



## Grupo Aeroportuario del Sureste 4Q17 Earnings Call Transcript

**Operator:** Good day, ladies and gentlemen, and welcome to the ASUR Fourth Quarter 2017 Results Conference Call. My name is Ebony 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, Ebony, and good morning, everyone. Thank you for joining us on our conference call to discuss our second quarter 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.

**Adolfo Castro, ASUR Chief Executive Officer:** Thank you, Ebony, and good morning, everyone. Thank you for joining us on our conference call to discuss our second quarter 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 our performance.** 2017 was an eventful year for ASUR. As we discussed throughout the year we increased our level of investment to accelerate growth and made significant progress in increasing our potential business opportunity both in Mexico, our core market, as well as two other markets outside of Mexico. Importantly, we further diversified our operations and improved the equity structure of the company, which I will discuss in a moment.

A key event for us, was the opening of Terminal 4 at Cancun Airport last November, which has increased our capacity at that airport by close to 40% - allowing us to serve an additional 9

million passengers annually. In May, we increased our ownership stake in Aerostar, operator of the San Juan Airport, in Puerto Rico to from 50% to 60%. And most recently, in October we acquired a 92.42% ownership stake in Airplan, which operates six airports in Colombia – a new market for us.

While all these actions have us better positioned for future growth, we did face some external headwinds including; Hurricane Maria in Puerto Rico and a lengthy local pilot strike in Colombia that impacted our financial results last year. So, although results were not what we would like them to be because of these events, we are confident that the initiatives we have undertaken are the right actions to drive long-term shareholder value.

**Moving on to passenger traffic**, over 11 million passengers travelled through our airports in Mexico, Colombia and Puerto Rico this quarter. Traffic in Mexico – our main market increased 6% year-on-year but was more than offset by weak performance in Puerto Rico and Colombia as traffic remains impacted by external factors.

- **Traffic in Mexico**, which represents 66% of total traffic in the quarter, showed similar growth rates of around 6% in domestic and international traffic. Cancun remains the main driver behind traffic growth, reporting increases of almost 10% and 6% in domestic and international traffic, respectively with most of our other airports in Mexico also contributing to higher traffic. Recent passenger traffic figures around middle single digit and the significance of the first quarter given seasonality indicates that we should not expect to achieve high single digit traffic figures this year.
- **In Puerto Rico** 13.5% of the total traffic in the quarter fell 27% year-on-year as load factors in both domestic and international travel remain impacted by the aftermath of Hurricane Maria which hit the island last September. Keep in mind that when Hurricane Wilma hit Cancun in 2005, it took us 16 months to return to where we were before that catastrophic event. Based on our experience, we should not expect positive traffic figures in Puerto Rico this year.
- **Traffic in Colombia** 20.4% of the total traffic in the quarter, declined 13%, as domestic traffic fell almost 17% reflecting a local pilot strike that began in October and lasted until early this year. This more than offset low double digit international traffic growth. The pilot strike is over but collateral effects remain, which we expect will be diluted as the year goes on.

**Tuning to the P&L for the quarter**, on June 1st, we began consolidating Aerostar, as a result of this acquisition and in accordance with IFRS 3 ASUR Business Combination financial statements for 4Q17 reflect the following effects:

- i) in the Income Statement, a gain of Ps.7 billion reported under the line item “Gain from Business Combinations”, partially offset by Ps.98.8 million in amortization of the concession and Ps.2.8 billion in recognition off the minority interest in Aerostar;
- ii) and in the Balance Sheet, the recognition of a net intangible asset for Ps.5.9 billion, goodwill of Ps.5.6 billion, deferred taxes for Ps.605 million, and minority interest for Ps.4.4 billion in Stockholders' Equity.

ASUR carried out the deterioration test of the long-term assets in accordance with IAS 36, as a result of the effects of Hurricane Maria in Puerto Rico, and determined an impairment Ps.4.7 billion, which impacted the depreciation and amortization line item in the Income Statement, and reduced goodwill by the same amount in the Balance Sheet.

The net effect of these non-cash records in the P&L was a positive effect of 2.2 billion pesos.

**Consolidated revenues**, excluding construction services, were up 59% year-on-year to 3.1 billion pesos. In Mexico, revenues ex-construction increased by 14%, while Aerostar contributed with 19% of total ex-construction revenues and Colombia with 10%. Aeronautical revenues remained strong – up 66% year-on-year, driven by traffic growth in Mexico and the inclusion of Aerostar and Colombia.

