



**Grupo Aeroportuario del Sureste
Third Quarter 2014 Earnings Call Transcript
October 23, 2014**

Operator: Good day, ladies and gentlemen, and welcome to the ASUR Third Quarter 2014 Results Conference Call. My name is Taylor 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, Taylor and good morning, everybody. Thank you for joining us today for the conference call to discuss our third 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.

Let me start by providing a brief update on San Juan Puerto Rico International Airport and afterwards I will go over the results for the quarter.

Passenger traffic at San Juan airport was 2.2 million, up 3.7% YoY. This quarter, Aerostar contributed with a Ps.21.3 million gain for ASUR's 50% ownership stake, compared with a Ps.0.3 million gain in 3Q13. We also reported a Ps.51.2 million gain in stockholders' equity this quarter from the impact of the depreciation of the peso during the period.

We continued to make progress upgrading San Juan airport's facilities. The remodeling of Terminal B is almost complete and we expect to finalize it next month in line with our plan. We have also concluded some minor adjustments at terminal A.

The next step will be to begin remodeling work at Terminal C, which we expect to close one or two months after Terminal B is reopened to conduct remodeling work.

Now, moving onto ASUR's results for the quarter, passenger traffic rose 8.9% year-on-year to Ps.5.8 million, the highest level for a third quarter.

Domestic traffic continued its recovery trend, increasing 8.0% to 2.9 million passengers, the highest level for a third quarter. All airports posted traffic increases,

except Huatulco. Traffic at Cancun rose 5.4%, reaching a high of 1.7 million passengers.

International traffic was up 9.9% year-on-year to 2.8 million passengers, a record for a third quarter and up 40 basis points to 49.1% as a percentage of total traffic.

Passenger traffic between Mexico, Canada and the United States, represented 86.7% of total traffic compared with 86.3% a year ago.

Total revenues, excluding the 48.7% increase in construction services, rose 8.8% year-over-year despite the 3.4% reduction in aeronautical tariffs early this year.

Despite capacity constraints at Cancun airport, commercial revenues per passenger rose 0.27% year-on-year to Ps.71.4. The investments established in our master development plan should contribute to drive further commercial revenue growth as we continue to add space to improve the traffic flow.

In fact, we invested Ps.235 million this quarter as we work towards meeting our committed investments for the year. This quarter we continued with the expansion of Terminal 3 that we expect to conclude by the fourth quarter of 2015. The remodeling should contribute to increase annual capacity of this terminal to 10 million from the current 6 million. We are also in the process of designing Terminal 4 at Cancun airport, which we expect to have ready by 2017.

Moving on to costs, operating costs and expenses rose 7.9% when excluding the 48.7% increase in construction costs. Higher costs resulted mainly from the reopening of Terminal 1 at Cancun last November, higher direct cost of sales from the 3.9% increase in revenues from direct operations.

EBITDA was up 9.2% year-on-year to Ps.880 million, with EBITDA margin (adjusted by excluding construction revenue) of 67.6% compared with 67.3% in 3Q13.

Finally, we maintain a healthy balance sheet with cash and cash equivalents of 3.1 billion pesos and bank debt of 2.9 billion pesos at quarter-end.

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

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.

Operator: Thank you, and as a reminder, again, that is star, one, if you'd like to ask a question; star, one. We'll take our first question from Santiago Perez-Teuffer with Credit Suisse.

Santiago Perez-Teuffer: Hi, Adolfo, thanks a lot for your time. My first question is regarding cap ex deployment. It seems that you are slightly behind your committed investment goal for this year. First of all, do you think you are going to make the investment committed on the fourth quarter, and also, if this has any impact on the expansions planned in Cancun?

Adolfo Castro: Good morning, Santiago, thank you for your question. We are not behind in our plans. You should remember that we started with approval of this plan at the last day of last year, so the first part of the year was basically to design the projects, have executive projects, finding contractors, hiring them, and then the beginning of the process of the construction.

In terms of the amount, the committed investment from the cash flow perspective for this year is 1.1 billion, and we are going to complete—and we are going to comply with that by the end of the year. So, you will see a huge increase in terms of the investment that you have seen for the last couple of quarters during the fourth quarter.

Santiago Perez-Teuffer: That's perfect, thanks. Then I have a follow-up on the San Juan, on your comments on San Juan. Is there any chance you can give us some light on the commercial revenues on that airport, if you have a consolidated or per passenger or some color on that front?

