

**Grupo Aeroportuario del Sureste**  
**1Q13 Earnings Call Transcript**  
**April 23, 2013**  
**10:00 am ET; 9:00 am CT**

**Operator**

Good day, ladies and gentlemen, and welcome to the ASUR First Quarter 2013 Results Conference Call. My name is Jamie 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 the 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 using a speaker, 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, Jamie, and good morning, everybody. Thank you for joining us today for the conference call to discuss our first quarter 2013 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.

On today's call I will provide a brief update on San Juan de Puerto Rico International Airport, and then go over the key highlights of the results for the quarter.

Moving on to San Juan airport, as you know, we were the preferred bidder for this airport and have obtained the final approval from the FAA to lease and operate this airport for a 40-year period. This is the first airport under the FAA's Privatization Pilot Program and we believe that this will be seen some years from now, as a very important step towards other future airport privatizations in the US.

We made an equity contribution of US\$118 million for our 50% share in Aerostar and we provided Aerostar a US\$100 million subordinated loan at an interest rate of libor plus 210 basis points. This was funded through a credit agreement with BBVA Bancomer and Bank of America Merrill Lynch for US\$215 million, with a five year term and an interest rate of libor plus 199 basis points. At the same time, our subsidiary Cancun pledged its membership interests in Aerostar to secure the US\$350 million senior secured notes issued by Aerostar in a private placement.

As Aerostar is a joint venture and not our subsidiary, we do not consolidate Aerostar's assets or liabilities into our financial statements and have booked our 50% share in Aerostar under the equity method, in accordance with International Financial Standards.

ASUR's equity in the income of Aerostar for the quarter was a net loss of Ps.122 million. To get to day one of operations under Aerostar's management, around Ps.114 million were spent during the more than two year period in which ASUR was involved in the bidding process for the privatization of the SJU airport. This included preparation of all bidding documentation, obtaining Part 139 Certificate from the FAA, market research, consulting, legal, and debt financing fees, among others.

We also reported an operational loss of Ps.8 million from SJU airport generated from the operation of the Company as from February 28, 2013 to March 31, 2013.

In addition, ASUR posted a Ps.47 million loss in stockholders' equity resulting from the translation effect of Aerostar's financial statements, in connection with the valuation of the capital stock derived from the appreciation of the peso against the U.S. dollar.

Results this quarter were also impacted by the reimbursement by Aerostar of Ps.20 million in fees paid to third parties in connection with ASUR's participation in the SJU privatization, and a foreign exchange gain of Ps.31 million resulting from the 3.50% appreciation of the Mexican peso against the U.S. dollar in connection with the increase in foreign currency denominated debt following the US\$215.0 million credit agreement with BBVA Bancomer and Bank of America Merrill Lynch I mentioned before.

At the same time, total passenger traffic at SJU airport was 782,924 from February 28, 2013 to March 31, 2013.

Our goal now is to transform San Juan airport into a world-class airport gateway. And while SJU is the Caribbean's busiest airport and a very attractive growth opportunity for us, keep in mind that this is a long term project. We believe it will require around three to four years to turnaround this operation and bring it to the efficiency, profitability and service levels that we have at Cancun today. In fact, during the next years we will be focusing on completing needed maintenance projects, improve passenger flow, upgrade roadways and technological infrastructure, and improve and enhance airport retail offerings. This also means focusing on driving commercial revenue growth from levels similar to what we had at Cancun 10 years ago to achieve the world-class standards we have at Cancun today.

As always, we are committed to transparency. Will provide additional updates as we move along in transitioning the operation of San Juan, together with the Puerto Rico Ports Authority, through a process that will last several months.

In terms of our consolidated results, passenger traffic increased 8.5% year-on-year, with a 10% expansion in domestic traffic to 2.0 million passengers this quarter, the highest record for us in a first quarter.

Domestic traffic was particularly strong at Cancun, Veracruz, Oaxaca, Villahermosa, Cozumel and Minatitlan airports. Traffic at Cancun remains at historical peaks reaching more than 1.0 million passengers this quarter. The smaller airports, however, are still affected by the limited domestic airline fleet capacity.

International traffic rose 7.5% to 3.6 million passengers, and represented 64.1% of total traffic, slightly below the 64.7% share in the first quarter 2012. Passenger traffic between Mexico, Canada and the United States, represented 83.09% of the total traffic compared with 85.79% a year ago.

