



Grupo Aeroportuario del Sureste 1Q21 Earnings Call Transcript Script

Operator:

Good day, ladies and gentlemen, and welcome to ASUR's First Quarter 2021 Results Conference Call. My name is Christina 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 star followed by one, you want to withdraw your question at any time by please press star followed by 2. If you are using a speaker phone, please lift the handset before making a 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, sir.

Adolfo Castro, ASUR Chief Executive Officer:

Thank you, Christina and good morning, everyone. Thank you for joining our conference call to discuss ASUR's First Quarter 2021 and financial and operating results. I hope that all of you and your families are managing to stay healthy and safe.

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, including the impact from COVID-19. For an explanation of these risks, please refer to our filings with the US Securities and Exchange Commission and the Mexican Stock Exchange.

Before starting the discussion of our results for the quarter, as expected, earlier this month we concluded the extraordinary maximum tariff revision of our master development plan for our Mexican operations. The revision resulted in a reduction of around 2.65 billion Mexican pesos from the original 10.9 billion Mexican Pesos as of December 2016 committed investments for the current 5-year period ending 2023.

We also held our AGM yesterday, which among other items, shareholders approved setting aside all remaining accumulated net profits for the fiscal year 2020, as well as setting aside 5% to increase the legal reserve, to the ASUR shares repurchase reserve.

On the governance front, I wish to welcome Ms. Heliane Steden and Ms. Diana Chavez as new independent members of the Board of Directors whose nominations were approved at yesterday's shareholders' meeting.

Ms. Steden brings over 20 years of experience in the financial markets. She was managing director at Merrill Lynch and a member of its flagship New York International Office. Prior expertise includes positions at Bankers Trust and Deutsche Bank. She is also on the Board of Trustees of the University of Southern California.

Ms. Diana Chavez, brings to ASUR extensive expertise in advancing the agenda of corporate governance and sustainability. She is the Executive Director and Chairperson of the Board of CIFAL, a private sector centre promoting research for the implementation of the United Nations Sustainability Goals and initiatives in Colombia. She is also Vice-Chair of the Board of Trustees of UNITAR, the United Nations Institute for Training and Research, in Geneva.

In addition, independent director Ms. Barbara Garza Laguera, who until now, was a member of the Nominations and Compensation Committee, was appointed to Chair this committee.

With these two new Board appointments, our board is now composed of a total of 11 members, 7 of which are independent. Additionally, we have increased our female participation at the board level and our Nominations and Compensations Committee is now headed by an independent board member. These advancements underscore our commitment to further enhancing ESG. We look forward to providing more updates on this front in our 2020 sustainability report that we expect to publish within the next 30 days.

Now moving on with the travel environment across our airports, commercial travel in Colombia resumed last September, while our airports in Mexico and Puerto Rico have remained open throughout the pandemic. Traffic in the first three months of the year continued the recovery observed since last June, down 32% YoY to 5.1 million passengers, compared with drops of 50% and 70% in the fourth and third quarters of last year. By country, traffic was down 36% in Mexico, 20% in Puerto Rico and 30% in Colombia.

Domestic traffic continued to post better trends. In Mexico and Puerto Rico, domestic traffic was down YoY in the mid-to-high-teens, with traffic in Colombia declining in the high-twenties. This compares with YoY declines in international traffic of nearly 50% in Mexico and Colombia and 70% in Puerto Rico.

Looking at our monthly traffic, traffic recovery in Mexico slowed down in January and February, on the back of higher Covid cases and health alert levels established in several areas in Mexico. Traffic was also impacted by travel restrictions mainly Canada which banned travel to the US, Mexico and the Caribbean until the end of April and now extended up to June, as well as negative covid testing and self-quarantine requirements in the US for passengers returning to the country. March saw a recovery with total traffic up 11% reflecting easier comps and mainly driven by Puerto Rico and Colombia, while traffic in Mexico was relatively flat. The extraordinary result in the vaccination process in the US has been positive on these figures.

