



**Grupo Aeroportuario del Sureste
First Quarter 2016 Earnings Call Transcript
April 26, 2016**

Operator: Good day, ladies and gentlemen, and welcome to the ASUR First Quarter 2016 Results Conference Call. My name is Catherine 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, Catherine, and good morning, everybody. Thank you for joining us today on our conference call to discuss our first quarter 2016 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.

Moving on to results. We had a strong start to the year delivering solid top line and profitability growth. We are also on track with our expansion plans, both at our Mexican airports as well as San Juan Puerto Rico International Airport.

Beginning with San Juan Puerto Rico International Airport; passenger traffic at the airport was up 2.5% year-on-year reaching 2.3 million passengers in the quarter. This is above the 1% year-on-year increase reported in 1Q15, despite the challenging economic conditions in Puerto Rico.

Consolidated results for the quarter benefited from a 49.85 million peso equity gain from ASUR's equity participation in Aerostar. Stockholders' equity was impacted by a 3.45 million loss from the translation of the dollar against the peso.

This quarter as expected we completed the remodeling of terminal C at San Juan Puerto Rico Airport which now offers revamped commercial offerings and a more efficient layout for traffic flow.

Moving on to our Mexican operations, as anticipated both domestic and international passenger traffic growth continued to decelerate this quarter as we faced more difficult comparable periods given the strong growth achieved in 2015. Total traffic was up 8.9% and reached a record high of 7.2 million passengers. Note that traffic benefitted from Holy Week taking place a week earlier this year compared to 2015.

Domestic traffic rose 13% year-on-year to 2.7 million passengers – a record for a first quarter. The majority of ASUR's airports contributed to this growth driven by more affordable rates resulting from lower oil prices, as well as greater airline capacity and connectivity throughout the country. Minatitlan and Villahermosa, however, are affected by the difficult conditions facing the oil industry. Despite the strong growth in domestic traffic, we remain cautious going forward.

International traffic increased 6.5% year-on-year to a record high of 4.4 million passengers, as the depreciation of the Mexican peso against the US dollar continues to support positive traffic dynamics although at slower growth rates than 2015. Passenger traffic between Mexico, Canada, and the United States represented 87.6% of total compared with 87.5% a year ago.

Moving on to the income statement - total revenues, excluding construction services, rose 20.6% year-on-year.

Commercial revenues per passenger remain strong - up 20.3% year-on-year, again reaching a record high of 99.4 pesos. The expansion of Terminal 3 at Cancun airport last December, which allowed for lower congestion in Terminal 2 was one of the key drivers of the increased commercial revenues per passenger. This performance was also supported by solid passenger traffic growth and ongoing efforts of our concessionaires to increase commercial revenues.

Moving down the P&L, operating costs and expenses excluding construction costs rose 12.5% year-on-year principally reflecting higher cost of services resulting from the opening of the Terminal 3 expansion.

EBITDA rose 23.7% year-on-year to 1.4 billion pesos as we continue leveraging our highly fixed cost base.

Excluding the impact from construction revenue, Adjusted EBITDA Margin increased 257 basis points to 73.2% from 71.3% in 1Q15.

Results for the quarter also reflect an 18.58 million peso foreign exchange loss almost the same amount reported in 1Q15 when the peso depreciated.

Moving on to the capital expenditures, we remain on track with our plans. We invested 157 million pesos this quarter, mainly on the construction of Terminal 4.

As usual, we maintain a strong balance sheet, closing the quarter with cash and cash equivalents of 2.9 billion pesos and bank debt of 3.7 billion pesos.

Before opening the floor for questions, let me add that today we are holding our annual shareholders meeting and we expect to publish the results of this later today.

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

Q&A Session

Operator:

Thank you. As a reminder, ladies and gentlemen, that's star, one for questions.

We'll go first to Pablo Barroso with Credit Suisse.

