



**Grupo Aeroportuario del Sureste
3Q19 Earnings Call Transcript**

Operator:

Good day, ladies and gentlemen, and welcome to ASUR's Third Quarter 2019 Results Conference Call. My name is John 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, John, and good morning, everybody. Thank you for joining our conference call to discuss ASUR's third 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.

Overall, our solid, consistent momentum continued into the third quarter and we are pleased with our results. We continue to invest in the business to enhance the customer experience as they pass through our airports. We are balancing our investments to both drive results in the short term and position our business for sustained long-term performance. During the quarter, total revenue increased by 11.5% supported by a strong growth in Colombia and to a lesser extent in Puerto Rico, along with a steady performance in Mexico.

Moving to a discussion about traffic. Total traffic increased 4.1% year-over-year reaching 14 million passengers. Performance by market, however was mixed.

Starting with **Mexico**, our largest market, which accounted for 63% of total traffic in the quarter. Passenger traffic was relatively flat year-on-year. Domestic Traffic was up nearly 3% offsetting the 2.5% decline in international traffic. The decline in the international traffic was mainly due to continued weak US traffic, which was down by 8.0% year-on-year in the quarter. As mentioned in prior calls, we expect this trend to continue for the remainder of the year. By contrast, we are seeing sustained positive trends from other regions. For example, traffic from Europe and South America, up 4.0% and 9.5%, respectively.

Passenger traffic In Puerto Rico, which accounted for 18% of total traffic, increased nearly 6% year-on-year. Domestic traffic up over 7% more than offsetting a 5% decline in international traffic. We continue to see a recovery in domestic air travel in Puerto Rico. After 24 months as from the hurricane María hit the Island we have almost recovered pre-hurricane traffic level.

Finally, Colombia was the strongest performing market - up 14% year-on-year, and accounting for 24% of ASUR's total traffic in the quarter. Domestic Traffic increased nearly 16%, while international traffic growth accelerated to 21%. This good performance was mainly driven by Medellin international airport, where we added six new routes in the quarter, in addition to the two new direct flights to Mexico City and Cancun added in the previous quarter. Medellin airport is also benefitting from flights being diverted from the highly congested Bogota airport. Our five other airports in Colombia also posted solid traffic growth figures.

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

Consolidated Revenues Ex-Construction increased nearly 8% year-on-year to 3.9 billion pesos. Mexico accounted for 64% of revenues, Puerto nearly 20% and Colombia 12%. Colombia posted the strongest top line growth – up 20%, followed by Puerto Rico up 12% and Mexico 4.6%.

Aeronautical Revenues were up 6% year-on-year, with an increase of nearly 4% in Mexico. Aeronautical revenues in **Puerto Rico** were up 6% while Colombia reported a 14% gain driven by strong traffic growth.

Commercial Revenues posted a strong performance, up 12% year-on-year to 1.4 billion pesos as we continue to drive improvements across our commercial offerings. Importantly, this was achieved despite low-single digits total passenger growth. On a per passenger basis, commercial revenues were up 7% year-on-year reaching 99.2 pesos.

Now taking a deeper look at our commercial revenue performance by region:

- **Starting with Mexico** which represented 69% of ASUR's Commercial Revenues. Despite weak traffic growth, we delivered a 6% increase in commercial revenues which also expanded by a similar amount on a per passenger basis to 114.3 pesos. The opening of seven new commercial spaces over the past 12 months contributed to this performance. Note this was also achieved despite the 140 basis points mix-shift to domestic traffic experienced in the quarter. Note domestic traffic accounted to 55% of total traffic compared to 53.6% in the same quarter last year.
- **Next, looking at Puerto Rico** which posted a nearly 22% increase in commercial revenues. In addition to solid traffic growth, this good performance reflects the opening of 13 new commercial spaces over the last twelve months and a good performance across most commercial categories. In particular, we saw robust growth in advertising, car rental and retail revenues. On a per passenger basis, commercial revenues were up nearly 15% reaching 124.2 pesos. This was mainly of a better performance from the new advertisement concessionaire partially offset by a small decrease in parking.
- Finally, Colombia posted a strong performance with commercial revenues up an impressive 34% and 21% on a per passenger basis. This good performance reflects the 20 commercial stores that we have opened over the past 12 months. Additionally, we

saw a much stronger revenue growth across most business lines, particularly parking, car rentals and retail operations, which more than doubled. In terms of the Duty-Free operations, we began operations in September, so revenue resulting from the full operation will be reflected in our next earnings releases.