Revenues rose 7% this quarter driven by passenger traffic growth and continued expansion in commercial revenues. Commercial revenues per passenger, however, fell 0.5% to Ps.74.24, year-on-year and reflects the shift in passenger mix towards domestic traffic which is restricted from purchasing duty free items and the effect of the 3.5% appreciation of the Mexican peso against the US dollar. Nonetheless, this was the second highest value for a first quarter.

Operating cost and expenses rose only 0.7% year-on-year, as we were reimbursed the fees paid to third parties in connection with our participation in the privatization process in San Juan airport. Excluding this reimbursement, total operating costs and expenses would have increased 4.1% mainly reflecting higher maintenance costs.

EBITDA was up 10.7%, with an EBITDA margin increase of around 232 basis points year-on-year to 66.74%. We made investments of 91 million pesos this quarter as we continue with the terminal expansion in Huatulco, Oaxaca, Villahermosa and Veracruz airports, all of which are expected to be completed during the year 2013.

Finally, we maintain a sound balance sheet with cash and cash equivalents of 2.7 billion pesos and bank debt of 2.9 billion pesos at the close of the quarter.

Before opening the floor for questions, let me note that this coming Thursday, we will be holding our General Annual Ordinary Shareholders' meeting. Among other items, the agenda includes the proposal by the Board of Directors to pay an ordinary net dividend in cash from accumulated retained earnings in the amount of Ps.4 for each of the ordinary "B" and "BB" Series shares.

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

## **QUESTION & ANSWER SESSION**

**Operator:** Thank you, sir, and if you would like to ask a question at this time, as a reminder, please press star, one on your telephone keypad. If you are using a speakerphone today, please make sure your mute function has been turned off or pick up your handset to ensure that our equipment can hear your signal. Again, that is star, one at this time for any questions. And, I'll pause for just a moment to assemble a roster.

And, we'll take our first question from Benjamin Theurer with Barclays.

**Benjamin Theurer, Barclays:** Hello, good morning. First of all, thanks for the call. I have actually two questions; one is related to the overall operations within Mexico. We've seen this kind of improved international traffic with about 7.5% growth. What's your expectation going forward in terms of international traffic? What have you seen so far? And, do you expect a shift more towards international traffic again which should then be positive for commercial revenues which was a little bit weak this quarter, just because of the lower level of international traffic? And then, the second question would be related to Puerto Rico. You said already that it will take about three to four years to turn the operations around, but do you expect to become at least—in terms of operational profit—positive before that timeframe? Or, do you actually expect in three years to be operationally profitable at that airport? Thanks.

**Adolfo Castro, ASUR:** Hi good morning Benjamin, thank you for being here with us. In terms of the traffic, yes you're right. We have seen some improvement in international traffic, I would say basically from the United States. In the past year 2012, all the regions were growing with exception of the United States. Apparently, today what we are seeing is a small increase from the U.S. traffic.

If this will continue or not it's hard to say, but my expectation is that this year, the domestic traffic will be more balanced against what we saw last year. Also, it's important to say that due to the fact that Mexico City airport is congested or that the Mexican authorities have declared these airports separated, and because of this, they have decreased the amount of operations that these airports can take in an hour, as from October this year, probably we will see a small reduction toward the end of the year.

Again, this will change a little bit of the asset mix that we expect for this year.

In the case of San Juan, yes we are talking about three to four years to make the turnaround of this airport, and basically to be able to provide the same level of service quality as we are providing today at Cancun. Of course, in terms of financials, now we do not speculate to four years in order this airport can report profits. The results we show for the first 31st days of operation was a small loss, in my opinion, and these should be corrected in the years to come because of the increase in the commercial revenue per passenger.

Of course, this will not happen from day to night. The first thing that we have to do is to improve—well, first to do the maintenance—correct maintenance problems this airport has today; second to start with the construction of the new layout of the terminal, and then we can talk about more growth in terms of commercial revenues.

So, I would say this will occur one year from now.

