

Grupo Aeroportuario del Sureste, S.A.B. de C.V. Third Quarter 2024 Results Conference Call October 23, 2024

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

Alan Macias, *Bank of America Merrill Lynch*

Juan Ponce, *Bradesco BBI*

Jens Spiess, *Morgan Stanley*

Isabela Salazar, *GBM*

Stephen Trent, *Citigroup Global Markets, Inc. (U.S.)*

João Frizo, *Goldman Sachs*

Pablo Monsivais, *Barclays*

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 2024 Results Conference Call.

My name is Sherry and I will be your Operator. At this time, all participants are in a 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, one. If you want to withdrawal your question at any time, please press star, two. If you are using a speakerphone, please lift the handset before making a selection.

As a reminder, today's call is being recorded.

I would now like to turn the call over to Mr. Adolfo Castro, Chief Executive Officer. Please go ahead, sir.

Adolfo Castro

Thank you, Sherry, and good morning, everyone.

Before I begin discussing our results, let me remind you that certain statements made during the call today 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.

As usual, all comparisons on this call will be year-on-year, unless specified otherwise.

Let's start with a review of ASUR's operational performance for the quarter.

Passenger traffic declined 2% year-over-year to slightly over 17 million passengers. A solid performance in Colombia and Puerto Rico nearly offset weaker traffic in Mexico.

Looking at traffic by geography, similar as past quarters. Colombia continued to post the strongest performance in passenger traffic, achieving a 16% year-on-year increase, benefiting from the easier comps following the suspension of two operators in February of last year. We saw positive travel dynamics in both domestic and international traffic, which were up 23% and 14%, respectively. As mentioned in prior earnings calls, this recovery trend is expected to continue in the remaining of the year as Avianca and LATAM airlines regain some lost routes. Looking ahead, we expect to see a continued recovery towards the end of the year and then normalizing in the first quarter of next year.

The next best performing market was Puerto Rico, which reported a nearly 5% increase in traffic, driven by low-single-digit growth in domestic traffic, while international traffic was soft in the low-20s. We expect traffic in Puerto Rico to continue to normalize, as last year benefited from increased operations by Frontier Airlines.

As anticipated, passenger traffic in Mexico remained weak, declining 10% year-on-year, with international traffic declining in the low-teens and domestic traffic in the high-single-digits.

In terms of international traffic, we saw declines from all the regions in the quarter. Specifically, traffic from Europe and Canada declined 8%, the U.S. 9% and South America 20%. Domestic traffic remains impacted by two key issues: first, the P&W engine problem experienced in the past few quarters, and we expect this to persist until the second quarter next year; and second, capacity reduction of air traffic movements of Mexico City Airport since early this year.

Now, as we turn into the P&L, recall that all references to revenue and costs are excluding construction.

Total revenues in the quarter were up 14% to nearly Ps.7 billion, driven by a solid performance of all three countries' operation. Colombia again stood out with strong top line growth of 30%, benefiting from the pickup in traffic, and Mexico and Puerto Rico delivered revenue growth in the low-teens.

Mexico, which contributed 71% of total revenues, delivered a top line increase of nearly 12%. This positive performance was largely driven by a 19% increase in aeronautical revenues resulting from the recent tariff adjustments. Non-aeronautical revenues remained relatively flat, compared to the previous year.

Puerto Rico accounted for nearly 16% of total revenues and reported a 13% increase in the top line, reflecting increases of nearly 12% and 15% in aeronautical and non-aeronautical revenues, benefiting from the FX conversion due to a weaker peso in the period.

Colombia, which represented 13% of total revenues, achieved an impressive 30% increase in top line growth, driven by robust performance in both aeronautical and non-aeronautical revenues, which were up in the high-20s and 30s, respectively. Both business segments benefited from growth in domestic and international traffic, as well as the weaker peso.

Advancing on our strategy of expanding commercial offerings, we have benefited from new commercial spaces in the past 12 months. Of these, 18 were established in Mexico, 5 in Puerto Rico and 31 in Colombia. As a result, we achieved a 5% increase in commercial revenues, mainly reflecting increases of nearly 15% in Puerto Rico and an impressive growth of 38% in Colombia, which more than offset the close 2% decline in commercial revenues in Mexico.

On a per passenger basis, commercial revenues were up 7% year-on-year, reaching Ps.125 in the quarter. This good performance was mainly driven by solid growth across our three markets. Colombia saw a strong increase of nearly 20%, while Mexico and Puerto Rico delivered increases of nearly 10%, benefiting from a stronger U.S. dollar.

Moving down to the P&L, costs and expenses increased 18% year-on-year. By geography, costs in Mexico were up 15%. As seen in the prior quarters this year, the main drivers behind this were 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 year. This was partially offset by a 50% reduction in technical assistance fees. Puerto Rico reported a 20% increase in costs, reflecting the weaker peso, while costs in Colombia increased 28%, below revenue growth.

