



**Grupo Aeroportuario del Sureste
Second Quarter 2016 Earnings Call Transcript
July 21, 2016**

Operator

Good day, ladies and gentlemen, and welcome to the ASUR Second Quarter 2016 Results Conference Call. My name is Lynette and I'll be your operator today. 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 * followed by the digit 1. You may withdraw your question by pressing * followed by the digit 2. If you are joining us using a speakerphone, please lift the handset before making your selection. As a reminder today's call is being recorded.

For opening remarks and introductions, I'd like to turn this call over to Mr. Adolfo Castro, Chief Executive Officer. Please proceed.

Adolfo Castro, ASUR Chief Executive Officer: Thank you and good morning, everybody. Thank you for joining us today on our conference call to discuss our second quarter 2016 results.

Allow me to remind you 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. For an explanation of these risks, please refer to our filings with the Securities and Exchange Commission and the Mexican Stock Exchange.

Moving on to results. I will start briefly reviewing operations in San Juan Puerto Rico International Airport, and then briefly discuss results for the quarter.

Passenger traffic at San Juan Puerto Rico Airport was up 4.3% year-on-year reaching 2.3 million this quarter, significantly above the 2.5% increase reported in the previous quarter as well as the 0.9% achieved in 2Q15.

The remodeled terminal C at San Juan Airport has expanded our commercial offerings and created a more attractive layout for our passengers, resulting in a more efficient traffic flow.

This quarter we were able to shift passengers from Terminal D to Terminal C, and have concluded the original project established three years ago. We are pleased to report that we have met the original scenario of our remodeling program for the Puerto Rico airport on time and on budget. This had two main objectives: to increase commercial revenue per passenger and lower operational costs, which we are starting to achieve.

Consolidated results for the quarter benefited from a 58.17 million peso equity gain from our participation in Aerostar. Stockholders' equity was impacted by a 143.13 million peso gain due to the translation effect of Aerostar's U.S.-dollar denominated financials against the peso.

Looking to our Mexican operations, domestic and international passenger traffic growth continued to decelerate this quarter, as we face more difficult comparisons following the strong performance achieved last year. Total traffic was up 5.4%, totaling 6.9 million passengers. Remember that second quarter traffic was negatively impacted by the entire Holy Week taking place in the first quarter, while international traffic is seasonally much higher in the first quarter of the year.

As anticipated, domestic traffic growth slowed down to 5.7% year-on-year reaching 3.1 million passengers, still a record for a second quarter. Most of ASUR's airports contributed to this growth driven by more affordable airfares together with greater airline capacity and connectivity throughout Mexico. On the other hand, Minatitlan and Villahermosa remain affected by the same conditions facing the oil industry.

International traffic was up 5.1% year-on-year reaching a record high of 3.9 million passengers for a second quarter. The depreciation of the Mexican peso against the US dollar continues to support positive traffic dynamics, although at slower growth rates than last year. Passenger traffic between Mexico, Canada, and the United States represented 87.9% of total, down from 88.7% a year ago. We saw strong passenger growth from Mexico and the US, partially offset by a weaker performance in traffic from Canada reflecting a weaker economic environment.

Now, moving on to the income statement - total revenues, excluding construction services, rose 16.7% year-on-year.

Commercial revenues per passenger were up 18.9% from the second quarter last year reaching 97.18 pesos. This is just below the record high of Ps.99.35 set last quarter when total traffic was 3.7% higher than this quarter. Thus, we are seeing improvements in commercial revenues despite varying traffic levels.

The expansion of Terminal 3 at Cancun airport last December, which decongested Terminal 2, making it significantly more efficient and allowing us to offer a better shopping experience, was one of the key drivers behind this performance.

Commercial revenues also benefitted from the continued efforts of our concessionaires.

Looking at the P&L, operating costs and expenses excluding construction costs rose 12.5% year-on-year principally reflecting a higher cost of services mainly resulting from the opening of the Terminal 3 expansion.

EBITDA was up 18.4% year-on-year to 1.34 billion pesos as we continue to leverage our highly fixed cost base.

Excluding the impact from construction revenue, note that Adjusted EBITDA Margin increased 107 basis points to 71.83% from 70.76% in 2Q15.

Moving on to capital expenditures, we remain on track with our plans. We invested 240 million pesos this quarter, in-line with our master development plan. This was mainly allocated to the construction of Terminal 4.

Let me refresh what this entails. Terminal 4 will have around 67,000 square meters - about the same size of Terminal 3 after the recent expansion. Terminal 4 has been designed specifically for international and domestic traffic, and takes into account the lessons we have learned over the past 10 years. Once we open Terminal 4, which we expect to do during fourth quarter next year, the plan is to close Terminal 1 and move those passengers to Terminal 2.

In terms our balance sheet, we closed the quarter with cash and cash equivalents of 2.9 billion pesos and bank debt of 3.7 billion pesos.

Note that in June we paid an ordinary cash dividend from accumulated earnings of Ps.5.61 per share, bringing the total dividend payment to 1.68 billion pesos.

