



**Grupo Aeroportuario del Sureste
Third Quarter 2013 Earnings Call Transcript
October 22, 2013
10:00 am ET; 9:00 am CT**

Operator: Good day, ladies and gentlemen, and welcome to the ASUR Third Quarter 2013 Results Conference Call. My name is Aaron 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, Aaron and good morning, everybody. Thank you for joining us today for the conference call to discuss our third 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 first provide an update on San Juan Puerto Rico International Airport and afterwards, I will briefly review the results for the quarter.

Passenger traffic at San Juan airport remained unchanged quarter-on-quarter at 2.1 million passengers, reaching 5.0 million since February 28, 2013.

On the financial front, Aerostar's net income contribution for ASUR's 50% ownership stake for the quarter was a net gain of Ps.0.3 million.

In terms of the work being done at Aerostar, we remain focused on repairing, cleaning and performing maintenance work of San Juan Airport's infrastructure. We also continued with the preparation work for the remodeling of the terminals at San Juan airport, which we expect will begin next month and continue for approximately three years.

Now, in terms of our consolidated results, passenger traffic increased almost 11% year-on-year, with domestic traffic up 9% to 2.7 million passengers, an all-time high.

Domestic traffic was particularly strong at Cancun, Veracruz, Merida, Minatitlan, Oaxaca and Villahermosa airports. Cancun continues to post strong growth, again achieving record traffic of more than 1.5 million passengers this quarter. And although the situation at the smaller airports continues to improve, traffic remains affected by limited domestic airline fleet capacity.

International traffic also performed well, up by 12% year-on-year reaching 2.6 million passengers, a record for a third quarter. The share of international traffic rose slightly to 48.7% of total traffic, from 48.1% in the third quarter of 2012. Passenger traffic between Mexico, Canada and the United States, represented 84.24% of the total traffic compared with 84.58% a year ago.

Revenues were up by 7.2% as higher passenger traffic and the continued expansion in commercial revenues more than offset the 22.5% decline in construction services revenues. Commercial revenues per passenger increased 5.1% to Ps.71.25, year-on-year and we remain focused on maximizing commercial revenue growth. But as you have seen during this year, it is getting harder each day to do so given the number of passengers we are receiving.

Operating cost and expenses declined 3.4% year-on-year reflecting the 22.5% reduction in construction costs. Excluding construction costs, operating costs and expenses would have increased 2%.

We continue with our plan to reinitiate operations at Terminal 1 at Cancun airport which should add some operating cost as from the fourth quarter.

EBITDA was up by 16.4%, with an EBITDA margin increase of around 489 basis points year-on-year to 61.50%. We invested 130 million pesos this quarter in connection with expansion work in the terminals of Huatulco, Oaxaca, Villahermosa and Veracruz airports. Work at Huatulco and Oaxaca has been practically completed this quarter and we are about to finalize the expansion of the terminals at Villahermosa and Veracruz.

In terms of our balance sheet, we closed the quarter with cash and cash equivalents of 2.4 billion pesos and bank debt of 2.9 billion pesos.

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

Operator: Ladies and gentlemen, as a reminder, that is star, one to ask a question, and if you're using a speaker phone, please make sure your mute function is turned off to allow your signal to reach our equipment.

We'll take our first question from Eduardo Couto with Morgan Stanley.

Eduardo Couto: Hey, hi, good morning, Adolfo. Congratulations on the results. I have two questions, Adolfo, the first one regarding Puerto Rico. Now, you know, when you look at the equity income contribution that you have been reporting, now in the first quarter it was, I think negative 8 million, second quarter was positive 27

million and this quarter was breakeven. So, looking at that, it gives an impression that you know every time the peso gets weaker, you have a positive contribution, and when the peso gets stronger, the number is negative. So, is there really—my question is, is there really an FX impact on this equity income contribution from Puerto Rico? That's the first question.

