



## GRUPO AEROPORTUARIO DEL SURESTE 2Q24 EARNINGS CONFERENCE CALL TRANSCRIPT

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

**Adolfo Castro**, *Chief Executive Officer*

### C O N F E R E N C E C A L L P A R T I C I P A N T S

**Rodolfo Ramos**, *Bradesco BBI*

**Guilherme Mendes**, *JP Morgan*

**Ian Spies**, *Morgan Stanley Investment*

**Jay Singh**, *Citibank*

**Pablo Monsivais**, *Barclays*

**Alberto Valerio**, *UBS*

**Isabela Salazar**, *GBM*

**Andres Aguirre**, *GBM*

**Anton Mortenkotter**, *GBM*

### 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 2024 Results Conference Call. My name is Zico, and I'll be your operator. At this time, all participants are in listen-only mode. We will conduct a question-and-answer session toward the end of today's conference. If you would like to ask a question, please press star one. If you want to withdraw your question at any time, please press star 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**

Thank you, Zico, and good morning, everyone. Before I begin discussing our results, 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.

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. Following my presentation, I will be available for Q&A.

Before moving on to our performance for the quarter, let me provide an update on recent developments on the sustainability front.

To begin with, we have complied with various ESG reporting requirements, including the Mexican Stock Exchange, the United Nations Global Compact, and the Mexican Register of Carbon Emissions.

We are also implementing a data collection process that will allow us to calculate our Scope 3 carbon emissions. This process is approximately 90% complete as of the end of the second quarter for the Mexican Airports.

We also renewed our social project with Pronatura, which supports local fishing communities and promotes ecotourism in the Yucatan Peninsula. The new scope of the project will include 40 additional direct beneficiaries and approximately 100 indirect beneficiaries.

Additionally, we have been in conversations to strengthen ASUR's alliance with UNICEF and extend the activities of this agency to all airports across our Group. Lastly, we are also in the final stages of establishing a strategic alliance with ECPAT, an NGO that aims to prevent human trafficking.

We look forward to providing more updates as we continue to advance on our sustainability journey. Now starting with a review of ASUR's operational and financial performance for the quarter. As usual, all comparisons discussed will be year-on-year unless specified otherwise.

Passenger traffic was up 3% year-on-year, to nearly 18 million passengers – a record high for a second quarter. Traffic growth in Puerto Rico and Colombia more than offset a softer performance in Mexico.

By region, Colombia posted the strongest performance with traffic up 21% year-on-year driven by increases in domestic and international in the high teens and high twenties, respectively. Traffic in Colombia continued to benefit from easier comps following the suspension of two operators in February of last year, which accounted for 20% of traffic. We expect this positive recovery trend to continue during the remainder of the year as Avianca and LatAm Airlines regain some lost routes.

Puerto Rico delivered a 9% increase in traffic driven by growth in the high-single digit in domestic traffic and double-digit in international traffic. As anticipated, we are seeing a normalization of traffic in Puerto Rico, as last year benefited from the increased operations by Frontier airlines.

Lastly, traffic in Mexico declined close to 5%, reflecting single-digit contractions in both international and domestic traffic. In terms of international traffic, we saw declines from all regions except Canada in the quarter. In turn, domestic traffic remains impacted by the initial effects of the Pratt & Whitney engines problem experienced in the past few quarters, as well as the capacity reductions of air traffic movements at Mexico City Airport since early this year. As a reminder, Mexico City airport accounted for 45% of ASUR's domestic passenger traffic in 2023, and we expect this situation to continue negatively impacting domestic traffic this year which could post a small decline in the year.

Now, moving onto the P&L. As a reminder, all references to revenues and costs are excluding construction.

Total revenues increased nearly 18% to 7 billion pesos in the quarter. Colombia stood out with top-line growth in the mid-thirties, mainly benefitting from the pick-up in international traffic. Mexico delivered revenue growth in the high teens and Puerto Rico in the mid-single digits.

Mexico accounted for 74% of total revenues, posted an 18% top line increase, even as passenger traffic declined 5%. Revenue was driven high-twenties growth in aeronautical services, reflecting the tariff adjustment established in the recent master development and the impact of the weaker peso taking into account that international tariffs are based in US dollars. In turn, non-aeronautical revenues increased in low-single digits.