**Benjamin Theurer, Barclays:** Thank you very much.

**Adolfo Castro:** You're welcome.

**Operator:** And, we'll take next question from Stephen Trent with Citi.

**Stephen Trent, Citibank:** Good morning Adolfo and thanks for the time. Sorry if I am repeating something you already said, but I had some trouble dialing in. I just wanted to follow up on one or two of Ben's questions. You know, looking at Puerto Rico and your outlook on that, I'm wondering sort of what general assumptions you made about—sort of recovery of capacity from the likes of American Airlines? And, to what extent that FAA budget cuts have impacted your outlook in terms of having this asset become accretive?

**Adolfo Castro:** Okay, hi, good morning, Steve. In the case of American Airlines, we don't believe that they're going to go back in a strategy they targeted two years ago, basically moving their hub operations from San Juan to Miami, and maybe you know that as from April this year, American Eagle is not operating there anymore. So, we're not focused on that and we don't believe that we're going to be able to compete with them once they have invested a lot of money in Miami airport.

Against this—JetBlue is putting a lot of emphasis in the growth of this airport and I would say this region in the future.

In terms of the current cost from FAA—well from TSA basically, I would say, we do not expect any major impact in the case of San Juan airport. Also, one of the projects we have that we will start constructing towards the end of this year will be the improvement of the security filters that—in order that they can be more efficient in terms of using their own personnel. So, this will benefit the airport and also this will benefit them in terms of the amount of people they have allocated to process all of these passengers. So, I don't expect any problem with the situation in San Juan. And remember that this airport has excessive capacity, let me put it that way. So, it's not a problem.

**Stephen Trent, Citibank:** Great. Thanks Adolfo. And, just one another quick thing, I didn't—I heard you say—mention the dividend that you declared this year, but if you could repeat that for me please, I couldn't hear you so well.

**Adolfo Castro, ASUR:** Yeah the proposal is Ps.4 per share.

**Stephen Trent, Citibank:** Great thanks Adolfo. Let me leave it at that. I'll let someone else ask a question. I appreciate that.

**Adolfo Castro, ASUR:** Thank you. Thanks.

**Operator:** And as a reminder, that is star, one on your telephone keypad if you'd like to ask a question. Star one, and we'll go next to Vivian Salomon with Itau.

**Vivian Salomon, ITAU BBA:** Hi Adolfo, good morning. I just wanted to ask you about the tax level that you reported during this quarter. Should we be expecting the same level for the rest of the quarters? And, just talking about—second question on the commercial side, what do you—I mean, I know you don't give guidance, but what are you expecting in terms of what sort of the—what portion of the revenue should we be expecting to go up? If we see—if we see the same dynamics of passenger mix during this—the year?

**Adolfo Castro, ASUR:** Okay. In terms of taxes Vivian, more or less the average for the whole year should be an effective rate of 30%, which is more or less the corporate rate we

have in Mexico. The difference could be in the case of the cash that we pay in taxes, but in terms of the P&L, the average for the year should be close to 30% unless something different occurs as we saw in the fourth quarter last year when two airports shift from one tax to the other.

In the case of commercial, I would say, yes, we don't like to present results in terms of commission revenue per passenger in the negative way. That's clear that we don't like that, and that's not the objective we have as a management, but I have to say that during this quarter, there were very extreme things that happened, the position of the peso was one of them. Of course, the amount of domestic passengers we saw in Cancun terminal was another one, and we are taking the necessary steps to correct the situation. So, probably toward the end of the year, we will have to open a Terminal One that will represent some kind of relief to Terminal Two. This will give domestic passengers more space, and of course, more opportunity to buy stuff. We—as I mentioned at the beginning, we expect the change in the passenger mix so that we have more international in comparison of what we saw last year, and so that's what I can say for now.

**Vivian Salomon, ITAU BBA:** Thank you, Adolfo, (inaudible).

**Operator:** And, we'll take our next question from Neal Dihora with Morningstar.

**Neal Dihora, Morningstar:** Hi, good morning, thanks. Two questions. One, you mentioned some reimbursement I guess from LMM bids in your P&L. I think that was in G&A. Do you have an exact amount or at least a percentage amount? And then two, for the LMM, do you—is there a minimum cap ex amount for the duration of your 40 years there? Thanks.

