



**Grupo Aeroportuario del Sureste
Second Quarter 2015 Earnings Call Transcript
July 24, 2015**

Operator: Good day, ladies and gentlemen, and welcome to the ASUR Second Quarter 2015 Results Conference Call. My name is Christie and I'll be your operator. At this time, all participants are in a 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, Christie, and good morning, everybody. Thank you for joining us today on the conference call to discuss our second 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 will start by reviewing operations in San Juan Puerto Rico International Airport, and afterwards, briefly discuss the results for the quarter.

Second quarter 2015 passenger traffic at San Juan Puerto Rico Airport increased 0.9% year-on-year to 2.3 million passengers.

Note that our second quarter results have benefited from a MXN 21.7 million equity gain from ASUR's equity participation in Aerostar and an MXN 11.4 million gain in the stockholders' equity from the translation of the dollar against the peso during the period.

In terms of the infrastructure upgrades at San Juan Airport, we remain on track to complete the remodeling of terminal C including a fully renewed space with a revamped commercial offering and more efficient traffic flow. This space should be completed and in operation by the first quarter 2016.

Moving on to our Mexican operations, performance this quarter remains strong. Total passenger traffic increased 14.3% year-on-year to MXN 6.6 million, nearly in line with the record setting in first quarter 2015.

Domestic traffic continued to perform well, with all operations reporting year-over-year growth. Second quarter 2015, we saw an increase of 14.2% year-on-year, reaching a record for second quarter.

Cancún airport, specifically posted an 8.8% increase that comes from 41.5 million passengers. We continue to see airlines expanding capacity ongoing point-to-point and increasing connectivity between the different cities in Mexico. The combination of increased capacity, high traffic and to and from Mexico City and lower fuel prices even after considering the effect of the depreciation of the peso is clearly contributing more competitive airfares space. In addition, Cancún appeals to domestic travelers who are more inclined to fly rather than use a bus.

The continuous appreciation of the dollar against the peso has remained a driving force behind ASUR's international traffic. Actually, passenger traffic between Mexico, Canada, and the United States represented 88.6% of the total traffic compared with the 88% a year ago. So while we are seeing a strong performance in traffic from Latin America, all areas however, continue to show weak dynamics. In summary, whilst traffic figures to-date are quite strong, we remain more cautious for the remaining of the year.

Moving on to the profit and loss account, total revenues, excluding the 1,059% increase in revenue from construction services rose 23.2% compared with the second quarter 2014.

Commercial revenues per passenger posted a strong performance of 11.9% year-on-year, reaching MXN 81.7, just below the record high of MXN 82.6 set the last quarter. It was not only driven by a significant growth in passenger traffic, but also reflects the effort of our concessionaires across most airports to drive commercial revenues. Looking ahead, we are committed on the potential to maintain these levels of commercial revenue as we continue to expand terminal capacity at Cancún Airport.

EBITDA increased to MXN 1.1 billion, up 29.2% year-on-year, reflecting ASUR's ability to leverage its high liquid cost base. Actually, operating cost and expenses, excluding the increase in construction cost, were off 9.1%, well below revenue growth.

In addition, EBITDA margin, excluding the impact from construction revenue, grows 330 basis points to 70.8% from 67.5% in second quarter 2014.

Second quarter 2015 results, however, were affected by a non-cash foreign exchange loss of MXN 30.5 million in the quarter, resulting from the 204% depreciation of the peso on our currency net liability position.

Overall, capital expenditures for the second quarter 2015 totaled MXN 389 million, invested along with the parameters of our master development plan. Funds were invested principally in the expansion of Terminal 3, which is on track to be completed

in December. During the quarter, we conducted the bidding process to select a contractor to begin the construction of Terminal 4. Construction is expected to start in August.

As usual, we maintain a healthy balance sheet with cash and cash equivalents of MXN 3.2 billion and bank debt of MXN 3.4 billion at the close of the quarter. This quarter, we also delivered cash dividends of MXN 5.10 out of the premiums, reflecting our commitment to provide value to our shareholders.