Next, Puerto Rico, accounted for 15% of total revenues and delivered a 5% growth in the top-line reflecting a high single-digit increase in non-aeronautical while aeronautical revenues increased by low single digits.

In turn, Colombia, which represented 11% of revenues, posted a 35% increase in the top-line, reflecting a good performance in both aeronautical and non-aeronautical revenues, which benefitted from international traffic growth.

As we continue to execute our strategy of expanding our commercial offering, we opened 45 new commercial spaces over the past twelve months. Of these, 17 were opened in Mexico, four in Puerto Rico, and 33 in Colombia.

As a result, commercial revenues were up over 7% - more than double the growth in passenger traffic, mainly reflecting increases of 4% in Mexico, 9% in Puerto Rico and an impressive 40% rise in Colombia.

On a per-passenger basis, commercial revenues increased 5% year-on-year to nearly 128 pesos in the quarter. This performance was mainly driven by growth of 16% in Colombia and 9% in Mexico while Puerto Rico was relatively flat. Mexico reported record-high commercial revenues per passenger at 154.5 pesos – beyond the atypical levels achieved during the pandemic benefiting from a stronger US dollar.

Moving down the P&L, costs and expenses increased nearly 30% year-on-year. On a comparable basis and excluding a Ps.252 million recovery in expenses in Puerto Rico under the CRRSAA Act in the second quarter of last year, total costs were up 16%, slightly below revenue growth.

By geography, costs in Mexico were up 18%, resulting from increases of 80% in concession fees established by the Mexican Government and 20% in minimum wages mainly in cleaning and security — both effective January 1. This was partly offset by a 50% reduction in the

technical assistance fee. On a comparable basis, Puerto Rico reported a 10% increase in costs which was below revenue growth, while Colombia was up 19%, above revenue growth.

Consolidated EBITDA was up 18% year-on-year to 5 billion pesos in the quarter, while the Adjusted EBITDA margin, which excludes construction, was relatively unchanged at 69%.

Note that on a comparable basis - excluding the recovery of expenses in Puerto Rico in the second quarter of last year - EBITDA would have increased 26%, and the Adjusted EBITDA margin would have expanded by 435 bps year-on-year.

This good performance was driven by solid profitability across our three regions of operations. Puerto Rico presented the strongest performance, with comparable EBITDA up over 90%. Colombia followed with a 49% increase, while Mexico posted an 18% increase in EBITDA.

Turning to the balance sheet, we maintain a healthy financial position, with cash and equivalents at nearly 15 billion pesos – after taking into account dividend payments totaling 6.3 billion pesos during the quarter, equivalent to a cash dividend of 10.926 pesos per share and an extraordinary cash dividend of 10 pesos per share.

Lastly, in terms of Capex, we made investments of nearly 650 million pesos during the quarter and close to 820 million pesos in the first half of the year. We are currently in the process of project planning and carrying out the bidding process to select a contractor. Key projects include, at Cancun airport, the expansion of Terminal 4, the reconstruction and expansion of Terminal 1, and the expansion of the terminal in Oaxaca. Note that all construction works will take place outside of the operating area and thus not affect the operation of these airports.

Wrapping up, we delivered a solid second quarter, with net majority income up 50% year on year to 3.7 billion pesos. This good performance also benefited from a foreign exchange gain of nearly 950 million pesos this quarter, resulting from the 10% quarter-end depreciation of the Mexican peso against the U.S. dollar, compared with a 350 million FX loss reported in the same quarter last year.

The quarter was not without its challenges, notably the ongoing issues with the P&W engines and reduction of capacity at Mexico City Airport but we navigated through these and delivered solid results in the quarter.

This ends my prepared remarks. Zico, please open the floor for questions.

## **Operator**

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

Our first question is from Rodolfo Ramos from Bradesco BBI. Please go ahead.