Consolidated EBITDA was up 12% year-on-year to Ps.4.7 billion in the quarter, while the Adjusted EBITDA margin, which excludes construction, declined 130 basis points to 68.3%, from 69.6% in the third quarter 2023. This good EBITDA growth performance was driven by solid profitability across the three regions. Colombia reported the strongest performance with EBITDA up 28%, followed by Mexico with EBITDA up nearly 11%, and Puerto Rico posted a 7% increase in EBITDA.

Our balance sheet remains robust, closing the quarter with cash and cash equivalents of over Ps.18 billion and debt up to the last 12 months Adjusted EBITDA at a negative 0.3 times.

Lastly, during the quarter, we made capital investments of Ps.1 billion, up nearly Ps.1.9 billion in the first nine months of the year. The main projects include the expansion of Terminal 4 and the reconstruction and expansion of Terminal 1 at Cancun Airport, as well as the expansion of a terminal in Oaxaca Airport. As a reminder, all construction work will take place outside operational areas and will not affect the functioning of these airports.

In sum, we delivered a solid quarter, even as we navigated the challenges posed by the Pratt & Whitney engine problem and the reduction of capacity at Mexico City. Net majority income was up 28% year-on-year to Ps.3.4 billion. This good performance also benefited from a foreign exchange gain of Ps.900 million during the quarter, resulting from the 7.6% quarter and the depreciation of the Mexican peso against the U.S. dollar, compared with the Ps.143 million FX gain reported in the third quarter '23.

This ends my presentation remarks. Sherry, please open the floor for questions.

Operator

Thank you. If you would like to ask a question, please press star, one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. If you would like to remove your question from the queue, please press star, two. As a reminder, if you're on speakerphone, please pick up your handset.

Our first question is from Alan Macias with Bank of America. Please proceed.

Alan Macias

Hi, good morning, Adolfo, and thank you for the call. Just one question. Given the new administration in Mexico, I guess the continuity, it's very close to the last administration's policies. Any indication that you have seen that some policies towards Mexican airports might be changing, or do you see things continuing as the past administration? Thank you.

Adolfo Castro

Alan, hi, good morning, and thank you for your question. Well, I don't see any major change, I see more continuity of what the previous government was doing. What I do expect is some kind of cost effect because of the Mexico City Airport reduction in terms of the capacity. I hope that the reduction from 52 to 43 should be lifted early next year, because the reduction has been very strong and is having an impact on the whole system.

Alan Macias

Thank you.

Operator

Our next question is from Juan Ponce with Bradesco BBI. Please proceed.

Juan Ponce

Hi, Adolfo, good morning, and thanks for taking my questions. The share of Mexican tourist destinations in the U.S. travel market have been decreasing all year, which seems to be favoring Europe. So, from your perspective, how much of this is related to airline capacity constraints in the U.S., or is it simply tough comps after the pandemic surge? Thanks. That's my first question, I have a second one.

Adolfo Castro

Yes, Juan. Well, what I'm seeing is exactly what we show in 2018. Twenty-eighteen was also an election year for the U.S. If you see our numbers, the comparison between 2019 and 2018, we lost half a million U.S. traffic, and this was, in my opinion, the most important reason why we're seeing this decrease. Of course, the situation with traffic is not just in Mexico, it's also in the U.S., but most important is what I already said.

Juan Ponce

Okay, that's clear, and you mentioned in your remarks that domestic traffic impacted by the Pratt & Whitney should continue until the second quarter of 2025. I just want to clarify. Do you mean that by the second quarter of 2025, you expect to be completely recovered, or will the recovery begin in the second quarter and then it'll take some time for you to completely normalize? Thanks.

Adolfo Castro

Okay. What I do expect is that this effect will end after the second quarter 2025.

Juan Ponce

Got it. Thank you very much, Adolfo.

Adolfo Castro

You're welcome.

Operator

Our next question is from Fernanda Recchia with BTG Pactual. Please proceed.

Fernanda, please check and see if your line is muted?

We are not able to hear you.

Fernanda Recchia

(Inaudible)

Operator

Go ahead, Fernanda, we can hear you now.

Okay, we will move on to the next question. Our next question is from Jens Spiess with Morgan Stanley. Please proceed.

Jens Spiess

Yes, hello, Adolfo. I have a few questions. The situation in Cancun, in particular, I mean, according to flight schedule data we're tracking, it seems that the situation will remain challenging the rest of the year and slightly improve towards the beginning of next year. Are you seeing the same as we are? Secondly, if you could give us just some indication of traffic versus what you assumed in the last MDP review? Is it tracking above or below the assumptions that you agreed with the government? Thank you.

Adolfo Castro

Jens, yes, I do agree with you that the winter season looks better than what we see now. Look, the winter season starts, basically, with the flights even out of the U.S., I would say, at the end of the November, beginning of December, and goes up to April next year.

In terms of the traffic so far, we are seeing a decreased traffic or lower down there, in comparison to what we forecasted in the MDP.

