



Grupo Aeroportuario del Sureste
Fourth Quarter 2016 Earnings Call Transcript
February 23, 2017

Operator: Good day, ladies and gentlemen, and welcome to the ASUR Fourth Quarter 2016 Results Conference Call. My name is Carolyn 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 1. You may withdraw your question at any time by pressing * 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 go ahead.

Adolfo Castro, ASUR Chief Executive Officer: Thank you, Carolyn, and good morning, everybody. Thank you very much for being here with us on our conference call to discuss our fourth quarter and full year 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.

Now moving on to results, we ended 2016 on a solid note. Total passenger traffic in the quarter increased by almost 12% year-on-year, totaling over 7 million passengers.

Growth was mainly driven by domestic traffic which rose 14.8% year-on-year to nearly 3.5 million passengers. The majority of our airports posted a very good performance, particularly at Cancún with a 19.5% increase in traffic. Overall domestic traffic continues to benefit from affordable airfares as a result of weak oil prices and increased airline capacity and connectivity in the country. Traffic however remained weak at Minatitlan reflecting the challenging conditions facing the oil industry.

International traffic was up 9.3% year-on-year reaching over 3.6 million passengers, primarily driven by an increase of more than 9% at Cancún airport, supported by the continued depreciation of the Mexican peso against the US dollar. Passenger traffic between Mexico, Canada and the United States represented 87.1% of the total traffic, compared with 86.9% a year ago.

For the full year, passenger traffic was almost 9% up, with increases of nearly 11% in domestic and nearly 7% in international traffic.

Moving into the income statement, total revenues in the quarter, excluding construction services, increased by 20% year-on-year. Commercial revenues posted a strong performance, rising over 21% year-on-year driven by the expansion of Terminal 3 completed on December of 2015 and the consequent decongestion of Terminal 2 at Cancún airport. This brought commercial revenues per passenger up by almost 9% to 96.4 pesos.

Looking ahead, we expect to see a pick-up in commercial revenues per passenger – beyond our usual seasonality - once we open Terminal 4 in the fourth quarter of this year. This new terminal, with a capacity of approximately 8 million passengers, will allow us to decongest traffic at terminals 2 and 3 as we redirect some passengers to this new modern and efficient terminal. We also plan to redirect passengers from terminal 1 to terminal 2 and close terminal 1, a low-cost charter terminal with two-million passenger capacity. Once completed, this would bring total capacity at Cancún airport to 29 million passengers, up from the current 21 million capacity. Most importantly, this is expected to further drive commercial revenue per passenger growth as passengers will now have access to a better product and service offering in a layout more conducive to drive commercial traffic.

Operating costs and expenses, excluding construction costs, were up 21% year-over-year, mainly reflecting higher cost of services from terminal 3 expansion concluded mid-December 2015. An important element was the increase by 21% of the cost per kilowatt hour for the Company during the period. Also, an 18% increase in revenues from direct commercial operations also contributed to the higher operating costs. Looking ahead, we expect to an increase during the third quarter, due to the preparation for the opening of Terminal 4 expected for the fourth quarter of the year.

EBITDA for the quarter increased roughly 19% year-on-year, reaching 1.3 billion pesos, as we continued to leverage our highly fixed cost base. Adjusted EBITDA margin, which excludes the impact from construction revenue, was 70.04% in the quarter, a slight decline from the 70.71% reported in the fourth quarter of 2015.

Results for the quarter also reflect a net gain of 7 million pesos from our participation in Aerostar up from a net loss of 13 million pesos reported in 4Q15 reflecting positive commercial effects from the opening of Terminal C in the second quarter of 2016 and improved operational performance resulting from better traffic flow in Terminal D. This was achieved despite the 1 percent year-on-year decline in passenger traffic to

2.1 million passengers. Traffic for the full year, however, increased 2.6%, totaling over 9 million passengers.

Shareholders' equity in the quarter also benefitted from a 150 million peso gain from the translation effect of Aerostar's financial statements which are denominated in U.S. dollars, compared with a gain of 27 million pesos in the fourth quarter of 2015.

Moving on to capital expenditures, we invested 1 billion pesos in the quarter, mainly in the construction of Terminal 4 which remains on track to open in the fourth quarter of the year. This brought total capital expenditures for 2016 to 1.8 billion pesos, in line with our master development plan.

Now, Carolyn, let me open the floor for questions. Thank you.

Operator:

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

And we'll go first to Pablo Zaldivar with GBM.

Pablo Zaldivar:

Hello Adolfo. Thank you for taking my questions. I just have a couple. The first one is regarding the cost of services. You mentioned during your remarks that during the quarter, costs were higher mainly due to higher energy prices and cost of direct operations. Should we expect the similar figures for the first and second quarter of the year, and then they should be both higher in the third quarter due to the opening of Terminal 4. Right?

Adolfo Castro:

Exactly. That is right.

Pablo Zaldivar:

Okay, that would be my first question. My second question on Puerto Rico. Even though we saw an improvement on last year's performance, the figures disclosed during the quarter was significantly lower than what we saw on the first three quarters of the year. Is there a reason for that drop?