## **Rodolfo Ramos**

Good morning, Adolfo. Thanks for taking my question. Just a couple from my side. The first one is on traffic. I wanted to get your sense of where we stand in the recalls on Pratt & Whitney. You're one of the least exposed, but just wanted to get your thoughts on where we stand there.

And, on traffic as well, if you would expect, given the rhetoric that we've seen so far from the U.S. election campaign, whether we can expect a similar impact from what we saw last time around in terms of the U.S. international bound traffic. That's my first one on traffic.

Secondly, if you can just give us a sense of pricing of where you currently stand. You had mentioned in the previous call that you increased prices in April. Just wanted to see where do you stand versus your maximum tariffs and what to expect there going forward. Thank you.

### **Adolfo Castro**

Hi, Rodolfo. Good morning. Well, in the case of Pratt & Whitney, of course, I do not have the exact and precise data, but what I understand, the most affected is Volaris. They sent 19 airplanes during the fourth quarter and 26 during the first quarter. You know the time of the recall is around 300 days. We will see those planes coming back to production, I would say, at the end of September this year. From now until September, the things are not going to improve. After that, I believe they will stabilize up to first quarter next year and then they should improve.

In the case of what you have mentioned because of the elections in the U.S., yes, I do expect and you can see that very clear that the Mexican situation will be that in all the candidates. They will be blaming all the problems we have here and that may affect traffic during the fourth quarter.

In terms of pricing, we have adjusted our prices. We are working towards to have a maximum compliance of close to 99% for the year.

### **Rodolfo Ramos**

Thank you, Adolfo.

### **Operator**

Thank you. The next question is from Guilherme Mendes from JP Morgan. Please go ahead.

### **Guilherme Mendes**

Hi, Adolfo. Good morning. Thanks for taking my question. I was wondering in terms of the commercial revenues, it has been surprising to the upside on a per passenger basis. You mentioned about opening a bunch of new commercial spaces in the three regions. How should we think about this segment going forward? Meaning, in addition to the investments you're going to make in Cancun Airport, should we expect additional openings or ramp ups on the commercial front?

My second question is on traffic, following up on the previous one but think about Puerto Rico and Colombia. You mentioned on the past conference call about a normalization on the trend of both Colombia and Puerto Rico accelerating and decelerating. I just wanted to double check if that's still your base case expectation. Thank you.

### **Adolfo Castro**

Thank you. Well, in the case of commercial revenues, what you saw for the quarter, it was an increase in parking and also car rental. Those were the two winners for the quarter. I have to

say that, of course, in the case of Mexico, which has reached a record high of 154 pesos per passenger, we were positively affected by the Mexican peso depreciation.

In the case of the traffic to Puerto Rico and Colombia, yes, I do believe that Puerto Rico should normalize during the remaining of the year. In the case of Colombia, what I do expect is the recovery process towards the end of the year with what we have lost last year was the grounding of these two airlines that represented 20% of the traffic during 2022.

**Guilherme Mendes**

Okay. Thank you so much. Have a good day.

**Adolfo Castro**

You're welcome.

**Operator**

Thank you. The next question is from Jens Spiess with Morgan Stanley Investment. Please go ahead.

**Jens Spiess**

Yes. Hello, Adolfo. Thank you for taking the time for the questions. I just want to ask on the realized tariff, I think you reported 326 pesos. Doing some math here, we get that it represents around 95% of your maximum tariff if we weighed it by traffic of the individual airports. Does it sound about right, or are we missing anything?

And a follow-up to that, are you worried about the depreciation in the Mexican peso? Or, I think you said a further depreciation in the Mexican peso, which could maybe result in a heightened risk of you exceeding the maximum tariff and potentially having to give some discounts towards the end of the year?

**Adolfo Castro**

Well, in the case of the maximum tariff, there's a clear paragraph in the Mexican section that says what was the weighted average maximum rate obtained during the quarter. What I was saying is that last year yes, we reached 95% and what we are expecting is it's close to 99%. Of course, that will depend on what you just mentioned in terms of the Mexican peso. Mexican peso devaluation will help us to get these objectives as the tariffs for the international flights are based in U.S. dollars. Remember that maximum rate is in pesos. That will help us to reach the objective.

