



Grupo Aeroportuario del Sureste
Second Quarter 2014 Earnings Call Transcript
July 22, 2014

Operator: Good day, ladies and gentlemen, and welcome to the ASUR Second Quarter 2014 Results Conference Call. My name is Jennifer 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, Jennifer and good morning, everybody. Thank you for joining us today for the conference call to discuss our second 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 2.2 million, up 6.4% YoY and 4.7% sequentially.

This quarter, Aerostar contributed with a gain of Ps.21.9 million for ASUR's 50% ownership stake, compared with a Ps.26.8 million gain in 2Q13. Note we also reported a Ps.9.1 million loss in stockholders' equity from the impact of the appreciation of the peso during the period.

In terms of the upgrading of San Juan airport's facilities, we remain on track with the remodeling of Terminal B which is expected to be completed by November. Following that, we'll start remodeling process for Terminal C and we are almost concluding minor adjustments at terminal A.

Moving onto the results for the quarter, passenger traffic increased 10.7% year-on-to Ps.3.2 million the highest level for a second quarter. Remember that Holy week fell in April this quarter compared to March last year, facilitating comps.

Domestic traffic was up 11.82% from last year's levels to 2.6 million passengers, a record for a second quarter, with increases across all airports. Traffic at Cancun was strong, up 12% to 1.4 million passengers.

International traffic rose 9.7% year-on-year to 3.2 million passengers, the highest for a second quarter. The share of international traffic fell 40 basis points to 55.7% of total traffic reflecting the strong growth in the domestic market.

Passenger traffic between Mexico, Canada and the United States, represented 88.0% of total traffic compared with 87.8% a year ago.

Total revenues, excluding the 47.1% decline in construction services, increased 8.1% year-over-year reflecting the 3% reduction in aeronautical tariffs this year.

As anticipated, commercial revenues per passenger fell 1.4% year-on-year to Ps.73.03 still affected by capacity constraints, despite the opening of Terminal 1 at Cancun last November. As discussed in the past, the investments contemplated in the new MDP should contribute to address this situation.

Operating costs and expenses fell 0.4% during the quarter, but increased 7.6% when excluding the 47% decline in construction costs. In addition to additional expenses resulting from the reopening of Terminal 1 at Cancun last November, costs were affected by higher direct cost of sales from the 15% increase in revenues from direct operations.

EBITDA was up 8.6% year-on-year to Ps.874 million, resulting in an EBITDA margin of 65.18%, an expansion of 248 basis points.

In addition, this quarter we invested 49 million this quarter, mainly to complete the expansion work in the terminal of Veracruz. On this front, you will see a very strong pick-up in capex in the second half of the year as we complete the committed investments for the year.

Finally, on the balance sheet front, we closed the quarter with cash and cash equivalents of 2.4 billion pesos while bank debt stood at 2.8 billion pesos at quarter-end.

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

Operator: Thank you. If you would like to ask a question, please do so by pressing the star key followed by the digit one on your telephone keypad. If you are using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, that is star, one.

We'll take our first question from Santiago Perez-Teuffer from Credit Suisse.

Santiago Perez-Teuffer: Hi Adolfo. Thanks a lot for the call. I wanted to ask you on Cancun, can you please give us more color on Cancun's profitability? We saw a 450, 430 basis point margin contraction year-on-year in this airport. Was this fully related to the increase in your own retail activity and how do you see this margin evolving throughout the rest of the year? Thanks.

Adolfo Castro: Santiago, good morning. Well basically, you know that the contraction has resulted from the additional costs we are having since November last year from Terminal 1. Terminal 1 was open in November, and this is generating costs because we had to spend some money on lighting, security, maintenance, et cetera. So, you will see contraction up to the third quarter this year when you complete one year as from the day this terminal was open.

Santiago Perez-Teuffer: Perfect. Thanks Adolfo.

Adolfo Castro: You're welcome.

Operator: Thank you. We'll go next to Stephen Trent from Citi.

Kevin Kaznica: Good morning, Adolfo. This is Kevin Kaznica stepping in for Steve Trent. I guess the first question, earlier in the call you gave a progress report on the facility upgrades. I kind of didn't catch it. If you could just run that by us again, that'd be great.

Adolfo Castro: Kevin, I couldn't hear you well.

Kevin Kaznica: Earlier in the call, you gave us an update on terminal—on a couple of terminals, I think, in Cancun or something. I didn't catch it – my line's low. I was just wondering if you could just give us—repeat that color for us.