Pablo Barroso:

Hi Adolfo, good morning. Congratulations on the results. I have a couple of questions. My first question is regarding the Spanish performance in Cancun and related revenues. Should we continue to expect this along the year, or maybe a slowdown as the quarter had a calendar effect?

Adolfo Castro:

Hello Pablo, good morning and thank you for your comment. First of all, it's important to say that the passengers are not exactly the same during the whole year, so we cannot expect the same behavior. The first quarter was really nice. Remember that the international traffic is an important piece in terms of the passenger traffic during the first quarter in comparison with the rest of the year. Nevertheless, we are very positive on the results we got and currently the change we see in the expansion of terminal 3 is working well.

Pablo Barroso:

Okay, thank you Adolfo. My next question is regarding the 56.02% increase in interest expenses. Could you give me more color the reason behind this?

Adolfo Castro:

Well basically, the interest payments we are making are the result of the agreement we have with Bank of America and Bancomer. You know that the rate we are paying is LIBOR plus 1.80 to 1.85, and LIBOR is increasing against how it was last year. That's probably the main reason why you have seen an increase in the interest payment.

Pablo Barroso:

Okay, that was very helpful. Thank you, Adolfo.

Operator:

Thank you. We'll go to Ulises Argote with Santander.

Pedro Balcao:

Hello, this is actually Pedro Balcao here from Santander. Adolfo, congratulations on these results, in particular the performance of commercial revenues was really impressive, and in particular the number you highlighted, the 100 pesos per pax is indeed truly impressive. My question is to what extent is this the result of the peso depreciation, and really what we should expect for this number going forward? Thank you.

Adolfo Castro:

Ulises, hi, good morning. My point of view of this is of course a piece of this has to do with the peso depreciation, but I have to say that we are seeing better results from our concessionaires and you can analyze that in the case that is completely US dollar-denominated activity, which is duty free. So, try to see how was duty free last year and how it is this year, and you will see that the increase in cost this year is significantly higher than the one we got last year. I have to say that the peso depreciation last year was higher in that sense. So, on one side, the answer is yes, the piece of this is higher purchase power from the US side, but on the other side I have to say that we are seeing better results from the concessionaires and better results in terms of the new area that we are operating since December 18 last year.

Pedro Balcao:

Okay, thank you. Thank you.

Adolfo Castro:

You're welcome.

Operator:

Thank you. We'll continue on to Pablo Zaldivar with GBM.

Pablo Zaldivar:

Hello, good morning. Thank you for taking my question. Could you give us an update regarding Puerto Rico's terminals? I believe the last time we spoke, the remodeling of Terminal C was due to be finished by the end of the quarter, so could you just give us an update of how things are going in the airport?

Adolfo Castro:

Absolutely, and good morning, Pablo. Terminal C has been remodeled completely, now it's open, and the next step we have is to move people from—passengers from Terminal D to Terminal C, and basically to close the last piece of Terminal D which we're expecting to do during the second quarter this year. So, I have to say that basically our base case designed three years ago will be completed during the second quarter this year, and that is a major achievement because that's exactly how we expected this three years ago, so things in Puerto Rico are going well.

Pablo Zaldivar:

Okay. Starting after the second quarter when the movement of the passengers is done is when we can expect a more normalized behavior in the performance of Puerto Rico, right?

Adolfo Castro:

Yes, remember that the objectives in Puerto Rico are increasing commercial revenues per passenger and to decrease operational costs. So, the first part will be completed, I would say, at the end of this quarter, and the second will start from the beginning of third quarter.

Pablo Zaldivar:

Okay, thank you very much.

Adolfo Castro:

You're welcome.

Operator:

We'll go to Rogerio Araujo with UBS.

Rogerio Araujo:

Hey, good morning. Congratulations for the results. I had a follow-up question on commercial revenues. We saw this increasing 18% per passenger, it is seven times inflation. In the past three years or so, a one time is inflation elasticity in the commercial revenues, so this was significantly higher. I would like to know more details on the expansion of Terminal 3, what do you think drove the most—these commercial revenue expansion within this expansion of Terminal 3, and also if you could say your opinion if this is a good indication that commercial revenue should boost when Terminal 4 inaugurates, and if you could compare a little bit the Terminal 4 inauguration with this Terminal 3 expansion in terms of commercial revenues, this would be great. Thank you very much.

