



Grupo Aeroportuario del Sureste 2Q21 Earnings Call Transcript

P R E S E N T A T I O N

Operator:

Good day, ladies and gentlemen, and welcome to ASUR's Second Quarter 2021 Results Conference Call. My name is Sandy 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, Sandy and good morning, everyone. Thank you for joining our conference call to discuss ASUR's Second Quarter 2021 and financial and operating results. I hope that all of you and your families remain 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.

Passenger traffic trends continued to show sustained improvements across the board, with a total of almost 12 million passengers travelling through our airports during the quarter. Although this is 14% below pre-pandemic levels of 2Q19, it represents an increase of over 13 times when compared with the same quarter last year.

Puerto Rico posted the strongest recovery, with passenger traffic exceeding 2Q19 levels by 10%, driven by a high-teen increase in domestic traffic which more than offset a weaker international performance.

Domestic traffic in Mexico and Colombia also continued to show better trends, although still below pre-pandemic levels, down 12% and 30%, respectively vs 2Q19.

Encouragingly, Cancun airport practically reached the same domestic traffic levels that we posted in 2Q19.

While showing improvement on the back of the successful vaccination process in the US, recovery in international traffic continues to lag. Mexico delivered the fastest recovery with international traffic nearly 20% below the level reached in 2Q19, followed by Colombia and Puerto Rico which posted drops in the mid-20s and high 50s, respectively when compared against 2Q19.

Looking at our monthly traffic, since March, traffic has started to pick-up again, driven by the gradual rollout of the vaccination campaign in the Mexico, and further boosted by higher travel demand typical during the summer season. On the downside, traffic was negatively impacted by travel restrictions, mainly in Canada, which extended travel bans to the US and the Caribbean until the end of August. Also impacting traffic are negative covid testing and self-quarantine requirements in the US for passengers returning to the country.

Next, as we look ahead at emerging travel trends, remember that operations at the majority of the airlines serving the four regions we usually work with, namely the US, Canada, Europe and Latin America, resumed at the end of last year.

In terms of international traffic, we expect that the accelerated pace of the vaccination rollout in the US, with 57% of the population with at least one dose, will continue to translate in a gradual recovery of international traffic in our Mexican operations, particularly during the summer season in the Mayan Riviera that serves tourism travel and an improved outlook once the winter season arrives.

In the near-term, however, we expect domestic traffic to continue with the slow recovery, as countries gradually advance their vaccination campaigns, restrictions are lifted, and economies slowly recover. By contrast, we expect that the business travel will take more time to recover, which could be the case for airports like Mérida, Veracruz and Villahermosa in Mexico and Rionegro in Colombia.

We also remain cautiously optimistic about global travel demand and expect traffic to reach the twelve- month record that we achieved in February 2020, within 8 to 16 months from now.

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

Our strong balance sheet has allowed us to navigate the current choppy travel environment as well as ramp up operations as demand continues to gradually recover.

- ASUR's financial position remains strong with cash and cash equivalents of 7.8 billion pesos at quarter-end, up 51% from December 2020 levels. All countries of operations contributed to this higher cash position, reporting increases of 2.1 billion in Mexico and half a billion pesos in Puerto Rico. Colombia contributed nearly 6 million pesos in cash compared with a use of cash in the first quarter.
- We closed the quarter with total financial debt 13.7 billion, down 3% from year-end 2020 levels. Net debt to LTM EBITDA was 0.9 times while the interest coverage ratio was 5.0 times.
- Our maturity profile remains healthy with only 3% of debt maturing before the end of the year and approximately 26% next year.

With regard to **accounts receivables**, we continue to receive payments from the three airlines - Aeromexico, Avianca Holdings and LATAM Airlines Group – that filed for Chapter 11 bankruptcy protection in the United States. On a sequential basis, accounts receivables increased 26%, mainly driven by a 61% increase in Mexico reflecting revenue growth. By contrast, accounts receivables in Puerto Rico and Colombia declined 16% and 5%, respectively.

Turning to the P&L - Revenues, ex-construction, increased 324% to 3.9 billion pesos year-on-year; and were just 4% below pre-pandemic levels of 2Q19, driven by declines of nearly 5% in revenues from non-aeronautical services and of 4% from aeronautical services.

