



**Grupo Aeroportuario del Sureste  
Third Quarter 2015 Earnings Call Transcript  
October 23, 2015**

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**Operator:** Good day, ladies and gentlemen, and welcome to the ASUR Third Quarter 2015 Results Conference Call. My name is Aaron 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, Aaron, and good morning, everybody. Thank you for joining us today on the conference call to discuss our third 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.

I will begin today reviewing operations in San Juan Puerto Rico International Airport, and then briefly discuss the results of the quarter.

Passenger traffic at San Juan Puerto Rico Airport was up 1.5% year-on-year reaching 2.2 million this quarter. Note that this was a similar growth rate to that achieved last year when the views of the economic environment of Puerto Rico were more positive than they are today.

Consolidated results this quarter include a 10.15 million peso equity gain from ASUR's equity participation in Aerostar and a 139.97 million peso gain in the stockholders' equity from the translation of the dollar against the peso.

The remodeling of terminal C at San Juan Puerto Rico Airport continues to progress as planned. The renewed space will again feature revamped commercial offerings and a layout more conducive to efficient traffic flow. This space is still on track for completion by the first quarter 2016.

Looking at our Mexican operations, this quarter continued the positive trend we have been seeing over the past quarters. Total passenger traffic increased 15.2% year-on-year reaching a record high of 6.6 million passengers.

As you have seen in our monthly traffic reports, domestic traffic remained quite as strong this quarter – up 14.0% year-on-year setting a record of 3.3 million passengers, with a very good performance across all the airports.

Domestic traffic at Cancún airport increased 9.4% to an all-time high of 1.8 million passengers as higher airline capacity and connectivity throughout Mexico, as well as lower oil prices continue to support more affordable airfares.

International traffic was also very strong this quarter – up 16.5% year-on-year, supported by the continued depreciation of the Mexican peso against the US dollar. Passenger traffic between Mexico, Canada, and the United States represented 87.0% of total traffic compared with 86.7% a year ago. Now I would like to say that traffic figures to-date are quite strong, looking forward we remain more cautious.

Now moving on to the income statement. Total revenues - excluding the 227.8% increase in revenue from construction services - rose 24.6% when compared with the third quarter of 2014.

Commercial revenues per passenger showed a strong pick-up of 15.89% year-on-year, to a new record high of 82.8 pesos. This increase was mainly driven by two factors: the consistently strong passenger traffic growth we have seen through 2015 and the continuous efforts of our concessionaires to increase commercial revenues across all the airports. Looking ahead, the expansion of Terminal 3 is on track and will contribute to increase the capacity at Cancún Airport, which should help the Company in maintaining commercial revenue growth.

Operating costs and expenses - excluding construction costs - were up by 11.3% year-on-year, well below the 24.6% increase in revenues.

As a result, EBITDA rose 29.9% year-on-year to 1.1 billion pesos as we continued to leverage our highly fixed cost base. Excluding the impact from construction revenue, adjusted EBITDA margin increased 290 basis points to 70.5% from 67.6% in the third quarter of 2015.

The 7.8% depreciation of the peso, however, resulted in a non-cash foreign exchange loss of 85.7 million pesos this quarter. This was more than twice the 3.6% depreciation of the peso in the third quarter of 2014.

Moving on to capital expenditures, we invested 658.5 million pesos this quarter, principally in the expansion of Terminal 3 and the land preparation for starting construction of Terminal 4. The expansion of Terminal 3 is on track and should be completed in December. Remember that our work here has focused on expanding the check-in area as well as boarding gates. So, while we will not be increasing commercial space, it will allow us to decongest Terminal 2 which is running at full capacity, and will give us the ability to move passengers to Terminal 3. In Terminal 3, these passengers will experience an improved layout and a better commercial offering. In turn, we expect this expansion to contribute to higher commercial revenue per passenger.

Year-to-date, we have invested a total 1.2 billion pesos in capital expenditures and remain on track to meet the 3 billion pesos capex for the year as per our master development plan.

As usual, we maintain a healthy balance with cash and cash equivalents of 3.5 billion pesos on September 30, 2015, up from 2.9 billion pesos at the start the year. In addition, bank debt totaled 3.6 billion pesos at the close of this quarter.