**Commercial revenues** increased 53% to 1.1 billion pesos year-on-year driven by the 6% growth in Mexico, along with contributions of 200 million pesos from Aerostar and 68 million pesos in Colombia. Commercial Revenues per Passenger, however, fell 1% to 95.4 pesos in the quarter – reaching 103.7 pesos per passenger in Mexico, 130 pesos in Puerto Rico and 35.3 pesos in Colombia. Looking ahead, we expect to continue driving further growth as Terminal 4 at Cancun airport continues to ramp up, and we start to see improved results in Colombia.

**Consolidated EBITDA** increased 44% year-on-year to 1.9 billion pesos in 4Q17, with Aerostar contributing 16% of EBITDA, and Colombia with 3%. Mexico, in turn, posted a 17% YoY increase in EBITDA. Adjusted EBITDA margin, which excludes construction revenue and costs in Mexico and Colombia, contracted 63% from 70% last year, reflecting the lower comparative EBITDA margin of Aerostar and Colombia.

Operating results, however, were affected by the effects of the total impairment by 4.9 billion and the inclusion of depreciation in Colombia starting 4Q17, which amounted to 55 million pesos.

Excluding these effects, operating results would have increased by 23.9%.

Moving on to the **balance sheet**, we maintain a solid financial position with net debt to last twelve months EBITDA ratio of 1.7 times, compared with 0.8 times a year ago, and 2.2 times in the previous quarter. Total debt increased to over 13.4 billion pesos during the year, from almost 4.2 billion pesos a year ago, mainly reflecting:

- 7.8 billion debt held at Aerostar,
- 3.0 billion from Airplan in Colombia,
- 4.0 billion pesos loan at Cancun airport to finance the acquisition of the Colombian airports, and
- Cancun's prepayment of 1.4 billion in USD denominated debt.

In terms of **capex**, ASUR invested a total of 766 million pesos in the quarter. Of this, 465 million pesos were allocated to our Mexican operations, mainly to finalize the construction of Terminal 4 that opened during the fourth quarter, we expect to make the final payments related to this building during the first quarter of this year. We also invested over 200 million pesos in Colombia and almost 90 million in Puerto Rico. This brought total capital expenditures for 2017 to 1.5 billion pesos.

We have submitted our updated MDP proposal to the authorities during the fourth, and this may result in a new investment program and maximum rate for the period 2019-2023.

This completes my prepared remarks. I will now open the call for questions. Operator, please 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 before the handset is picked up, before pressing the corresponding digits.

We will take our first question from Pablo Monsivais with Barclays. Please go ahead.

**Pablo Monsivais:**

Hi. Good morning Adolfo. Thanks for the call. I have a few questions. The first one is how construction revenues work in Colombia and what could drive profit in this line item. Also, when we should expect Airplan to normalize? You mentioned some collateral effect of this but when should we expect to see normalize operations? Also, I have a question on what investment opportunities you have in Cancun for next MDP and lastly, and I'm sorry for these questions—if you can elaborate a bit more on the \$7 billion gain in business combination that you posted in this quarter? Thank you.

**Adolfo Castro Rivas:**

Hi Pablo. Good morning. Thank you for your questions. Construction revenue in Colombia—that does not work in the same way as it works in Mexico. The main difference is that the amount that was authorized by the government is not exactly a mandate for the company. In other words, if there's a reduction in the cost of constructing something and once these constructions is approved by the government with all the requirements they requested, the difference can be recorded as profit, which is not the case in Mexico because in Mexico the commitment is not just a concept or the project itself but is also the amount. So, that is why in the case of Mexico you never see a profit in that sense.

In the case of Airplan, to normalize. It's hard to say, I quote that in the first half of the year we will see the effects of this strike diluted and the big capacity from this main airline is recovered.

Investment in Cancun for the next MDP. Of course, to pay what we have presented is our proposal, we cannot say that these projects may be or won't be authorized by the government. The main two projects in the case of that airport, we have presented to the authorities are; the first expansion of Terminal 4 and also the construction of a taxi way for the second runway we have there. Remember that this runway was constructed in 2009 and at the moment we were not needing the taxi way. So now with the current situation and the growth in traffic that we have seen as from the year 2009, we are considering that we now will require a taxi way. So those are the main projects we have presented to the authority for the next year.