Mexico accounted for 68% of total ex-construction revenues, while Puerto Rico and Colombia represented 23% and 9%, respectively. On a sequential basis, revenues ex-construction increased a robust 43%.

On a per passenger basis, commercial revenues reached nearly 119 pesos, up from the 99 pesos posted in the same quarter of the 2019. Still distorted by the sharp reduction in passenger traffic.

Continuing down the P&L, operating expenses, ex- construction costs, increased 31% YoY, mainly driven by higher activity levels in Mexico. However, consolidated costs were down 8% when compared to 2Q19 levels, and slightly exceeded the decline in revenues in that period.

- **In Mexico**, costs were up 64% year-on-year, mostly due to higher technical assistance and concession fees on the back of higher revenues and EBITDA. Higher cost of services also contributed to this increase, mainly reflecting the reopening of Terminals 2 and 3 at Cancun Airport, which were closed in 2Q20. Compared to 2Q19, operating costs and expenses, ex-construction increased 8.2%.
- **By contrast, costs in Puerto Rico declined 4% YoY**, benefitting from the reimbursement this quarter related to the cancellation of a security contract with the municipality of Carolina, together with a reimbursement from the TSA in connection with offering security, as required by the U.S. government. Comps also benefited from cost reductions in 2Q21 as a result of a favorable FX translation impact, and from a higher provision for bad debt in 2Q20 in connection with the COVID-19 pandemic. Note that a total of US\$8.2 million remain available under the US Cares Act grant, as funds were not deployed to refund expenses this quarter.
- **Finally, expenses in Colombia, were up 29% YoY**, mostly reflecting increases in concession fees and to a lesser extent in cost of services resulting from higher traffic levels.

Consolidated EBITDA increased to 2.5 billion this quarter, from 51 million in the year ago quarter, which was fully impacted by restrictions worldwide to control the pandemic. When compared to pre-pandemic performance, EBITDA was only 3% below comparable 2Q19 levels, which excludes the non-recurring insurance recovery in that quarter.

All countries of operations reported EBITDA gains, with Mexico contributing Ps.1.8 billion, Puerto Rico over half a billion pesos and Colombia 157 million pesos.

Ex-IFRIC 12, the Adjusted EBITDA Margin improved to 65% in 2Q21, up from 6% in the first quarter of the year and 53% in 2Q19 when excluding the insurance recovery that benefitted that quarter.

With regard to capex, we invested just over 460 million pesos in the quarter, the lion share of which was allocated to Mexico, while 60 million pesos were invested in the LMM Airport in Puerto Rico.

In Mexico we remain on schedule with the expansion of the terminal building in Mérida and 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.

To summarize my remarks, ASUR maintains a solid balance sheet that is enabling us to ramp up operations as our markets recover and, longer term, we are confident in our ability to continue rebuilding our passenger base, based on the encouraging growth trends we are seeing and supported by our attractive airport network. In the meantime, we continue prudently managing cash and variable costs while travel demand remains affected by the pandemic.

On the dividend front, as previously announced, last month our Board of Directors approved a payment date of October 1, 2021 for an ordinary net cash dividend of 8.21 pesos per share that had been approved at our 2020 AGM.

Finally, before opening the call for questions, we recently published our **2020 sustainability report** which is housed on our website. We welcome you to read it and learn more about our recent progress and initiatives on the ESG front. We remain committed to further enhancing our ESG strategy and performance. Among other objectives, for our next sustainability report we intend to add the SASB framework to complement our reporting under the GRI framework.

That concludes my prepared remarks for today. Sandy, please open the lines for questions.

Operator

Our first question comes from Alejandro Zamacona at Credit Suisse.

Alejandro Zamacona

Hello Adolfo, thank you for the call. My first question is on the airport fees increase, so maybe due to the extraordinary negotiations the maximum amount of fee increased roughly 17% in real terms. We noticed that some airlines in Mexico have already updated their airport fees, some airports, but it was from—since July 16, so could you please confirm by how much airport fees are increasing and when should we expect fees to reach the maximum fees? Thank you, Adolfo.