Finally, on July 17, 2015, ASUR was able to successfully restructure the bank loans related to our Cancún Airport. The Cancún Airport subsidiaries came to an agreement to extend the maturity of the current loans with BBVA Bancomer and Bank of America for a combined total amount of \$250 million from 2018 to 2022. In addition, the two banks agreed to commit an additional line of credit for a total of \$85 million. The proceeds of these additional loans will support the capital expenditures in Cancún Airport.

Now, Christy, let me open the floor for questions. Go ahead.

Q&A

Operator:

Thank you. If you would like to ask a question, please signal by pressing star, 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, press star, one to ask a question.

We'll take our first question from Steven Trent with Citi.

Steven Trent

Thank you, Adolfo and thanks for taking my questions. Good morning to you. Actually two, if I may. The first is Puerto Rico, given what seems to be a difficult budget situation there, what's your view with respect to what we could see on the traffic standpoint, as well as maybe taxation or utility rates?

Adolfo Castro

Hi, good morning. Taxes have increased in the island. There's a tax called (inaudible) that has increased from 7 to 11%. Probably this will have a minor impact on the economics of the Company because it's important to say that most of our traffic, the most important piece of our traffic lives in New York, so it's people that live out of the island that go back to the island to see their families and goes back again to the continent. So in general I would say to make this a short answer, I do not expect a major effect because of the situation today in San Juan.

Steven Trent

Okay, great. Just one other question. The Company's commercial revenue in 2Q, it was up big excluding direct operations, but direct operations was flat. Could you just refresh my memory, what is commercial revenue excluding direct operations?

Adolfo Castro

Okay, let me start with what's commercial operations, because if you see the report carefully, there's a note on the bottom of the tables saying that we have agreed to sign an agreement with a new concessionaire in the case of advertising to us from mid-year advertising is no longer a direct commercial operation for us. So today, the only commercial direct operation is the case of convenience stores, and that is why probably you are seeing a flat inflation during the quarter.

Steven Trent

Advertising, got it, okay. I saw that note; I didn't quite understand, but that's helpful. Appreciate the time, Adolfo.

Adolfo Castro

Okay, thank you.

Operator:

We'll take our next question from Ramon Obeso from Scotiabank.

Ramon Obeso

Hi Adolfo. Thank you the call. My question is regarding aeronautical pricing. We saw strong growth in aeronautical revenue per passenger this quarter. Could you give us some color on this and how sustainable these levels are going forward? Thank you.

Adolfo Castro

Absolutely. Aeronautical revenues are basically regulated revenues. Regulated revenues are basically the result of our maximum rates times the number of passengers or the number of the working units, so the number you are seeing is basically the result of the maximum rate that was approved by the authority at the beginning of the year 2014 plus inflation minus 0.7% in efficiency factor. It is important to say that the pace of inflation is measured by the PPI excluding petroleum and not CPI. So probably, the effect that you are seeing is the effect of the PPI, and of course it is sustainable for the remainder of the year.

Ramon Obeso

Okay, thanks.

Adolfo Castro

You're welcome.

Operator:

As a reminder, that is star, one to ask a question. Our next question comes from Pablo Zaldivar with Grupo Bursatil Mexicano.

Pablo Zaldivar

Hello Adolfo. Thank you for taking my question. Do you have a time frame when the Cancun renovations will be ready?

Adolfo Castro

Well as I said during the remarks, the expansion of Terminal 3 is expected to be concluded at the end of this year, so in December it should be ready.

Pablo Zaldivar

Okay, perfect. Can you give us a number or just an estimate or something of how much additional commercial area will be included in the new terminal?

