



**Grupo Aeroportuario del Sureste
First Quarter 2014 Earnings Call Transcript
April 24, 2014**

Operator: Good day, ladies and gentlemen, and welcome to the ASUR First Quarter 2014 Results Conference Call. My name is Allan 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 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 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, Allan and good morning, everybody. Thank you for joining us today for the conference call to discuss our first quarter 2014 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 conference with an update on San Juan Puerto Rico International Airport. Afterwards, I will briefly review the results for the quarter.

Passenger traffic at San Juan airport was up 10.8% quarter-on-quarter to 2.2 million reflecting seasonality. Weather conditions in the North of the United States, particularly in the case of New York also negatively affected traffic for the quarter.

Aerostar's net income contribution this quarter for ASUR's 50% ownership stake was a gain of Ps.10.6 million, compared with a Ps.122.1 million loss in 1Q13. Note that we took over this airport on February 27, 2013, and reported one-time expenses of Ps.112 million in the first quarter of last year.

We remain focused on implementing our plan to upgrade airport facilities at San Juan to improve the level service offered to our passengers and drive commercial revenues. In line with this strategy, we are now remodeling Terminal B which was closed last November and work is expected to be completed by year-end. The overall airport upgrade should continue for approximately three years as we remodel Terminal C and make some minor adjustments at terminal A.

Before reviewing ASUR's results for the quarter, let me remind you that as published on January 3rd, at year-end we completed the Maximum Tariff negotiation process which resulted in a 3.7% decrease in the weighted average maximum tariff, and includes a 0.7% efficiency factor. This means that with the same amount of passengers and similar mix, regulated revenues this year would be 3.7% lower in real terms compared to 2013. Note also that the maximum rate is adjusted with the Producer Price Index excluding petroleum, which during 2013 increased 0.1% compared with a 4% increase in the Consumer Price Index.

Moving onto the results for the first quarter, passenger traffic increased 6.2% year-on-year to an all-time high of 5.9 million. This was achieved despite the tougher comps as in 2013 Holy week fell in March while this year it fell in April.

Domestic traffic rose 4.9% to 2.1 million passengers, a record for a first quarter, with Cancun achieving an all-time-high of more than 1 million passengers and reporting increases across most airports. Cozumel and Huatulco, however, posted a weaker performance. Passenger traffic at Cozumel was affected by the reduction of frequencies at Interjet, the only airline flying to and from Mexico City Airport, while lower traffic at Huatulco is correlated to the effect of holy week falling in April this year.

International traffic rose 6.1% year-on-year reaching a high of 3.8 million passengers. The share of international traffic rose 40 basis points to 65.4% of total traffic. Passenger traffic between Mexico, Canada and the United States, represented 87% of total traffic compared with 86.3% a year ago.

While total revenues rose slightly – up 0.6%; excluding the 76.7% reduction in construction services, revenues increased 6.1% year-over-year.

Commercial revenues per passenger were up 5% year-on-year to Ps.77.95 – again beating previous levels and reflecting the opening of Terminal 1 at Cancun last November. But, as I have mentioned before, we do not expect a significant expansion in commercial revenues per passenger until the capacity constraints contemplated in the new MDP are addressed.

Operating costs and expenses rose, sorry, fell 2.7% during the quarter. Excluding the 75% decline in construction costs, operating costs and expenses would have increased by 11.5% mainly driven by the combined effect of the reimbursement last year of fees paid in connection with the privatization of SJU, the re-opening of Terminal 1 to provide relief to Cancun's Terminal 2 and higher direct cost of sales resulting from the 18.5% increase in revenues from direct operations.

EBITDA rose 3.7% year-on-year for a total of Ps.951 million, representing an EBITDA margin increase of 202 basis points to 68.76%.

We invested 37 million pesos this quarter, mainly to complete the expansion work in the terminal of Veracruz.

In terms of our balance sheet we closed the quarter with cash and cash equivalents of 1.6 billion pesos while bank debt stood at 2.8 billion pesos at quarter-end.

Adolfo Castro: Now, let me open the floor for questions. Please tell me who I have?