Jens Spiess

All right, perfect, very clear. Thank you.

Adolfo Castro

You're welcome.

Operator

Our next question is from Isabela Salazar with GBM. Please proceed.

Isabela Salazar

Hi, Adolfo, and thank you for taking my questions. I was wondering if you could provide some insights on capital allocation, given the Company's strength and high cash position.

Adolfo Castro

Isabela, in terms of that, nothing has changed, we continue with the same as in the past, which is we want to grow as an airport operator. We are looking for more JVs, and basically to try to find attractive investment opportunities for shareholders. The problem we have today, we don't have anything in front. So, if we do not have anything in front, we will do as we have been doing, to send this money back to shareholders.

Isabela Salazar

Okay, thank you.

Operator

Our next question is from Stephen Trent with Citi. Please proceed.

Stephen Trent

Thank you. Good morning, Adolfo, and thanks very much for taking my question. I was just trying to get color around how we should think about full year CapEx spend. The first nine months of the year, your amount of CapEx is running well below what you have in the MDP by itself, and maybe how we should think about the fourth quarter. Thank you.

Adolfo Castro

Of course. Well, the first nine months of the year, it's Ps.1.9 billion. We're expecting—well, not just expecting, we have to comply with what we have committed with the government, which is Ps.3.7 billion, so expect the difference for the full quarter.

Stephen Trent

Appreciate it, Adolfo, and just as a quick follow-up, would you expect sort of the ratio of MDP CapEx to non-MDP CapEx for the full year could be around the same level as it was over the nine-month period?

Adolfo Castro

Yes, well, for the moment, we are not doing too much commercial investment.

Stephen Trent

Oh, okay, very clear. Thanks, Adolfo.

Adolfo Castro

You're welcome.

Operator

Our next question is from João Frizo with Goldman Sachs. Please proceed.

João Frizo

Good morning, Adolfo, and thanks for taking my questions. I have just a few follow-ups. I'm sorry if I missed it in your initial remarks, but I just wanted to understand a bit more on the commercial—on non-aeronautical revenues, sorry, in Mexico. If we look quarter-over-quarter, it was basically flat despite the currency having depreciated by roughly 10% sequentially, so just wanted to understand what drove this weakness and whether we should expect this to continue into the fourth quarter, or we should see a recovery back to the levels of commercial revenues in dollars per passenger, like we saw in the first half of this year. Thank you.

Adolfo Castro

Well, João. In terms of the commercial revenues—and be careful of that, I'm not saying non-aeronautical, simply because a piece of non-aeronautical are also regulated revenues. First of all, my first advice would be total revenues excluding construction minus commercial should be the related sum. So, in the case of commercial, yes, we benefited from the FX, but remember that this quarter most of the traffic is domestic, and then the effect of duty free is not as it was in the first quarter of the year. So, the commercial revenues per passenger increase even with the decrease in good traffic. Remember, also, that we are losing opportunities to pay, in the case of Terminal 2, basically, a type of airport service as a result of the congested terminal we have there. That should be solved once we open the newly Terminal 1. That should occur in the second quarter '26. So, so far, we will be suffering in the gross revenues, even though the cost revenues increase on a per passenger basis.

João Frizo

Okay, thank you very much.

Adolfo Castro

You're welcome.

Operator

Our next question is from Pablo Monsiváis with Barclays. Please proceed.

Pablo Monsiváis

Hi, good morning, Adolfo, and thanks for taking my question. Just kind of a follow-up question from Jens. Regarding your expectations in the MDP for Tulum, for example, the impact on Tulum to Cancun, how has been the traffic evolution of Tulum versus what you initially expected it to be? Thank you.

Adolfo Castro

Pablo, hi, good morning. Tulum Airport is in line with what I expected, and what I do expect for the full year is 1.35 million passengers. It's been ramping up. But, it is so far in line with what we expect.

Pablo Monsiváis

Okay, perfect, and I have a follow-up, if I may. What is the conversation or the—how's the dialog that you have with U.S. carriers? It seems that if they are pulling out capacity, and they have said so in their earnings call, what do you discuss with them, what's their plan for 2025? Thanks.

Adolfo Castro

Well, as you know, some of them are suffering from, also, lack of planes due to Pratt & Whitney, but conversations with them are okay, and they are expecting a good winter season.

Pablo Monsivais

Perfect. Thank you.

Adolfo Castro

You're welcome.

Operator

As a reminder, it is star, and then the one if you would like to ask a question. We will pause for a brief moment to see if there's any final questions.

Okay. With no further questions, this will conclude the question-and-answer portion of today's conference call. I would like to turn it back over to Mr. Castro for closing remarks.

Adolfo Castro

Thank you, Sherry, and thank you, all of you, again for joining us today for this third quarter 2024 conference call. We wish you a good day, and good-bye. Now, you may disconnect.

Operator

Ladies and gentlemen, that concludes ASUR's Third Quarter 2024 Results Conference Call. We would like to thank you again for your participation. You may now disconnect.