



**Grupo Aeroportuario del Sureste  
2Q19 Earnings Call Transcript**

**Operator:**

Good day, ladies and gentlemen, and welcome to ASUR's Second Quarter 2019 Results Conference Call. My name is Christian, 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, Christian, and good morning, everyone. Thank you for joining our conference call to discuss ASUR's second 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 I normally do, I will begin the review of our quarterly performance** with changes in passenger traffic at ASUR's 16 airports. Total Traffic increased 7% year-over-year to 14 million passengers.

**In Mexico**, ASUR's largest market, our passenger traffic rose nearly 5%, accounting for 62% of total traffic, with Domestic Traffic up just over 9%, while International Traffic growth remained subdued up 1%. Year-over-year growth in our Domestic Traffic partly benefitted from Holy Week in Mexico, which this year fell in April versus March last year.

US traffic remained weak, declining 285 basis points year-on-year in the quarter and this trend is expected to continue for the rest of the year. This is something we are seeing across Mexico, not just Cancun. Traffic coming from other regions is growing well, with some regions like Europe up 7.3% performing above what we expected.

**In Puerto Rico**, our total passenger traffic grew 6%, while domestic and international traffic increased 5.5% and just over 11%, respectively. International Traffic remained high, as last year's traffic was still impacted by the aftermath Hurricane Maria in September of 2017. The island's air passengers accounted for 17% of our total traffic in the first quarter.

**Passenger traffic in Colombia** accounted for 22% of ASUR's Total Traffic in the second quarter, up from 15% in 2Q18. Domestic Traffic increased just over 14%, while International Traffic rose nearly 19%.

**Now I will review ASUR's second quarter financial results.**

**Excluding Construction Revenues, ASUR's Consolidated Revenues** increased 7% year-over-year to 3.9 billion pesos. Mexico accounted for 70% of these revenues, while Puerto Rico contributed 18% and Colombia 12%.

**Aeronautical Revenues** were up 7% year-on-year, with an increase of nearly 8% in Mexico, and growth of 2% in **Puerto Rico** and nearly 10% in **Colombia**, both on strong traffic gains.

**Commercial Revenues** mirrored traffic growth, increasing 7% to 1.4 billion pesos in the second quarter, and supported by enhancements to our commercial offering.

- In **Mexico**, which represented 73% of ASUR's Commercial Revenues, these revenues grew 4.5%, mostly due to the opening of additional commercial spaces. Further, this growth came despite the 200 basis points shift in our passenger mix, with Domestic Traffic accounting for 49% of Total Traffic, compared to 47% in last year's quarter.
- In **Puerto Rico** and **Colombia**, our Commercial Revenues grew 11% and 21%, respectively. In addition to the favorable traffic comps in Puerto Rico, we have opened 12 new commercial spaces at LMM Airport during the last twelve months. In Colombia, we have opened 31 new commercial spaces during this period which, in addition to the 15% increase in passenger traffic, drove commercial revenues there.

**Our Per Passenger Commercial Revenues** were flat at 99.7 pesos.

- In **Mexico**, Commercial Revenues Per Passenger remained practically unchanged at 115.4 pesos affected by the 200 basis points shift in passenger mix to domestic traffic as I just noted.
- In **Puerto Rico**, commercial revenues per passenger rose 4% to 114.4 pesos, as we continue to see strong growth in ground transportation and advertising revenues.

Commercial revenues per passenger declined 0.1% in Mexico and increased 4.2% in Puerto Rico and 5.2% in Colombia.

- **And in Colombia**, this revenue category increased 5% to a record of 40.6 pesos as we continue to drive commercial revenue growth across these airports. This was mostly due to the 31 new retail spaces opened over the last 12 months. Strong revenue growth from the parking lot operation, which we took over last quarter, is also contributing to the good performance in Colombia. Duty-free operations - the approval finally came last week, so the store should be open very soon.

**Regarding ASUR's profitability in the second quarter**, Consolidated EBITDA increased 16% year-over-year to 2.7 billion pesos, with our margin expanding 675 basis points to 67.5%. Our EBITDA increased 7% in **Mexico** and 60% in **Puerto Rico**, which benefited again from higher revenues as well as a 163 million pesos insurance claim recovery related to Hurricane Maria. In **Colombia**, our EBITDA increased 29%, mostly due to the strong increases in passenger traffic and commercial revenues. On a comparable basis, and excluding the one-time insurance recovery gain, consolidated EBITDA would have increased just over 9% year-on-year and nearly 12% in Puerto Rico.

**ASUR's Consolidated Adjusted EBITDA margin**, which excludes the effect of IFRIC 12, increased 540 basis points year-on-year to 69.5%. Comparable consolidated EBITDA would have increased 130 basis points to 65.4%.

