



**Grupo Aeroportuario del Sureste
Fourth Quarter 2015 Earnings Call Transcript
February 23, 2015**

Operator: Good day, ladies and gentlemen, and welcome to the ASUR Fourth Quarter 2015 Results Conference Call. My name is Sarah 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, Sarah, and good morning, everybody. Thank you for joining us today on the conference call to discuss our fourth quarter results and full year 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.

Now, moving on to results, our fourth quarter performance marked another strong period that contributing to ASUR's outstanding results for 2015. We also continued to make progress on our expansion plans at both our Mexican airports as well as San Juan International Airport.

Starting with our operations at San Juan Puerto Rico International Airport; passenger traffic at this airport at this airport rose 6.8% year-on-year reaching 2.1 million passengers this quarter. This compares favorably with the 2.4% traffic increase reported in 4Q14, despite the changings views of the economic environment of Puerto Rico. For the full year, traffic rose 1% totaling 8.8 million passengers.

Consolidated results this quarter include a 13.43 million peso equity gain from ASUR's equity participation in Aerostar and a 26.85 million peso gain in 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 feature revamped commercial offerings and a

layout more conducive to efficient traffic flow. This space is still on track for completion for the first quarter 2016.

Moving on to our Mexican operations, total passenger traffic growth decelerated to 9.7% from the double digit figures reported over the past four quarters, reflecting - as anticipated - a slowdown in both domestic and international traffic. This brought total traffic to more than 6.3 million passengers, a record high for a fourth quarter.

Domestic traffic increased 10.1% year-on-year to 3.0 million passengers. All of ASUR's airports contributed to this performance supported by greater airline capacity and connectivity throughout Mexico, as well as lower oil prices resulting in more affordable airfares.

International traffic was up 9.4% year-on-year, driven by the continued depreciation of the Mexican peso against the US dollar. Passenger traffic between Mexico, Canada, and the United States represented 86.9% of total compared with 86.8% a year ago.

While traffic growth is still robust, looking forward we remain more cautious as we also will be facing more difficult comps given the strong growth reported in 2015.

Now, moving on to the income statement - total revenues, excluding construction services, increased 18.9% when compared with the fourth quarter of 2014.

Commercial revenues per passenger in the fourth quarter were robust - up 27.6% year-on-year, reaching a record high of 88.7 pesos. This was driven by strong passenger growth and the continued efforts of our concessionaires to increase commercial revenues. We also completed the expansion of Terminal 3, this past December. In addition to making Terminal 3 bigger, this has enabled us to reduce congestion in Terminal 2, allowing travelers to be in a less crowded commercial space.

On the expense front, we continue to maintain tight expense controls. Excluding construction costs, operating costs and expenses were up by 7.7% year-on-year, well below the 18.9% increase in revenues.

As a result, EBITDA increased 23.7% year-on-year to 1.1 billion pesos as we continued to leverage our highly fixed cost base.

Excluding the impact from construction revenue, the Adjusted EBITDA Margin increased 276 basis points to 63.2% from 59.4% in 4Q14.

Our fourth quarter results also reflect a 17 million peso foreign exchange loss from the 2% peso depreciation, significantly below the 127 million loss reported in 4Q14 when the peso depreciated 9.7%.

Moving on to capital expenditures, we invested 1.7 billion pesos this quarter, principally in the expansion of Terminal 3 and the foundation of Terminal 4 which is expected to initiate operations next year.

As I mentioned earlier, ASUR initiated operations of the Terminal 3 expansion, on December 18. This expansion focused on increasing efficiency by expanding the check-in area and boarding gates.

Year-to-date, we have invested a total of 2.9 billion pesos in capital expenditures; in-line with our objective for 2015, as per our master development plan.

As usual, we maintain a healthy balance sheet with cash and cash equivalents of 2.1 billion pesos on December 31, 2015, down from 2.9 billion pesos at the start the year. Bank debt totaled 3.7 billion pesos at the close of the quarter.

Before opening the floor for questions, let me note that to further support our commitment to sustainability, last December ASUR entered into a power-purchase agreement with SunPower Corporation for 36 megawatts of solar energy to serve our operations in Mexico. We expect SunPower to begin construction of the plant during this year.

