



## Grupo Aeroportuario del Sureste 3Q22 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 Third Quarter 2022 Earnings Conference Call. My name is Elaine 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. If you want to withdraw your question at any time, 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, Elaine, and good morning, everyone. Before we get started covering the highlights from the quarter and then taking your questions, let me remind you that certain statements made during this call may constitute forward-looking statements, which are based on current management expectations and beliefs and are subject to several risks and uncertainties that could cause actual results to differ materially, including factors that may be beyond our Company's control.

As usual, additional details about our quarterly results can be found in our press release, which was issued yesterday after market close and is available on our website in the Investor Relations section.

We reported another solid quarter, with record passenger traffic, improved cost efficiencies, and strong profitability.

Starting with a review of travel demand, total traffic rose over 24% year-on-year and exceeded 3Q19 levels by nearly 23%, reaching a record 17 million passengers in the third quarter. Airports across our three geographies all contributed to this solid growth.

- Compared to pre-pandemic levels of 3Q19, **Colombia** maintained the strongest recovery, up 37%, with domestic travel expanding in the low 30s and international travel in the high 50s. We expect this surprisingly strong recovery to continue over the coming months, supported by a structural shift in demand driven by new routes and airlines.
- Traffic in **Mexico** was up 22% against 3Q19, driven by both international and domestic passengers, with all airports contributing to this growth. In particular, international traffic growth accelerated to 30%. This strong performance reflects higher travel demand from

all regions of this market, exceeding 2019 levels, except Canadian demand, which still remains at slightly over 65% of the last 12 months of 2019.

- Looking ahead, traffic from Canada is expected to resume its winter season levels, mainly November through April next year, while the US and Europe are expected to continue delivering steady growth. We also expect that domestic business travel will continue to lag leisure. We expect Merida Airport to recover to 2019 levels during the rest of the year, with Veracruz, Minatitlan and Villahermosa airports recovering in 2023.
- Finally, in **Puerto Rico**, traffic continued to normalize after a very strong performance in prior quarters, posting a high single-digit increase in traffic compared to 3Q19, with domestic passengers up 9% and international travel practically recovering to pre-pandemic levels.

Overall, we continue to expect solid traffic demand underscored by pent-up travel demand, with recoveries expected in some remaining markets, such as Canada, helping mitigate any potential deceleration that could result from the increasingly inflationary global context.

**Moving now to our financial results.** Note that all references to revenues and costs exclude construction revenues and that all comparisons are against 3Q19 levels.

**Revenues** increased 50% to 5.8 billion pesos. This was again a record high for any given quarter, driven by a good performance in both aeronautical and non-aeronautical revenues across geographies. Mexico accounted for 72% of total revenues in the quarter, Puerto Rico 16%, and Colombia 12%.

Supported by traffic growth, **Commercial revenues** remained strong, up 45% with increases of 67% in Mexico, 30% in Colombia, and nearly doubling in Puerto Rico.

**Commercial revenues per passenger** were nearly 117 pesos, above the 99 pesos reported in 3Q19 and nearly flat year-on-year. Commercial revenues in the quarter were in the range of 141 to 161 pesos in Mexico and Puerto Rico. In Colombia, commercial revenues per passenger stood at 37 pesos, slightly below 3Q19 levels. Note that the Colombian peso depreciated 24% against the Mexican peso over the last twelve months, while international passengers account for nearly 17% of total traffic in Colombia.

Regarding the composition of our passenger traffic, the portion of domestic passengers remained the same as third-quarter 2019. And although we benefited from additional growth in US tourists and from European passengers spending at pre-pandemic levels, the number of Canadian visitors remained flat at 65.5% of 2019's level.

Moving down the P&L, **total operating expenses** increased in the high teens. Excluding expense reimbursements in Puerto Rico in both quarters, operating costs and expenses would have increased nearly 26%, but significantly below the revenue growth of 50%.

- **In Mexico**, costs were up 26%, significantly below the 67% increase in revenues. This was mainly driven by increased personnel costs along with higher technical assistance and concession fees. These increases reflect higher revenues and EBITDA, along with higher cost of services, including the cost of sales that rose as a result of strong performance at directly operated stores.
- **In Puerto Rico**, costs were up 19%, or 16% when excluding the benefit of expense reimbursements in both quarters, while revenues nearly doubled in this market.