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

**Operator:**

Absolutely. Once again, everyone, that is star, then one if you'd like to ask a question at this time.

We will take our first call from Ricardo Alves with Morgan Stanley.

**Ricardo Alves:**

Hi, Adolfo. Good morning and thanks for your time. My first question is on Cancún, I mean, the performance was pretty remarkable, the 70% EBITDA margin from 65% or so in the first half, 500 bps year-over-year. So, I mean, traffic is strong. We get the top line strength, but we are a little bit intrigued with the margin expansion in that airport. So, the question is what's going on in the third Q that was so different from the first and the second quarter? Because, I mean, traffic growth in the third quarter was not that far from what we saw in the second quarter and in the first quarter, but margins were much higher or maybe just the strong US dollar boost in expanding. So, any color you could give on Cancún's performance that will be very helpful.

Then my second and last question would be kind of a follow-up, right. Given the Cancún's performance, when you look at the ASUR's consolidated EBITDA margin, it actually gives the impression that we might—we actually saw some profitability deterioration in the other airports. So, just wondering if there was anything relevant to comment on the other airports in terms of profitability? Again, thanks so much.

**Adolfo Castro:**

Okay, thank you. Well, basically, the improved profitability in the case of Cancún is coming from the increase in commercial revenues per passenger. So, as you have seen, we have been improving quarter-by-quarter in the case of commercial revenue per passenger. We are showing you the highest ever for the quarter and that of course improves the profitability in the case of Cancún. That I would say is the most important thing.

In the case of the other airports, it's important to mention that probably, we normally don't talk too much about expansions there, but remember that we have expanded Veracruz, Villahermosa and Huatulco and currently, we are in expansion, a small expansion in the case of Mérida Airport. Always these brings additional cost once their infrastructure is ready. That is probably why you are seeing a decrease in the profitability in the other airports.

**Ricardo Alves:**

Okay. On Cancún, the current level of non-aeronautical revenue per passenger, you think that's sustainable for—at least for the coming quarters, is that the message?

**Adolfo Castro:**

Exactly, that's true.

**Ricardo Alves:**

Okay. Thanks Adolfo.

**Adolfo Castro:**

You're welcome.

**Operator:**

We'll go next to Ravi Jain with HSBC.

**Ravi Jain:**

Good morning Adolfo. So, I think the only line that we saw soft in the ASUR earnings was the net income from Puerto Rico. Could you give us a better color, was it some one-offs, was it some seasonal or what led to a slightly softer result from Puerto Rico?

**Adolfo Castro:**

Hi, good morning Ravi. We have to think that—the first one is of course the closure of Terminal C, as that is affecting commercial revenues. The second one has to do with something that was inside the contract fees, day 1, which is a travel promotion fund. This is the money that we have to pay to promote the tourism activities in the island, and these travel promotion funds, let's say from expenditure perspective, the start of this year. The total of the travel promotion fund is \$6 million, which should be paid in the following way: \$3 million this year; \$2 million next year; and \$1 million the year after. So, that's probably—I don't want to say one-time event because it's three years, but its one-time event in three years, okay. So probably, that is why you are seeing the soft result there.

**Ravi Jain:**

Great. Then the only other question I had was, you're—I mean, again not talking at specific numbers, but looking at the trend we have been talking that these traffic numbers in Mexico are not sustainable at these levels and things like that. As you head into 2016, are you looking at still, let's say much better than historic mid single-digit growth rates, given that now you have open skies with the US, which is going to be a medium event, but do you still see let's say somewhere between a high single-digit number to a low double-digit number next year as well, or do you see that going back to historical mid single-digit numbers there?

**Adolfo Castro:**

As I have said in the remarks, I will be more cautious next year in comparison of what we are seeing this year. This year has been an extraordinary case. One of the most important aspects that we are seeing today is the devaluation of the peso against the dollar, which is boosting the US traffic. I really don't know what to say about the situation. Probably this will continue next year at least for the first half of the year. The other situation is Mexico City Airports, if we believe that they have reached the limit or not because that will affect or should affect domestic traffic. So, I would say, we will—what we expect is a strong 2016, but of course not as strong as 2015 has been.

**Ravi Jain:**

Perfect. Thank you so much. I will get back in the line. Thank you.