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

Operator:

Thank you. Again, to the audience, it is star, then one for questions, and again, please make sure your mute function is turned off or the handset is picked up before pressing the corresponding digits.

We'll go first to Pablo Zaldivar of GBM.

Pablo Zaldivar:

Hello, good morning Adolfo. Thank you for taking my question. I would like to start with the maximum tariff during the year. We saw aeronautical revenues per passenger rise roughly 4.5%, when compared to 2014, and that would be more than just an inflation adjustment and the efficiency factor. Could you give us a little bit more color why that increase happened, and what should we expect going-forward?

Adolfo Castro:

Of course, Pablo. Good morning. Well first of all, if we talk about maximum rates, we should be talking about regulated revenues. Remember that regulated revenues should be as a result of top-end revenues minus the construction costs, I mean minus construction revenues, minus commercial revenues. That should me more or less regulated revenues. Regulated revenues should increase in accordance with the maximum rate, but this maximum rate is adjusted with inflation, and the index that we have to use to adjust the inflation is the PPI excluding petroleum. This index grew last year by 5.289%, from the top of my head, against the consumer price index, which was 12.2%. So, probably that is why you are seeing the difference in terms of the results.

Pablo Zaldivar:

Okay. Okay, that makes sense. Thank you. On the other hand, in terms of passenger traffic, in January we saw strong deceleration. I was just wondering if this is only related to the tough comparative base, due to the strong increases in the past, or does it have any other structural change, maybe including Zika as we saw a weak international performance in Cancun?

Adolfo Castro:

Well, the traffic in January in my opinion is representing a more normalized number. What we saw last year, in my opinion, was a scenario of 12.9% growth; we have not yet, was in my opinion the result of very, very positive effects on several fronts. In the case of January, we are seeing a weak Canada, as an example, because of the devaluation of the Canadian dollar against the US dollar could be one of the reasons. The other reason could be the weather, which has not been as strong as it was last year, in the case of the north part of North America. But, as I said in the remarks what I expect is more normalized numbers to be there, and of course, we can call it a deceleration of the growth.

Pablo Zaldivar:

Okay, thank you very much for taking my questions.

Adolfo Castro:

You're welcome.

Operator:

Up next, from Credit Suisse, we'll go to Pablo Barroso.

Pablo Barroso:

Hi, good morning Adolfo, and thank you for the call. Congratulations on the results. I have just a couple of questions. The first one is could you give us more color on what should we expect in passenger traffic along the year, mainly driven by the top comps that we saw in 2015?

Adolfo Castro:

Pablo, hi good morning. You know that we don't give guidance because at the end of the day, we do not control what happens in terms of passenger traffic. But, my recommendation would be to be more cautious against the numbers we saw last year. The numbers that we are seeing in January, the 8%, remember it is very important for us because well, in terms of seasonality the first quarter is always the highest in the high of the year. So, once we see what happens during the first quarter, we can have a better photo of what the year's going to be. But, of course, the numbers we're seeing in general, is 8%, is much, much lower than what we saw last year and that is what we expect, not in terms of numbers, but a weaker traffic than the 12.9% we have last year.

Pablo Barroso:

Okay, thank you Adolfo. My other question is we're expecting for 2016 higher free cash flow generation, mainly boosted by lower cap ex, compared to 2015. Is Management analyzing the possibility of increasing the Company's dividend payment?

Adolfo Castro:

Well, you know that the dividend payment is something that we evaluate every year in terms of the results of the year. If we see what is our cash position to pay the two-point something million from the \$2.9 billion we initiated; that was despite the high cap ex we had for the year, and the dividend payment we did during the year 2015. So, this is something that we're going to evaluate once we have the results of the year in terms what is the cash position, what is the tax situation, how much cap ex we have in front, I mean, there's any investment opportunity, and then we will have to submit our proposal to the Board of Directors and then to the shareholders after that.

Pablo Barroso:

Okay, thank you Adolfo. That was very helpful.