Adolfo Castro:

Of course, good morning. So once again, we're sure we are seeing the expansion of Terminal 3 is a good one. As you can see in the report, newer spaces added from this expansion were very small, basically some ATMs from Banamex and two stores. What I want to say is that the expansion of Terminal 3 was just an expansion in terms of—or mainly an expansion in terms of operational space. It was not an expansion of commercial space. The effect that we are seeing this quarter is the result of moving people, moving passengers from Terminal 2 to Terminal 3, where they have a better commercial layout and a better commercial offering. Also, it's important to say that with these movements, we are having some kind of de-

congesting in Terminal 2, so on a per-passenger basis, the people are receiving better service, and then of course this is translated into better shopping.

In terms of Terminal 4, we are expecting this terminal to be better than Terminal 3 of course, basically because it has been designed 10 years later. So, whatever we have learned as from the year 2006 up to year 2016, it's something that we are implementing in the design of Terminal 4. Of course, Terminal 4, it will be different with Terminal 3 because Terminal 3 is just international, and Terminal 4 will be domestic and international. Nevertheless, what we believe is once we open Terminal 4, we should see—we're expecting to see an increase in the commercial revenue per passenger given the fact that they will have a better space in comparison with what we have. Finally, my comment is once Terminal 4 is open, we should close Terminal 1—Terminal 1 again, and we would move these passengers from Terminal 1 to Terminal 2, and once again these passengers will experience a better commercial offering than the one that they have today in Terminal 1.

Rogério Araujo:

Okay, that's perfect. If you could just tell us the current expectation on the exact quarter that Terminal 4 is expected to inaugurate, it would be great.

Adolfo Castro:

As of today, it should be open before next year is over.

Rogério Araujo:

Okay, thank you very much.

Adolfo Castro:

Thank you.

Operator:

Thank you, and again that's star, one for questions. We'll go to Steven Trent with Citi.

Steven Trent:

Good morning Adolfo, and thanks for taking my questions. Just two from me. One, when we think about this pending adjustment to the US-Mexico bilateral air agreement, I think you'd mentioned previously that there was maybe one airline out of O'Hare that was maybe looking to launch service and that's it. Has your thinking or your view changed from that previous comment to now?

Adolfo Castro:

Hi, good morning, Steve.

Steven Trent:

Good morning.

Adolfo Castro:

That agreement was approved yesterday by the Mexican Congress. In terms of what you are saying, you're right - what we expect from this agreement is just an additional airline flying from O'Hare to Cancun. Apart from that, I do not see any other effect, so I'm not so positive about what will be the final impact on the new agreement in the case of ASUR.

Steven Trent:

Got it, appreciate that. I only caught part of your earlier opening comment - there was some trouble with my line, but I heard you say something about domestic traffic growth. I was wondering if I could ask you to just repeat that as I didn't catch everything.

Adolfo Castro:

Well, basically what I'm trying to say in the case of passenger traffic is once again, be careful, be cautious. Last year, the growth we saw was very strong, almost 13%, so comparable figures are getting stronger as we go along the year. So, once again, really be cautious.

Steven Trent:

Got it, appreciate that, Adolfo. Then sorry, just one more quick question. When we think about Puerto Rico and everything that's going on right now on a political and economic level, do you have some base case in mind regarding where that island commonwealth goes over the long term, or do you think your ops there are largely insulated from the bad macro?