**Adolfo Castro:**

Thank you.

**Operator:**

We will go next to Pablo Zaldivar with GBM.

**Pablo Zaldivar:**

Hello, good morning. Thank you for taking my question. I would like to start; we have been seeing steady growth rates in aeronautical revenues per passenger and we believe they have been supported by the local currency depreciation. So, would you expect a slight decrease in the last quarter to comply with the maximum tariffs set by the government?

**Adolfo Castro:**

Aeronautical revenues are not as strong because of the depreciation of the peso against the dollar. Remember that the maximum rate is set in pesos. So, probably the effect that you are seeing is the effect of the inflation. Remember that the way that we adjust our maximum rates is using the PPI including petroleum instead of the PPIs—sorry, the price product—the price consumer index, the PCI. The PPI including petroleum has been stronger than in comparison with the consumers. So, that is probably the effect. I will recommend you to see that, Pablo.

**Pablo Zaldivar:**

Okay. Thank you. So, the trend should continue as it has been throughout the year, right?

**Adolfo Castro:**

The regulated revenue should increase, passenger traffic flows, PPI minus 0.75% efficiency factor.

**Pablo Zaldivar:**

Okay, thank you. The other question, could you give us a little bit more color on Cancún's Terminal 4 construction? What do you expect in terms of deadlines and the expected impact on the airport?

**Adolfo Castro:**

Yes. In the case of Terminal 4, as I said during the remarks, we have begun our physical construction in the case of the preparation of the land. After that, we will have to contract like what they call the foundation and the structure of the building, and then we will proceed with the equipment and the finishing of the building. What I expect is this terminal building to be completed in 2017.

**Pablo Zaldivar:**

Okay. Thank you very much for taking my questions.

**Adolfo Castro:**

You're welcome.

**Operator:**

Just as a reminder everyone, that is star, followed by the digit one if you'd like to ask a question at this time.

We will go next to Steve Trent with Citi.

**Steve Trent:**

Good morning Adolfo and thank you very much for taking my questions. Just two or three for me; the first is following up on the gentleman from HSBC on San Juan. I appreciate you may not be able to give us more color, but what are you seeing with respect to anything you can mention about taxation there or utility costs, certainly with Puerto Rico having some economic issues at the moment. That's my first question?

**Adolfo Castro:**

Okay. In the case of San Juan and the case of taxes, what we saw was an increase in value-added taxes; it's not exactly the same value-added tax that we have in Mexico. It's a slight difference. But, let's say the sales tax, okay. It was increased from 7% to 11%. We have not seen a significant impact on the financials because of this. In the case of the utility costs, that is something that is very expensive there. Basically, the case of energy, just to give you one number, we have to pay in San Juan, three times what we pay in Mexico per kilowatt hour. In the future, what I believe is that this Company will have to be more efficient. What I expect is a reduction in the cost of energy for this airport. I do not expect a larger price, even that they have economic problems. I believe that at the end, this will mean a more efficient company and more efficiency for the operation of the plants there.

**Steve Trent:**

Okay, great. I appreciate that. The second question, if I may, relates to your commercial revenue per passenger. On a direct operations basis, it's been going down, even in local currency terms. I can appreciate your comments about Terminal 3 opening, improving the efficiency of Cancún. But, this advertising piece of commercial seems to be the booster. I was wondering if you might be able to share with us who has this advertising contract and what's the tenure? When does it come up for to be renegotiated, if you're allowed to mention?

**Adolfo Castro:**

Of course, it is exactly the opposite, Steve. If you see the numbers, commercial revenue—commercial revenues from direct operations were almost exactly the same as they were in the same quarter last year, but if you see the note that is below the table, you will see that commercial revenues from direct operations in the case of advertising have been excluded as from May 30th this year. That means that we are not including any advertising in that line anymore, because now we have signed a concession agreement. The concession agreement means that the revenue that we received from this Company goes directly outside the direct commercial operations. So, if you've seen the other note about advertising the increase that we have for the quarter was 16%. So, today, once we have the concession or we have signed a concession agreement with a company, that the name is SSL, we have better revenue and we do not have direct costs. So, I would say the concession agreement that we signed was a benefit instead of a negative for direct commercial operations.