Adolfo Castro: Hi, good morning, Eduardo. Thank you for your kind words. Yes, of course there's an impact when you translate the U.S. dollar financial statements of Puerto Rico to peso. Of course, if the peso gets weaker, you get more pesos per dollar in terms of the financial statement. So, that's very clear, that you will have an impact when you translate San Juan, Puerto Rico airport operations to ASUR's financial statement.

Also, keep in mind that in the case of Puerto Rico we have debt, and you can see that in our balance sheet. We had 218 million bank debt—that of course is in dollars—and, on the asset side you have the relation of the stock and also you have the loan that we gave to San Juan, Puerto Rico. So, please take these basically three elements in consideration when you are making your forecast.

Eduardo Couto: So, what is the net dollar exposure, Adolfo that you say?

Adolfo Castro: The net dollar exposure in this year's balance sheet basically is breakeven because on the asset side you have the equity contribution, which originally it was 118 million, plus the loan which was 100, and on the liability it's almost the same amount. The problem is that the effect of the equity contribution does not go to the P&L; that goes into the equity. So, you can see in the report that we presented a 15 million pesos increase in equity because of this situation, and the other effect was in the P&L.

Eduardo Couto: Okay, and just another question, Adolfo, regarding the Cancun Airport. Can you give us an update regarding the terminal capacity, the operations there, and the commercial revenues? Did you open the old terminal? Or, you're only operating with the two terminals?

Adolfo Castro: As we speak, we are just operating Terminal 2 and Terminal 3. In the initial remarks, I said that we will be operating Terminal 1 as from the end of this month, and that of course will generate some—impact in the cost side for the fourth quarter. This terminal will have to give some kind of relief to Terminal 2, because of the strong, very strong growth of passenger traffic that we have seen during the last two years.

Eduardo Couto: Okay. With the terminals, your capacity would be how much?

Adolfo Castro: Well, if you want the number, I would say at least 17 million passengers.

Eduardo Couto: Okay. Thank you.

Adolfo Castro: You're welcome.

Operator: We'll take our next question from Bernardo Velez with GBM.

Bernardo Velez: Hi, good morning, Adolfo. Thanks for taking my call. My first question is regarding the MDP negotiations and maximum tariffs. Could you give us an update on how are the negotiations going? And, what can we expect on the new tariffs?

Adolfo Castro: Well, what you can expect is that we will be announcing once we close the negotiations, and I expect this to happen at the end of December and probably the report will be the beginning of January. So, that's what I can share with you. For the moment, we do not have any other comment.

Bernardo Velez: Okay, and in your annual report, you mentioned an indicative investment for the next five years. Can we still expect this amount? Or, are you planning on making another major investment?

Adolfo Castro: Well, this is probably something that we will have to look together with the authority, because with the strong traffic growth that we are having today in Cancun Airport, as I said in the previous conference call, Terminal 4 is getting closer and closer because of the growth we are seeing, so that maybe could be some additional cap ex for the first five-year period.

Bernardo Velez: Okay, thank you. And, regarding the fiscal reform, have you been thinking about probably anticipating next year's dividend payment?

Adolfo Castro: Not for the moment.

Bernardo Velez: Okay, perfect. Thanks for answering my questions.

Adolfo Castro: You're welcome.

Operator: Ladies and gentlemen, as a reminder, that is star, one to ask a question, and we'll go next to Stephen Trent with Citi.

Kevin Kaznica: Hi, good morning, Adolfo. This is Kevin Kaznica, on Stephen Trent's team, filling in for him. Thanks for taking our questions.

Adolfo Castro: Hi, good morning.

Kevin Kaznica: Good morning. Now, I got three questions. The first one, can you guys quantify how much of the year-ago EBITDA growth resulted from 3Q'12 like one-timers, like related to due diligence, consultant fees, et cetera, on Brazilian and Puerto Rican airport projects?

Adolfo Castro: Well, I don't have the figures on the top my head. Probably, if you refer to filings of the third quarter, the one we are presenting today, you will see that the different—that the amount is not really important, even though that's one of the reasons we are presenting as a result of the decrease in the operating costs and expenses, but this one is not significant, I would say.