**Mexico's** Adjusted EBITDA margin was slightly down 5 basis points to 71.4%, mainly reflecting a 6% increase in operating costs and expenses. Energy costs continue to rise in Mexico for the quarter. The

cost per kilowatt-hour was 24% more in comparison with 2Q18 and better than the 52% reported in the previous quarter.

In **Puerto Rico**, our Adjusted EBITDA Margin increased to 73.3% from 48.2% in 2Q18, mostly due to the insurance recovery that I had noted. Comparable Adjusted EBITDA margin in Puerto Rico would have increased 310 basis points to 51.3%.

**Colombia's** Adjusted EBITDA Margin expanded 67 basis points to 52.8%, on lower operating costs and expenses, which decreased nearly 10%, as well as the higher revenues.

**Moving to our bottom line**, ASUR's second quarter **Majority Net Income** increased 31.3% to 1.4 billion pesos.

**Moving on to the Balance Sheet, Total Debt** was down 2.4% to 14.1 billion pesos. At the end of the second quarter, the ratio of Net Debt to Last Twelve Months EBITDA was sequentially flat at 0.9 times. Cash and cash equivalents increased 6% year over year to 4.8 billion pesos. This quarter we also paid ordinary and extraordinary cash dividends totaling 10 pesos per share, equivalent to 3 billion pesos.

**Our Capital Investments** during the second quarter totaled 171 million pesos. Of this amount, 54 million pesos was for the modernization of ASUR's Mexican airports, under our Master Development Plan for the country. In Puerto Rico, we invested 58 million pesos during the quarter, related to major maintenance at LMM Airport. A similar amount was also spent by Airplan, our wholly owned subsidiary in Colombia for the (inaudible) projects.

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

**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 take our first question from Lucas Laghi from Citibank. Please go ahead. Your line is open.

**Lucas Laghi:**

Hi Adolfo. Thanks for taking my questions. I'd like if you would have any ball park estimate regarding depreciation, amortization without the accounting change for Colombia. Second question, if you have anything, an indication of advanced booking in either Quintana Roo or San Juan, which would indicate some traffic flow impact from sargassum or Puerto Rico political tension, or maybe other factors? Thanks.

**Adolfo Castro Rivas:**

Good morning Lucas. Well, as you have mentioned, we have changed our way to depreciate or amortize the concession in the case of Colombia. I do not have right now what will be the difference between the procedure. In the case of your question about the traffic or the effect in the traffic because of sargassum, and in the case of the situation today in Puerto Rico, again, I do not have any number to provide you.

**Lucas Laghi:**

Okay. But at least some indication on another front about international traffic flow, I don't know, maybe some impact that you are already seeing.

**Adolfo Castro Rivas:**

Well, as I mentioned during my remarks, the problem we are seeing in the case of Mexico is the international traffic, and these are basically due to the traffic to and from the United States, and as I

already mentioned, I believe this trend will continue for the rest of the year, and is not just for the case of Cancun, it's also for the case of the entire country.

**Lucas Laghi:**

Okay. Thanks Adolfo.

**Operator:**

Thank you. We will now take our next question from Alan Macias from Bank of America. Please go ahead.

Once again, caller, your line is open. Please ensure the mute function is switched off.

**Alan Macias:**

Hi, good morning Adolfo. Thank you for the call. Just one question on traffic in Colombia. It remains strong. Can you give us any insight for the traffic drivers in Colombia? Thank you.

**Adolfo Castro Rivas:**

Hi Alan. Good morning. Basically what we are seeing is of course better traffic because of the current economic condition. Also, we are seeing some kind of effect because of congestion in the case of Bogota airports, so some of the operations have been diverted to Medellín. Finally, in the case of new routes we have opened with them, that is the case of one direct flight, daily direct flight from Mexico City to Medellín and also from Cancun to Medellín.

**Alan Macias:**

Thank you.

**Operator:**

Thank you. We will now take our next question from Alejandro Zamacona from Credit Suisse. Please go ahead. Your line is open.

**Alejandro Zamacona:**

Hi Adolfo. Thank you for the call. Just one question from our side. We understand that—the question is regarding capex. We understand that the commitment from the MDP for 2019 was 2.1 billion pesos, and during the first half of 2019 we saw investments in Mexico by only 200 million pesos. The question would be, what can we expect for the following quarters and if there is any specific reason for the significant difference?

**Adolfo Castro Rivas:**

Hi, good morning Alejandro. Thank you for the comment. As you mentioned, the commitment we have for the MDP for this year is nearly 2 billion pesos, and we have to comply with that commitment and we expect to comply with that. Why you are seeing a huge difference in terms of the first half of the year? That has to do with the normal process we have to follow in the first year of the five-year period, which is to hire the people to make the (inaudible) projects, then to proceed with the billing process, to get a contractor, then to sign the contract and then they can start constructing. So, you will see a speed up in the process during the second half of the year in order that we can comply with the 2 billion pesos process this year.

**Alejandro Zamacona:**

Okay, thank you Adolfo.