Adolfo Castro:

You're welcome.

Operator:

Once again, to the audience, it is star, then one for questions.

We'll go next to Ricardo Alves with Morgan Stanley.

Ricardo Alves:

Hi, Adolfo. Good morning, thanks for taking my question. I have a couple of questions, actually; first one on Cancun, on the non-aeronautical revenue. We saw this 121/122 pesos per workload unit, in that airport, I mean, was really remarkable so and especially considering the Terminal 3 expansion. Can you remind us how did you manage to do this again? I remember asking the same question like two quarters ago and we were surprised at the upside again on the commercial side in Cancun last quarter, again. And actually, a follow-up on that, now that Terminal 3 is ready, where do you expect this to—this workload unit fee go to in 2016?

Adolfo Castro:

Okay, Ricardo and good morning. In the case of the commercial revenues, as I said during the remarks, we're working very hard and very close to the concessioners trying to improve their activities and then to be able to sell more. Basically, this is what we have done for the quarter, and there are some activities—nonetheless, there are some activities that should be doing better, and then one of them, and it's a very important one, is duty-free. You can see that the duty-free results for the year was not—was not nice, I have to say, increasing by 17%. When you see the

traffic growth and the peso devaluation, there should be more. So, we're working very closely with the concessioners. Duty-free has improved along the year and I hope that we'll see a better result as from the teamwork this year, that's one of the main activities.

The results of opening the expansion of Terminal 3 in our opinion will give us some kind of benefit because we would be able to move—well, we have moved some airlines from Terminal 2 to Terminal 3, and this will represent most passengers, better position, or better appearance in terms of commercial offers. Also, this will give some kind of relief to Terminal 2. Terminal 2 was really crowded so the movement will give some space to the passengers and I hope that with this additional space they will be able to buy more. In summary, we expect a margin increase because of the Terminal 3 expansion, and let's see if these results are as we would hope.

Ricardo Alves:

Got it. So, it seems to be reasonable to assume that for 2016, in Cancun, you're probably going to reach a number that is higher than the 113 for the full year 2015. That's my understanding.

Adolfo Castro:

Well, of course, I don't want to place a number there because we do not control that, but we will do our best of course, to increase that number, and probably the best hint that I can give you is let's see what will be the result of the first quarter will be once again, very, very important for the results of the year.

Ricardo Alves:

Okay, fair enough. Thanks. Last question, kind of related to now that Terminal 3 is ready, so I thought it would be helpful if you could give us a—remind us a little bit about the Terminal 4, the Terminal 4 project. So, where you are on that right now? If you could remind us also, the capacity it will add, the target in terms of date for you to completing it, and maybe even more important, how is that going to boost your non-aeronautical revenue again? So, going back to that same question, for Cancun in 2017 because I think this one is going to be more important than the Terminal 3, obviously.

Adolfo Castro:

Yes, of course. Terminal 4, what we have concluded is the leveling of the ground. Also we have concluded the foundation of the building, so today as we speak, we are in the process of installing the structure of the building. Probably, 70 days from now, you will be able to see kind of the skeleton of the building, and from there we will proceed with the finishing. As I said during the remarks, we expect to open this building next year, for now I would say, just that. I hope that we would be able to be at a better place in the second quarter conference call. That in my opinion will represent an important change in the commercial loading of the passengers because this building is going to be new, from scratch. Remember that the only building we have built in the same way was Terminal 3, and that was inaugurated second quarter 2007, but it was started in 2006.

This building, Terminal 4, has been designed in 2015, so basically, what we are doing is to find all what we have learned from 2006 up to 2015 in terms of what the passenger really wants, in terms of service and products. So, we will expect to see a different commercial setting in this Terminal 4 against what we have in Terminal 3, and also Terminal 2 because we will be able to move passengers from Terminal 2 to Terminal 4, from 3 to Terminal 4, and from Terminal 1 to Terminal two. Once Terminal 4 is open, also we would be able to close Terminal 1 so that's what we expect.

Ricardo Alves:

Very helpful, Adolfo. Thanks so much.

Adolfo Castro:

You're welcome.