Kevin Kaznica: Okay. Thank you, that's helpful. Now, my second question, I guess, would come from, I guess from the news about VivaAerobus placing a large aircraft order. Can you tell us, like, whether they or one of the other American

airlines announced any growth plans which involve any flights, any more flights to any ASUR airport installations?

Adolfo Castro: Well, you know that—well, I heard the announcement of VivaAerobus, and you have seen the others Interjet is in a similar situation, Aeromexico is in a similar situation and Volaris as well. Basically, we have to bear in mind that the capacity—the airline capacity we had in June 2008 was around 307 aircraft, and today we are one-third below that amount of planes. So, basically, all of these airlines are catching up of what we lost as the system some years ago. Of course, I see this is very positive, because at the end of the day, this will allow more passengers to fly. It's true that in some cases there were some passengers that were not able to fly because there was no capacity.

Let me give you the clear example that you can see today in the report we are presenting, and that's the case of Minatitlán. The question is, one, Minatitlán is growing each quarter by 50 something percent. The answer is very simple, because someone – Interjet - added another flight to that destination and this gave the opportunity to other passengers to fly. So, I see that as positive news, and of course this will, in my opinion, in the future incentivize demand with a lower price, lower air ticket price.

Kevin Kaznica: Okay, okay, thank you. That answers our question, and I guess the last question, what is your thinking about potential airport tenders inside and outside of Mexico, like Mexico City, Central America or Colombia, and other tenders in Mexico? Do you think ASUR would consider participating, and if you were, how should we think about your thoughts around what sort of would be an attractive, like, IRR?

Adolfo Castro: Well, today, as we speak, we are seeing the projects that are—I would say out in the market, there are some. For the moment, we just focus in one in terms of bidding processes, and that's the airport of LaGuardia, and we have been shortlisted, and that's the only one that we are participating in. In the future, of course, we will have to wait and see the new projects and we will be analyzing those, and if they have their own merits, we will participate. I cannot give you an IRR because every single project has its own particularity. Every single project is designed with its own concession cycle or lease agreement and has to be evaluated in that way.

Kevin Kaznica: Okay, fair enough. Now, could you just—I guess I missed it—could you repeat the—what was that airport project?

Adolfo Castro: La Guardia. Yes, what we have, it's in New York, it's La Guardia Airport.

Kevin Kaznica: Oh, La Guardia, okay. I just wanted to confirm that. Okay. Thank you very much.

Adolfo Castro: You're welcome.

Operator: Ladies and gentlemen, as a final reminder, that is star, one to ask a question. And, we'll go next to Neal Dihora with Morningstar.

Neal Dihora: Yes, good morning. Thanks. I guess I wanted to go back to San Juan. It looks like third quarter you had an operating loss at San Juan. One, is that correct; and two, is there a lot of seasonality that is causing that? It looks like 2Q, you had a large operating gain. That's sort of my question.

Adolfo Castro: Okay. Let me talk about San Juan for a moment. First, we do not have history. As you know, we just take over this airport on February 27th this year. Second, it is important to understand that for the moment, we have to work very hard on maintaining and basically upgrading the facility we have there. So, it's going to pass some quarters until you and we can find some kind of stability in terms of the results. That's what I can say.

Of course, the inflation of the Mexican peso against the dollar has an impact on the final number into ASUR's financial statement, but probably the most important comment that I can say is, of course, during the second quarter, the maintenance was not exactly the same as the one that we are having right now, so we are speeding up the process of maintaining this or upgrading this facility, and as I said in the initial remarks, from the month of November, we will begin the process of—the remodeling process of the terminal buildings down there for a period of three years.

Neal Dihora: Just to follow up, is that—so, the work that you're going to start doing in November and it's going to last three years, is that also considered maintenance or is that included in capital investments?

Adolfo Castro: No, I would say that is capital investments.

Neal Dihora: Okay. All right, thanks.

Adolfo Castro: You're welcome.

Operator: We will take our next question from Gabriel Cotellessa with Goldman Sachs.

