



**Grupo Aeroportuario del Sureste
Fourth Quarter 2013 Earnings Call Transcript
February 25, 2014
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Operator: Good day, ladies and gentlemen, and welcome to the ASUR Fourth Quarter 2013 Results Conference Call. My name is Lori 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, Lori and good morning, everybody. Thank you for joining us today for the conference call to discuss our fourth 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.

I will start today's call with an overview of key recent events, followed by an update on San Juan Puerto Rico International Airport. Afterwards, I will briefly review the results for the quarter.

As you know, early January we received approval for our master development plan, including efficiency factor and tariffs for 2014 through 2018. We are pleased with the result of the negotiations. Capex for the five-year period is in line with our expectations. Note that capex for the period also includes moving forward the construction of a new terminal - Terminal 4 - at Cancun airport to support its growing passenger traffic. Cancun airport's capacity today stands at around 17 million passengers, close to the 16 million passengers serviced last year. We will also focus on the expansion of Terminal 3 at Cancun airport, as well as expanding the terminal building at Veracruz, among other ongoing investments. MDP negotiations also included a 2.7% reduction in tariffs on regulated revenues. The efficiency factor was maintained at 0.7%.

We also paid a cash dividend of Ps.4.40 peso per share last December, for a total amount of Ps.1.3 billion.

Moving on to San Juan airport, passenger traffic for the quarter was 1.9 million, a 7.5% quarter-on-quarter decline reflecting seasonality, reaching 6.9 million passengers 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 loss of Ps.48.5 million.

We are focused on taking the necessary steps at San Juan Airport to improve the level service offered to our passengers and with this drive commercial revenues; which at the moment are similar to Cancun's 9 years ago. All while reducing operating costs. Along this line, we continue to move forward on our plan to upgrade airport facilities. Last November we closed Terminal B to start the remodeling work, which we expect to complete by year-end. Keep in mind that the full upgrade of San Juan's terminals is a process that will continue for approximately three years as we remodel Terminal C and make some minor adjustments at terminal A.

Moving on to the results for the quarter, passenger traffic increased 9% year-on-year, with domestic traffic up 8% to 2.4 million passengers, a record for a fourth quarter.

Domestic traffic was particularly strong at Cancun, Merida, Veracruz, Minatitlan, Oaxaca and Villahermosa airports. Traffic at Cancun remains strong, with 1.2 million passengers, a record for a fourth quarter.

International traffic was also strong, up by 10% year-on-year reaching 2.7 million passengers, also a record for a fourth quarter. The share of international traffic rose slightly to 52.7% of total traffic from 52.4% in the fourth quarter of 2012. Passenger traffic between Mexico, Canada and the United States, represented 90.3% of total traffic compared with 90.0% a year ago.

Revenues were up by 10.6%, reflecting higher traffic, commercial revenue growth and an increase in construction revenues. Commercial revenues per passenger increased 2.67% to Ps.75.38 year-on-year – an all-time high. While we remain focused on maximizing commercial revenue growth, we do not expect a significant expansion in commercial revenues per passenger until the capacity constraints are resolved. The investments contemplated in the new MDP would provide the required additional capacity to continue to drive non-regulated revenues.

Operating cost and expenses rose 7.3% year-on-year mainly driven by the 15% increase in construction costs. Excluding construction costs, operating costs and expenses would have increased 3.3%. As anticipated, this increase includes the cost of the re-opening of Terminal 1 at Cancun airport to give relief to Terminal 2.

EBITDA for the quarter was up by 13.5% year-on-year reaching a total of Ps.762 million, with an EBITDA margin increase of 131 basis points to 51.53%. We invested Ps.292 million this quarter, mainly to complete the expansion work in the terminals of Huatulco, Oaxaca, and Villahermosa.

In terms of our balance sheet we closed the quarter with cash and cash equivalents of Ps.1.3 billion. This after the dividend payment made on December 27th. Bank debt stood at Ps.2.8 billion at the year-end.

Finally, a quick comment on taxes before opening the floor for questions; important tax modifications were made by the Mexican Tax authority at the end of the quarter, among them the most important ones include: i) the cancellation of the flat tax rate, ii) the cancellation of the provision that allowed for a reduction in corporate taxes from 30% to 28% in 2014, iii) an adjustment in value added taxes for Mexico's border region, which includes Cancun, from 11% to 16%, iv) Value added taxes of 16% for not inside city buses.

