



**Grupo Aeroportuario del Sureste
First Quarter 2015 Earnings Call Transcript
April 23, 2015**

Operator: Good day, ladies and gentlemen, and welcome to the ASUR First Quarter 2015 Results Conference Call. My name is Shelly 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, Shelly and good morning, everybody. Thank you for joining us for the conference call to discuss our first quarter 2015 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.

As usual, I start by reviewing operations of San Juan Puerto Rico International Airport and afterwards briefly discuss the results for the quarter.

Passenger traffic at San Juan airport increased 1% YoY to 2.2 million.

Our first quarter results benefited from a 32.53 million peso equity gain from ASUR's equity participation in Aerostar and a 58.1 million peso gain in stockholders' equity from the appreciation of the dollar against the peso during the period.

In terms of the infrastructure at San Juan airport, as anticipated, last March we began the complete remodeling of Terminal C and expect to finalize this process one year from now. At the moment the space is closed for remodeling, which as I have mentioned before, will include fully renewing the commercial offering and redesigning traffic flow.

In terms of ASUR's Mexican operations, we had a very good start of the year with passenger traffic showing a very strong performance, up 12.4% year-on-year to 6.6 million pesos, a record high for ASUR.

International traffic reached an all-time high this quarter, while domestic traffic was the highest for a first quarter.

Let me highlight that passenger traffic benefited from the positive impact of the Easter Holidays as this year Holy week began on March 27, while a year ago it only started on April 11 and as a result traffic this quarter was not fully comparable with the first quarter of 2014. Also remember that the first quarter is always the seasonally highest in the year.

Domestic traffic continued to perform, with all airports reporting year-over-year traffic growth, with Cancun posting a 14.5% increase. Here we continue to see airlines adding capacity, or going point-to-point and increasing connectivity between the different cities in Mexico. The combination of increased capacity, higher traffic from and to Mexico's City airport, and lower fuel prices even after considering the effect of the depreciation of the peso is clearly contributing to more competitive airfares.

International traffic remained strong supported by the attractive valuation of the peso against the US dollar, with US traffic particularly strong this quarter. Some other regions, however, have been affected. For example, we have lost the passenger traffic we used to get from Russia, which represented around ½ percent of total traffic in 2014.

Actually, passenger traffic between Mexico, Canada and the United States, represented 87.8% of total traffic compared with 87.2% a year ago.

So while we have started the year with strong traffic, we believe the growth rates we are seeing today are very high and remain cautious in terms of passenger traffic trends going forward.

Moving on to the income statement, total revenues, excluding the 816% increase in revenue from construction services, rose 17.7% compared to the first quarter of 2014.

We also reported a strong performance in commercial revenues per passenger, which were up 6% year-on-year reaching 82.6 pesos– a record high at ASUR. **(inaudible)**
5:22

Looking at our cost base, operating costs and expenses - excluding the increase in construction costs - were up 9.9%, well below revenue growth.

As a result, EBITDA increased 20.1% year-on-year to 1.14 **billion** pesos as we continued to leverage our highly fixed cost base. In fact, adjusted EBITDA margin - excluding the impact from construction revenue - rose 150 basis points to of 71.3% from 69.8% in 1Q14.

Results, however, were affected by a non-cash foreign exchange loss of 35.2 million pesos in the quarter resulting from the impact of the 3.55% depreciation of the peso on our foreign currency net liability position.

Capital expenditures for the quarter totaled 154 million pesos, which was invested in the expansion of Terminal 3 – our main project today. During the second quarter we

will perform the bidding process to find a contractor to begin the construction of Terminal 4 which we expect to conclude by December 2017.

Finally, we maintain a healthy balance sheet, with cash and cash equivalents of 3.7 billion pesos and bank debt of 3.3 billion pesos at the close of the quarter.

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. If you would like to ask a question, please signal by pressing star, one on your telephone keypad. If you're using a speakerphone, please lift the handset before making your selection. Again, press star, one to ask a question.

We'll take our first question from Ravi Jain with HSBC.

Ravi Jain, HSBC: Hi good morning. Thank you for color. I have two quick questions, one on the operational side. The non-aeronautical revenue per passenger was pretty strong, up around 5 to 6%. What would the main drivers be? Would it be more (inaudible)? Let's say, a stronger than historical last two years' growth in non-aeronautical per passenger before the Terminal 4 of Cancun comes in?