Consolidated EBITDA increased 9% year-on-year to 2.5 billion pesos in the quarter. Adjusted EBITDA margin, ex-IFRIC12, expanded 60 basis points year over year reaching 64% in the quarter.

By region, starting with Mexico our largest country of operations. EBITDA was up by 5% year-on-year and the margin ex-IFRIC12 expanded 34 bps to 70.5% as we manage expenses and drive efficiencies across our airports, which helps to offset softer traffic growth.

Moving to Puerto Rico, EBITDA was up nearly 12% year-on-year, with the Adjusted EBITDA margin, ex-IFRIC12 flat at 48.7%.

Lastly, Colombia delivered a strong performance as we continue to drive solid growth in passenger traffic and commercial revenues, while efficiently managing operating costs. This was evidenced in the nearly 35% year-on-year increase in EBITDA while the margin expansion ex-IFRIC12 close to 590 basis points reaching 53.4% in the quarter.

Looking at the bottom line, we delivered a 33% year-on-year increase in **majority net income** reaching Ps.1.3 billion pesos reflecting the better EBITDA I just mentioned as well as lower interest expenses and an FX gain versus FX loss in the same period of the prior year.

Turning now to the balance sheet, we keep a healthy balance sheet with net debt down 10% year-on year to Ps.14 billion pesos. Our debt ratios remain strong, closing the quarter with a net debt to last twelve months EBITDA of 0.8 times and interest coverage of 10.3 times.

Modernizing our airport network, is key to growing our business. And, this quarter we made **capital investments** of close to 450 million pesos. Of this, nearly 340 million pesos relate to investments in connection with the Master Development Program in Mexico. In particular, the terminal expansion in Mérida. We also invested almost 60 million pesos in Puerto Rico for major maintenance to one taxiway at LMM Airport, and close to 47 million pesos to conclude the cargo expansion project at Rio Negro Airport.

Over the first nine months of the year we invested nearly 890 million pesos, of which over 540 million pesos have been allocated to the Master Development Program of our airports in Mexico and we are on track to comply with our 2 billion pesos investment commitment for 2019. As it's usual during the first year of every five-year period, we see a slower ramp up in terms of capex spend as we hire the teams, contractors, etcetera until we can move ahead and speed up with the construction process.

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

Operator:

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

We will now move to our first question from Josh Milberg of Morgan Stanley. Please go ahead, your line is now open.

Josh Milberg:

Thank you very much. Good morning, Adolfo. Thank you for the call. My first question is if you could just update us on your expectations for how your aero fee per passenger could evolve in the quarters ahead, and also by when you might fully pass through the MDP adjustment that was announced last year. We've noticed that the tariff has been—that the aero fee has been pretty stable this year.

Adolfo Castro Rivas:

Josh, hi, good morning, and thank you for your question. Well, it's important to say that, when you see the aero fee, you need to add also a portion from the non-aero fee that is also regulated too. One thing is regulated revenues and a different thing is aero fee. We publish our maximum start rate at the end of July last year, so with those, you can calculate what the regulated revenue's going to be, and then on top of this, you can add commercial revenue. Or, in other words, please exclude commercial revenues from aero and non-aero and then make the check with the maximum rate. Basically, we are working at the almost highest level of the maximum rate today, so I don't see why you have different.

Josh Milberg:

Okay, so you're saying that there really shouldn't be more upside from here. You've really sort of fully passed through now the fees, and you're pretty close to the cap.

Adolfo Castro Rivas:

Yes, absolutely.

Josh Milberg:

Oaky, that's very helpful, thanks for that explanation. Then my second question is just on the non-aero side. As you noted in your preliminary comments, you guys did a good deal better this period despite the shift in traffic to smaller airports, and also a lower relevance of international traffic. I was just going to ask if you could please talk a little more about the improvement in the home market, relative to what we saw in the second quarter. Is the story there just that there was a big ramp-up of commercial space?

Adolfo Castro Rivas:

No, it's not just because of the ramp-up of commercial space, it's also because of better performance in business lines, you can see duty-free. You can see effects or a change

during this, it's also down because of the passenger shift mix, but duty-free was a better performance. Also, in some other lines, you can see an improvement. This has resulted from the effort that we have been making with the concession.

Josh Milberg:

Okay, very helpful. Thanks again.

Operator:

We will now move onto our next question, from Alan Macias of Bank of America. Please go ahead, your line is open.