**Pablo Monsivais:**

Do we have a ball park idea of the size—the amount of money invested—ball parking?

**Adolfo Castro Rivas:**

Well I have, of course, I have presented those amounts to the authority, but I will not like to start playing with numbers today because we are at the early stage of this process. This process may

take one year. So, better not to start shooting with numbers until the authority can say something else.

In the case of the business combination, basically, let me try not to be technical in order to be more clear on the explanation. If you recall, the original equity we had invested in the case of Puerto Rico, in February 2013 was a US\$116 million and that was the same amount that our partner had invested in the company. So, the equity, the common stock of the company was US\$232 million. In May last year, our partners sold 50% equity stake in US\$430 million. So, if we just tried to use simple math, which is not the case on all of what we have done, but we just do simple math, we can say that the equity of the company with that purchase plan was \$850 million, compared with the \$232 million in the case of the contributed equity. So, the difference between the book value and the purchase price is what we call goodwill.

Proceeding in accordance with IFRS 3 is to make a lot of analysis and to try to allocate the real balance for this goodwill and to try to identify if there is any other assets that can be recorded differently. So, in the case of this, takes US\$632 million, US\$326 were allocated to goodwill and US\$302 were allocated differently. What we have assigned as commercial right. So, that was the result of the process we have made, so in that sense we have increased our assets US\$632 and then to assign the correspondent in the other side of the balance sheet. I don't know if I was able to answer your question.

**Pablo Monsivais:**

Yes, yes, now I have a better sense of this. Thank you very much.

**Adolfo Castro Rivas:**

You're welcome.

**Operator:**

We'll take our next question from Leandro Fontanesi, Bradesco Corporation. Please go ahead.

**Leandro Fontanesi:**

Hi. Good morning Adolfo. My first question is regarding Cancun. So you opened a new terminal in the fourth quarter and you opened close to 60 stores in November. So, we saw a big increase in terms of the non-aeronautical revenue, but we did not see a big increase in terms of cost of services. So, I was wondering if as the stores ramp up, if we could see a spike in cost that we did not see in the fourth quarter of these results?

**Adolfo Castro Rivas:**

Leandro, good afternoon. So, I would say most of the cost is there in the fourth quarter, we do not expect additional or significant additional cost for the year. Of course, the additional cost we will see in the future for this building, it will be one year after of the opening of the building in terms of major maintenance cost. Let me explain myself. We have installed elevators, electrical stairs, passenger bridges, x-ray machines, all of these. All of them have, in general, one-year guarantee for the case of maintenance. Once this one year is over, then we will have to pay for the normal major maintenance of these items. For the case of now, or for the case of, I would say the year

2018, we should not expect more increases in cost of services as a result of these infrastructure. That will happen, let's say in the year 2019 once the guarantee of this equipment is over.

**Leandro Fontanesi:**

Okay. Got it. If I may, a question on Colombia. So you mentioned that you had a contract supply with Duty Free. If you could mention how relevant this is. Then if you plan to sign a new contract to renew it? Also, if you could give an update on the condition of Oriente?

**Adolfo Castro Rivas:**

Okay, let me talk about the Duty Free contract. It expired. We're in the process to relocate this unit and we are in the process also to make a bidding process for the new concessionaire there. In terms when we expect to restart operations of these units, I believe it will be in the second half of the year with better layout, better space and better conditions for the contract.

In terms of relevance, of course, for the company itself, it's relevant as it is in the case of Mexico and it is in the case of Puerto Rico. In the case of the other six airports, we are still in the process to try to reach a new agreement with vendors and then to call for the approval of that with the anti-trust commission, the real name of that unit in Colombia is Superintendencia de Comercio. I believe we are going to try to reach an agreement very soon and then to call and proceed with approval once this is completed. Just to be clear, the approval may take a year, so I do not expect to see that into our financial statements for the year.

**Leandro Fontanesi:**

Okay. Got it. But with regards to Oriente?

**Adolfo Castro Rivas:**

Yes. That's Oriente.

**Leandro Fontanesi:**

Okay. Just a very quick question with regards to Puerto Rico because your non-aeronautical revenues held up very well, so I was just wondering if there is—you could see some impact lower aeronautical revenue due to the steep decrease that have been seeing in terms of traffic there, or if we could continue to see this non-aeronautical revenue holding well?