- **Finally, costs in Colombia** were up in the low 20s, but below the 30% revenue growth.

The efficiency measures implemented over the past couple of years have allowed costs under our control to remain at 3Q19 levels and at only 81% of these levels when comparing them on a per passenger basis. This was true even with the 50% increase in revenues during the period. Note that costs under our control include total costs minus construction costs, depreciation and amortization, as well as technical and concession fees.

We achieved a record high profitability this quarter, with consolidated Adjusted EBITDA of 4.1 billion pesos – up 64% from 2019 levels, driven by solid performance across key metrics. Sustained growth in passenger traffic together with higher commercial revenues and operating leverage more than offset higher tariffs.

Mexico turned into a very strong performance, with Adjusted EBITDA up 51% to 3.1 billion pesos. Colombia continued to recover, with EBITDA up 67% to 455 million pesos. Puerto Rico, in turn, posted a 7% increase in EBITDA to nearly 470 million pesos, although down 16% year-on-year, reflecting the 7% decrease in passenger traffic and increase in the cost of services primarily because of the increase in the cost of energy.

By geographic region, Adjusted EBITDA margin improved nearly 5 percentage points in Mexico to 75.3% and 10 percentage points in Colombia, to nearly 64. The margin in Puerto Rico was slightly over 49% this quarter, 70 basis points above 3Q19, but below the 59% reported in the same quarter last year reflecting the impact of Hurricane Fiona during the quarter resulting in closing the airport for a day and a half.

In sum, we reported another solid quarter with traffic and revenues at record highs, which combined with operating leverage resulted in a 42% increase in **net majority income** to 2.5 billion pesos in the quarter – up from 1.7 billion in 3Q21 and 1.3 billion in 3Q19.

**Turning to capex**, we invested nearly 550 million pesos during the quarter, of which 88% was allocated to Mexico, nearly 12% to Puerto Rico and 1 million pesos to Colombia.

We remain on track with our capex plans across the regions. In Mexico, we completed the first phase of the Terminal 4 expansion at Cancun Airport, which consisted of adding two international boarding gates, and we continue moving forward with the expansion of the terminal building in Merida, with the third phase of this project to be completed by the year-end. We are also on track with the remodeling of Terminal D and major maintenance repairs to runways and taxiways in Puerto Rico.

**Commenting on the balance sheet**, we maintain a strong liquidity position and healthy debt profile.

We closed the quarter with cash and cash equivalents of nearly 14 billion pesos, with a Net debt to LTM EBITDA at just 0.1 times at quarter-end, with Interest Coverage at 10.7 times and the next major bond maturity occurring in 2025.

Finally, account receivables increased nearly 17% year-on-year, reflecting increased activity across our airports.

**Before we move to the Q&A portion of the call, a quick recap of the quarter:** We welcomed another record number of passengers in the third quarter, surpassing 2019 levels once again, thanks to robust travel spend.

While Canadian traffic remained below its pre-pandemic levels, traffic in all our other markets was above 2019 levels. Also, we expect that Canadian traffic will finally normalize this winter season. Such a recovery would help offset any fall in demand that could eventually arise from the inflationary environment that persists in the US, Europe and elsewhere in the world. As of today, though, we see healthy traffic trends that are supported by still strong pent-up demand.

Lastly, As I noted earlier, we were able to deliver strong profitability, as the additional passenger growth drove operating leverage that we have achieved by significantly improving efficiency levels throughout our business over the last two and a half years.

Elaine, please open the call for questions.

### **Operator**

Thank you. We will take our first question today from Rodolfo Ramos of Bradesco BBI. Please go ahead.

### **Rodolfo Ramos**

Hi, good morning, Adolfo. Thank you for taking my question.

I have a couple. The first one is on your outlook for traffic. International has been clearly the leader here and given your expectation of this pent-up demand from Canada, it seems that this will continue to be the case. But just wanted to get your thoughts on the domestic side. Volaris reported earnings and it seems like they're having a little bit of trouble getting down with fares. It seems like there's a high level of elasticity, demand for leisure destinations on the domestic side, so just wanted to get your thoughts on that side, on the domestic traffic recovery, how you expect this to evolve in this winter season.

