Because, I remembered you told us that you expect to finish construction of—or the expansion in 2019. Am I correct?

Adolfo Castro Rivas:

Well, Terminal 4 is completed.

Andres Nieto:

Yes.

Adolfo Castro Rivas:

It's now—it's been official since the end of 2017, but of course, these buildings have been designed to have additional expansions. The first one will be the one that I mentioned, it was from two to three years from now. This building today, roughly speaking, can manage around 9 million to 10 million passengers. The first expansion will be to have another 4 million passengers, but this building has been designed originally to manage 25 million passengers. We will see many further expansions before we can see Terminal 5 in the case of Cancun airport.

Andres Nieto:

Okay, perfect. Thank you very much.

Adolfo Castro Rivas:

You're welcome.

Operator:

Okay, and that does conclude today's question-and-answer portion of today's conference. I would like to turn it back over to Mr. Castro for closing remarks.

Adolfo Castro Rivas:

Thank you, Nicole, and thank you again everybody for joining us for our first quarter results conference call. On behalf of everyone at ASUR, we wish you a good day.

Operator:

Ladies and gentlemen, that concludes ASUR's First Quarter 2019 Results Conference Call. We would like to thank you again for your participation. You may now disconnect.