Adolfo Castro

Okay. I would say that basically the expansion of Terminal 3 is--well, it's divided in two pieces. The first piece is check-in area, and the second piece is boarding gates. So basically, most of this is going to be operational spaces, not that we would increase the square meters in commercial revenues. But the benefit of this is that this will allow us to decongest Terminal 2, so some of the passengers that are today in Terminal 2, which is basically congested, will be able to fly from Terminal 3, and that will give us the relief and that should increase the commercial revenue per passenger.

Pablo Zaldivar

Okay, thank you very much.

Adolfo Castro

You're welcome.

Operator:

Our next question comes from Jean Bruny with BBVA Compass Bank.

Jean Bruny

Hola Adolfo. Thanks for the call. I just have a quick one, actually, on something that appeared in the Mexican press about two months ago with the FTC concerning the possibility to privatize some other airports, so just want to you know what your view is on this operation. You know that Ciudad del Carmen, which is not very far from the airport, so the geographic exposure you have at the moment. I don't know if you--if that's something really to mention about, it's something happening, or you can expect from more news on that later in the coming weeks or months. Thanks.

Adolfo Castro

Well to be honest, I do not have any additional information of the one that you have. It's just a note in the press. I do not have additional information. Of course, if this

occurs, once this occurs we will see the documents carefully and we will be interested to analyze the possible opportunities.

Jean Bruny

Okay, thank you very much.

Adolfo Castro

You're welcome.

Operator:

Our next question comes from Fernando Abdalla with JP Morgan.

Fernando Abdalla

Hey, good morning, Adolfo. I just have a question regarding cap ex. In the NDP that you published to the market, it's expected to invest roughly 3 billion pesos this year; but I gather in the first half, cap ex was around 500, so we should expect cap ex in the second half to increase and reach this 3 billion, or part of this cap ex will move to the next years of the NDP?

Adolfo Castro

Hi Fernando, good morning. You know, cap ex this year, as you were saying, it's more than 3 billion pesos, and this has to be spent during each year no matter what.

Fernando Abdalla

Okay, perfect. Thanks.

Adolfo Castro

You're welcome.

Operator:

As a reminder, that is star, one to ask a question. Our next question comes from Steven Trent with Citi.

Steven Trent

Hi Adolfo, and thank you for taking my follow-up. Just one more, if I may. Looking at the very strong traffic growth that we've had, assuming that the current growth rates are sustained, how long do you think it would be, holding everything else constant, before we have to start assuming a markdown in tariffs in the next regulatory review?

Adolfo Castro

Well, the traffic is really strong, as I said during the remarks, because of the exchange rate that is originating more US traffic to our destinations, mainly Cancun.

I don't know how sustainable this is. You probably have more information than what I have, but of course at the level of the peso that we are seeing today, it's creating an opportunity for the US guys to go to Cancun, and they are taking this opportunity.

The other important information is of course the strength of the domestic traffic. The airlines continue to increase their capacity, they continue to add airplanes into their fleet. Also, I have to say that we are seeing more point to point routes, more direct flights to Cancun from somewhere else apart from Mexico City. The other thing we are seeing--we continue to see increasing in the case of Mexico City, so a better use of the slots they have, even with the capacity constraints they have on this particular piece of the airport.

So I believe that this strong traffic growth that we are seeing today is because of these reasons, and of course as I have said during the remarks, I will be cautious about the future. I will not be expecting this to continue for a longer time, so that's my view.

Steven Trent

Okay, that's helpful. Thanks again for taking my follow-up, Adolfo.

Adolfo Castro

You're welcome.

Operator:

As a reminder, if you'd like to ask a question, that is star, one on your touchtone telephone.

It appears we have no questions in the queue at this time. I would now like to turn the conference back over to Mr. Adolfo Castro for any closing remarks or comments.

Adolfo Castro

Thank you, Christie, and thank you everybody for joining us today on the conference call. Also, do not hesitate to contact me if there is any further questions. Have a good day. Goodbye.

Operator:

This does conclude today's conference. Thank you for your participation. You may now disconnect.