Alan Macias:

Hi, good morning, Adolfo, and thank you for the call. Just a question on commercial revenue; in Colombia and in Puerto Rico, if you can provide some color if you have additional space that you plan to open in the coming quarters? Just if you can provide color on the advertising revenues in Puerto Rico which grew strongly in the quarter, thank you.

Adolfo Castro Rivas:

Good morning, Alan. In terms of the space, the terminal space is exactly the same, so we do not have additional space in any of the three regions we are managing today. The future expansion in terminal buildings will come from Mérida airports, and the first expansion, in the case of Cancún, because of Terminal 4. But for the moment, the terminal buildings are exactly the same. In some cases, we have been able to open new additional units, as you have seen in the report.

In terms of additional units, the most important ones are today in Colombia, and then in Puerto Rico. In the future, of course we will continue trying to improve our offering to passenger traffic, and currently you will see some additional units in the future. I believe for the fourth quarter, the most important thing to look at would be the result of the duty-free in Colombia that we finally opened. I have to say, it was almost a year delayed, 10 months delayed, so let's see how these evolve during the fourth quarter and to see this work better.

Alan Macias:

Thank you.

Operator:

We will now move on to 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. My first question is a specific question for commercial revenues in Cancún. I mean, we have seen, looking at—a frequent increase in Cancún. After the Terminal 4 inauguration, what's your sense, in terms of further improvement on a passenger basis?

Adolfo Castro Rivas:

Well, Alejandro, thank you for your question. Like I said during the initial remarks, despite the shift in passenger mix, we have today 140 basis points more than what we have in the previous quarter and in the same quarter previous year, in terms of domestic versus international. International has the opportunity to buy duty-free, and also the currency exchange. At this point, we have been working very hard with our concessions to try to improve sales and to try to understand the market better due to the passenger shift.

Yes, it's true that we have been able to increase the commercial revenues per passenger, and I believe that, always, we can do better. We will continue with these efforts in the future.

Alejandro Zamacona:

Okay, and my second question, if I may, is regarding the capex plan based on the last MDP. What's the general status of the expansion's progress? Basically, the project of Mérida and the expansion in the Mérida airports?

Adolfo Castro Rivas:

The project in Mérida has initiated. Probably we had some [inaudible] days delays because there was an important event of the [inaudible, that went into the airport, so we had to wait until the event concluded to initiate the work, but the work has been initiated, and they're doing things well.

Over the next year, the most important project we have is the parallel taxiway to the second runway we have in the Cancún airport, and also the beginning of the first expansion of Terminal 4. We are right on track, as I mentioned in the initial remarks, for the \$2 billion capex for this year. Next year, it's more than \$5 billion, so it will be the highest ever for us, basically, this project.

Alejandro Zamacona:

Okay. Thank you, Adolfo.

Adolfo Castro Rivas:

You're welcome.

Operator:

We will now move onto our next question, from Alberto Valerio of UBS. Please go ahead, your line is open.

Alberto Valerio:

Hi, Adolfo, thank you for taking my question. Just one more about the commercial passenger in Cancún. We saw there was a slight deterioration in the mix in Cancún, in international passengers. However, the commercial revenue per passenger increased, and I would like to know—I know that you talked about the FX. If you have additional color to provide to us, what drove this improvement? Thank you.

Adolfo Castro Rivas:

As I said, one of the things that worked well during the quarter was the line of duty-free. This line of duty free also includes duty paid for domestic passengers. We have a store that charges taxes but basically sells the same products as in the duty free and this worked very well in the quarter for domestic traffic to try to recuperate this effect in the passenger mix, which is what we are doing. That is what I can say.

Alberto Valerio:

Thank you.

Adolfo Castro Rivas:

You're welcome.

Operator:

We will now take our next question from Marcos Barreto of Citi. Please go ahead, your line is open.

Marcos Barreto:

Hi, Adolfo, good morning. Thank you for the call, thank you for the question. Just to follow-up on the advertising revenue in Puerto Rico, (inaudible). If you can provide any color on what were the drivers, how long the advertising contract lasts, and who are the underlying customers? Thank you.

Adolfo Castro Rivas:

Okay. In the case of the advertising, we changed concessionaire during the second quarter this year. When we took over the airport almost six years ago, there was a contract that was there in place for a long-term, so this is the first time we changed concessioner in the case of advertising for the airport in Puerto Rico. For the moment, the change is just in the inside of the building; next year we will be able to change the outside. What we are seeing today in terms of the numbers that we have reported are the results of these new concessionaire inside the building. I hope that he will do well, as well in the case of the outside, and we will see that next year.