Adolfo Castro: Yes, and it—you can find numbers in the 20-F report on commercial revenues that we publish April this year. The number, I don't have exactly at the top of my head, but the number that I have is that for last year, the number was lower than \$4 per passenger. It's important to say that Terminal B was closed in November last year, so this year is not exactly the best in terms of commercial revenue increase per passenger.

What is going to be very important to see is once we open Terminal B and see the real potential of San Juan, Puerto Rico airport in terms of commercial revenues, and of course, finally, once we open Terminal B, we're going to do the same process as we did in Terminal B for Terminal C. So, that means that we're going to close the terminal and refurbish completely the space there, redesign in the traffic flow, find the new operators, redesigning, basically, the commercial offer for the entire space. So, that's what I can say to you for the moment.

Santiago Perez-Teuffer: Thanks, Adolfo.

Adolfo Castro: You're welcome.

Operator: We'll go next to Bernardo Velez with GBM.

Bernardo Velez: Hi, good morning, Adolfo. Thanks for the time. You mentioned you're not behind your MDP plans for the year, but could you walk us through the seasonality and through the main investments of ASUR's MBP capex for the next year?

Adolfo Castro: Absolutely. In terms of seasonality, once again, you know that we do our plan every five years. So, we were not ready to do anything about the projects for this year until this plan was approved, and it was approved the last day of last year. So, as I said before, you saw a very low number there in the first quarter because basically, we were designing or hiring the design of this project. As we go further, you will see an increase on the speed of the spending.

The most important project we have on hand today is Terminal 3. Terminal 3 should be ready by the end of next year. Construction in Terminal 3 is to increase the capacity from 6 to 10, so it's an increasing capacity of 4 million. It's around 30,000

square meters that we are going to construct there. So basically, what you are going to see is around 700 million pesos investment during the fourth quarter.

Apart from these, the other project, which is, of course, not the same size, but it's also very important, is the case of Veracruz. We should conclude the first phase of expansion of this terminal, and expansion is around 150% of what we have today, and that should be concluded by the second half of the month of November. We are going to have some events there during that period, and the airport has to be ready for that, so we are going to comply with the date as well.

That's the two most important projects we are in the construction process. The other project we are working and of course investing is the design of Terminal 4. The construction design has been concluded and we are now in the process for the executive project for Terminal 4, and construction for that should start, I hope, by the second half of next year.

Bernardo Velez: Okay, thanks a lot, Adolfo. Also, I would like to ask you, do you have any update regarding the—any bidding processes that you guys are currently working on?

Adolfo Castro: The only process that we are registered now is the case of Santiago in Chile. Santiago, Chile, as of today, the offer should be presented November the 18th. We are analyzing this project, but I don't see a huge potential on it. Maybe we will not be at the end presenting an offer.

Operator: We'll take our next question from Ravi Jain with HSBC.

Ravi Jain: Hi, Adolfo, thank you for your time. My first question was on the commercial revenue per passenger. Do you expect with the expansion of the third terminal, will there be any meaningful increase in the revenue per passenger? Or, will that happen only with the fourth terminal coming in at Cancun?

Adolfo Castro: Hi, good morning. Well, I expect an increase in the commercial revenue per passenger once the expansion of Terminal 3 is concluded, basically, because that will give a relief on Terminal 2; a small relief, because Terminal 3 is just international and Terminal 2 is domestic and international. The major effects that I'm—that we're expecting is once Terminal 4 is completed, so that's what I can say.

Ravi Jain: Sure, thanks. Second question was, as we look at the traffic expectations for next year, do you expect the airlines to continue to add capacity at your airports? I mean, just to get a feel as to—we have seen a huge increase in capacity in the last 12 to 18 months. Do you see that continuing into 2015? Or, are you seeing that slowing down in 2015, the addition to airline capacity?

Adolfo Castro: Well, let me tell you. I have been always the pessimistic guy here, and what we have seen on the last 30 months, it's been too high. If you see the last 30 months, it's almost 10% per year. In the case of domestic airlines, they have—they will continue adding capacity next year. That should give us some kind of potential for more flights to our airports.

Of course, this goes against the situation with Mexico City. Mexico City has been declared two, three weeks ago, completely saturated 15 hours a day during the 365

days of the year. So, that will place a restriction for the airlines, but they will—they should start flying somewhere else. They should start using Toluca from now on, and at the end of the day, they need a place to fly for the new airplanes they are adding.