Gabriel Cotellessa: Hi, Adolfo. Thank you for the question. A quick question on—just to have your view on—with the Mexican City international airports reaching full capacity, I'm curious to hear from you what would be expected, in your view, from a potential impact for your—any kind of potential decrease on volumes going to Cancun or something like that. Thank you.

Adolfo Castro: You're welcome, Gabriel. Thank you for the question. Yes, you're right. Some months ago, the Mexican government officially declared saturated this airport, and basically they reduced the amount of operations per hour that these airports can handle. I don't have an exact figure, but the number that I heard was some 81 air traffic movements per hour to 61 air traffic movements per hour in the eight hours, on a daily basis, that the airport is full and congested. That will represent around 4.5 million passengers that will have to be relocated, and be relocated in terms at the time of the day or will have to be relocated to some other airports, and of course the one that I believe will take the most important part of these 4.5 million passengers is Toluca Airport. One consideration is that not all the passengers, not all of these 4.5 million passengers will be willing to fly from Toluca, so the possibility of losing some of them is very high, and of course some of them will be or should be or will be willing to travel to Cancun.

Gabriel Cotellessa: Okay, thank you.

Adolfo Castro: You're welcome.

Operator: We'll take our next question from Ellen Lyerly with Deutsche Bank.

Ellen Lyerly: Good morning, Adolfo. The question I had, I was hoping you could explain a little bit more the excellent results that we saw in revenue per passenger, which was up 5.1%, and put that in context with the second quarter where we saw that decline to around 1.3? What's changed in the quarter? Is that a one-off, or how should we look at that?

Adolfo Castro: Well, what has changed, in my opinion, is the amount of passengers. Of course, we are at the record high, but of course, when you compare this with the previous quarter, it's lower. In other words, as you know, Terminals 2 and 3 in Cancun were very congested during the second quarter and that is why we are opening Terminal 1, to give some kind of relief to Terminal 2, in terms of the amounts of passengers passing through these terminals every single day. You can't sell the same when you have lines in some of the stores, or when just the airport, it's full of people, okay. So, that's probably one of the most important things that I can say in terms of the passenger service and the combination of these with the commercial revenue.

If you remember in the first quarter, we had the same situation and I gave a very clear indication why we had a lower number in terms of pesos per passenger against the previous year, and one of those was of course the exchange rate. The other one was—and this is from the top of my head—the change in the mix of passengers. So, you had more domestics in comparison with previous years, and domestics of course do not have the opportunity to buy duty free. So, that's the current situation, and that is why I have said in the initial remarks again, that every day it's getting harder and harder to get more commercial revenue on a per passenger basis with the amount of passengers we are receiving today. In the future, as I have said before, what we expect is to expand Terminal 3 and to construct Terminal 4.

Ellen Lyerly: Sorry, could you repeat that last sentence, what you expect in the future is?

Adolfo Castro: Sorry?

Ellen Lyerly: I didn't follow the last sentence, what you expect in the future is what?

Adolfo Castro: What we can expect in the future is to expand Terminal 3 to add more capacity and to construct Terminal 4?

Ellen Lyerly: So, would it be fair then to assess in quarters where you have lower growth or lower traffic, we can expect better retail upside?

Adolfo Castro: On a per passenger basis, I would say, yes.

Ellen Lyerly: Okay. Thank you, that's helpful.

Adolfo Castro: You're welcome.

Operator: As a last reminder, that is star, one to ask a question at this time.

It appears there are no more questions in queue. I would like to turn the call back over to Mr. Castro for any additional or closing remarks.

Adolfo Castro: Thank you, Aaron, and thank you, everybody, for joining us today on our conference call. I have to say that on November 27th, in order to celebrate Air France and ASUR's 18th and 15th Anniversary, respectively, Cancun Airport will be honored to receive the first commercial landing of an A380 in Latin America. This (inaudible) with a unique opportunity—that is to Cancun and to Paris. And, as always, do not hesitate to contact me if there is any further questions, and thank you all of you and have a good day. Good-bye.

Operator: This does conclude today's conference. We thank you for your participation.