Marcos Barreto:

Okay, and thank you for the announcement. And on Colombia, EBITDA where do they expect to normalize, the growth to normalize?

Adolfo Castro Rivas:

Well, when we took over, we said it's a three-, four-year project, to extract the, let's say, low-hanging fruit of the potential of the airport. We're almost two years away from that moment, so there's a long way in front of us still.

Marcos Barreto:

Okay. Thank you very much.

Adolfo Castro Rivas:

You're welcome.

Operator:

We will now move on to our next question, from Eduardo Alvizouri. Please go ahead, your line is open.

Eduardo Alvizouri:

Hi, Adolfo, thank you for taking my question. Regarding Puerto Rico, which showed positive operating metrics, increasing non-aeronautical revenues, we noticed operating costs increased alike, not significantly. EBITDA margin was flat. Is this part of the stabilization process, or when can we expect to see profitability improvements in Puerto Rico?

Adolfo Castro Rivas:

We have seen profitability improvements in Puerto Rico for some quarters. If you exclude the decrease in terms of the passenger traffic that was hit by the Hurricane Maria, so we see the last 24 months in Puerto Rico—so if we go back to pre-hurricane levels, you can see an improvement in profitability in the sense of the following. First of all, we need to understand that there was an increase in the concession fee. Remember, it was 2.5 billion bps, now it's 5% of the revenues. Round figures, it's 2.5, today it's around \$6 million. There was another important change during these 24 months, which was an additional request from the U.S. government in terms of additional security at the airport. That's had an impact of around \$2.5 million.

If we exclude these two, we can see an improvement in the profitability, basically supported by cost control and excluding these elements, of course, the increase in the commercial revenue per passenger. Going forward, the comparables are going to be different, and you will see the result.

Eduardo Alvizouri:

Thank you.

Adolfo Castro Rivas:

You're welcome.

Eduardo Alvizouri:

Once again, ladies and gentlemen, if you wish to ask a question, please signal by pressing star, followed by one.

We will now move onto our next question, from Roberto Lampl of Alquity. Please go ahead, your line is open.

Roberto Lampl:

Good morning and thank you for taking my question. I was hoping you could compare and contrast the level of sophistication of the various retail operations that you have, Cancún versus the newer Puerto Rico and Mérida airports, and how much better you think, how much legroom there is still for the operations in Puerto Rico and Mérida to get up to par in terms of facilities and assortment and so forth?

Adolfo Castro Rivas:

In terms of this, it's an endless story because there is always shift in terms of the passenger expectations in terms of what they can find inside the airports, and this is a key element into the equation. We normally do surveys or mystery shoppers every quarter to try to understand better what the passenger wants. I have to say, this is not the same passenger we had some years ago. The improvement from time to time comes from this information. We have to take complete different kinds of passengers in Puerto Rico, Colombia, and Cancún. What we do is we work with each region differently, basically trying to provide the best in terms of product, price and service for the passenger, and also trying to reflect what they are expecting from these buildings.

Roberto Lampl:

Thank you so very much. Just a follow-up question then on that. In the research that you're conducting, do you have any data that you can share in terms of either the satisfaction scoring by the passenger that you captively have in those square meters where they're spending their money. One key metric, obviously, is the pesos per passenger, but what other measure do you have that you can share with us?

Adolfo Castro Rivas:

Well, there's a study we made, that is made by a company called ASU which is part of ACI, an organization that agglomerates 180 airports in the world. The entity that they use to measure the quality service at the airports is this one; ASU. In the case of ASU, we have very good qualifications. Cancún airport has been named several times the best in Latin America.

I remember many years ago, in the year 2012, it was the second best in the world in terms of the size of the airport. This is also what we do to try to see if the quality of the service we are providing is adequate or not. I don't remember exactly the number right now, but probably...

Roberto Lampl:

Do you know where Puerto Rico, or sorry, where Puerto Rico - Marín would rank?

Adolfo Castro Rivas:

Yes, of course. Probably, it's between 4.5, 4.6 on a scale of quality in the case of ASU.

Roberto Lampl:

Thank you very much.

Adolfo Castro Rivas:

You're welcome.

Operator:

Once again, ladies and gentlemen, if you would like to ask a question, please signal by pressing star, followed by one.

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

Adolfo Castro Rivas:

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

Operator:

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