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

Operator: Thank you. If you would like to signal for a question, please do so by pressing star, one on your telephone keypad. Please be sure that your line is not muted so your signal will reach us. Again, that is star, one for your questions. We'll go first to Eugenio Amador with Credit Suisse.

Eugenio Amador: Good morning Adolfo. Thank you for the conference call. I was wondering if you could provide some guidance on the San Juan Puerto Rico operations for 2014. What would be your estimated profit and loss at year-end in 2014? And also, if there is any guidance on non-commercial—non-aeronautical revenue per passenger or any sort of guidance.

Adolfo Castro: Good morning Eugenio. You know that we do not provide guidance because it is hard for us to predict the future. What I can share with you is what we have seen during the last 10 months, because as you know, in two days we will complete the first year of operation of this airport. So, if you see the results of the first 10 months in terms of the 50% equity stake of ASUR, the result was a loss of Ps.148 million. Remember that 112 is the result of one-time events, so in reality, what you can see is a loss of Ps.30 million pesos more or less on these first 10 months. Remember that what we gave for the concession or for the long-term lease agreement was US\$650 million. If you divide this by 40 years, which is the length of the agreement, that means that you have an amortization of 15 million every year. So, the 30 million, let's say round numbers, US\$2 million for the 50, US\$4 million for the 100, if you add on top of this 4 million the 15 million of depreciation, you have positive EBITDA. This is something that you need to start seeing on San Juan Puerto Rico's numbers.

You are asking about the future. As I said, we have not yet been there for one year, so we cannot say what is going to happen in the future. In terms of the commercial revenue per passenger, as I said in the initial remarks, what we can see that today is as Cancun nine years ago. Also, it's important to understand that we are in a remodeling process. You can try to see the graph we have in terms of commercial revenue per passenger in our webpage, in our presentation, and please go back to what has happened in the year 2000 and 2001. Look at that piece of the graph and you will see what I'm talking about in terms of taking over, making—closing a piece of the building, making a remodeling process, and then open this piece of the building. That's what I can say to you.

Eugenio Amador: Thank you, Adolfo.

Adolfo Castro: You're welcome.

Operator: We'll go next to Marco Montanez with Vector.

Marco Montanez: Hi Adolfo. Good morning and thank you for the call. A couple of questions, if I may. Regarding the revenues from direct operations, is there any plan to increase its proportion in the future? And, do you have any plans to embody more business in your direct operations once the contracts with third party finish? Thank you very much in advance.

Adolfo Castro: Good morning Marco. No, we do not expect to have more direct operations in terms of additional business lines. You know we are operating directly today the parking lot, advertising and convenience stores, and that's what I believe we will continue in the future. The proportion for the future is how much these are going to grow against the other activities it's hard to say, but I believe it should remain more or less stable in terms of proportion.

Marco Montanez: Okay, thank you very much, Adolfo.

Adolfo Castro: You're welcome.

Operator: We'll go next to Stephen Trent with Citigroup.

Kevin Kaznica: This is Kevin standing in for Stephen. I guess our first question is will, the expansion of Cancun's terminal 3 require any shut-down time? I know you mentioned it in the call, but I just wasn't sure.

Adolfo Castro: I'm sorry – what was your question?

Kevin Kaznica: Will the expansion of Cancun's terminal 3 require any shut-down time?

Adolfo Castro: We are expecting to open that next year, I would say second semester of next year.

Kevin Kaznica: Okay. Just one other question – what are your views on projects outside of Mexico? It looks like La Guardia Airport is already taken, but what about other opportunities?

Adolfo Castro: Well, for the moment, we are not seeing any of that. Probably the other one that could come and that we would at least see the documents is Santiago de Chile.

Kevin Kaznica: Okay, thank you.

Adolfo Castro: You're welcome.

Operator: We'll go next to Neal Dihora with Morningstar Equity.

Neal Dihora: Yes, good morning. Thanks. The cost of services for 2013 were pretty low, or the growth was quite low. I was just wondering if you could comment a little bit on why that was and maybe comment on 2014. Thanks.

Adolfo Castro: You're talking about the operational costs?

Neal Dihora: Yes, just the cost of service line.