Adolfo Castro:

Absolutely. If you see the numbers, basically we have similar seasonality of the one we have in Cancún. Always the fourth quarter is the lowest one and the first one is

the highest. So, if you see the 2.1 million passengers, let's say times four, that will be 8.4 million passengers against the 9 point something million passengers we saw for the year. So, the reason why you are seeing these numbers is seasonality.

Pablo Zaldivar:

Okay. Okay. Perfect. Thank you very much.

Adolfo Castro:

You're welcome.

Operator:

Next, we'll go to Pablo Monsivais with Barclays.

Pablo Monsivais:

Hi Adolfo. Good morning. Congratulations on your results. I have one quick question also regarding Puerto Rico. What is the outlook on commercial revenue per passenger? Are you seeing some improvements on this front? I remember that you mentioned that you expect at some point this figure to be similar to that of Cancún, but where are we right now on this? Thank you.

Adolfo Castro:

Okay Pablo. You're absolutely right. Four years ago when we took over, I said that what we were expecting is Puerto Rico to sell more in commercial revenues per passenger as Cancún, that's what we are trying to achieve and I believe we are on the right track to do that. This year is going to be extremely important because it's going to be the first one. One, Terminal B is open and also Terminal D is closed. So, in terms of commercial revenues, we are right on track and that's what you are seeing in the results. If you see the results for the fourth quarter, that was a 180 something percent increase in terms of the effect for us, and one of the key elements there of course is commercial revenue per passenger.

Pablo Monsivais:

Okay. Thank you very much.

Adolfo Castro:

You're welcome.

Operator:

Next we'll go to Pablo Barroso with Credit Suisse.

Pablo Barroso:

Hi Adolfo. Congratulations on the result. I have a couple of questions. We have seen a steep peso depreciation. Do you believe this could be one of the main reasons to maintain current traffic level along 2017 or what should we expect?

Adolfo Castro:

Well Pablo, the first three questions are coming from Pablos. So, the situation now is that because of the peso devaluation, we are seeing an increase in traffic from US basically. But also what we saw in the month of December and also in the case of January, we saw a very strong increase from the domestic traffic. What I believe is that this is because of the same reason, exchange rate. So, today Mexicans cannot afford to go outside so they decide to come inside and they're travelling domestically. How long this is going to last is something that I really don't know, but of course you know that the first quarter is the most important for us in terms of absolute figures. So, if this continues for the first quarter, what we saw in December and what we saw in January, yes, this is going to be a strong year again.

Pablo Barroso:

Okay. Just a quick follow-up. We saw this tendency since—at least for five months, so the rationales should say that and in 2017 this should continue, right, because the Mexicans cannot afford any more to go outside of Mexico, right? And Cancún being one of the most touristic destinations in Mexico.

Adolfo Castro:

Yes, exactly. You are saying five months, but if you see in the case of December, it jumped more than what it was for the month of September and October.

Pablo Barroso:

Okay. So, first quarter will be essential, right?

Adolfo Castro:

Exactly.

Pablo Barroso:

Okay, and just my final question. Could you give us some color on Terminal 4 construction? Are you going to open by year-end?

Adolfo Castro:

We are on track and I would say during the fourth quarter. We're still during the fourth quarter.

Pablo Barroso:

Okay. Perfect. Thank you Adolfo.

Adolfo Castro:

You're welcome.

Operator:

And once again, as a reminder everyone, please press star, one if you have a question at this time. Once again that is star, one if you would like to ask a question.

We'll go to Magdalena Santana with Citi.

Magdalena Santana:

Hi, Adolfo. How are you? Congratulations for the results. I have three questions. The first one is about what are the Company's thoughts on the privatization in Brazil and what about other markets? The second is have local officials implemented any new security measures since last month's shooting in Playa Del Carmen? The last one is have you noticed any impact on your operations regarding the boycott of American brands, like if there is any backlash against American tourists? That's it.

Adolfo Castro:

Good Morning Magdalena. First of all, we are not participating in Brazil, we decided not to do so. Second, in the case of security measures, yes they have announced some additional security measures to protect tourists in the region, Cancún and Riviera Del Maya. In the case of the third one, I'm not seeing that exactly what I have just mentioned is that we are seeing an additional traffic coming from the US because of special relation today. It's very clear for me that Cancun and the country itself. It's a very cheap destination for the US passenger.

Magdalena Santana:

Okay. Thanks a lot Adolfo.

Operator:

Once again everyone, please press star, one if you have a question at this time.

We'll go next to Marco Montanez with Vector.

Marco Montanez:

Thank you. Good morning Adolfo. Thank you for taking my question. Did you have new information from Oak Tree Capital about the decision of its investment in Luis Munoz airport? Thank you.

Adolfo Castro:

Not yet. We have not received any official information from them.

Marco Montanez:

Okay. Thanks so much.

Adolfo Castro:

You're welcome.

Operator:

If anyone else does have a question, please press star, one at this time. It appears we have no further questions at this time. I'll turn things back over to Mr. Castro for any closing remarks.

Adolfo Castro:

Thank you Carolyn. Thank you everybody for joining us today on this conference call. Also do not hesitate to contact me if there are any further questions. Have a great day. Good-bye.

Operator:

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