The second question is related to what we are seeing in OMA, where they have the Annual General Meeting today and the Shareholders are going to vote on the renewal or non-renewal of the Technical Assistance Agreement. Given that Aberdeen is also a large shareholder of ASUR, is that a possibility? What is your view on the possibility of them recommending a similar non-renewal of the Technical Assistance Agreement and the collapse of the shares for ASUR, and when that could happen at the earliest, if they were to decide to do that? Thank you.

Adolfo Castro, ASUR CEO: Ravi, good morning. In terms of the strong commercial revenue per passenger, I have been saying that it's very hard for us to increase that because of the capacity problems we have at Cancun airports. I have to say that we had meetings with all the operators, not just in Cancun but also in some other airports of the Group, to pay attention to this situation and to make—to ask them to make extraordinary efforts in order to be able to sell more and to attend the passenger in the best way as possible, even the fact that the passenger traffic growth is—that passenger traffic is growing significantly. The people that were there in Cancun for the Holy Week at the end of March, the month of March, can say that their experience was not nice because of the amount of people that was at the terminal building. Nevertheless, the extraordinary efforts that all of these concessioners placed gave some good results and that is why we are seeing the numbers growing again.

In terms of OMA, I cannot say and I cannot comment, because I don't know the details of the operation of OMA. I don't know the details of how they manage their contracts and what kind of relations they have with Aberdeen, and what does Aberdeen has seen on this, so it's hard for me to say. Let's just wait and see what is the outcome of today's shareholders meeting.

Ravi Jain, HSBC: Very helpful, and if I may, just a quick follow-up, additional question would be on Puerto Rico. We saw pretty strong equity income increase in Puerto Rico. Would that be more driven by an increase in non-aeronautical revenues or, let's say, an efficient cost structure, or the combination of both?

Adolfo Castro, ASUR CEO: Of course it's a combination of both, but of course I believe that the most important portion has come from better non-aeronautical commercial revenue.

Ravi Jain, HSBC: Thank you.

Adolfo Castro, ASUR CEO: Yes, but also you have to consider that we closed Terminal C during the month of March.

Ravi Jain, HSBC: Got it. Thank you so much. I'll get back in the queue. Thank you.

Adolfo Castro, ASUR CEO: Okay. Thank you.

Operator: We'll take our next question from Stephen Trent with Citi.

Stephen Trent, Citibank: Good morning, Adolfo, and thanks for taking my question, just one or two for me. The first is with respect to overseas airport projects. I saw that you guys, and I think Highstar, were at least somewhat interested in the airport in Chile and nothing happened, and I saw also one of your competitors, it looks like there was a purchase in the Caribbean Basin, and I'm wondering what's your view with respect to more potential projects like San Juan, or are you just focusing domestically for the meantime?

Adolfo Castro, ASUR CEO: Good morning. In the case of Chile, we participated in the bidding process of these airports. The offers had to be presented December the 30th last year. We didn't present an offer because at the end we considered that the documents were not appropriate and the team the government chose was not what we consider the best one, so that's why at the end we didn't present an offer for these airports. What you're saying is because GAP acquired the participation of the company that was owned by Abertis, and in time this company that was in participation of the airport in Chile, but the participation they have on these airports is the old concession agreement or the old impact construction agreement that will be reviewed September the 30th this year, so the participation they have in these airports is almost (inaudible). If we are seeing some of the present projects outside of Mexico, of course we are seeing the projects outside Mexico. We have requested bidding documents for one airport this week and we will analyze the documents and we will see if it's time to present an offer or not. In that sense, what I can say to you is that we're trying to see all the projects that come in line, or that are public.

Stephen Trent, Citibank: Okay, great, that's very helpful, and just one follow-up question, from I believe, Ravi, with respect to commercial revenue per passenger in 1Q. You gave helpful color on pushing these, your tenants, and on a slightly apples to oranges comps from the early Easter, can you boil down or is it possible to boil down to what extent some of that growth came from the expansion of new stores? In other words, what portion of it was kind of a same store sales basis growth?

Adolfo Castro, ASUR CEO: Well, there were some new stores—I will not say new stores in complete, but new spaces that were used for commercial purposes, a piece of additional commercial revenue comes from here, but remember that we see this not on a per square meter basis. For us, the most important part of our commercial revenue has to do with sales. So, the change we saw this quarter against last quarter, first quarter last year, was, in reality sales, it was not square meters. So, basically, the effort is coming from the concessioners, and they were able to sell more even with the very hard conditions they have from the space perspective in terms of the amount of passengers that are passing through the terminal.