Operator:

Up next, we'll go to Marcio Prado of Goldman Sachs.

Marcio Prado:

Hi, good morning Adolfo. Thanks for taking my question. I have some follow-up questions; the first one would be on traffic. You just mentioned that we just saw the numbers from January that would have to wait a bit to have a better sense for the year, but I would like you to comment on the difference between domestic traffic, particularly in January, much stronger than international traffic. You mentioned Canada, but if you could comment a bit on the gap between domestic and international for January? A second question, you've mentioned the expectation that on commercial revenues, that duty-free should perform better, that you work with your concessioners to have duty-free revenues better in '16, when compared to '15. I would just like you to remind us how is the concession contract for duty-free structured in the sense, when does it mature, and what are the main features of the contract that ASUR manages? Thank you.

Adolfo Castro:

Okay, domestic and internationally, the summary for January as I said before, we had some issues with the case of Canada because of the deflation of their economy. I would say South America is still strong, not as strong as they were last year, but they're still very strong. Europe is weak we expected this—you know, we lost the Russians, the Spanish traffic is picking up again, the UK is more or less flat. In general, I would say Europe is flatter there. The only one that did very well in the case of international profit is the US traffic, of course, not as it was last year, but it's still strong.

In the case of domestic, we are seeing a very strong traffic, but in the case of domestic, I am very cautious because what I'm expecting is that Mexico City Airport is finally congested, and then the only option they have for people that travels from the metropolitan areas is to use Toluca. There was some announcements from the Mexican government, the one that runs Mexico City Airport, saying that they believe this airport has reached again a limit. So, on that front I would be cautious;

remember that 70% of our domestic traffic goes or comes from Mexico City so this is very, very important for domestic.

The other possibility we have for growing in the case of domestic is the other 30%. The other 30% is basically more connectivity basically to Cancun and the other regional airports. On that front, I see the situation better than how it was before, so I'm expecting growth from that piece; so of course, 30% against the 70%. We will have to see if the airlines are willing to move some of their operations to Toluca and then to see if, passengers want to fly from there and they're not reluctant to move away from the city to fly. That's what I can say to you in terms of the traffic.

In terms of duty-free, as most of the commercial—as most of the other commercial contracts we have, the most important piece of the contract is that they pay us on a concession fee. That means a percentage from their sales, so what we really want is them to sell more, and then we will be able to get a better result. The duty-free situation in terms of maturity- as the contract expires the 31 of May next year, and as from the fourth quarter last year, we have a new company onboard because Dufry, which is the company we have today, they have acquired this contract from the company named the Duty Free Group. So, as from the third quarter, we're working closely with this company in order to improve the results we had for last year, that's what we're doing today.

Marcio Prado:

Great, so thank you Adolfo. Just a follow-up here, so the contract matures in 31st of May 2017? Is that correct? Then, will you have a new auction for new bidding for players that are interested?

Adolfo Castro:

That's what I believe, yes.

Marcio Prado:

So, I mean, could we have—if there's a lot of interest, better terms for ASUR starting in '17.

Adolfo Castro:

Yes, that's what I believe, and what we have seen is that there is a lot of interest for this contract.

Marcio Prado:

Thank you.

Operator:

Up next with Citi, we'll hear from Stephen Trent.

Stephen Trent:

Hi, good morning Adolfo, and thanks for taking my questions. Just a few, if I may, and I may have asked this last quarter, but if you could refresh my memory. If I look back, total commercial revenue for passenger was—it was up 16%, but if I look at commercial revenue from passenger from direct operations, it was down 14%, year-on-year in pesos. Is that coming, primarily in your view, from the congestion at the terminals prior to the opening of terminal three in Cancun?

Adolfo Castro:

Hi, good morning Steve. No, you have to go to the reports and you will see there's a note on the report that says that from April last year, we're excluding advertising from direct commercial operations because we already signed a concession agreement with a third-party. If you look at the results of advertising, that was an increase of 16%, so if you add both then direct commercial operations will increase significantly, but of course, we are presenting these now in a separate way because of the agreement we signed last year.