Then I have a second question as well, if I may.

### **Adolfo Castro**

Yes, Rodolfo. Hi, good morning. Well, in the case of domestic, I mean, basically in the case of Mexico, because you mentioned Volaris, it's very clear for me that leisure is above what we call business traffic. Business traffic in our case is capital fees. I just mentioned the case of Merida, that has been recovering very nicely over the last couple of months, which is not the case of Veracruz, Villahermosa and Minatitlán. I do not expect them to recover until next year. We will suffer in that sense, not being able to recover 2019 levels, but in the case of tourism, I'm very confident that we will be in the way that we have been for the last couple of months.

It's important to mention, I mean, if you see the traffic reports. Try to compare passenger traffic in Mexico, for total traffic in January 2022, versus September 2022. Normally, in the case of tourism, September is the lowest month of the year. Try to see seasonality in the previous years and you will understand why I am saying this. When you see the comparison between January and February, you will understand that we still have some room to increase during the first quarter next year.

**Rodolfo Ramos**

Yes, thank you, Adolfo.

Secondly, on your end, I mean, it's still early. It'll be concluded next year. But just wanted to get your thoughts if you've seen any changes on the process and if you're still looking to incorporate the potential impact of a Tulum airport potentially starting operations in '24? Thanks.

**Adolfo Castro**

Well, the only thing, once we close the quarter, we will go and work very hard to be able to deliver our proposal by the year-end to the government. I don't see any changes in this process, and of course, what you're mentioning, it would be included in our proposal.

**Rodolfo Ramos**

Thank you, Adolfo.

**Adolfo Castro**

You're welcome.

**Operator**

Thank you. We move now to Alejandro Zamacona of Credit Suisse. Please go ahead. Apologies, we are moving to Philip/Filip Nielsen of Citi. Please go ahead, your line is open.

**Filipe Nielsen**

Great, thanks. Good morning or afternoon all. Thanks for taking my questions.

I had two on my side. The first question would be, what long-term opportunities do you see in terms of increasing commercial revenue per passenger in Colombia? I noticed that you have mentioned about peso contributing negatively, but I wanted to have a little more color on your initiatives on that.

The second question would be if you have any color on new airport options and opportunities for outside Mexico, for new airports? Thank you.

**Adolfo Castro**

Okay, Philip, hi, good morning. As I mentioned in the initial remarks, we face 24% Colombian peso devaluation versus Mexican peso. If you include these variables in the results of Colombia, you will understand why the Colombia part was very small, but if you see that in Colombian pesos, it was very strong.

In terms of initiatives, you can see in the report what we have done in the case of Colombia over the last year, year and a half. You will find out that we have made a lot of initiatives in the case of Colombia. We're happy of those; we are seeing some result. Of course, the devaluation of the Colombian peso had an impact, severe impact in the case of the report.

In terms of new opportunities outside Mexico, I don't see any significant in front of me today.

**Philip/Felipe Nielsen**

Great, thank you.

**Adolfo Castro**

You're welcome.

**Operator**

Thank you.

We now move to Gabriel Himelfarb of Scotiabank. Please go ahead.

**Gabriel Himelfarb**

Hi, good morning, thanks for the call. Just a quick question. Could you give us a bit of color about the maximum tariff rate? At what percentage are you this year, and do you think that, under tourism inflation conditions, it will impact or have some effect on the next master development plan? Thank you.

**Adolfo Castro**

In the case of the maximum rate, of course, you can follow the press release in the quarterly reports. There's a specific paragraph to that. You can see the weighted average for maximum rates for the quarter. If you follow these, you will find out that there was an increase in the quarter. But of course, due to the high inflation situation, we are now, I can estimate that we are not going to be able to reach the 99.8 max tariff compliance that we used to. We have made that catch-up from this last year, but it will not be enough to cover the high inflation that we are seeing now. I don't see any impact of that during the next MDP.

**Gabriel Himelfarb**

Okay, thank you.

**Operator**

Thank you.

We now move our next question to Anton Mortenkotter of GBM. Please go ahead.