**Adolfo Castro Rivas:**

Okay, the non-aeronautical revenue works really well because of the same event. So some of the people that were sent from the Federal U.S. government there spent in things that were not normally spent. Let me be clear. If you see the business lines of revenue in Puerto Rico, you will see a very nice spike in the case of car rental and in the case of parking lots. In the future, once these people get out of the island so they have completed their work, we will have to go back to a normal revenue. So something was good, something was wrong. That's what I can say for the moment.

**Leandro Fontanesi:**

Okay. Very clear. Thank you Adolfo.

**Adolfo Castro Rivas:**

You're welcome.

**Operator:**

Our next question will come from Ramon Obeso with Scotiabank. Please go ahead.

**Ramon Ovaca:**

Hi Adolfo. Good morning. Thank you for the call. I just have one question on Colombia. What is specific actions are you taking to improve margins and what levels of EBITDA margins should we expect for the year-end?

**Adolfo Castro Rivas:**

Thank you. Good morning Ramon. In the case of the initial actions because I will call out those in that way is to review commissions contracts and basically to upgrade those contracts to international standards. That's going to be the first place. Second one is to align the passenger flow and the locations of some of these units and then to try to improve these to provide better service for the passenger.

The numbers you are seeing in the case of Colombia are the beginning for us, so, let's say day one. In the case of Colombia, and I have said that before, it is not a one-year project, this is a three or four-year project in order to try to subtract the real potential this place has. I hope that in the future you will see how this is improving and better numbers quarter-to-quarter in terms of commercial revenue per passenger. If not, I will not suggest to try to say that this is going to be peaked in one year. No. This is a long way to go. As it was in the case of Cancun.

**Ramon Ovaca:**

Okay. Thank you very much, Adolfo.

**Adolfo Castro Rivas:**

You're welcome.

**Operator:**

We'll move next to Stephen Trent with Citi. Please go ahead.

**Stephen Trent:**

Good morning, Adolfo and thanks for taking my questions. Just a follow-up on the question on the MDP for Cancun. You mentioned an expansion of Terminal 4 and I believe a taxi that's going to connect to the second runway. Is it—I mean a kind of dumb question on my part but is it fair to

say that the capex for those projects should be considerably lower than what you invested in Cancun over the current five-year period?

**Adolfo Castro Rivas:**

Stephen, hi. Good morning. Thank you for your question. If you want to get the rough figure of the whole thing, of course, this is preliminary without commitment, without anything and we have to talk with a comment and to review every single project for the nine airports we have. The most important thing is to understand the concept of the MDP. If we go back five years ago, I would say, roughly numbers again, 50% of that was major maintenance and 50% was expansions. For the next MDP, of course, we will have the 50% originally major expansion, of course plus inflation, plus the major expansion for the other 50% that we added during this MDP. So, in other words, the major maintenance for Terminal 4 and all the projects we have developed – the expansion of Terminal 3 and so on, plus expansions. In the case of expansions, as I said before, we are proposing the first expansion for Terminal 4, we are proposing a taxi way for the second runway in the case of Cancun airport and we are proposing as well, a major expansion of the airport of Merida. Those are the main and most significant projects in terms of expansion.

Total figures — I do not expect to see reduction in the case of the total amount in comparison with what we had in the previous MDP. Another important consideration is that as you have seen, inflation in Mexico has increased and also the exchange rate has changed. If we go back five years ago when we presented and when it was approved, our MDP exchange rate was between 13 pesos to 14 pesos per dollar. Today we're talking about 18.5 pesos. So all the companies that we have to invest that are denominated in U.S. dollars, of course, will not [inaudible].

Don't try to say—don't try to think that if you don't see too many projects that we will not be investing a significant amount of money.

**Stephen Trent:**

Okay. Very helpful color, Adolfo. Appreciate that. Just two more for me. Regarding Airplan in Colombia versus Europe or in San Juan. Can you give us a sense as to how much Airplan's traffic relies on a single airline versus the air traffic diversity you have in San Juan with respect to what it is a big percentage reliance on just carrier.

**Adolfo Castro Rivas:**

In the case of Colombia, of course, we are more concentrated because there's less number of airlines there. I would say and I don't have the exact or precise number in the top of my head but it could be 50% for the case of Avianca.

**Stephen Trent:**

Got it. Any kind of broad ball park in San Juan's case—let's say under normalized circumstances. I mean, I know it's not (inaudible) at the moment.