Looking ahead at travel trends, while operations with airlines across the four regions we usually work with – the US, Canada, Europe and Latin America, resumed in the fourth quarter of last year, passenger traffic remains impacted by weak demand.

In the near-term domestic traffic is expected to continue to drive the recovery, while international traffic should become more relevant in the medium-term as pent-up demand drives traffic as a critical mass of vaccinations is achieved. We expect this to be partially mitigated in Mexico by the slower recovery of the economy which has been hit hard by the pandemic.

In short, we remain optimistic about long-term global travel demand and expect traffic to return to our last twelve months record achieved in February 2020, within 10 to 18 months from now.

Now let's move on to ASUR's financial performance for the quarter. More details can be found in the press release issued yesterday after market close.

Despite this challenging environment we maintain a highly liquid and strong balance sheet that allows us to navigate the current choppy travel environment and ramp up operations when demand accelerates.

- Cash and cash equivalents at quarter-end increased 11% to 5.7 billion pesos from year-end levels. Increases in cash of over 600 million pesos in Mexico and nearly 7 million in Puerto Rico, were partially offset by 64 million pesos cash decline in Colombia.
- Debt at year-end was relatively flat from year-end 2020 levels at 13.7 billion pesos, while net debt to LTM EBITDA was 2.1 times and interest coverage was 2.9 times.
- We also benefit from low near-term principal payments – with just over 5% our total debt maturing in the next nine months of the year.
- In terms of currency exposure, 52% of ASUR's debt is denominated in US dollars and held at the Aerostar subsidiary in Puerto Rico. The remaining 29% is denominated in Mexican pesos with 19% in Colombian pesos.

Now, a brief update on **accounts receivables**, Aeromexico, Avianca Holdings and LATAM Airlines Group – that filed for Chapter 11 bankruptcy protection in the United States, continued to make regular payments. At the same time, nearly 75 million pesos in account receivables from Interjet which ceased operations mid-December were fully provisioned in 4Q20. Interjet, accounted for 5% of our revenues in 2020. Year-on-year, account receivables were down in Mexico and Colombia, but increased in the high teens in Puerto Rico.

Now moving to the P&L - Revenues, ex-construction, were down 36% year-on-year to 2.7 billion pesos, as ASUR non-aeronautical revenues declined in the mid-30s, while aeronautical revenues showed a slightly better performance declining in the high-20s. Mexico accounted for 64% of total ex-construction revenues, while Puerto Rico and Colombia represented nearly 26% and 2%, respectively. On a sequential basis, revenues ex-construction were up 11%.

Excluding **revenues from construction services**, which are deducted as costs under IFRS accounting standards, total revenues would have declined 36% YoY to Ps.2,439.8 million. Excluding revenues from construction services, Mexico accounted for 66.5% of total revenues, while Puerto Rico and Colombia represented 24.7% and 8.8%, respectively.

On a per passenger basis, commercial revenues were nearly 108 pesos, from the 116 pesos achieved in 1Q20 reflecting the sharp reduction in passenger traffic together with the reduction of the international traffic's passenger mix.

Moving down the P&L, cost reductions achieved across our operations contributed to a 21% year-on-year decline in consolidated costs.

- **In Mexico**, costs declined nearly 10% year-on-year, mainly due to lower technical and concession fees, as well as lower cost of sales from directly operated convenience stores given lower levels of activity. Savings in energy and maintenance costs also contributed to lower costs, although since October we have been operating with all our terminals at Cancun airport. Excluding a Ps.29.4 million tax refund at Merida Airport in 1Q20, costs in Mexico would have declined 13% year-on-year.