Adolfo Castro: So, you are asking about terminals in Cancun? Well, what we are doing today is we started with expansion of Terminal 3. That expansion should be completed by the end of—during next year. This expansion is to take Terminal 3 capacity from 6 million passengers on a yearly basis to 10 million, and after that, we will be working on the construction of Terminal 4 that we expect to have ready by 2017. Today, we are in the process of designing this terminal, but I believe the terminal should at least have 6 million passenger capacity.

Kevin Kaznica: All right. The Terminal 3 one, should that be completed by mid-next year?

Adolfo Castro: I would say—let's say third quarter.

Kevin Kaznica: Okay, third quarter. All right. I guess, depending on the need, we just really were a little concerned about what's happening in San Juan. We're actually (inaudible) almost 20%, even though traffic increased 6%, and we see that Puerto Rico has had a credit downgrade—a credit rating downgrade, so can you give us some color on what's going on there? Thanks.

Adolfo Castro: Okay. In the case of San Juan, let me talk about the numbers. It is important to understand that we closed Terminal B for remodeling processes November last year, so that of course has an impact on commercial revenues and of course this has an impact on margins. That's why you can see the margin need to decrease or net profit decrease from the second quarter this year against last year. That's the first step.

The second part is we are glad to see a nice number in the passenger traffic grow, and the third one, the down credit, it's resulted from the downgrade for the state. As you know, the economy in San Juan in Puerto Rico is not doing well, and they were downgraded, and because of this Moody's did the same with the ticker of the company. I don't see any major impact from this on the financials of the company.

Kevin Kaznica: Okay.

Adolfo Castro: Please remember that most of the traffic comes from—most of the people that go to San Juan is from New York.

Kevin Kaznica: All right, that's very helpful. I guess our next question would be—so, on the quarter's decline in duty-free sales, like how much of this impact came from mix and what happened to, I guess—I don't know if you guys track same store sales in Cancun year-over-year.

Adolfo Castro: Well, we have said this many times, (inaudible) having an impact on the commercial sales. It is strange to see a duty-free decrease this year, but the decrease you are seeing is basically the same situation. The passenger traffic growth is so strong that we are taking up to the limit these buildings.

Kevin Kaznica: Okay, so it's not like a decrease in the quality of the passenger, like low-cost first passenger not spending money versus, I guess, vacationers spending money it's more of, like a volume, just overcapacity issue.

Adolfo Castro: Well, you are seeing the compartments within (inaudible) passengers, you have different passengers through the year. The passengers in June are not the same as the ones in December. But, the comparison you are seeing, it's second quarter to second quarter, so the only difference is the holy week. Not a change in the passenger mix, I don't see that any reason.

Kevin Kaznica: Okay. Okay no, fair enough – thank you. Just finally, do you have any thoughts on potential airport investments outside of Mexico, like diversification, and to what extent would you guys consider purchasing some portion of High Star's stake in San Juan Airport?

Adolfo Castro: I don't see that for the moment.

Kevin Kaznica: Okay, perfect. Thank you very much for the call.

Adolfo Castro: You're welcome.

Operator: Thank you. We'll go next to Benjamin Theurer from Barclays.

Benjamin Theurer: Hey, good morning Adolfo. Thanks for the call. I have one question just on the capex, and you mentioned that clearly we've seen that first half construction activity capex itself was relatively low, so the MDP for this year was a little bit over—north Ps 1.2 billion. So, does that mean that we basically get a run rate of about equal 600,000 for the next two quarters, or is it even more inclined towards the full (inaudible) to get a little bit of a sense on where construction

revenues, et cetera, and where construction spending is going for the rest of the year, and how do you see actually the capex into next year split out, because clearly next year is some sort of a peak of the MDP you agreed a couple of months ago, so that would be interesting, just to get a little bit of a sense of when the money is actually going to be dispersed. Thanks.

Adolfo Castro: Okay. Good morning. Of course it's almost impossible for us to control the speed of the construction process, but let me say why this year particularly is very slow. The program was approved at the end of December last year, so the first quarter technically was to make the design of each one of the projects and then the second quarter is the one that we are using to make that in process or to have the contractor. Third quarter and fourth quarter is going to be the beginning of the work. I truly believe that second quarter—sorry, fourth quarter is going to be higher than third quarter, and we will have to spend the 1.1 billion we have committed with that project no matter what. So, the 1.2 you mentioned, you have to deduct the 140 million, and we have in fact (inaudible), so in cash at the end is 1.1 billion and that has to be spent during this year.

Benjamin Theurer: Okay, so there is no way you're going to get that postponed somewhere into 2015 for whichever reason, right? You have to spend that, correct?

Adolfo Castro: Exactly.

Benjamin Theurer: All right, perfect. That's it from my side. Thank you.

Adolfo Castro: You're welcome.

