



Grupo Aeroportuario del Sureste 1Q18 Earnings Call Script

Operator: Good day, ladies and gentlemen, and welcome to the ASUR First Quarter 2018 Results Conference Call. My name is Abby 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 * 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, Abby, and good morning, everyone. Thank you for joining us on our conference call to discuss our first 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.

Moving on to our performance, we started the year on a solid footing, although we continue to face some external headwinds, including Hurricane Maria in Puerto Rico and capacity adjustments at a leading carrier in Colombia that is impacting domestic traffic in the country. While overall performance is not what we would like it to be because of these events, we are pleased with the strong results reported in Mexico and are confident that we are on the right path to continue driving long-term shareholder value.

Moving on to our operations, a total of 12.8 million passengers travelled through our 16 airports during the quarter. Strong growth in Mexico, was partially offset by declines in Puerto Rico and Colombia which remain impacted by external factors resulting in overall traffic growing 1.2% in the quarter - an improvement from the 4% year-on-year decline posted in the fourth quarter.

- **Traffic in Mexico**, which represents 67% of total traffic in the quarter, was up over 9%, benefitting from Easter which this quarter fell on March while last year fell on April. We saw good performance across the board with domestic traffic increasing 12% and international traffic up 7%. Cancun remains the main driver behind traffic growth, posting increases of 10% and 16% in domestic and international traffic, respectively. Looking ahead, however, we do not expect to achieve high single digit traffic figures this year.
- **Puerto Rico**, which accounted for 15% of total traffic, posted a 19% year-on-year decline in passenger traffic as load factors in both domestic and international travel remain impacted by the aftermath of Hurricane Maria, which made landfall last September. Given our experience with devastating climatic events, the effects of Hurricane Maria will be felt well into 2018, and we do not expect Puerto Rican traffic figures to pick up till 4Q18.
- **Colombia** which represents 19% of total traffic reported a 5% decline driven by continued weakness in domestic traffic – down almost 9% on capacity adjustments at a leading carrier which more than offset the solid performance in international traffic which was up 20% year-no-year. Looking ahead we should expect positive quarterly figures starting in the third quarter.

Moving on to the financial results for the quarter, note that results for the quarter reflect the consolidation of Aerostar in Puerto Rico, starting June 1st of last year and Airplan in Colombia starting October 19th last year.

Consolidated revenues, ex-construction services, were up 52% year-on-year to 3.6 billion pesos. Mexico, posted a 9% increase, while Puerto Rico contributed with 18% and Colombia with 11% of total revenues ex-construction. Aeronautical revenues continued to post strong growth – up 64% year-on-year, reflecting solid traffic growth in Mexico and the inclusion of Aerostar and Colombia.

Commercial revenues rose 39% in the period reaching 1.3 billion pesos. Mexico reported a 6% increase in commercial revenues reaching over 1 billion pesos, further supported by contributions of 220 million pesos from Puerto Rico and 91 million pesos from Colombia.

Commercial Revenues per Passenger, increased 0.66% in the quarter, including both revenues and passengers for the three regions into the comparison.

- **In Mexico**, commercial revenues per passenger fell 3% to 114 pesos, due to several factors:
 - First, while we opened 73 new commercial spaces at Cancun's Terminal 4, we still had to finalize some details such as VIP lounges and a bank branch, of the new terminal, which have since been completed.

- Revenues were also affected by the 7.6% appreciation of the Mexican peso against the US dollar in the period.
- At the same time, advertising revenues were also lower across all airports in México.
- And finally, commercial revenues at Terminal 2 in Cancun airport declined faster than the reduction in passenger traffic. We will have adjust our commercial offering in this terminal to improve actual results.

We are working on improving performance of the last two items, mainly taking steps to drive higher commercial revenue at Terminal 2 as this terminal stabilizes following the recent shift in airlines and enhancing direct advertising operations following the termination of the concessionaire last September.

- **Puerto Rico**, in turn, posted an 11% increase in commercial revenues per passenger reaching almost 118 pesos, mainly reflecting higher demand for car rentals from the teams undertaking the reconstruction efforts in the island.