Adolfo Castro Rivas

Alejandro, hi, good morning. Well, what are you talking about is the result of our extraordinary maximum tariff will be processed, that was approved basically at the beginning of April, so as you are mentioning, 17% was approved and of course toward the year, we're increasing our rates to be able to reach that 17% increase. But of course what I can tell you is that this year we are not going to reach the maximum compliance level, we're going to be below in comparison of our results in previous years, this due to the time it takes to increase our rates

on the first place, and second is because we received the approvals in April, as I mentioned, so what we expect is next year to be able to comply with the maximum tariff compliance.

Alejandro Zamacona

Okay, so—okay, thank you, Adolfo. My second question is on the accounts receivable. I know that you, in the remarks, you mentioned a 60% increase and—which is basically for Mexico, right? But my question here is, is this increase from 760 million pesos in the first quarter of '21 up to 1.2 billion pesos in the second quarter, it's unrelated to Aeromexico, or what can you comment about that? Thank you, Adolfo.

Adolfo Castro Rivas

I would say, in general, all the airlines are paying on time with the exception, of course, of Interjet, as I mentioned, that amount has been reset. The increase that you are seeing in Mexico is the result of an increase in the sales line, not in the lack of payment.

Alejandro Zamacona

Okay, thank you, Adolfo.

Adolfo Castro Rivas

You're welcome.

Operator

The next question comes from Guilherme Mendes at JP Morgan.

Guilherme Mendes

Hi Adolfo, good morning, and thanks for taking my question. I have two questions, actually.

The first one is on the airlines front. Is there any significant impact related to the downgrade of the Mexican Aviation Agency by the FAA; and the second question is what is the latest on the Tulum airport? Thank you.

Adolfo Castro Rivas

Hi, good morning. In terms of the downgrades, we do not see any impact and we do not expect any impact from these, because most of our passenger traffic that travels to the U.S. basically travels on a U.S. airline. As I mentioned, during last year 0.2% of our passenger traffic travels to the U.S. in a domestic airline.

In terms of Tulum airport, I do not have more details than what you have in terms of what each has been said by the president of the country, that he wants to construct a new airport in Tulum that will be operated by the army. That's all what we say, that's all what we know.

Guilherme Mendes

Okay, very clear. Thanks, Adolfo.

Adolfo Castro Rivas

You're welcome.

Operator

The next question comes from Rodolfo Ramos with Bradesco BBI.

Rodolfo Ramos

Good morning, Adolfo, thanks for taking my question. I have two questions.

The first one is on your traffic that you've seen so far. Mexico starting to go through this third wave of COVID-19 and the State of Quintana Roo was acutely impacted, and this started towards the end of June, beginning of July, so not yet captured by your traffic reports, your monthly reports, so wanted to see how have you seen this development impacting appetite for travel to Cancun.

Adolfo Castro Rivas

Well, as you are mentioning, the third wave, it's occurring. To be honest, I would say it's not the third wave in Mexico, it's the first wave in Mexico because in reality, we have been—we have not been able ever to control the pandemic like it was controlled in Europe or Asia, so I would say it's the first.

You are right - we are today at the highest ever in terms of people that got sick, unfortunately. In terms of hospitalizations and fatalities, we are below as we were before. This means that vaccines are working and working well, and I do not expect major impact or major effect as we show last year in terms of the same numbers.

It is true that restrictions can be again in force, but I do not expect those to be as strong as they were last year.

Rodolfo Ramos

Thank you. My second question is on your commercial revenue side. As you mentioned during your initial remarks, it's still quite distorted by the movement of volatility in traffic flow, but what do you think is a reasonable target for you, considering your expansion of different commercial sites? Should we look at the 100 peso per passenger level that we saw back in 2019? How do you think this could evolve in the following months, especially as you approach this pre-pandemic level of traffic?

Adolfo Castro Rivas

Well, as you have said, in the second quarter 2019 we reached 99 pesos per passenger. We have seen nice results in some activities like car rental, like ground transportation. We do not expect permanent effects after COVID-19 is over, if it's over. I believe that these 119 pesos that we are seeing today is still distorted because of the lack of passengers. You can see that effect in the case of Colombia, try to compare how it was a year ago, when there was almost no passengers, with the number you are seeing today. Nevertheless, we have seen nice results during the second quarter.