Operator: Thank you, sir. If you'd like to ask a question at this time, please signal by pressing star one on your touch-tone telephone. Again, if you're using a speaker phone, please make sure your mute function is turned off to allow your signal to reach our equipment, and pick up the handset before signalling. Once again, that's star one to ask a question.

We'll first go to Neal Dihora with Morningstar.

Neal Dihora: Yes, good morning. Thanks. Hey, you mentioned the increase in costs and services partly due to owning more concession stores. What percent of the concession stores that you have are your own now versus somebody else operating them?

Adolfo Castro: (inaudible) your question.

Neal Dihora: So, it sounds like you're operating your own concession stores in some of the terminals, but I assume you have other stores that some other people operate, where you just get the royalty revenue. What portion of the stores are yours; are the ones that you operate?

Adolfo Castro: I don't have a percentage, but you have in the report our revenues from direct commercial operations. So, you have the total amount of the commercial and you can deduct how much is the others, and how much is us with this number. You have it in the report.

Neal Dihora: Okay, thanks.

Adolfo Castro: You're welcome.

Operator: All right. Once again, that is star one if you'd like to ask a question. We'll pause for another moment. One more time, that's star one if you'd like to ask a question. We'll now go to Stephen Trent with Citi.

Stephen Trent: Good morning guys Kevin Kaznica for Trent. Can you hear me, guys?

Operator: Yes, sir. Your line is open.

Kevin: Can you hear me or? All right, if you can hear me, this is Kevin Kaznica for Stephen Trent. Good morning. What is your take on the Mexico City Airport, is there—do you see no new airport coming or do you now simply just see a (inaudible) Benito Juarez International Airport? Do you see (inaudible) partially privatizing this installation as is the case in Toluca? Thanks.

Adolfo Castro: Hi, good morning. I don't have any information about the Mexico City Airport with the exception of what's been published in the news papers every day. It is the latest news that we have was published two days ago where they were saying that they would make some decisions on these airports up to July, this year,

and that is the latest statement that we have. That is the only thing I can share with you.

Kevin: Oh, okay. So, I guess I'm trying to get your sense of what you think the potential is for Mexico City Airport. I guess with no new airport coming, (inaudible). I guess just one other question since it don't seem like there's a lot people online. What's happening with cash flow from operations? Has this been some sort of adjustment in working capital policy or is this like a just a short-term fluctuation?

Adolfo Castro: In terms of the cash flow for the quarter, you can see—well, you should remember that we paid dividends at the end of last year and during the first quarter we paid a tax on dividends with an amount probably it's not exactly, because this is coming from the top of my head, but 285 million pesos. That's what I remember we paid in taxes because during the first quarter and probably that is the reason of your question.

Kevin: Okay, understood, interesting. Now, also we're just trying to get a run-rate for capex for full-year. How does 1Q compare required cap ex for the full-year?

Adolfo Castro: Your line is cutting; I cannot hear you very well.

Kevin: I'm sorry about that. We're just kind of wondering how 1Q cap ex compares to the required cap ex for full 2014?

Adolfo Castro: Well, on January the 3rd, we published our committed investments with the authorities for this year. The plan was approved basically at the end of last year. So, during the first quarter we were basically focused on making the (inaudible) projects, then to make or select contractors, making bidding process, signing contracts. So, as you can see the first quarter has been very low in comparison with what we have to spend during the full-year. You will see of course, a speed up on the second, third, and fourth.

The total amount, again, the exact figure is in the document we published on January the 3rd, but from the top of my head is 1.2 billion pesos. Again, that's certainly something that we invested this quarter. So the beginning of this year, it's basically, the preparation for investments that we will be making during the second, third, and fourth quarter.

Kevin: Okay, understood. I guess my last, do you see it evenly spread out or will it just accelerate and probably maybe the most in 4Q?

Adolfo Castro: Most of the investment, it's going to be made during the 4Q.

Kevin: OK. Good, thank you very much, very helpful.

Adolfo Castro: You're welcome.

Operator: Next, we'll go to Victor Sanchez with Morgan Stanley.

