



**Grupo Aeroportuario del Sureste  
Third Quarter 2016 Earnings Call Transcript  
October 19, 2016**

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**Operator:** Good day, ladies and gentlemen, and welcome to the ASUR Third Quarter 2016 Results Conference Call. My name is Misty 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 star followed by 1. You may withdraw your question at any time by pressing star followed by 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, Misty, and good morning, everybody. Thank you for joining us today on our conference call to discuss our third 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. Total passenger traffic growth at ASUR rebounded this quarter, increasing by 8.6% and totaling 7.2 million passengers.

Growth was mainly driven by seasonally higher domestic traffic which was up 10.2% year-on-year, reaching an all-time high of 3.7 million passengers. Increased airline capacity and connectivity throughout Mexico, together with low oil prices continue to support affordable airfares driving domestic traffic at the majority of ASUR's airports. Traffic at Minatitlan and Villahermosa airports, however, remain affected by the same conditions facing the oil industry.

International traffic increased 6.9% year-on-year to a total of 3.5 million passengers. The depreciation of the Mexican peso against the US dollar continues to support

positive traffic dynamics. Passenger traffic between Mexico, Canada, and the United States represented 86.9% of total traffic, unchanged from the third quarter last year.

Moving on to the income statement - total revenues, excluding construction services, posted a strong performance, up 18.8% from the third quarter last year.

Commercial revenues per passenger rose 14.2% year-on-year, reaching 94.57 pesos and reflecting the expansion of Terminal 3 last December and decongestion of Terminal 2 which offers a better shopping experience.

Operating costs and expenses excluding construction costs increased 16% year-on-year, principally reflecting higher cost of services resulting from the opening of the Terminal 3 expansion which added an additional 25,000 square meters and the increase in cost of services due to the higher sales from direct operations that rose nearly 20%.

EBITDA was up 19.9% year-on-year to 1.4 billion pesos as we continued to leverage our highly fixed cost base. Excluding construction revenue, Adjusted EBITDA Margin expanded 88 basis points to 71.1%.

Results also benefited from a lower foreign exchange loss this quarter of about 14 million pesos compared with approximately 74 million pesos in the same quarter last year.

ASUR's consolidated results for the quarter benefited from a 29.2 million peso equity gain from our participation in Aerostar. Stockholders' equity was impacted by a 110.6 million peso gain due to the translation effect of Aerostar's U.S.-dollar denominated financials against the peso.

Let me provide some color on our San Juan Puerto Rico operation. Passenger traffic at this airport was up 2.3% year-on-year reaching 2.3 million this quarter.

Note this is the first full quarter of operations after concluding the remodeling process designed to drive commercial revenue per passenger and reduce operational costs. The net result to ASUR's investment in this concession increased 187%, reflecting the commercial effects from the opening of terminal "C" and a better operational performance resulting from effective traffic flow in Terminal "D".

Now moving on to capex, in-line with our master development plan we invested 410 million pesos this quarter mainly allocated to advance in the construction of Terminal 4 which is on track to open in the fourth quarter of 2017. Capital expenditures for the first nine months totaled 807 million pesos.

In terms of our balance sheet, we closed the quarter with cash and cash equivalents of 3.5 billion pesos and bank debt of 4.2 billion pesos.

Finally, before opening the floor for questions I am pleased to report that this quarter ASUR was recognized as one of the top four emerging market sustainability leaders in the transportation and infrastructure sector and is one of the five Mexican companies selected for inclusion in the Dow Jones Sustainability Emerging Markets Index. This is the third year our company is included in this index and we remain committed to further driving sustainable development at ASUR.

Now, Misty, 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 your handset is picked up before pressing the corresponding digits.

We'll take our first question from Ravi Jain.

**Ravi Jain:**

Good morning, Adolfo. I had two quick questions, one on Puerto Rico. Can you give us some color on where are the current commercial revenues per passenger and what is the potential that you see in the next two to three years? My second question is more on the strategy M&A part for ASUR. Can you update us on your thoughts of how you're looking at new projects or your thoughts on M&A and the corresponding capital structure for ASUR? Thank you.

**Adolfo Castro:**

Hi. Good morning, Ravi. Puerto Rico's commercial revenues per passenger I would say—it's not public information so I cannot give you the exact number we have there today, but what I can say to you is that we have not reached yet what we are expecting and what we assessed three and a half years ago. If you remember what we have said basically was that we were testing each airport to produce more commercial revenues per passenger in comparison with Cancún. We are not yet there and I said during the second quarter we completed the remodeling of Terminal C, and that have boosted our commercial revenue per passenger but it's not yet there where we want to be. So, 2017 is going to be for us a very important year to see if we were able to generate what we were expecting three and a half years ago.

In terms of M&A, we are seeing some projects today—I cannot share those projects with you—what I expect is that some of these projects would have resolved before this year is over and probably there's one that will be for the first quarter next year. So, we are still trying to do for our expansion outside the airports we currently have and basically we're looking in the region, and some places in Latin America and the US and Canada. That's what I can share with you.