Adolfo Castro:

Well, in the case of the passenger traffic there, we saw a very nice first quarter, a two-point-something percent is a very positive figure in our view, given the fact of the current conditions down there. Going forward, I can say that our base case is not so optimistic in terms of passenger traffic. The base case we have is basically the possibility of increasing commercial revenue per passenger and to decrease operational costs, even the fact that we should be more efficient operating with three terminals instead of four. In terms of the possibility in the long term, yes, we see some attention in terms of tourism. I believe that they can do better than what they are doing today. They have more things to offer to the tourism, but I don't believe that this is going to be the nature or a significant trend in the future given passenger traffic we have today in San Juan.

Steven Trent:

Okay, got it. I'll let somebody else ask a question. Thanks, Adolfo.

Adolfo Castro:

Thank you, Steve.

Operator:

Thank you, and again that's star, one for questions. We'll go to Robert Crimes with Insight.

Robert Crimes:

Yes, hi. Good morning. Just looking for a bit more color on retail potential at Terminal 4 Cancun. How many square meters of retail space is coming on with T4, and how many square meters are you operating at the moment, at the end of 2015? Thanks.

Adolfo Castro:

Hi Robert, good morning. Well first of all, I have to say that our business is not something that we see on a per-square meter basis. What we see is potential of using every square meter up to (inaudible). I don't remember how many square meters, how many commercial square meters the new Terminal 4 will have. What I can say to you is that the new terminal building is around 67,000 square meters. The additional space we added to Terminal 3 last December was 25,000, close to 25,000, so it's almost three times the size of the expansion we had in Terminal 4—sorry, the expansion we had in Terminal 3. But, it's a completely different new layout or a completely different new space. It's something that we are using in a better way. Just to give you an idea, Terminal 1 and Terminal 2 were designed in a completely different environment. They were designed before the effects of September 11, so some of the spaces they have today are not in accordance with the current aviation conditions.

So, (inaudible) because what we believe is not—it's just adding the square meters, commercial square meters will not increase or should not increase commercial revenue. What we see is, or what is important for us is the commercial revenue per passenger, and that's our focus.

Robert Crimes:

Okay, sorry - I think I missed what you said in terms of with Terminal 3, you said there was 25,000 square meters when Terminal 3 opened, I think that was back in 2007. Is that right?

Adolfo Castro:

So, Terminal 3 originally was around close to 45,000 square meters. We added today—well, December 18, 25,000, and Terminal 4 should be around 67,000.

Robert Crimes:

Okay, okay. Then sorry, I didn't catch your answer to the earlier question in terms of which month Terminal 4 is going to open in 2017.

Adolfo Castro:

Well as of today, it should be before next year is over.

Robert Crimes:

It's more likely to be in the second half then, I guess?

Adolfo Castro:

Well, before the year is over, it could be 31st of December next year.

Robert Crimes:

Okay, so you mean 31st of December, 2017? Before then?

Adolfo Castro:

Before the next year is over.

Robert Crimes:

Okay, okay. Then just one unrelated question. I was just reading the 20-F, and on Page 41 it mentions the car parking business could be regulated by COFECE if they find there's no alternative parking arrangements at the airport. I mean, can we have a bit more color on the process, the timing, if you think it's likely, and the type of regulation that could be introduced for the car parking business? Thanks.

Adolfo Castro:

Well, first of all, I have to say congratulations because you have read that document, and not too many people read that document. My second comment, in the case of parking, that is how the law has been written in Mexico, and that is why we're writing these comments into the 20-F report, and these comments have been there for the last 16 years. There is no current action, there is no comment or anything that will tell me that COFECE will do that today, but nevertheless they can or they could do it. So, for the moment, I don't see that as a major risk.

Robert Crimes:

Okay, thanks. Thank you.

Adolfo Castro:

You're welcome.

Operator:

Ladies and gentlemen, as a final reminder, that is star, one for questions.

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

Adolfo Castro:

Thank you, Catherine. Again, to the audience, thank you for joining us today on this conference call. Do not hesitate to contact me if there is any further questions. Have a great day, and we will be telling you the results of the shareholders assembly during the rest of the day. Thank you and goodbye.

Operator:

That does conclude today's conference. Thank you for joining.