Victor Sanchez: Hi, this is actually Ricardo Alvarez from Morgan Stanley. Sorry, I had to jump off the call. So, I apologize if this has been asked. I just wanted an

update on the terminal in Cancun. What is the view of the Company in terms of commercial revenue per passenger because I assume this; we're probably going to see higher growth when the terminal is at full speed. So, an update on that; that'll be great.

Adolfo Castro: Hi, good morning. Well, basically, today we're working in concluding the remodelization of Terminal 2, then we will proceed and we are now working on that which is the expansion of Terminal 3. Then finally, Terminal 4. Today, what we are doing in terms of Terminal 4 is the design of the terminal. We are in the early stages of the design of the terminal, basically, selecting the site, working on the permits, environmental permits, and all of this.

In terms of your question, your specific question, commercial revenues for Terminal 4; what we expect is that this will be better than what we have today for the same passengers. Remember that Terminal 4 is going to be domestic and international in the same way that Terminal 2 is today. So, what we expect is to have a better facility, a facility with a better layout than the one that we have today in Terminal 2. Remember, Terminal 2 is something that we received from the government at the beginning of the concession.

Yes, it's clear that we have been able to patch and change some of these terminals, but of course, it not the same as having a design from scratch than just to patch a building. So, the answer (inaudible) is we expect to have better commercial revenue per passenger in comparison with the facilities that we have today.

Ricardo Alvarez: Perfect. That's very helpful and in terms, there is no precise timing for the conclusion of Terminal 4 is there?

Adolfo Castro: Well, for the moment, the plan we have is 2017.

Ricardo Alvarez: I'm sorry; I didn't get that, sorry.

Adolfo Castro: 2017 for Terminal 4.

Ricardo Alvarez: Okay.

Adolfo Castro: 2015 for the expansion of Terminal 3.

Ricardo Alvarez: Okay, got it and just another one on this same topic actually. So, you do expect commercial revenue per passenger to be a little bit—or at least to see slower growth, going-forward, until you deliver the expansion of Terminal 3, and conclusion of the Terminal 4? Would you expect to grow same commercial revenue to be sluggish a little bit?

Adolfo Castro: Exactly, that is what I have been saying; do not expect a higher growth in commercial revenue per passenger until we can address these capacity constraints.

Ricardo Alvarez: Very helpful. Thank you very much.

Adolfo Castro: You're welcome.

Operator: Now, we'll take a question from Bernardo Velez with GBM.

Bernardo Velez: Hi, good morning Adolfo. Thanks for taking my call. I was wondering and if I recall correctly, your technical assistance contract ends on August. So, my question is can we expect the automatic renovation of this contract or has ASUR thought of calling a shareholder's meeting in order to discuss the renovation or another change to the terms of the contract?

Adolfo Castro: Okay. Bernardo. Hi, good morning. This is a good question because this allows me to remember you and the others that we have published our 20-F report and our report for the Mexican authorities at the beginning of April. We published a press release with that. Your question is, it's clearly answered in that report, as well. The term of this agreement was renovated last year so I don't know why you are saying that it should be up on August, that's the other airport group, that's GAP.

Bernardo Velez: Okay. So, you have already renovated and so it's for a five-year term, right?

Adolfo Castro: Exactly.

Bernardo Velez: Okay and I suppose that within this contract, you continue to receive some of the benefits coming from—I don't know, expertise in terms of construction, operation of new airports, and stuff like that, right? So, I guess my question is when can we expect ASUR to be expert enough so that it doesn't need this contract anymore?

Adolfo Castro: Well, that's a tough question in the sense when do you really want to have all the experts inside a company and paying them all the time, that's a good question; maybe when we have the size enough for that. Let me give you one key example, something I have mentioned some minutes ago. Today we are in the process of the design of the airport.

Of course, we have a lot of people in the Company that knows about how to run an airport and knows about how to design a building, but believe me this is a major task and you do not construct these buildings every day. So, because of this, today I am receiving technical assistance for these particular tasks. This is just one small example of what we are receiving today from this contract. I don't need to have on-board all the people that we need for these particular facts.