Now, let me open the floor for questions. Please, Operator, go ahead.

Operator

Thank you. As a reminder, ladies and gentlemen, that is star, one if you have a question or a comment. Again if you're joining us using a speakerphone, please make sure your function is turned off to allow your signal to reach our equipment. That is star, one if you have a question or a comment.

We'll take your first question from Pablo Barroso from Credit Suisse.

Pablo Barroso

Good morning Adolfo and congratulations on the results. I just have a couple of questions. In the last quarter, we witnessed a double-digit increase in cost of services, mainly explained by the Terminal 3 expansion, I believe. Should we witness this tendency along the year? And my second question, could you give us

more color if you are looking into M&A, maybe something in the Caribbean or in Colombia?

Adolfo Castro

Pablo, good morning. In the case of the cost of services, yes, we saw an impact from Terminal 3 and this is what we can expect from now on, because Terminal 3 is open, we added 25,000 additional square meters that we have to secure, maintain, light, etc. So, that is going to be there for the future. In terms of M&A, yes, we are seeing some projects today. I cannot disclose those to you right now, but of course once we have more information or we are more advanced in those processes, we will let you know.

Pablo Barroso

Okay. Well, thank you Adolfo, that was very helpful.

Operator

We will hear from the next caller in the queue, Mauricio Martinez from GBM.

Mauricio Martinez

Good morning, Adolfo. Thank you for taking my questions and congratulations on the results. My question is regarding the non-aero revenue. We saw strong growth this quarter, in line with the first one. I was wondering if you see sustainable, such growth for the remaining of the year or if you see any possible slowdown?

Adolfo Castro

Good morning. What we expect these levels to be maintained. Up to the moment we opened Terminal 4. Of course, we have to consider the seasonality of every quarter, because we do not receive the same kind of passengers every quarter. So in other words, balancing in the case of the summer (inaudible) in the case of the third quarter, so the kind of passenger we receive at our airports is different, so please consider the case of the seasonality.

Mauricio Martinez

Perfect. Thank you very much.

Operator

We will move next to Marcio Prado with Goldman Sachs. Please go ahead.

Marcio Prado

Good morning, Adolfo. Thank you for the call. Two quick questions, one is on the relevant announcements you mentioned in the end of the press release. If you could give us more color on the contract extension with Dufry for the operations—for the commercial operation at Cancún and Cozumel Airports. It says that this is a 10-year extension. Just wanted to understand if the previous contract was also of a 10-year tenure? Also if you could give us some color on some aspect with regards to the development of Terminal 3 and Terminal 4 of the commercial areas?

Second, it's only on the dividend paid in June, just wanted to understand if this is really only for the first six months of 2016 and if we should expect an additional partial being announced at the—as we close 2016 results? Any color on additional dividend plans from ASUR? Thank you.

Adolfo Castro

Hi, good morning. In the case of what you were mentioning, the extension of the contract of Dufry. The original contract was a 10-year and that contract was to expire May 31, next year. So, this contract was made before we opened Terminal 3 in 2007. We have decided to extend the contract for, I would say, nine years, because we signed this agreement with 10 years today, but of course if the contract expires next year that is in reality a nine-year extension. The only thing that I can say to you is that we are happy with the terms we got in the contract and we are happy to work today with Dufry in the case of the construction of the space for Terminal 4.

So, now we have someone firm to start this process. In terms of Terminal 4, as I said, basically we are expecting to open that during the fourth quarter next year. We are more or less in time in terms of the construction process. If you go today to Cancún airport, you will be able to see the skeleton of the building it is being constructed (inaudible).

In terms of additional payments, we normally will not pay more than one dividend every year. In the past, it was the case of, in the year 2012, if I don't remember wrong, or 2013, when the Mexican tax laws changed and we started to pay the second payment at the end of the year, but that was mainly the reason why we paid twice.

Marcio Prado

Thank you. Thank you, Adolfo.

Operator

As a reminder, ladies and gentlemen, that is star, one if you have a question or comment. We'll hear next from Ravi Jain from HSBC.

Ravi Jain

Hi Adolfo, good morning. Just two quick questions from my end. The first one is, on the traffic trends that we saw in the first half, as you mentioned, the comps were tougher and the first half is about 7% traffic growth. How do you see the back half of the year? Are you seeing relatively stable trends or any positive momentum in relation to the US-Mexico agreement or even on the domestic front, if you can just give us your thoughts on the traffic?

And the second question is, after the remodeling of the terminals at Puerto Rico, are there any other additional initiatives that we should expect and just how do we kind

of expect the earnings from Puerto Rico in the next few quarters? Thank you so much.

Adolfo Castro

Hey, Ravi, good morning. In the case of the traffic, as I had mentioned during the previous quarters, is that I'm seeing a more normalized traffic, so not the case that we showed last year with almost 13% growth. So, on one side you have tougher comparisons and on the other side see some effects on the world's economy. I mentioned one of them, which is Canada, the current economic situation there is, I believe, is one of the reasons why we're seeing weak traffic from this region. So, in summary, what I would expect for the second half of the year is more like the same numbers we are seeing in during the first one.