**Adolfo Castro, ASUR:** Okay. In terms of the reimbursement, these were some expenses that we have been recorded in our P&L for the last two years that, basically, that once the operation was closed and we had a financial closing, this was paid from Aerostar to Cancun airport. The amount of this was, in terms of round numbers, Ps.20 million and that was reflected or registered in our books as a reduction in expense in the cost of services.

In terms of your second question, if there's a minimum cap ex requirement. Yes, there is two requirements, one from the airlines and one from the Authority. In the case of the Authority, basically, they are requiring projects, they're not requiring amounts.

In the case of the airlines, they are requiring projects and a minimum amount. This is very small of what we really have to do. We have to improve this airport. Today, I don't have a specific amount of investment, but what I can say to you is that the investment that we are expecting to put in this airport is by far more than the minimum requirement.

**Neal Dihora, Morningstar:** Okay. Thanks, that's helpful.

**Operator:** And, I'll take our next question from Luis Willard with GBM.

**Luis Willard, GBM:** Thank you. Good morning, Adolfo. Thanks for the call. Just a quick question regarding the negotiation of the MDP. To the extent that you can comment, what

can we expect in terms of the distribution of the investment given that it appears that you can continue growing without adding that much capacity to the terminals?

**Adolfo Castro, ASUR:** Hi good morning, Luis. In terms of the MDP, I cannot say too much today, what we are doing is basically having the site visits with the Authority. They are, basically, going to each one of our airports reviewing each one of the projects we propose in terms of investment.

My expectation is that investments for the next five-year period will be lower in terms of real terms compared with the previous five-year period. That's my expectation, but of course today, we cannot say too much because we will have to see and agree these with Authorities. I believe this will occur more or less in the third quarter this year.

**Luis Willard, GBM:** Okay. Thank you.

**Adolfo Castro, ASUR:** You're welcome.

**Operator:** Then again, that is star, one on your telephone keypad if you'd like to ask a question at this time. If you find that your question has already been asked or answered, you may remove yourself by pressing star, two. Again, star, one for any questions. We'll go next to Augusto Ensiki with Morgan Stanley.

**Augusto Ensiki, Morgan Stanley:** Hi Adolfo, good morning. Just a question on LMM. What is the amount of investment expected for just for this year? And then, how does that—how is that going to be reflected on your balance sheet and on your P&L? Thank you.

**Adolfo Castro, ASUR:** Okay. As I said before, Augusto, today we do not have a specific amount. As a matter of fact, we are working in quotations and both the design of the project and then the quotations for this construction. This year, probably the amounts are not going to be extremely important because the real construction will start as from October, November this year for the project. Next year is going to be the hard one. How is this going to be reflected in our books? Basically, through the equity methods and basically putting a value of our 50% equity stake. So, you will—again, we are not going to consolidate this into our financials.

**Augusto Ensiki, Morgan Stanley:** Okay. So then, in the way that it appears this quarter in the asset line?

**Adolfo Castro, ASUR:** Exactly in the investment, yes.

**Augusto Ensiki, Morgan Stanley:** Okay perfect. Thank you very much, Adolfo.

**Adolfo Castro, ASUR:** You're welcome.

**Operator:** And currently, I'm showing no questions in queue. Again, that is star, one at this time if you'd like to ask a question. Star, one. And, I'll pause for a few moments to give everyone a chance to signal.

And, we'll take our next question from Adolfo Ramos with Franklin Templeton.

**Adolfo Ramos, Franklin Templeton:** Hey Adolfo, good morning everyone. I just wanted to see whether there has been any progress on finding—on expanding the organization. You mentioned that you were waiting on the approval of the LMM Airport to make any decisions; I was wondering if you're any close to hiring someone?

**Adolfo Castro, ASUR:** Yes I'm getting closer—I'm getting closer to hiring someone and I hope that by the third quarter, you will see someone else here.

**Adolfo Ramos, Franklin Templeton:** Thank you.

**Operator:** And again, that is star, one if you'd like to ask a question. Star, one for any questions at this time, and we'll pause for a few moments.

And, at this time, I am showing no further questions. I'd like to turn the call back to you Mr. Castro for any additional or closing remarks.

**Adolfo Castro, ASUR:** Thank you, Jamie. And, thank you everybody for joining us today on our conference call. As always, do not hesitate to contact me if there is any further question. Thank you and have a good day. Bye.

**Operator:** And again, that does conclude today's conference. We do thank you for your participation.