Operator: As a reminder, it is star, one to ask a question, and we'll go next to Neal Dihora from Morningstar.

Neal Dihora: Good morning, thanks. Any detail on LMM, sort of split out by aeronautical and non-aeronautical revenue, I guess would be interesting to hear what you've seen over the last year.

Adolfo Castro: Neal – hi, good morning. You have some numbers in the 20-F report for that year, but basically from the top of my head, I will comment to you what the numbers are. First of all, the regulated side is a fixed amount of 62 million every year. Of course, last year we started on February 28 and we cannot say the 62, 62 in terms of proportion of a month of what we have been doing for last year. In terms of commercial revenue, the number is very close to US\$4 per passenger, and that's more or less the numbers we had for last year. I don't know if that's what you really want to see.

Neal Dihora: Yes – no, I think the aeronautical is fixed for five years, is that right? The 62 million that you mentioned.

Adolfo Castro: It's fixed for five years, then it would be adjusted for inflation after the year '15, and then we can renegotiate or it remains the same.

Neal Dihora: Then when did you say Terminal C was going to be up and ready?

Adolfo Castro: Okay, once we conclude with Terminal B – let's say, we conclude Terminal B in November – once we conclude, then we will have to move some

airlines to Terminal B and then some of them from Terminal C to Terminal B, and close Terminal C. Probably we will be closing Terminal C by January or December.

Neal Dihora: Okay, thanks a lot.

Adolfo Castro: You're welcome.

Operator: Thank you, and as a reminder, it is star, one. We'll go next to Karla Pena from Scotiabank.

Karla Pena: Hi, good morning. Thanks for the call. I was wondering if you could—well, you had uneasy comps this year on SG&A because of the expenses you were talking about on the MDP and some other related to the Puerto Rico project. I was wondering if you have some of these expenses that were made last year in the following quarter, and also regarding the closing of the Terminal C in Puerto Rico, should this put more pressure into the cost and maybe into the bottom line result that you're showing, or should we expect this to even out in the following quarters? Thank you very much.

Adolfo Castro: Karla, good morning. Yes, we will have the same kind of expense during the following quarters, the same in the case of Puerto Rico and the same case in the case of MDP. The MDP expenses were during the fourth quarter of last year. In the case of your question for San Juan, I don't know what was your question.

Karla Pena: Oh, because you were explaining that part of the pressure, you had a decline in the result that you showed, right, for—and you were explaining that part of it was because some expenses regarding the closing of the terminal. So, I was wondering that now you're going to close the next terminal, maybe you might have a little bit more expenses, or they should even out because you already closed one terminal so you already had those expenses.

Adolfo Castro: No, it's not expenses. It's commercial revenues, so just imagine that you have—

Karla Pena: Oh, okay.

Adolfo Castro: Yes, you have spaces open and you have to close that, so only people that were working there have to leave.

Karla Pena: Okay, okay. So, it's related more to revenues than expenses in Puerto Rico?

Adolfo Castro: Yes. Yes, I would recommend you to see the specific page we have in the presentation that talks about commercial revenues per passenger, and the (inaudible) that you have to see is the year 2000.

Karla Pena: Okay, thank you very much.

Adolfo Castro: You're welcome, Karla.

Operator: As a reminder, it is star, one if you'd like to ask a question. Again, that is star, one if you'd like to ask a question.

We'll go to Jean Bruny from BBVA.

Jean Bruny: Hello Adolfo. Good morning and thanks for the conference call. I just have one question. I know you're not giving any guidance, but just to ask your point of view on the traffic going forward in the second semester after the good start of the year, do you think the trend or the rate you have been reporting the first half would be sustainable in the second half? Thanks.

Adolfo Castro: Hi, good morning. Very tough question again. The year has been very good so far. Comparisons are very hard for the remaining of the year, numbers of second quarter and fourth quarter last year. Third quarter and fourth quarter last year were very strong as well. It's hard to say, but I'd have to say that domestic airlines in Mexico are expanding their capacity, they are reducing their prices, and this is increasing demand. That's why we are seeing very good domestic figures. On the international front, US traffic has been very strong as well, and the European traffic has been strong.

I believe for the second half of the year, we will see growth. I do not expect it to be as strong as it has been for the first half. That's what I would say to you.

Jean Bruny: Thank you very much, Adolfo.

Adolfo Castro: You're welcome.

Operator: As a reminder, it is star, one if you'd like to ask a question. There are no other questions in the queue at this time. I'll turn it back over to Mr. Castro for any closing or additional remarks.

Adolfo Castro: Thank you, Jennifer, 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, and thank you for being here today. Have a good day. Goodbye.

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