**Adolfo Castro Rivas:**

You're welcome.

**Operator:**

As a reminder, to the participants, it's star, one if you wish to ask a question.

We will now take our next question from Mauricio Martinez from GBM. Please go ahead. Your line is open.

**Mauricio Martinez:**

Good morning Adolfo. Thank you for taking my question. My question is on the Puerto Rico fund about the insurance claims. How much do you expect to recover from that insurance or if this has been fully recovered already? That would be my first question.

**Adolfo Castro Rivas:**

Yes. Mauricio, I do not have the exact amount that has been approved by the insurance company. From the top of my head, probably it could be close to 40 million dollars, 42 million dollars. A portion of that has been paid last year and a portion is what you have seen during the report, a weak quarter. Of course, these amounts will be paid once we are also accounting in in the construction or the re-construction process of the things that were done.

**Mauricio Martinez:**

Great. Thank you. Also, on Colombia, maybe you can give us an update about the commercial, if there is any new commercial spaces to be opened this year, and if there is any change in the negotiation with the previous manager of your parking lot in in Rionegro.

**Adolfo Castro Rivas:**

Well, in the case of your second question, the parking lot in Rionegro, we are operating directly that space as from the first quarter this year. The first question you raised, what we expect for the coming third quarter will be—the opening of additional food and beverage spaces, and as I mentioned, finally the operation of the Duty Free store at Rionegro.

**Mauricio Martinez:**

Great. Thank you very much Adolfo.

**Adolfo Castro Rivas:**

You're welcome Mauricio.

**Operator:**

Thank you. We will now take our next question from Rodolfo Ramos from Bradesco BBI. Please go ahead. Your line is open.

**Rodolfo Ramos:**

Thank you. Good morning Adolfo. Just a quick question from our side. We saw cost of services decline in Puerto Rico and Colombia, mainly by these changes in your provision levels. Can you give us an indication of what to expect for this year on a more normalized level, perhaps on growth or an absolute level? Thanks.

**Adolfo Castro Rivas:**

Well, Rodolfo, what I see is that the current level is the one that is normalized, so this year that you saw one-off things in previous quarters, in the case of Colombia, additional expenses from some legal fees or something like that. So, the way that I see it is that this quarter is a normalized level. Of course, excluding—I'm talking about in terms of the amount, not in terms of the comparison with the previous quarter.

**Rodolfo Ramos:**

Okay. Thank you Adolfo.

**Adolfo Castro Rivas:**

You're welcome.

**Operator:**

Thank you. Once again, ladies and gentlemen, it's star, one if you wish to ask a question.

We will now take our next question from Jorge Lourencao from Morgan Stanley. Please go ahead.

**Josh Milberg:**

Good morning Adolfo. This is actually Josh Milberg from Morgan Stanley. My first question is on your domestic traffic in Mexico. It's been pretty resilient despite the capacity constraint in the Mexico City Airport, and I just wanted to ask if you could provide some updated perspective on how much those constraints could eventually limit your domestic growth in the next several years. That's my first question.

**Adolfo Castro Rivas:**

Well Josh, you know Mexico City Airport represents around 50-something percent of our domestic traffic. As you have mentioned, this airport is congested (inaudible) for the future. The first part we have is Toluca Airport. Toluca Airport last year in round figures, had close to 700,000 passengers a year. It has, in my opinion, a capacity of around 9 million passengers a year without any investment. So, that is what we have for the future before the new project is in the equation. As of today, the new project should be Santa Lucia because of the calculation of the new Mexico City Airport. What the government is saying is that Santa Lucia should be in operation '22, maybe '23. So, from now until '23 or up to that moment, the only airport we have is Toluca Airport with these additional 9 million capacity. That's what I can share with you.

**Josh Milberg:**

Okay. Two related questions. I mean, with respect to Santa Lucia, have you seen some meaningful evolution of that project in the last number of months? And then, with respect to Toluca, I mean, have you seen airlines in Mexico sort of moving to embrace it as a solution for the Mexico City capacity constraint?

**Adolfo Castro Rivas:**

In the case of Santa Lucia, I am fully aware that the current government is working for the project - so I have seen some people from their side that have been working on overseeing this project. In the case of Toluca, unfortunately, what I see right now is that the airline does not want to fly from there, so they do not want to see the amount of passengers for the spaces they're using that. But of course, going forward in the future if they cannot grow in Mexico City, of course, at a certain moment they will have to start flying more from Toluca because that is the only way to accommodate the growth for the metropolitan area in Mexico City.

**Josh Milberg:**

Okay, thank you very much.

**Adolfo Castro Rivas:**

You're welcome.

**Operator:**

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

**Adolfo Castro Rivas:**

Thank you, Christian, and thank you again everybody for participating in our second quarter results call today. On behalf of everyone ASUR, we wish you a good day. Good-bye.

**Operator:**

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