Adolfo Castro: Well, basically I can say that we are trying to control costs as always on one side. On the other side, keep in mind that what we are doing today is comparing with the previous year, and in the previous year we were spending some money in the case of the bidding process for Puerto Rico, so—and (inaudible) in the case of Brazil. So probably that is why what you are seeing is too low. For the moment, the only thing that we are doing is La Guardia, and of course the cost between La Guardia and Puerto Rico is completely different. San Juan de Puerto Rico was more expensive. Apart from that, I don't know what else to say to you.

Neal Dihora: Okay, that's fair. Thanks.

Adolfo Castro: You're welcome.

Operator: And again, if you would like to signal for a question, please press star, one on your telephone keypad. We'll go next to Bernardo Velez with GBM.

Bernardo Velez: Hi, good morning Adolfo. Thanks for taking my question. I was wondering what can we expect for the dividends going forward in 2014? And, if the dividend approved on December was kind of an extraordinary dividend.

Adolfo Castro: Bernardo, hi, good morning. In terms of your question, I don't know if the dividend we paid on December 27 was or not part of the dividends for the year. This is something that I will have to discuss with the Board of directors and then to make a proposal to our shareholders assembly. You will know once we do this.

Bernardo Velez: Okay, got it. Thank you.

Adolfo Castro: You're welcome.

Operator: We'll go next to Stephen Trent with Citigroup.

Kevin Kaznica: Hi Adolfo, it's Kevin again. Now, just one last question. You guys opened a lot of new retail areas on Cancun in the fourth quarter. Now, would you consider that an above-normal launch of retail establishments? And, if you strip these out, any sense as to what would have happened to commercial revs per passenger on a year-over-year basis?

Adolfo Castro: Okay, what you are seeing in the reports for the fourth quarter was Terminal 1. All of these areas are located in Terminal 1. We anticipate that due to the important growth in passenger traffic at Cancun, we had to open Terminal 1 the first week of November last year, so what we are seeing is that.

Kevin Kaznica: Okay, thank you. That was very helpful.

Adolfo Castro: You're welcome.

Operator: We'll go next to Ana Reynal with Santander.

Ana Reynal: Hello Adolfo, thanks for the call. Just one quick question – where do you see your debt level in the next couple of years?

Adolfo Castro: Sorry? What was your question?

Ana Reynal: Where do you see your debt level in the next couple of years? This is relating to the master development plan, if you are going to finance some of that with new debt.

Adolfo Castro: Okay. Well, it's hard to say. If you see—I'm talking about round numbers, okay? The total master development plan was 7 billion pesos, of which we already paid 700,000, so the remaining is 6.3 billion. If you see this, it's basically two times last year around that—two times last year EBITDA, so it's not in my opinion a huge amount. But of course, that will depend—if we are going take leverage or not for that will depend on what kind of results do we have in these years, and also what kind of investment opportunities we've found. But basically, you know that we want to grow with leverage or investment opportunities in our opinion should be financed by leverage.

Ana Reynal: Exactly, okay. Thank you.

Adolfo Castro: You're welcome.

Operator: We'll pause again a moment for your questions. Again, that is star, one to signal.

We'll go next to Jean Bruny with BBVA.

Jean Bruny: Hola Adolfo. I just have a couple of questions. The first one is on the MDP that you announced in early January and what you used that was applied in the calculation of the new maximum tariffs. The other question is on the airports that the government is trying to build in Mexico City, and just to know if you heard about it and what is your interest in the project.

Adolfo Castro: Okay, in terms of the why it's not public information. In terms of Mexico City, there was an announcement at the end of the fourth quarter by the Minister of Communications and Transport, and basically he said that they were working to solve Mexico City problems. He talked about an expansion of the current one and that's basically what I know. During the month of January and almost three weeks of February, I have not seen any other important statements on this airport, but what I believe is they are working really hard in order to solve this problem.

Jean Bruny: Okay, thanks.

Adolfo Castro: You're welcome.

Operator: We'll pause again for questions. That is star, one to signal.

With no other questions in queue, I'd like to turn the conference back over to Mr. Castro for any additional or closing remarks.

Adolfo Castro: Thank you, Lori, and thank you everybody for joining us today on our conference call. As always, do not hesitate to contact me in person with further questions, and thank you, all of you, and have a good day. Goodbye now.

Operator: That does conclude today's conference. Thank you all for your participation.