Stephen Trent, Citibank: Okay, I appreciate the color, Adolfo. I'll let someone else ask a question. Thank you.

Operator: We'll take our next question from Jean Bruny from BBVA.

Jean Bruny, BBVA: Adolfo, thank you for the conference call and congratulations on the results. I just have a couple of questions actually. The first one is we have seen a very strong EBITDA margin this quarter. You stated that it was the strongest quarter of the year, which is not a surprise, but I'm just wondering if the EBITDA margin will be sustainable at that level or if you can expect some kind of erosion throughout the year, and that's my first question. The second question is if you can give us some more color on the cap ex investments, you invested only 6% of the committed cap ex for the full year in the first quarter, and can we expect the cap ex to peak during the year? That's my last question. Thanks.

Adolfo Castro, ASUR CEO: Hi, good morning, and thank you for your words. The EBITDA margins, you know, the first quarter is the highest of the four of the year, so that is why when you have more passengers in a company that has most its costs fixed, you have the highest EBITDA margin of the year. If it is sustainable or not has to do with the passenger traffic level. As I have said before, or during the remarks, the numbers we are seeing today, the 12.4% is extremely high. I don't expect these to continue through the entire year. But, nevertheless, having this 12.4% during the first quarter, which is the most important, if nothing extraordinary happens, we will not be a year with less than 8% growth, and of course margins will be according with this. So, that's what I can say.

In terms of cap ex, as always, we have started the year in very low compared with the commitment that we have for the year, the commitment that we have is almost 3 billion pesos, and most of these have to do with two specific projects, one is Terminal 4 and the other one is Terminal 3. Terminal 3 has to be concluded by the end of this year. We're expecting to inaugurate the expansion in the month of December, so there's no question about it that we will have to perform in that matter. In the case of Terminal 4, the most important amount in terms of money has to do with the down payment for the contractors, so I should expect to see a high increase in the amount of investments during the third and fourth quarters this year for these specific reasons.

Jean Bruny, BBVA: Thank you very much.

Adolfo Castro, ASUR CEO: You're welcome.

Operator: As a reminder, it is star, one if you would like to ask a question. We'll take our next question from Pablo Zaldivar with GBM.

Pablo Zaldivar, GBM: Hello, good morning. Congratulations with your results. I just have a couple of questions. The first one, could you give us a little bit of insight on the increment we saw on costs during the quarter, specifically on administrative costs?

Adolfo Castro, ASUR CEO: Is that the only question?

Pablo Zaldivar, GBM: And the other question, could you give us a bit of the outlook of passengers we have for Cancun for the rest of year? I know you said that during the first quarter the airport was saturated, but what should we expect going forward?

Adolfo Castro, ASUR CEO: Okay. In terms of administrative costs, the most important effect we saw—well, we had two effects. One was something that happened during 2014, that was the cancellation of a provision in terms of the payment for the master development plan process, that was around 5 million pesos; and the second one had to do with the change in the tax, in the Mexican tax law for the contribution—social contributions to the employees. Those were basically the two main effects in the administrative costs. For the future, the first one that has to

do with a cancellation of 2014, it's a one-time event, and the other one will continue because I do not expect that the Mexican authorities will change the tax law.

In terms of passengers at Cancun, it is important to say that the airport of Cancun is not today a restriction to receive more passengers. When we are saying that the capacity of the terminal building has reached, this has to do with the level of service. It's not that we cannot receive more passengers of the ones that we are receiving to date. This basically represent that a passenger at certain moments of the year will not find the service, or the level of service that they have to receive in accordance with the standards that we have. This is very important, because that doesn't mean that we cannot receive more. In fact, we are receiving more and the airport is growing, as you have seen the figures.

Operator: We'll take our next question from Renata Stuhlberger with Goldman Sachs.

Renata Stuhlberger, Goldman Sachs: Hi Adolfo, this Renata speaking. Congratulations on your results. We've been talking a lot about the Cancun Airport capacity and I was just wondering if you could comment a little bit on the Cancun and the Riviera Maya region, overall, for its capacity to receive additional passengers. Since we've been looking a little at the numbers from hotel authorities and tourism authorities in Mexico, it seems like the region is kind of reaching saturation levels, so if you could comment if you have been seeing some activity in increasing capacity, building more hotel rooms, that would help us a lot. Thank you.