Bernardo Velez: Okay. So, it's probably more about one-time effects or needs that ASUR may need, right? So—

Adolfo Castro: Yes. Another example, another key example is the MDP and this is something that we do every five years.

Bernardo Velez: Okay, perfect. Thanks for taking my call.

Adolfo Castro: Thank you.

Operator: Okay and one more time; that is star one, if you'd like to ask a question. We'll pause for another moment.

All right, we'll go to Jean Bruny with BBVA Bank.

Jean Bruny: Hello, Adolfo, thank you for the call. I just have a couple of questions. The first one is on your administrative expenses that went down by 8% during the quarter and that now represents well below the 3% of sales that they used to represent before. Just want to know, if this trend will be maintained for the rest of the year, (inaudible) administrative costs, or do you expect to rebound in the coming quarters? The second question is on the Cancun airport; we've seen some news in the newspapers reporting that you may have to pay local taxes for the Cancun airport; just (inaudible) on that point. Thanks.

Adolfo Castro: Okay. Hi, good morning. Let me go on the cost side; the cost side this quarter was particular because of three things. Well, first, you should exclude construction costs and construction revenue from your analysis, in my opinion. These distort always the information of the company. So, I recommend you to exclude that from your analysis. Second, remember that last year, during the first quarter, we recuperated the expenses we made in the case of the privatization process of San Puerto Rico, you have it on the report.

There's a key indication in that report, in the report of the first quarter last year of how much we received because of that. So, you have a positive effect that today it's a different comparison. The third one had to do with the direct costs of our commercial Atlantic operations. We had a very significant increase in sales during the quarter; it was an 18.5% increase, and of course, this 18.5% increase in direct costs is more. Let me explain this, if you are selling a hundred magazines, the cost that we will have for these hundred magazines is going to be different against selling a 118 magazines, okay.

So, these are the three effects that we have for one-time, let me put it that way. Of course, the direct costs is not, in the sense of one-time, but the one-time is to the increase of 17.8—17.5%. The other thing that we have inside the cost today is the opening of Terminal 1 in November of last year, but that is not one-time, that is going to be for the future. So, in that sense the effect of the additional costs as from November last year because of Terminal 1 is going to be there for some time, and that is more or less what I can share with you.

So, the comparison for the second quarter is going to be different because of San Juan and we will not have the privatization process in the second quarter. We will have Terminal 1 and we will have some from the increase in sales in the direct costs; that's what I can say.

The asset, the property tax you are talking about, specifically, the news related to Cancun airport. Well, let me say that we are not the owners of the land, and there's some other legal aspects why we are not subject to that tax—to this asset of tax or this property tax.

Every three years when a new guy comes into the government of the municipality, wants to collect more money because always they are—they have lack of money. So, because of this, every three years when a new guy came, he starts saying we need to collect money from these airports. In the case of Cancun, we have gone this process through the courts and there's final ruling saying that we should not and we are not subject to this specific tax. Of course, if the laws are changed in the

future, and I have to say if the Constitution of the country, particularly the Article 115 change, then we could probably be subject to this tax- in an indirect way because we are not the owners of the property.

The owners of the property, the government, and because of this we are paying the government a fee for the use of the land, and the assets that are above of the land. We are paying the concession fee, the concession fee is more or less 5% of the revenues and these have represented 20% of the profit of the Company for the last 15 years. So, it's a significant amount what we have to pay to the government, the federal government, for the use of the concession asset, okay. It is a concession, it is not that we own the property and that is why we are not, for the moment, subject to these taxes. I don't know if I was clear on the answer.

Jean Bruny: That was very clear. Thank you very much, Adolfo.

Adolfo Castro: You're welcome.

Operator: There are no more questions at this time, let me now turn the call back to Mr. Adolfo Castro for closing remarks.

Adolfo Castro: Thank you, Allan, 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 questions, and thank you for being here today. I believe in the afternoon you will be able to see the results for our Shareholders' Assembly, which will start 30 minutes from now. Thank you and have a good day. Good-bye.

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