Stephen Trent:

Okay. So, if I looked on Page 5 of your release, the 14% decline from direct operations, you're saying that's an apples-to-oranges comparison?

Adolfo Castro:

Exactly.

Stephen Trent:

Okay, I've got it. In terms of looking at the traffic flow outlook, just to ask another question about traffic; to what extent are you hearing anything at this early stage, as I'm getting a thousand emails on it with respect to Zika virus?

Adolfo Castro:

I have not heard anything. I have not seen anything in terms of results because of that.

Stephen Trent:

Okay, perfect. On this power plant you guys are building, could you remind me, that it's 36 megawatts plant; this is actually going to fuel all of your operations, or is it just going to—is it primarily going to be Cancun? Or, is this going to be some kind of, you know, energy trading scheme? If you could just refresh my memory, how it's going to work?

Adolfo Castro:

Well, we are not constructing the plant, that is going to be constructed by SunPower, what we have done is to have an energy purchase agreement with them that will cover the actual energy we're consuming in the nine airports, it's not just for Cancun, it's for the entire company. This is the solar power plant.

Stephen Trent:

So, it's going to be kind of an energy trading scheme, so to speak?

Adolfo Castro:

Yes.

Stephen Trent:

Got it and one last question, just kind of looking at, you know, the results with the big decline you guys had in cash flow from ops. Was that at least partially related to the taxation you paid on the dividend? Just trying to get my arms around that?

Adolfo Castro:

Well, the most important element of the equation was the \$2.9 billion pesos we invested last year, plus \$1.6 billion pesos we paid in dividends. If you see the decrease in cash at the end of the year it was 800, despite these two figures. So, it was an excellent year for us. If you remember, we were talking during the third quarter about the possibility of acquiring a new loan to fund the high cap ex we had for the year, and this was not necessary due to the actual result we had last year.

Stephen Trent:

Okay. I have another question or two, but maybe I'll follow-up with you offline, and I'll let someone else ask a question. Thanks, Adolfo.

Adolfo Castro:

Thank you, Steve.

Operator:

Up next from HSBC, we'll go to Alexandre Falcao.

Alexandre Falcao:

Good morning, Adolfo. Just wanted to know, specifically, on Puerto Rico, do you have a projection when you're going to be able to actually take out money from that operation? What is the strategy of, you know, paying dividends, if any, in there? The second one is related to the upcoming project in Brazil, I guess, the bidding documents are... drafts are out. I wanted to know if there's any interest in your side to take a look at that. Thank you.

Adolfo Castro:

Absolutely. In the case of Puerto Rico, and basically, we talk about cash flow and dividends and all that, you have to remember that this Company has debt of \$350 million with bond, plus hundred we gave them. So, before we can talk about the dividend, it would be important if they can start paying the principal of what they owe. In the case of the project, remember that we are almost three-years away from Day 1 and the original project or the original concept we have there was to be executed between three-and-a-half and four years, and we are on-time, we're on

target. As I said during the remarks, we expect to continue the remodeling of terminal C during this first quarter. Once we do that, the next step is to be able to move some people from—some passengers from terminal B to terminal C and to close a piece of terminal B.

So, these concepts will be completed, in my opinion, as from the third quarter this year. Then we will be able to see then normalized numbers from these operations and to see the results of what we expected three years ago. So, as of today, we're doing okay, we're on project and on budget, so I hope that very soon we will be able to see some cash out from that company, but basically, this time would be to pay the debt.

In the case of Brazil, I have seen this project; I have seen the documents there. I believe even that the Brazilian government has improved the conditions for that, the improvement is not yet, not in our opinion, to look at those projects with interest. So, I have to say that we will not participate on those bidding process.

Alexandre Falcao:

Okay, perfect. Thank you.

Adolfo Castro:

You're welcome.

Operator:

As a final reminder to our audience today, it is star, then one if you have a question. We'll pause for just a moment.

It appears we have no further questions at this time. Mr. Castro, I'd like to turn the conference back over to you, for additional or closing remarks.

Adolfo Castro:

Thank you, Sarah, 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:

That does conclude today's conference. We thank you for your joining