**Steve Trent:**

Right. So, what I was referring to is in your piece direct—commercial revenue from direct ops per passenger was down 14% in pesos. So, I was referring to the boost from advertising. The SSL, are you allowed to disclose the link to the contract or when it might come up to be renegotiated or....

**Adolfo Castro:**

No, it begun in May 2015.

**Steve Trent:**

Okay, great. Well, I will get back in line as well and let someone else ask a question. Thanks, Adolfo.

**Adolfo Castro:**

Thank you.

**Operator:**

We will take a follow-up from Ravi Jain with HSBC.

**Ravi Jain:**

Hi, Adolfo. Thank you for this. I just wanted to follow-up on the domestic Mexican market and I'm looking at the airlines margins are kind of still better off. Do you think that there is some scope for passenger fares to come down, yields to come

down, will that be able to continue to boost domestic traffic or is it still going to be just because the economy is slightly better? We're seeing very strong retail sales in Brazil recently. Is that the bigger driver or do you see that there's scope for fares to go down from here? Thank you.

**Adolfo Castro:**

Well, Ravi, what I expect is the following. First, I have to say that more or less, we have today the same kind of fleet we have in June 2008 for the case of domestic airlines. Probably in terms of seats, offered seats, it's a little bit higher, but not too much. So, I still believe that we have demands higher than offered and that is why we see high prices in the case of domestic traveling. In the future, as the airlines have more capacity as they are doing today, what I expect is a reduction in the cost of flying domestic and that of course should boost the demand. The situation on top of this is—and the question we have is, what will occur when the case of Mexico City Airport will be closed? Seventy percent of my domestic traffic goes or comes from Mexico City. So, Mexico City Airport has been growing from 24 million to 34 million passengers last year and probably this year it will be 36 million. Are they going to be able to grow more or not? If they cannot grow more, where does the growth in the future will have to come? That is the question. The question is the only way is Toluca. So, Toluca is—it's an airport that is 35 kilometers away from the city.

**Ravi Jain:**

Right.

**Adolfo Castro:**

If the people will shift from Mexico City to Toluca or not, so that is why I am concerned about the growth, the strong growth in domestic we are seeing this year.

**Ravi Jain:**

This is very helpful. Thank you, Adolfo.

**Adolfo Castro:**

You are welcome.

**Operator:**

Again, everyone, as a reminder, it is star, followed by the digit one if you'd like to ask a question at this time.

We'll go next to Steve Trent with Citi.

**Steve Trent:**

Hi, Adolfo, and thank you for taking my follow-up. Sorry to come on again. Just one other quick follow-up question. Regarding the US/Mexico bilateral agreement or at least pending bilateral agreement, can you refresh our memories as to which ASUR airports would be directly impacted in Phase 1?

**Adolfo Castro:**

Yes. Well, first of all, a lot of people like to say that this is an open skies with the US. I have to say very clear that it's not. What basically this proposed agreement says is that they will liberate the amount of companies that can fly for a pair of cities. The current agreement is two airlines or two companies per pair of cities, with the exception of 13 cities, this is tourism destinations mainly, that can have three airlines per pair of cities. Being Cancún, the most important airport in the country in terms of US traffic and more origin destinations to the US nation, I would say that in the case of Cancún today, we have five cities that today have three companies flying there from the United States. But there is one—there is just one city, which is Chicago that there is an airline waiting to enter into this market and they cannot get in until this agreement is being ratified by the Congress and signed by the two countries. So, the only effect that I see in the case of ASUR's airports is that probably we will have a fourth company coming from Chicago to Cancún. So, in general terms, I do not expect to have any major impact or significant impact because of this new bilateral agreement.

**Steve Trent:**

Okay, very helpful and thanks for taking my follow-up, Adolfo.

**Adolfo Castro:**

Thank you.

**Operator:**

Just as a reminder everyone, that is star, followed by the digit one to ask a question at this time.

Mr. Castro, we have no questions holding at this time.

**Adolfo Castro:**

Okay, thank you, Aaron, and thank you everybody for joining us today on this conference call. Also, do not hesitate to contact me if there is any further question and have a great day and a nice weekend. Goodbye.

**Operator:**

This does conclude today's conference. Everyone, we thank you for your participation. You may now disconnect.