- **In Puerto Rico, costs excluding construction were down nearly 230 million pesos or 41%. A total of 187 million pesos**, equivalent to 11.2 million dollars, were **reimbursed through the US Cares Act**. A total of 9.3 million dollars remain available under the grant. We obtained savings of 26 million pesos in energy, security and maintenance costs. On a comparable basis and excluding 124 million pesos from insurance recoveries in connection with Hurricane Maria in 1Q20, costs would have declined close to 52% YoY.
- **Finally, in Colombia expenses declined nearly 15%**, largely due to lower concession fees due to the impact of the pandemic on the revenue base. Lower cost of services and also contributed to lower costs.

Continuing down the P&L, consolidated EBITDA declined 42% year-on-year to 1.3 billion pesos impacted by COVID19.

All country of operations continued to report EBITDA gains, led by Mexico with 1.1 billion pesos, 156 million pesos in Puerto Rico and 110 million pesos in Colombia.

Ex-IFRIC 12, the Adjusted EBITDA Margin, was 58.8% in 1Q21, a decline when compared to 69.9% in 1Q20. However, the margin improved from 54.6% in the fourth quarter and 44.6% in the third quarter of last year.

Moving on to capex, we made capital expenditures of nearly 360 million pesos during the quarter. Of this, over 90% was invested in Mexico, 9% in Puerto Rico, and maintenance capex Colombia. In Mexico we remain on schedule initiating the construction of the parallel taxiway to the second runway at Cancún airport and are starting the first phase of Terminal 4, while in Puerto Rico we are undertaking major maintenance repairs to runways and taxiways.

In summary, ASUR maintains a solid balance sheet and we have a solid track record of prudently managing cash and variable costs to effectively navigate the pandemic. We are also confident in the long-term recovery of our passenger base supported by our attractive airport network.

That ends my prepared remarks for today. Christina, please open the lines for questions.

Operator

Thank you. We'll take our first question from Alejandro Zamacona with Credit Suisse.

Alejandro Zamacona

Hello, Adolfo, thank you for the call. Thank you for taking my questions.

My first question is on the Cares Act in Puerto Rico. I understand that you have received most of the reimbursement in the initial amount. There are still remaining amounts for the year, if I am not incorrect, so my question here is if there is any potential for a new round of reimbursement, or if you're holding any conversations with the authorities around this topic.

Adolfo Castro

Alejandro, hi, good morning.

The original \$34.4 million is—there is a remaining balance of \$9 million as of today, and there is an additional \$10 million for the Second Act on that respect.

Alejandro Zamacona

Okay, thank you, Adolfo.

My second question, if I may, it's on the new maximum airport tariffs. Can you give any update on where you are standing right now and when can we expect new tariffs to be fully implemented?

Adolfo Castro

Well, the tariffs itself are applicable as from the first day of this year. Remember that the tariffs are for the year, not on a monthly basis, so they are in fact in place as from January 1 this year. What I believe of course is due to the increase we have been approved, we are not going to be able to reach the 100% of maximum rate this year because we cannot implement increases in our specific rate in a very—or in an immediate way.

Alejandro Zamacona

Okay, so what percentage do you believe you can reach in the year?

Adolfo Castro

That will depend on the traffic. That will depend on also the passenger mix.

Alejandro Zamacona

Okay, thank you, Adolfo.

Adolfo Castro

You're welcome.

Operator

We'll go to our next question from Alan Macias with Bank of America.

Alan Macias

Hi, good morning, Adolfo.

Just one question on dividends. Can you provide an update on dividend payments expected for this year? Thank you.

Adolfo Castro

Alan, good morning.

As you recall, in the last year shareholders assembly a dividend of 8-point-something pesos was approved, but that payment, the date of the payment was subject to Board approval as

from May 11 this year. So the Board of Directors is the one who will be saying when this dividend is going to be paid.

Alan Macias

Thank you.

Adolfo Castro

You're welcome.

Operator

We'll take our next question from Guilherme Mendes with JP Morgan.

Guilherme Mendes

Yes, thanks. Good morning, everyone. Hi, Adolfo, thanks for taking my question.