Adolfo Castro, ASUR CEO: Renata, hi, good morning. Thank you for your words. Well, in the case of Riviera Maya and Cancun in terms of hotel rooms, I have said this before, in the sense that we are not seeing the same growth in hotel rooms as the one that we are seeing in passenger traffic, and this in the medium and long-term is not sustainable, so we have—well, they have to recuperate the amount of hotel in terms of—in comparison with the passenger traffic flow. So, in other words, if we see figures from last year, the passenger traffic growth was more than 11%, but the rooms growth was less than 3%. So, again, this difference will create in the future some kind of problem. I absolutely agree with you, in the sense that the load factors or the occupancy factors that these hotel rooms are presenting are extremely high, so additional rooms have to be constructed or have to be in operation in order that the passenger traffic could continue to grow. What I expect, and in accordance with the information that I have, the hotel rooms that will be open—so new hotel rooms that will be in operation this year, it's around 6,000 hotel rooms. So, this is not again the same 11% we're seeing the passenger traffic.

It's important to say also that there are some other sources—well, I will not say hotel rooms, I would say house rooms, or people are also staying in houses, and we're seeing an increase in housing—in offers to receive people in houses. So, this is another source of—another way that the people can stay there for a night. So, the combination of these is what we are seeing and there is strong passenger traffic growth and increasing occupancy rate.

Renata Stuhlberger, Goldman Sachs: That's perfect. Thank you.

Adolfo Castro, ASUR CEO: Thank you.

Operator: We'll take our next question from Neil Dihora from Morningstar.

Neil Dihora, Morningstar: Yes, good morning, thanks. Just on Puerto Rico again, the income of \$32 million in the quarter seems—I guess the first question is do you think that's more of a sustainable rate going forward? I know the last couple of years have seen ups and downs in different quarters. I guess, more importantly, what kind of margin do you think the airport is posting maybe compared to rest of the Company, and maybe EBITDA level would be good. Thanks.

Adolfo Castro, ASUR CEO: Hi, good morning. Well, basically, in the case of San Juan, as in the case of the other airports out there we have in Mexico, it has its own seasonality. The ups and downs are related, first of all, with seasonality, and second, because the operation of this company is not yet normalized. So, we're still in the construction process and the adjustment or fine-tuning the operation of the company. If you remember, two years ago when we started this project, basically, the project was to remodel the building and to end up operating these airports with fewer amounts of square meters. These were two very key objectives, one to reduce operational costs and the other one to increase the commercial revenue per passenger. This is something that we believe we're going to complete by the third quarter next year. So, it's from the third quarter next year we can say that we will have a normalized operation of the company, and the only thing that will remain will be the seasonality. What we are seeing today, of course, is a better operation, a better commercial offer, and of course a better commercial revenue per passenger. Once we complete the expansion or the remodeling process in Terminal C and we can close, finally, the additional square meters that we are not using but that we have to maintain and secure and clean, blah, blah, blah, we will have a better view of the numbers.

Neil Dihora, Morningstar: Okay. Thanks.

Adolfo Castro, ASUR CEO: You're welcome.

Operator: As a reminder, it is star, one if you'd like to ask a question. We will take our next question from Pablo Zaldivar with GBM.

Pablo Zaldivar, GBM: Hello again, Adolfo. I got kicked out of the conference, I don't know what happened. I don't know if you could tell me again what's the passenger outlook for Cancun going forward, because I couldn't get that because I got disconnected. Thank you very much.

Adolfo Castro, ASUR CEO: Well, Pablo, as I said before, the numbers that we are seeing today are extremely high. It's hard to say if this will continue during the remaining of the year. We have a very strong effect on the peso devaluation against the dollar in terms of the US traffic. As I said during the remarks, there are some of the regions are down, we have lost all the passengers from Russia, I see the Spanish guys popping up again, the Latin America guys growing really nice, so it's hard to say how this will end up during the year, but I will be cautious, not using the same numbers we are seeing from the first quarter.

Pablo Zaldivar, GBM: Okay. Thank you very much.

Adolfo Castro, ASUR CEO: You're welcome.

Operator: As a reminder, it is star, one if you'd like to ask a question. There are no further questions in the queue. I would now like to turn the call back over to Mr. Adolfo Castro for any closing remarks.

Adolfo Castro, ASUR CEO: Thank you, Shelly. Thank you everybody for joining us today on the conference call. Also, do not hesitate to contact me if there's any further questions. Also, know that tomorrow we're—that today we're holding our general shareholders assembly and we expect to publish the result of this probably at the end of today, later tomorrow morning. Thank you everybody and have a good day. Good-bye.

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