In Colombia, we saw a 4% increase reaching 37 pesos per passenger driven by good performance in retail and car rentals, which more than offset the closing of duty-free operation after termination of the contract. We are relocating and upgrading that commercial space while undergoing a bidding process to select the new operator. We expect this process to be completed during the second half of the year with a much better space and contract terms.

Looking ahead, we anticipate further growth in Mexico as Terminal 4 at Cancun airport continues to ramp up, and results in Colombia improve as we move ahead with the upgrading these operations.

Consolidated EBITDA increased 51% year-on-year to 2.7 billion pesos in the quarter, with Puerto Rico contributing 12% of EBITDA, and Colombia with 16%. In Mexico, EBITDA was up almost 9% YoY.

Adjusted EBITDA margin, which excludes construction in Mexico, Colombia and Puerto Rico, contracted 60 basis points to 74.1% from 74.7% in the year-ago quarter, mainly reflecting the lower comparative Adjusted EBITDA margin in Puerto Rico and Colombia. By region, Adjusted EBITDA margin in Mexico fell 30 basis points to 74.4%, while Puerto Rico posted a decline of over 800 basis points to 49.3%, and Colombia experienced an improvement of over 300 basis points reaching 56.9%.

Operating results, however, were negatively impacted by the recognition of the amortization from the valuation of Puerto Rico and Colombian subsidiaries under IFRS3, which resulted in additional depreciation of 42.2 million in Puerto Rico and 24 million in Colombia.

Excluding these effects, operating results would have increased by 14.5%.

Moving on to the balance sheet, we closed the quarter with a healthy financial position with net debt to last twelve months EBITDA ratio of 2 times, compared with 2.3 times in the previous quarter. Total debt stood at over 17 billion pesos, compared with 17.3 million at year end 2017.

We also made **capital investments** of 600 million pesos during the quarter to modernize our airports. Of this, 96 million relate to final payments for the construction of Terminal 4. We also invested almost 200 million in Puerto Rico for the construction of the Federal Inspection Station and equipment. In Colombia we invested over 300 million pesos modernizing and expanding the Quibdó and Rionegro airports.

Before opening the floor for questions, let me note that this coming Thursday we will be holding our General Annual Ordinary Shareholders' Meeting. Among other items, the agenda includes the proposal by the Board of Directors to pay an ordinary cash dividend from retained earnings in the amount of 6.78 pesos per share.

This completes my prepared remarks. I will now open the call for questions. Abby, 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 or the handset is picked up before pressing the corresponding digits. We will pause for just a moment to allow everyone an opportunity to signal for questions.

We will take our first question from Stephen Trent with Citi. Please go ahead.

Stephen Trent:

Good morning, Adolfo, and thanks very much for taking my questions. Just some quick ones for you. The first thing is if I could trouble you to clarify the EBITDA that you reported from Colombia. It looks like a piece of it, a big piece of it was related to estimated revenue or the present value of estimated revenue, and I just wanted to get some color on that.

Adolfo Castro Rivas:

Okay. Hi, good morning, Steve. Yes, you are right. There is an accounting effect for the relation of the concession in the case of Colombia, and that is providing, let's say, additional EBITDA because of this accounting effect. This is the result of the valuation of the contract. Remember that the contract terms in Colombia are different than the others. What we have is a variable term

and this term depends on how fast we execute the related investments, so that is the reason why you see that effect on the results.

Stephen Trent:

Okay, very helpful, Adolfo, thank you. Just one other quick one. I know it's kind of not a fair question to ask you, just kind of want to get your view as to—still pretty solid traffic results, but kind of more worrisome news headlines related to security and alleged drug cartel violence in Quintana Roo. I'm kind of wondering if you're seeing or hearing anything from any of your constituents with respect to charter companies thinking twice about taking people to vacation down there, or anything along those lines.

Adolfo Castro Rivas:

Well, as I said in the initial remarks, numbers in Cancun is still growing very healthy, and of course we have during this quarter some kind of effect because of the holiday, but nevertheless, as you see, the numbers are still strong. It's true that we do not like the events that you are mentioning, but if we see really the numbers unfold, this region is a very safe region and we can feel that in the case of tourists. Some of the problems you see or you hear are related to the people that live there. Remember that this city is now a city of 1.6 million people, so it's not a small city anymore.