**Adolfo Castro Rivas:**

In the case of San Juan, when is this going to be back? I really don't know, it's like I mentioned in my initial remarks. It took us 16 months in the case of Wilma. It'll take more in the case of Puerto



Rico, that will depend on how fast the energy could be recovered. This is not the present number, but probably today after almost 120 days from the event, apparently there is still 25% without energy. The situation of the energy company is not the best. As you have seen, the Governor has said that they will start the process to sell the assets of this company and to probably, let's say, prioritize, which is probably not the right legal word for that, but it may take longer because of these situations. In terms of reconstruction, it's not that easy in the case of an island because all of the things will have to be brought into the island. So, the reconstruction may take longer. Some of the hotels are going to be closed, I believe, for more than a year.

Hard to say or to give you precise moment where we are going to go back to the night when 6 million passengers—we had that. But, for sure this year we will not see positive numbers compared with those last year.

**Stephen Trent:**

Got it. Very helpful, Adolfo. Just one last one for me. When I think about where ASUR got in the late 90s with European airport operators that received a fee for their strategic advice and where I think about where you guys are now. Kind of any broad thoughts with respect to the usefulness of the current technical assistance fee?

**Adolfo Castro Rivas:**

What I would say is, you remember in the 90s, that is 18 years ago, but I have to say that the same kind of companies are still around us and you can see some of those today in Colombia trying to help us in that process as well. You may understand very clear that this is a very thin company in terms of management and we have decided to keep that in that way whereby we have a company of five Directors. There's many things that these people do and some other people as well, and there are many, many projects that during the year, they support this company. I don't know if that answers your question.

**Stephen Trent:**

Yes. No, no I appreciate the color and I know I've already taken up a lot of time. I'll let somebody else ask a question. Thanks again, Adolfo.

**Adolfo Castro Rivas:**

Thanks Stephen.

**Operator:**

We'll now take a follow-up from Pablo Monsivais, with Barclays. Please go ahead.

**Pablo Monsivais:**

Hi Adolfo. Sorry, just a follow-up on the Puerto Rico commercial revenues. Can we or can you share with us the percentage of commercial revenues that are fixed versus variable and how this compares to Cancun?

**Adolfo Castro Rivas:**

My god. Tough question, because I don't have the exact figures here, but in general I would say that we do not like to work with a fixed amount, so to translate in a clear concept. Rent by square meter, a fixed amount by square meter. Probably the only cases we have for those kind of activities is banks, because they don't want to give us a percentage on their deposits. So in that sense the contract is flat rent per square meter. This is not significant in terms of the total of the company. I would say most of our commercial revenues are basically a percentage on what these people get in both cases. Most of the thing of the commercial revenues are basically variable.

**Pablo Monsivais:**

Okay. Yes I basically wanted to have a sense how actually traffic affects Puerto Rico because as we have seen (inaudible)...

**Adolfo Castro Rivas:**

Good numbers in the case of Puerto Rico. That is because of what I already mentioned in terms of all of these people that was there to help the recognition of the reconstruction process.

**Pablo Monsivais:**

Good. Thank you.

**Adolfo Castro Rivas:**

You're welcome.

**Operator:**

Our next question will come from Mauricio Martinez with GBM. Please go ahead.

**Mauricio Martinez:**

Thank you, Adolfo for taking my question. Good morning. I was wondering if you can share with us an estimate for how long do you expect the concession in Colombia will last. If this would be in the low end of the range or in the high. Also, if you can share with us how much has the asset captured in terms of regulated revenues from the expected the life of the concession. That will be...

**Adolfo Castro Rivas:**

Mauricio, good morning. In the case of Colombia, know that the moving piece is the term of the concession as we have announced in our previous release. A concession can go today to the 2033 up to 2049. In accordance with our own calculations and of course, we do not have a crystal ball for the future, the term of the concession are closer to the 2033 and the 2049.

**Mauricio Martinez:**

Perfect. Great. Very helpful Adolfo. Thank you.

**Adolfo Castro Rivas:**

You're welcome.

**Operator:**

Once again to the audience, it is star, then one if you'd like to ask a question. We'll pause for another moment to allow everyone an opportunity to signal. It looks like there are no further telephone questions at this time. I'd like to turn it back over to you Mr. Adolfo for any additional closing remarks.

**Adolfo Castro Rivas:**

Thank you. Thank you everybody for joining us today on this conference call for the fourth quarter results. Have a great weekend. Goodbye

**Operator:**

This concludes today's call. Thank you for your participation. You may now disconnect.