**Ravi Jain:**

Thank you, Adolfo, that helps.

**Adolfo Castro:**

You're welcome.

**Operator:**

We'll take our next question from Lucas Barbosa with UBS.

**Lucas Barbosa:**

Hi. Good morning, Adolfo. Congratulations for the results and for taking the question. My question is regarding commercial revenues per passenger. We saw a low single-digit decline since the beginning of the year. I just wanted to hear what you believe to have caused that and what is the expectation for the coming quarters. Thanks very much.

**Adolfo Castro:**

Well, what we reported in this quarter was an increase in 14% commercial revenues per passenger, so if you are telling me that you are seeing a decrease from the first quarter this year, probably that's right because what I have said during our previous conference calls is that you have to remember that we have seasonality. Let me try to explain what I'm talking about.

So, during the third quarter basically what we have is families traveling together and normally families traveling together are spending less than just traveling alone. You can see every year that we have some kind of seasonality in terms of commercial revenues per passenger. So, if you compare these against the third quarter last year, you can see that the fourteen point something percent increase per passenger. So, probably that is why you are seeing that decrease because you're comparing these with the first quarter.

**Lucas Barbosa:**

Okay, thanks very much. And for the coming quarters, looking at it on a year-over-year basis, what do you expect after the fourth quarter after the consolidation of Terminal 3? For the first quarter next year what do you expect in terms of commercial revenues per pax expansion?

**Adolfo Castro:**

Well basically what we have said in the first quarter was that we can support the limits or the levels we found there of course together with the seasonality, so looking forward I believe that we can more or less sustain the same level we have today, again, with the seasonality, up to the moment when we open Terminal 4 where we are expecting basically an increase there.

**Lucas Barbosa:**

Okay, thank you very much.

**Adolfo Castro:**

You're welcome.

**Operator:**

We'll take our next question from Lucia Tamez with Signum Research.

**Lucia Tamez:**

Hi. Congratulations on the results. I think it was a marvelous quarter. And, well, I would like to ask two questions. The first one is, although Mérida is not the most important booster in ASUR's growth, what would you say is the reason for the aggressive growth in Mérida? Also, if you could please give us some guidance in pax expansion towards the end of the year?

**Adolfo Castro:**

Well in the case of Mérida—and you're absolutely right, the growth that we have seen over the recent quarters is extremely high. I would like to say that one of the main reasons of this is the tourism authority, the state tourism authorities that are working really hard to increase the passenger traffic to the region. And the second one, I am seeing some kind of migration from the north part of the country to the south to basically Mérida. Mérida is known as one of the most safest cities of the country. Probably in terms of numbers this city has the level of crime that Switzerland can have, so that is probably why one of—that is probably one of the reasons why people is moving towards Mérida. Mérida's a very nice colonial city. In terms of...

**Lucia Tamez:**

Excuse me. Can I ask you something?

**Adolfo Castro:**

Sure.

**Lucia Tamez:**

So, would you say that if once like the migration is completed, then these growth rates are going to start to decrease, right?

**Adolfo Castro:**

No, I'm not saying that it's completed. I am saying one of the reasons that I'm seeing right now is migration and so...

**Lucia Tamez:**

Okay.

**Adolfo Castro:**

... in other words, this is not a result of just more tourism. The effect of tourism is coming from the state authorities promoting the site, and, uh, bringing or supporting some airlines to go there, but basically the other thing that I'm seeing is some kind of migration from the north of the country to the city, and basically I would say because of the safety or security things that you can find there. And also, in terms of real estate, it's a very cheap city compared with the north of the country.

**Lucia Tamez:**

Okay.

**Operator:**

We'll take our next question from Mauricio Martinez with GBM Investment Bank.

**Mauricio Martinez:**

Hello, Adolfo. Thank you for taking my question. Uh, I was wondering if you can share with us your thoughts about the higher cost of service per passenger as we've seen it increasing after Terminal 3 expansion. And, I would like to know when do you expect these to normalize.

**Adolfo Castro:**

Mauricio, one of the main reasons of course is Terminal 3 expansion and the second one has to do with the cost of services from direct commercial operations. If you heard the initial remarks, I was saying commercial direct operations increased by nearly 20%. Of course the cost related to these is also the same numbers, so this is an important element into the equation. In terms of Terminal 3, of course normalization will be first quarter next year.

**Mauricio Martinez:**

Perfect. And, also, I have a second question. If you have any update on the probable sale of Oaktree is taking in Puerto Rico's airport, if you can give us any thoughts on that?

**Adolfo Castro:**

Well basically—so today I don't know if they have started with their process to sell. I believe everybody was aware of liquidation because of Reuters. I cannot confirm the situation yet, but what I believe is if there's a rumor means that they're going to sell. It's not a surprise for us because we knew that they are a fund and they will be selling some day, the first day of the process. So, in that sense what I believe is if this happens, it will occur from now until the first quarter next year.

**Mauricio Martinez:**

Perfect. Thank you, Adolfo.