**Anton Mortenkotter**

Hi, Adolfo, hi guys. Thank you for taking my question, congrats on your results.

I have just—I mean, you guys had a really strong cash flow generation, I think it should continue like that going forward. Just reach a really high cash balance. But still, you raised some debt in Puerto Rico and I was wondering if you could—at your Puerto Rican concessions, I was wondering if you could share some color on that. Do you have any plans or any Capex commitments in the near-term?

**Adolfo Castro**

Hi, good morning, Anton. Thank you for your words.

You're right, we are very strong in terms of cash flow. As we said in the report, it's 14-something billion. Next year, Capex program for the case of Mexico is not so important. In the case of Puerto Rico, it could be more than what we had this year, and we will have to think about what are we going to do during the end of the year and then to propose something to the Board of Directors and then share on what are we going to do with this cash position.

**Anton Mortenkotter**

Okay. I mean, is this capital allocation strategy maybe more tilted to looking to distribute or making an extraordinary dividend? Or, are you guys looking into potential acquisitions or something?

**Adolfo Castro**

We are always looking for potential acquisitions, and as I said before, I do not have any significant in front of me for now.

**Anton Mortenkotter**

Okay. If I may, just a quick one, do you expect more benefits from the ARPA loan?

**Adolfo Castro**

I'm sorry?

**Anton Mortenkotter**

Do you expect any more cost reimbursements from the ARPA loan, as the one you had this quarter?

**Adolfo Castro**

I cannot understand your question. ARPA loan, what's that?

**Anton Mortenkotter**

No, the ARPA, the cost reimbursements.

**Adolfo Castro**

Ah, okay.

**Anton Mortenkotter**

Yes.

**Adolfo Castro**

There should be a small piece in front of us. Of course, we will have to make the application and see if that is approved or not.

**Anton Mortenkotter**

Okay, very clear. Thank you.

**Adolfo Castro**

Thank you.

**Operator**

Thank you.

We will now take a question from Andressa Varotto of UBS. Please go ahead.

**Andressa Varotto**

Hi, Adolfo, good morning, congratulations on the results. I have two questions from my end. The first one is on the category one. I know that also is not directly impacted by that. But if you could give any color on what you've been seeing around Mexico's work to recover the category one status would be great.

My second question is your expectations on international traffic trends, if you believe that the pent-up demand is over for now and we could see some international traffic valuation from now onwards. Those are my two questions, thank you.

**Adolfo Castro**

Thank you, Andressa, for your words.

In the case of category one, there is a less effective, I would say, almost no effect. It was (audio interference) and basically, tourists come to Cancun in international airlines and not in a domestic airline. When this occurred, there was a press release where we basically expressed that 0.5% of our total traffic was traveling in Mexican airlines to the U.S. That was in 2020.

I don't see a major impact in our case. The government is working to try to recover category one. There was a change in the head of their aeronautical offices a week ago, and what they have expressed is that the objective of this new person is to recover category one in the short-term. My expectation is that we as a country, we will be able to recuperate that, up to the first half of next year.

In the case of international traffic trends, everything is working well. All the regions have recovered 2019 levels, with the exception of Canada, that I just mentioned in my initial remarks. As I said, today, over the last 12 months, Canada is still 65% of 2019 levels. I am expecting them to come back to the country, because they were affected last winter season; normally, they travel from November to April, so last winter season they were affected by Omicron, and I hope that this year, there will be no more effects of COVID situation. That's why I'm still very positive of the situation.



The maximum amount of Canadians we have in the past is 2.7 million, so then you can make the math of how many of those we are away from 2019 levels.

**Andressa Varotto**

Great, that's perfect. Thank you, Adolfo. Have a good day.

**Adolfo Castro**

You're welcome.

**Operator**

Thank you.

We now move our next question to Alejandro Zamacona of Credit Suisse. Please go ahead.

**Alejandro Zamacona**

Thank you. Hi, Adolfo, thank you for your call.

Sorry if these questions have been already asked, I got disconnected. But I was just wondering if you can share some thoughts on the cost of service in Puerto Rico? We saw a significant increase and we were wondering if this increase was related to certain Fiona and what could we expect going forward?