We will have to wait and see what is the new level after COVID-19, but of course I do not expect permanent effects on these activities.

Rodolfo Ramos

Thank you, Adolfo.

Adolfo Castro Rivas

You're welcome.

Operator

The next question comes from Pablo Monsivais at Barclays.

Pablo Monsivais

Hi Adolfo, thanks for taking my question.

Just wanted to hear from you, what's the current situation in and your expectations for Colombia? Traffic has recovered but not quite much, and still we have more optimistic expectations for the second half, but what are you seeing on the ground? Do you think that we can reach pre-pandemic levels in the first quarter of next year, or what's your take? Thank you.

Adolfo Castro Rivas

Pablo, in the case of Colombia, we need to recall that Colombia was closed completely, the country completely as from the third week of March to the end of last year, so in comparison in terms with Mexico and Puerto Rico, that never closed, of course it delayed us. That's the first comment.

The second comment is most of the traffic in Colombia, I would say is business traffic related to Medellin and Bogota. What I said during the remarks is that business traffic will recover later in comparison with tourism traffic and VFR traffic, so VFR in the case of Puerto Rico, you can see that Puerto Rico is above pre-pandemic levels, and tourism in the case of Mexico, mostly. In my initial comments, I said that we will have to wait more time to see the recovery process in cases like Merida, Villahermosa and Veracruz, and that is basically because of the business traffic. It will take more time, and I would say that my expectation is that we will have and we will see permanent effects on these activities around the world. We are not going to travel in the same way as we were before the pandemic in terms of business traffic, we will use technology, and of course budgets and companies are going to be restricted and also the economic situation is not going to be the same for a while.

Pablo Monsivais

One follow-up, and let me dig into this, you said that you are expecting a permanent effect. Do you have any fear on your mind, ballparking—I don't know, to expect that a structural 20% decrease in corporate travel or 10%, what is your best estimate?

Adolfo Castro Rivas

Well, it's hard to say again, but it will depend on the different regions, the economics of those regions, but you are right - between 10% to 20% could be the permanent effect. That doesn't mean that we are not going to reach the same numbers someday. What I'm trying to say is that business traffic will recover later than the other travel, leisure and VFR, but also that the amount of people that will be traveling for business will not be the same as it was. The proportion is not going to be the same as it was, so if you were traveling, I don't know, 30 times a year, probably in the future you will travel 25. That's what I'm trying to say.

Pablo Monsivais

Perfect, many thanks.

Operator

The next question comes from Javier Gayol at GBM.

Javier Gayol

Hi Adolfo. Congratulations on the results and thank you for taking my questions.

My question is related to capital allocation and cash generation. You're on track to generate around 7.5 billion in operating cash flow, and if we added to that—well, if we subtract the Capex that you guys have plus the dividend, we get to a number of around—an excess cash of around, let's say, 3.5, 3 billion pesos in our estimates. I wanted to—and with a net debt to EBITDA of 0.9, I wanted to understand how are you looking at ASUR's potential capital allocation? Are you more inclined towards lowering debt, are you inclined towards refinancing or increasing debt and maybe do investments? If you could give us some color on the strategy from that front, that would be great for us.

Adolfo Castro Rivas

Thank you. Well, in general terms, I would say it's too early to tell. What I want to say here is that for me, the pandemic is not over yet. I think that it will take two, three months to be able to say that the world has been able to control this. In the meantime, as I said during the remarks, we have to be cautious.

In terms of numbers, you saw the 2.5 billion pesos in the end for the quarter - it's true, but also it was—the dividend was, or the date of the payment of the dividend was approved and was set for October 1, and that is around 2.5 billion pesos, so for the moment that's what we are trying to do, is to be cautious on one side, second to approve the dividend, and third in terms of new project expansions, we will have to wait.

Javier Gayol

My second question is as we see some recovery worldwide in terms of travel, how have you guys seen the environment for new travel routes between your airports and some international places? Have you seen people more interested in coming to Cancun, increasing the routes? Is that a possibility that we should take into consideration?