My first question is regarding Colombia and Puerto Rico. We already got the MDP renegotiation in Mexico, and if I'm not mistaken, you have already under contract some terms that will allow you to extend your contracts, given the impacts from the pandemic. Just wondering how fast this should come to be a reality, so getting a similar rebalance on both Colombia and Puerto Rico.

The second question actually is just to confirm that you mentioned that you do expect your traffic levels to be back in that 10 to 18 month period, that's it. If that's the case, if that's valid both for domestic and for international. Thank you.

Adolfo Castro

Guilherme, hi, good morning.

In the case of Colombia, we do not have to do anything for the extension of the contract, because it is adjusted automatically. Remember that, when we recuperate our regulated investment plus a return, I would say the concession is over with a minimum period of 2032 and a maximum of 2048. We have said before the pandemic situation, that our concession will be concluding in 2032, so basically the contract is adjusted automatically. In the case of Puerto Rico, there is not any change on the contract.

I don't know if this answers your question.

Guilherme Mendes

Yes, it does.

Adolfo Castro

Okay. Your second question was?

Guilherme Mendes

In terms of the traffic recovery, you mentioned in your opening remarks that you do expect traffic to be back to record levels in 10 to 18 months. I just wanted to double check if that's correct. And if that's the case, if that's valid for both domestic and international.

Adolfo Castro

Okay. Our peak for the last 12 months passenger traffic, let's say the record was achieved in February 2020, so what I'm saying is we should be reaching—we expect to reach that level 10 to 18 months from now.

Guilherme Mendes

Okay, thank you.

Adolfo Castro

You're welcome.

Operator

We'll go to our next question from Juan Ponce with Bradesco.

Juan Ponce

Hi, Adolfo, thank you for taking my question.

We recently saw the new outsourcing law that passed in the Mexican Congress. What do you think is the impact on ASUR? I mean, I understand that in-sourcing will also be prohibited, so do you think services such as security, cleaning will be qualified as specialized services? Thank you.

Adolfo Castro

Hi, good morning.

We are analyzing this situation. Of course, it has been approved at both the deputy's and senator's chamber, but it has not been published. In the case of security and cleaning, we are analyzing this.

We do not believe that this could be considered as in-sourcing, so the companies, I believe, will have to provide the services as they are providing today.

Juan Ponce

Okay, thank you very much.

Adolfo Castro

You're welcome.

Operator

We'll take our next question from Andressa Varotto from UBS.

Andressa Varotto

Hi, Adolfo, good morning. Thank you for taking my question. I have just two quick questions.

The first one is on the MDP extraordinary negotiation. We saw that you published the Capex figures for 2021 to 2023; but in 2020 we saw that ASUR invested less than it was originally expected in the previous announced MDP. So, I have this question: how was the 2020 Capex treated in the negotiation?

My second question is on the traffic. We saw a very positive rebound in March, so if you could give some color on April and also the upcoming months ahead of the high season. Thank you.

Adolfo Castro

You're welcome. The Capex postponement of 2.1 billion pesos that was approved by authorities in the third quarter last year was considered in the new figures we have presented, so I would say the numbers that you have to consider on your budget or your forecast are the ones we just published, so it is three-point-something billion pesos for this year.

In the case of the traffic, yes, we saw a nice recovery process for the case of March. Of course, remember that the pandemic situation started in mid-March last year, so a portion of that is because of the pandemic of last year. Nevertheless, I'm still optimistic in terms of what we are seeing in the successful U.S. vaccination process, so I hope that we will see the effects of this during the summer.

Andressa Varotto

Great, thank you very much.

Adolfo Castro

You're welcome.

Operator

We'll take our next question from Roberta Versiani with Citi.

Roberta Versiani

Hi, Adolfo, thanks for taking my question. Just one quick one on the MDP.