**Adolfo Castro**

Hi, Alejandro. Yes, you're right, we're seeing some increases in the cost of services of Puerto Rico. I said during the initial remarks, one of the most important elements here was the cost of energy. We had also, on top of that, an effect because of Fiona, because the energy was out from the grid and we had to operate with emergency energy for some days, almost a week. That of course had an effect on the cost of services.

In general, I would say, yes, we are seeing some effects of the inflationary situation we are living now in the whole world.

**Alejandro Zamacona**

Okay. But, is it fair to assume that you have nonrecurring expenses during this quarter related to the P&L? What can we expect for costs going forward?

**Adolfo Castro**

Well, that will depend on the cost of energy. I don't see that the cost of energy will decrease in the short-term, so in that sense, even that we had a one-time effect because of Fiona, in general terms I would say that we will see more or less the same numbers in the front.

**Alejandro Zamacona**

Okay. Thank you, Adolfo.

Then my second question, if I may, and the MDP—I mean, I know it's quite early yet but do

you have any color on the Capex that you are planning to commit for the next five years period?

**Adolfo Castro**

We're in the process and we do not have final figures yet. The only thing that I can say to you is that the most important expansion project will have to occur in the case of Cancun airport.

**Alejandro Zamacona**

Okay. Thank you, Adolfo.

**Adolfo Castro**

You're welcome.

**Operator**

Thank you.

We move to Guilherme Mendes of JP Morgan. Please go ahead.

**Guilherme Mendes**

Hi, Adolfo, good morning. Two follow-up questions, the first one in terms of traffic. I mean, looking beyond 2023, so more of a long-term perspective, do you expect traffic, especially in Mexico, to be back to the historical levels we saw over the past 10, 15 years?

The second question is, regarding margins, it's kind of a follow-up question for the previous one. Taking these additional pressure on energy costs etc., it seems some of the margins will remain below the 70% margins going forward? Thanks.

**Adolfo Castro**

Hi, good morning. Well, I will recommend you to forecast the revenue and the cost in a separate, or independent way. I do not recommend you to forecast with margins. But of course, if revenues—well, if passenger traffic grows and revenue grows, I'm confident that that will grow more than what the cost side will do.

**Guilherme Mendes**

Okay, got it. In terms of the traffic in the longer-term?

**Adolfo Castro**

Well, if you've seen what has occurred in the past, there's some charts. You have a lot of figures, traffic for the last 22 years at least. If you see the climb being before an event, let's say September 11, the hurricane Wilma 33:53, the swine flu plus financial crisis in the U.S. and now COVID. The climbing has been that after the event is more or less the same as it was before. So now, you can see the adjustment that we have seen in the case of Puerto Rico that we have anticipated. We are starting to see the adjustments in the case of Mexico, and Colombia is the only one that's still very steep, let's say almost vertical, and that's why I said

during initial remarks that I feel confident that we will see some months before we start seeing the transfer.

**Guilherme Mendes**

Okay, super clear. Thanks. Have a good day.

**Adolfo Castro**

You too.

**Operator**

Thank you.

We have a follow-up question from Andressa Varotto of UBS. Please go ahead.

**Andressa Varotto**

Hi, Adolfo. Thank you for taking my follow-up question.

Just very quickly on the commercial revenue side; we saw some signs that commercial revenue per passenger is stabilizing. Do you see this current level as a normalized level going forward? Thank you.

**Adolfo Castro**

Yes. We saw some adjustments. We see that in terms of this, some adjustments in the (inaudible) and the case of parking lots, apart from what I have just mentioned, in the case of Colombia, because of the 24% devaluation of the Colombian peso versus the Mexican peso. These two activities were affected during the quarter. If you remember, we were calling these COVID behavior, and now, partly what we are seeing is a changing trend. We will have to wait next quarter to see if that is definitive or it will continue as it was before.

**Andressa Varotto**

Great, thank you.

**Adolfo Castro**

You're welcome.

**Operator**

Thank you.

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

**Adolfo Castro**

Thank you, Elaine, and thank you all of you again for participating in our Third Quarter Results Conference Call.

On behalf of ASUR, we wish you a good day. Good bye.

**Operator**

Thank you.

Ladies and gentlemen, that will conclude today's conference call. Thank you for your participation. You may now disconnect.