Adolfo Castro Rivas

Yes, in the case of Cancun or in the case of Mexico, basically the problem we have today is travel bans, and of course that we are in the summer, let me be clear, so we think about Canadian traffic, normally they travel from November up to April, they normally do not travel during the summer due to weather conditions. Today, even with these travel restrictions, we will not see Canadians in Cancun of course, but that's why I'm saying that we will expect a better outlook for the winter season. I believe that this winter season will be better for us and we will be able to see all the regions contributing to the increase in traffic.

Javier Gayol

Thank you. Thanks Adolfo, that's all very helpful. Thank you for the color.

Adolfo Castro Rivas

Thank you.

Operator

The next question comes from Anton Mortenkotter at GBM.

Anton Mortenkotter

Hi Adolfo, thank you for taking my question, and congrats on your results. I just have two quick questions, one related to just the Capex. To date, you've invested around 700 million out of the almost 3 billion pesos committed in your Capex plan for the year, meaning your Mexican airports. I was wondering if you could provide some more detail about the Capex deployment in the future quarters.

Adolfo Castro Rivas

Of course. Well, what I can say to you is that we have to comply with the 3 billion you are talking about. Of course, it's something more than 3 billion, but remember that our maximum—accelerating maximum tariff revision was approved in April. In that sense, of course there was an adjustment in the investment program, so we had more or less three months' delay, but do not worry, we will catch up on the second half of the year because we have to comply with the 3-point-something billion pesos during '21.

Anton Mortenkotter

Perfect, thank you. Just another question, this one related to Cancun. I've seen some news and some papers from San Diego University about the strong signs of sargassum. The Riviera Maya is said to be one of the biggest or heaviest sargassum sightings since history, and although it hasn't reached Cancun beaches, it has reached surrounding cities. I was wondering, do you see any impact from this?

Adolfo Castro Rivas

Well, of course there's an impact this year, I would say. It's mild, it's mild in comparison with 2018 - that was the strongest year for that. When I'm saying is mild is not because I'm happy with what I'm seeing, but it's something that we cannot do anything about in terms of this is nature, and sargassum will be there from time to time in the Caribbean Sea.

In the case of '18, I remember it was also in the U.S., it was all in Florida, it was full of sargassum. It has an impact, yes, but it's, I would say, is mild, and of course towards the end of the year, that will be diminishing.

Anton Mortenkotter

Okay, perfect. Thank you.

Adolfo Castro Rivas

You're welcome.

Operator

The next question comes from Gabriel Himelfarb at Scotiabank.

Gabriel Himelfarb

Hi Adolfo, thanks for the call. Congratulations on the results. Just a quick follow-up question. It's about the dividend - do you think, or what's your view on future dividends? Do you think the traffic levels or financial performance could improve or increase the dividend? Thanks.

Adolfo Castro Rivas

Gabriel, hi, good morning. I have to send my proposal for dividends during February next year, so I have some time to see what is the outcome of this year in terms of results to see the real situation in terms of the pandemic, to see if that was over or not. It's a long way from now until that moment.

Gabriel Himelfarb

Okay, thank you.

Adolfo Castro Rivas

You're welcome.

Operator

The next question comes from Roberta Versiani at Cit.

Roberta Versiani

Hi Adolfo, thank you for this call. I'm sorry if you mentioned this before, but could you give me some more color on the 285 million reversal of payment in Huatulco, for example, why was it cancelled, and how should I think about this in accounting terms? Does it run through your income statement or how does it work? Thank you.

Adolfo Castro Rivas

Hi, good morning. Well, basically we finally decided not to go further on these due to many circumstances. In terms of accounting, basically it was a reduction in assets, in fixed assets and increasing cash.

Roberta Versiani

Okay, and what it going to be—if you can tell, of course, something for a retail area or wholesale for flight crew? I don't know, I was just wondering.

Adolfo Castro Rivas

I couldn't understand your question.

Roberta Versiani

Okay, thank you.

Operator

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

Adolfo Castro Rivas

Thank you, Sandy, and thank you again for participating in our second 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 Second Quarter 2021 Results conference call. We would like to thank you again for your participation. You may now disconnect.