So, in the case of domestic, I'm positive. But, of course, I should recommend some cautious. The 9.7 that we saw last year and the 8.9 we are seeing this quarter, in my opinion, is extremely high.

Ravi Jain: That's very helpful. Thank you, Adolfo. Thank you for your time.

Adolfo Castro: You're welcome.

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

Kevin Kaznica: Hi, good morning. It's Kevin Kaznica on for Stephen Trent. Just a couple of questions. First, can you tell us what's the status of the vacant CFO slot? Is there an active search underway for you to get some help on that side?

Adolfo Castro: Sure. For the moment, I don't see any change from the current strategy we are following, and I don't see any particular problem in the CEO position. So for the moment, I don't see any change in the short term.

Kevin Kaznica: Okay, and also, at one point you had floated the idea of launching a hotel near some of your airports, like Huatulco seems to be one of the areas that comes to mind. Are you considering launching airport projects in Cancun or anywhere else, or Huatulco?

Adolfo Castro: Well, in the case of Cancun, we have analyzed this situation for many years. Finally, during the second quarter of this year, the state government authorized us the possibility of having that installation inside the premises of the airport. Once this is published—this has not been published yet, or has not been official. It will be official once it is published. That will represent an opportunity for us in terms of someone constructing that, and we basically leasing the space to them. We do not expect to operate that facility.

Kevin Kaznica: Okay, okay, very helpful. Then, just finally, what's the status—I think somebody mentioned it earlier, but—of your and Highstar's consideration for bidding on the airport concession in Santiago. I think you might have—is that the one project you said you were considering but was not very...

Adolfo Castro: That is the only one where we are registered now, as we speak.

Kevin Kaznica: You said you—that this doesn't seem very attractive at this point?

Adolfo Castro: You know, I'm not going to be—I would not be very positive.

Kevin Kaznica: Okay, thank you very much.

Adolfo Castro: You're welcome.

Operator: We'll take our next question from Ana Zincer with Credit Suisse.

Ana Zincer: Good morning, Adolfo, thank you for the call. Could you elaborate a bit more on Cancun margin contraction? When do you see this stabilizing, and to what level?

Adolfo Castro: Well, margin contraction—once again, I don't like to talk about margins. I like to talk about revenues and I like to talk about costs, because those are, in a major proportion, independent. The increasing cost that we are seeing today is the result of opening Terminal 1 last year. That was a facility that was closed. Today we have to operate that because of the huge increases back in the traffic we have seen recently. That facility is around 20,000 square meters that we have to illuminate, place air conditioner, secure, maintain, blah, blah, blah. So, as from November last year when we opened this facility, the level of costs in Cancun increased.

Also, giving the—of course, not at the same time, but if you remember at the end of last year, as part of our master development plan, we increased some of the terminal buildings at the regional airports. That was for Villahermosa, Merida, and Oaxaca, with the same kind of consideration; of course, proportionately, in terms of the traffic of each one, okay?

Then, once this has been done, if we talk about next year, you, of course, will not see again the same kind of cost increase because Terminal 1 will be open. You will see again a cost increase once Terminal 3 expansion is completed; of course, not in the same proportion. It's not the same to expand a building that—to open one. Finally, you will see that again once we complete or open Terminal 4. I will recommend you to go and see what happened in late 2007 when we opened Terminal 3 and what kind of cost increases you see there.

Ana Zincer: Thank you, Adolfo, and one last question. What's your view on the airlines' price war, and do you see it continue in 2015?

Adolfo Castro: Times (ph) from the airlines, or...

Ana Zincer: Yes, the price war that's been going on between the airlines.

Adolfo Castro: Well, that, in my opinion, will continue because they will be adding capacity, and of course, that should, of course, put pressure on prices. As I said before, they will need a place to have their planes in operation, and that competition should increase.

Ana Zincer: Okay, thank you very much.

Adolfo Castro: You're welcome.

Operator: As a reminder, again that is star, one, if you'd like to ask a question; star, one. We have no further questions, and I'd like to turn the conference back over to Adolfo Castro with any closing and additional remarks.

Adolfo Castro: Thank you, Taylor, and thank you, everybody, for joining us today on the conference call. As always, do not hesitate to contact me if there is any further question, and thank you for being here today. Goodbye.

Operator: This concludes today's conference. Thank you for your participation.