**Jens Spiess**

Okay, perfect. If I may, just one follow-up. In terms of traffic, comparing it to what you forecasted within your tariff review, we're not even close to getting to the 3% claw back, aren't we? Or, any comment on that?

**Adolfo Castro**

Well, in terms of traffic, what I would say is what we were expecting from Pratt & Whitney and the decrease in international traffic, it's been higher in comparison with what we were expecting at the end of last year.

**Jens Spiess**

It has been higher? Okay.

**Adolfo Castro**

It has not been dramatic.

**Jens Spiess**

Okay. Higher but not close to 3% claw back.

**Adolfo Castro**

Higher in terms of more negative. Today, the current traffic is more negative than what we were expecting.

**Jens Spiess**

Okay, that's clear. Thanks.

**Operator**

Thank you. The next question is from Fernanda Recchia with BTG. Please go ahead. Fernanda Recchia, may we ask you to unmute your line and please go ahead with your question?

As there is no response, may I request that we move to the next participant. The next question is from Jay Singh with Citibank. Please go ahead.

**Jay Singh**

Hey all. Thanks for taking my question. The first thing I want to ask is, you mentioned earlier that Colombia and Puerto Rico's traffic strength you see moderating a little bit. I also want to ask, JetBlue has been raising capacity into Puerto Rico's market. Considering that, do you still see some degree of moderation or do you just see it sticking around a little bit higher?

**Adolfo Castro**

Hello, Jay. I cannot hear you well. Could you speak louder?

**Jay Singh**

Sure. You mentioned Colombia's and Puerto Rico's traffic strength potentially moderating in the coming quarters. But as JetBlue has been raising their capacity into Puerto Rico's market, do you see that sticking around or do you still see it normalizing?

**Adolfo Castro**

The most important effect in Puerto Rico last year was the entrance of Frontier. They are expanding and creating a base in Puerto Rico. Of course, when you reach the comparable year-over-year, then it will not be easier to reach the 18% growth we got last year. That's why I'm saying that it should normalize once we reach the 12 months rollover with the entrance of Frontier.

**Jay Singh**

All right. Thanks. For my second question, I want to ask how much CapEx can we expect on a consolidated basis and what would the split look like between the MDP and the non-MDP?

**Adolfo Castro**

Again, I cannot hear you.

**Jay Singh**

Okay. How much CapEx can we expect on a consolidated basis, and what would the split look like between the MDP and the non-MDP?

**Adolfo Castro**

The MDP for this year is around \$3.8 billion. That, of course, will have to be adjusted with the construction price index and that's what we have to comply with. I have to say that at the beginning of the five-year period, once the projects have been approved at the end of last year, we have to wait until we develop the projects, make the bidding process, and find the contractors and then they can start constructing. That's why you are seeing a very slow, between brackets, number for the first half of the year, the \$800 something million comparable with the \$3.8 billion that we have to spend during the year.

**Jay Singh**

Thank you.

**Adolfo Castro**

You're welcome.

**Operator**

Thank you. The next question is from the line of Pablo Monsivais with Barclays. Please go ahead.

**Pablo Monsivais**

Hi, Adolfo. Good morning. Thanks for taking my question. May I just ask if you can provide some color on your perspective for U.S. traffic to Cancun? We have seen some weakness and U.S. carriers are saying that they are taking out capacity, but what are your thoughts on this and especially how deep or how prolonged can this be? That's number one.

Number two, I would like to have more detail on your commercial revenues plans for Colombia and Puerto Rico going forward. Thank you.

**Adolfo Castro**



Well, in the case of traffic to Cancun, as you have seen in the first half of the year, it has not been nice, basically affected by the domestic situation of Pratt & Whitney and the reduction of the air traffic movements at Mexico City Airport from 52 to 43. I don't think that these two things will change, so that those two things will continue affecting traffic during the second half of the year.

Also, the new negative effect is the reduction in traffic from the U.S., as I have mentioned in my initial remarks. As it was mentioned in the call, at the end of 2018 because of the elections of the U.S., where there was someone saying every single day that Mexico was a bad place to be, probably we will be affected from this traffic from the U.S., so not very high hopes on the traffic to Cancun over the year.