In light of this recent tariff increase, how does ASUR expect to pass along all this higher pricing to the airlines? Could it be that volume-related discounts will be given to the airlines? How does it look like for this year with the situation still being complicated? Thank you.

Adolfo Castro

Roberta, as I have mentioned, it's not easy at this moment to increase our specific rates, and that is why I believe we are not going to reach the normal levels of maximum tariff compliance

for this year. We will have to see this very carefully, and we will be adjusting our rates in the future to recuperate our maximum tariff levels compliance in 2021.

Roberta Versiani

Okay, thanks, Adolfo.

Adolfo Castro

You're welcome.

Operator

We'll go to our next question from Alan Macias with Bank of America.

Alan Macias

Thank you. Just a follow-up question on maximum tariffs.

Have you increased tariffs as of April at any of the airports? And, I guess, do you have more leeway to increase maximum tariffs for international traffic since the peso has been strong? Would that be accurate? Thank you.

Adolfo Castro

Alan, no, we have not increased our rates in April. To increase our rates, it requires a process that takes between three to four months. As I said before, again, I do not expect to reach maximum tariff compliance at 100% this year as we used to, so we believe that that will be or should be achieved in '21.

In the case of international traffic, yes, of course the rates are higher due to the additional area we have to provide to them at the airports, which is the one that is related to migration and customs. All of that is in dollars, it's true, but at the end of the day, the maximum rate is in pesos.

Alan Macias

Thank you.

Adolfo Castro

You're welcome.

Operator

We'll go to our next question from Gabriel Himelfarb with Scotiabank.

Gabriel Himelfarb

Hi, thanks for the call. Just a quick question.

Do you think there is any risk this year as the climate becomes warmer about sargassum in Cancun and near Riviera Maya? Thanks.

Adolfo Castro

Gabriel, hi, good morning.

Yes, of course we have these risks always. Sargassum is something that we cannot control and of course we cannot predict, because it's not seasonal nor cyclical. The season is starting with lower levels in comparison with the ones that we had in 2018, which was a very bad year for us. We'll have to wait and see what is the outcome.

Gabriel Himelfarb

Okay, thank you.

Adolfo Castro

You're welcome.

Operator

We'll take a follow-up question from Juan Ponce with Bradesco.

Juan Ponce

Hi, Adolfo, thank you so much for taking my question again.

I see two major airlines in Canada extended suspension of flights to Mexico and the Caribbean until May 21. Is May a big month for Canadian travelers such as in the first quarter?

Adolfo Castro

No, it is not. Unfortunately, the high season for Canadians has passed: that's due to weather conditions. I would say the additional extension from April 30, it is not very important in terms of the impact on comparison with the one that we had in the first quarter.

Juan Ponce

Perfect, thank you so much.

Adolfo Castro

You're welcome.

Operator

A follow-up from Guilherme Mendes with JP Morgan.

Guilherme Mendes

Yes, thanks, Adolfo, for the follow-up question.

The follow-up is on the non-aeronautical revenues, just how is the relationship with the commercial tenants, if we should expect any additional discounts on the airports. Thanks.

Adolfo Castro

Well, I would say, in general terms, the commercial revenues are working well. Of course, some of them have been facing trouble, probably not because of us, but because of other operations they have in some other airports where the contract is flat per square meter. In the case of us, in general terms, most of the contracts have adjusted automatically because the way that we collect from them, so I do not expect any major situation with them.

Guilherme Mendes

Okay, that's clear. Thank you.

Adolfo Castro

You're welcome.

Operator

It appears there are no questions at this time. That concludes the question-and-answer portion of today's conference. I would like to turn the call back over to Mr. Castro for closing remarks.

Adolfo Castro

Thank you, Christina.

And thank you again for participating in our first quarter results conference. On behalf of ASUR, we wish you a good day, and please stay safe. Goodbye.

Operator

Ladies and gentlemen, that concludes ASUR's First Quarter 2021 Results Conference Call. We would to thank you again for your participation.