In the case of Puerto Rico, while we have concluded with the project, that doesn't mean that this is over and that's it. So, it means basically that this is the first day of the new way of operating that with a better layout, with more commercial and better commercial offers. So, what we do from now on is basically what we call fine-tuning, which is start seeing what is the real result of our original proposal and to adjust it in accordance with what the passenger is expecting in terms of price, product and service. So, this is not the end, this is just the first day of course, and this was an important moment for us, because finally we concluded what we designed originally three years ago; and as I said during the initial remarks, we concluded these on time and budget.

Ravi Jain

Thank you. That's very helpful.

Adolfo Castro

Thank you.

Operator

As a reminder, that is star, one if you have a question or comment. Stephen Trent from Citi. Your line is open.

Stephen Trent

Hi, good morning, Adolfo. Just two questions from me. The first, also related to M&A, but more looking at Puerto Rico, do you see any long-term potential that ASUR could buyout at least some of Highstar's stake in that asset? And then my second question pertains to what I thought you'd mentioned in the past, plans for possible airport hotel in Cancún and where that is now? Thanks.

Adolfo Castro

Hi, Stephen. Good morning. In the case of your question on M&A and the case of Highstar, you know that Highstar is a fund and that they will have to sell this someday in the future, we have said that before. Once they are ready to do this, we will of course see that as a possibility. In the case of the hotel, we have concluded

with, I would say first, the permits; second, the business plans and the design of the facility; and now we're in the process to get someone to invest on this project.

What we intend to do there is basically to make a lease for the land, and then they should construct this and operate that, and we will be receiving the payments from the lease of the land and that's it. I don't believe that this is going to be a major income for the airport that is something significant that we need to discuss, but the process is there and we are basically almost ready to conclude with this process, and then they will have to start constructing this facility.

Stephen Trent

Okay. That's very helpful. Thanks, Adolfo. And just one last follow-up, as you're going to open Terminals 4 and then close Terminal 1, is there any view as to what's going to happen at Terminal 1, some sort of recreation spot or something else?

Adolfo Castro

No, no, Terminal 1 will be closed and will be there as a spare part. As it was, before we opened that in November 2013, so in reality, Terminal 1 was closed in—basically since 2005 and we had to open that in November 2013 as an emergency plan due to the huge growth in passenger traffic we experienced.

Stephen Trent

Understood. Well, I will let someone else ask a question and thanks for the time Adolfo

Operator

We'll hear next from Francisco Suarez from Scotiabank.

Francisco Suarez

Hi, Adolfo, good morning. Congrats on the results and thank you for the call. A follow-up on Puerto Rico, and thank you for the color you provided at the beginning of the call. You already have a wonderful chapter on (inaudible) with San Juan, Puerto Rico and of course the LIBOR plus 185 basis, it's okay. But I'm not sure if you see any potential refinancing at the moment that may actually provide more value for ASUR, I mean, and of course the question here relates with this potential hidden value that is not that obvious in San Juan? Thank you.

Adolfo Castro

Hi, Francisco. I don't believe we have conditions right now to do what you are mentioning. One, of course, has to do where the current economic conditions there and the uncertainties on what is going to happen with their economic situation. And the second one, basically, what we need to be sure is that what we design is going to work. So, we are ready to start proving this new concept. How this works? I would say the next 12 months will be crucial. So the only way is to be able to refinance and prove that this concept is working is once we are able to provide the results, and that's what we are trying to see for the next 12 months.

Francisco Suarez

So in other words, even though that you already finished the works there on schedule and on budget and you have the guarantee of the rest of the operations are doing great, that is not enough to get a better cost, in other words, isn't it? Is that the way that we should be understanding?

Adolfo Castro

No, no, that's not exactly. One of the major risks of course was the construction, so the remodeling process itself, okay? So, because we were—we didn't have any experience of constructing that. So, I would say, the first parts we would see constructing and remodeling; it's over, so the first risk has in that sense disappeared. The objective, as I say during the conference call is to reduce operational cost and to increase commercial revenue per passenger. This is, let's say, we have created infrastructure to achieve the results.

So now, we have to achieve those and in the case of commercial revenues per passenger, once again, we need to make the fine-tuning and see that the new concept—with the new commercial concepts we have included there are working and that is what the passenger was expecting, and see how this works.

Francisco Suarez

Got it. Thank you.

Adolfo Castro

You're welcome.

Operator

At this time, we have no further callers in the queue. However, we would like to give everyone an opportunity to signal. That is star, one if you have a question or a comment. We'll pause for just a moment. Mr. Castro, at this time there are no additional callers in the queue, I'll turn the conference back over to you for any additional or closing comments.

Adolfo Castro

Well, thank you and thank you everybody to be here with us for the second quarter results conference and have a great day. Goodbye.

Operator

And that does conclude today's teleconference. We thank you all for your participation.