**Pablo Monsivais**

Okay, thank you.

**Adolfo Castro**

You're welcome.

**Operator**

Thank you. The next question is from Andressa Varotto with UBS. Please go ahead.

**Alberto Valerio**

Hi, good morning. Actually, it's Alberto Valerio here from UBS team. Adolfo, I would like to know about the new airline in Mexico, Mexicana de Aviación. What we should expect from them if you have talked to them for some new routes to your airport?

Also, what should we expect from the industry of airlines in Mexico? If you see any additional capacity, we know that both Viva and Volaris, they are with the present initial issue. But for next year, in 2026, what should we expect from the domestic industry? Thank you very much.

**Adolfo Castro**

Well, in the case of Mexicana de Aviación, what I have heard or what I have read in the news and the numbers that have been provided by the Mexican government is they have transported around 100,000 passengers in the first five months of the year. If we compare that with the 8 million from Volaris, 9 million from Viva and probably another 8 million from Aeromexico, it doesn't mean too much. As we have seen, Viva, Volaris and Aeromexico have been adding some additional planes to their fleets. This is also in the case of Volaris and Viva partially mitigating the effect of Pratt & Whitney. Remember this Pratt & Whitney situation is a temporary situation. We should see a strong recovery from these three next year.

**Alberto Valerio**

Okay. Thank you very much.

**Adolfo Castro**

You're welcome.

**Operator**

Thank you. The next question comes from Isabela Salazar with GBM. Please go ahead.

**Isabela Salazar**

Hello, Adolfo. Thank you for taking my question. I was wondering if you could give us any updates on Punta Cana.

**Adolfo Castro**

We don't have any updates. The legal process has been established and that will take time. As I have said during my previous earning conference call, the project is put on hold for one year at least.

**Isabela Salazar**

Okay. Thank you.

**Operator**

Thank you. The next question comes from Andres Aguirre with GBM. Please go ahead.

**Andres Aguirre**

Hi, Adolfo. Thanks for the question. I was wondering if you could provide an overview of the expected traffic mix of international and domestic passengers for the remainder of the year. Thank you.

**Adolfo Castro**

Well, as I have mentioned, domestic traffic for the remainder of the year is going to be affected by these two things - Pratt & Whitney and Mexico City. We should expect these to be negative in the whole system, not just in the case of ASUR.

**Andres Aguirre**

Thank you.

**Operator**

Thank you. The next question comes from Anton Mortenkotter with GBM. Please go ahead.

**Anton Mortenkotter**

Hi, Adolfo. Congrats on the results and thank you for taking my question. I have two quick questions. One is related to your cash balance. I was wondering if you could tell us how much of that is dollarized. The second one is considering the cash flow generation that you have right now and with the CapEx commitments, even though they are really high for the next five years, it seems like you will end up with a significant cash balance of around 20 billion pesos. I was just wondering what are your thoughts on the possible use of that cash?

**Adolfo Castro**

Hello, Anton. Well, basically, you can see the numbers. Puerto Rico is U.S., Colombia is Colombian pesos, and in the case of Mexico, some of this is U.S. dollars. Roughly speaking, in Mexico, we should be around 400 and something million dollar of—in dollars and the rest in pesos.

In terms of the cash flow generation, yes, of course, we have a lot of CapEx in front, very high numbers in the coming years. But as always, we will review these at the end of every year in terms of the tax situation, the cash balance, the CapEx commitments, and we will propose the dividends to the Board of Directors and to the shareholders' assembly. As I had mentioned, in May and June, we have paid \$3.3 billion in dividends. It was an ordinary dividend of \$10.926, an extraordinary dividend of \$10, as it was done last year.

**Anton Mortenkotter**

Thank you, Adolfo.

**Operator**

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

**Adolfo Castro**

Thank you, Zico, and thank you all of you again for joining us today for this second quarter 2024 conference call. We wish you a good day and goodbye. Now you may disconnect.

**Operator**

Thank you. Ladies and gentlemen, that concludes ASUR's second quarter 2024 results conference call. We would like to thank you again for your participation. You may now disconnect.