**Adolfo Castro:**

You're welcome.

**Operator:**

As a reminder, if you would like to ask a question, it is star, one.

We'll take our next question from Maddalena Santana with Citi.

**Maddalena Santana:**

Hi, Adolfo. This is Maria from Steve Trent's team. Thanks for taking my question. I have three questions. There was some news out that the government plans to privatize other airports including Playa del Carmen. What is your view regarding whether this happens and will ASUR be interested in going after any of these assets? Would you expect antitrust authorities to participate in Playa del Carmen this time? And also, has your views changed regarding the relaxation of the US and Mexico Aviation Treaty regarding growth potential? And also, I want to ask you whether you will open a hotel at your Cancún facility?

**Adolfo Castro:**

What was your third question?

**Maddalena Santana:**

Whether you open a hotel at your Cancún facility.

**Adolfo Castro:**

Yes, okay. Well, in terms of the privatization of other airports in Mexico, the ones that remain in the hands of the government, the same that you have here—the same you have heard is what I have heard. They are trying or they are saying that they want to, let's say, privatize these other airports, but as of today I have not seen any document or any prospectus on how they are going to do this. If we are interested on those, yes of course we will see one day define how they're going to do this, but of course what I can say to you is that most of the airports they have very tiny, little airports that at the end they do not generate profit. So, it's not going to be easy to privatize those.

In the case of the one you are talking about, Playa del Carmen, I will not call that an airport because in fact it is not. The types of the runway they have there is just for airplane type A, so very small airplanes. In the case of that particular property, what I have heard is that they want to take out this property from the center of Playa del Carmen. The size of the land they have there is 100 hectares in the middle of a city that has done really nice from a tourist perspective, so the value of this piece of land it is important. So, I don't—I have not heard anything about the decision of Playa del Carmen on one side, and on the other side, if they do so I will not be interested in that particular project even if the consensus says yes or no.

In the case of the last one, yes, we have worked a lot in the case of the hotel in Cancún airport, but basically what—or the way that we see this is that this airport

needs to provide the service of a hotel for many reasons, people that is stuck in the middle of January or February due to a weather storm and a winter storm in the case of the north of the United States, or people that is traveling very early in the morning from Riviera Maya and they prefer to stay the last night close to the airport, or people like myself that goes to the airport and doesn't have to pay the fare of a hotel in the front of the beach and take the opportunity to get closer to the airport. So, yes, we're working there but basically what we are trying to do here is to have a project and then to leave the land to someone to construct and operate this hotel, and I believe this could start very soon.

**Maddalena Santana:**

I just want to make sure that you say that the—about the Terminal 4, you are planning to—you expect to open it in your last quarter of the next year, right?

**Adolfo Castro:**

Exactly.

**Maddalena Santana:**

Okay. Thank you very much, Adolfo.

**Adolfo Castro:**

You're welcome.

**Operator:**

As a reminder, if you would like to ask a question today, it is star, one.

We'll take a follow-up question from Lucia Tamez with Signum Research.

**Lucia Tamez:**

Yeah, thank you again for receiving my question. It's just that I didn't get an answer on the guidance for the pax extension towards the end of the year, please.

**Adolfo Castro:**

Well, what we have seen in August and September in my opinion is not exactly comparable with August and September of the previous year, because in the case of August this year, this month has four weeks and then the previous one had five weekends. In the case of September, we saw an extraordinary effect because of the national holiday of September 15. So, my best advice to you will be to put these two months together and try to see what is the real number.

In terms of the future, more or less what I have said is that the ASUR traffic should be normalized, so no more huge growths of 10%, 13% we saw last year. So, for the rest of the year and for next year what I expect is a more normalized traffic.



**Lucia Tamez:**

Okay, thank you very much.

**Adolfo Castro:**

You're welcome.

**Operator:**

Thank you. Again, if you would like to ask a question, it is star, one for questions. And please make sure that your mute function is turned off or the handset is picked up before pressing the corresponding digits.

We'll take our next question from Francisco Suarez with Scotia Bank.

**Francisco Suarez:**

Hi. Good morning, Adolfo. Congrats on the results, great results. The, just a follow-up question on San Juan, Puerto Rico. Are you actually interested in buying out your partner, the participation of your partner over there?

**Adolfo Castro:**

Well, the answer, the simple answer is yes.

**Francisco Suarez:**

Okay.

**Adolfo Castro:**

The question is how they're going to do this or what is the kinds of expectation they have.

**Francisco Suarez:**

Okay. Fair enough. Perfect. Thank you.

**Adolfo Castro:**

You're welcome.

**Operator:**

And as a final reminder, if you would like to ask a question, that is star, one on your telephone keypad. We'll pause for just a moment.

And it appears there are no further questions. I would like to turn the conference back over to Mr. Castro.

**Adolfo Castro:**

Thank you, Misty. Thank you everybody for joining us today on this conference call. Do not hesitate to contact me if there is any further question and have a great day. Goodbye.

**Operator:**

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

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