Stephen Trent:

Okay, appreciate that, Adolfo. I'll let someone else have a question. Thank you.

Adolfo Castro Rivas:

Thank you.

Operator:

We will take our next question from Leandro Fontanesi with Bradesco. Please go ahead.

Leandro Fontanesi:

Hi, good morning, Adolfo. I have two questions. I couldn't hear very well the conference call, so sorry if you already clarified this point. The first one is in Mexico, if you could explain the big decrease in advertising revenue. I was wondering if you're changing the contract or is there anything specific that you could mention? The second point relates to the reduction in cost of services for Colombia. You mentioned in the press release there was lower maintenance and security expenses. If you could explain a little bit further this reduction, and is this a level that we can see in the following quarters? Thank you.

Adolfo Castro Rivas:

Okay, Leandro, in the case of our advertising in Mexico, as you may remember last year—in the third quarter of last year, we decided to cancel the contract with our concession, basically because this company was not paying to us. As a result of this, we had to start redoing the whole area again, so as from October last year, we are taking these operations directly again as we did from the year 2014 up to year 2015. But of course, it's not easy and it's not fast to redo the whole thing again because we have to hire people, train them and start making contacts again with the client, with the customers and so on. That is why you see this effect all across all the airports in Mexico.

In terms of the cost of services in Colombia, we tried to say that the numbers we are showing in the first quarter last year are numbers that were absolutely normalized or controlled by the Company, so when we are seeing comparisons, we cannot yet say that the numbers are equal in terms of the commissions and equal in all the terms, so be cautious on the comparison. What I can say to you is that the level of cost of services you are seeing today is the level that you may see in the future.

Leandro Fontanesi:

Perfect. Just on the first point, you mentioned you are adjusting the advertisement and also I understand you are making some adjustments internal too. When do you expect to finish all these adjustments? Is it third quarter or fourth quarter of 2018?

Adolfo Castro Rivas:

Well in the case of Terminal 2 we will have to readjust the offer of products we are offering there because of an important change in the mix of passengers resulting from the passengers that were transferred to Terminal 4, so we are in the process now to talk and discuss the situation with our concessions to see what changes we have to make with the new passenger mix we have there and to offer basically what needs do these new passenger needs or is willing to buy or is really looking for, so it will take some time, yes.

Leandro Fontanesi:

Okay, thank you very much.

Adolfo Castro Rivas:

You're welcome.

Operator:

As a reminder, it is star, one if you would like to ask a question. We will take our next question from Bruno Amorim with Goldman Sachs. Please go ahead.

Bruno Amorim:

Hi, good morning, Adolfo. Just going back to the guaranteed returns revenues in Colombia, two questions. The first one, when will it translate into cash, if not yet; and the second point, will this imply your recurring path going forward or should we assume that the 215 million pesos recognized in the first quarter are enough to balance the contract with the visibility that we have now? Thank you.

Adolfo Castro Rivas:

Hi Bruno, good morning. Basically, what this accounting effect is reflecting, I would say is the result of the decrease in traffic we are seeing today in comparison of how it was expected in the past. Going forward, it's hard to say we are going to see these effects all the time, but of course, due to the accounting rules, we have to relate these quarter by quarter, so you may see, during the time, things going up or things going down, depending on what the results of the quarter were in terms of the recuperation of the regulated investment. For the moment, if things continue in the sense that we see traffic decreasing, probably you will see the same kind of effect we are seeing today.

When is this going to translate into money? The contract is an entire year, the entire life of the contract is not something that will appear tomorrow morning.

Bruno Amorim:

Okay, so just to make sure, the 215 million, they will be—they will imply at some point, if there are no further changes in the expected traffic curve, an extension of the concession, is that correct?

Adolfo Castro Rivas:

Yes, but also remember that this has to be valued in terms of net present value, so the other valuable piece in the calculation is the rate, the discount rate we use, okay, so if you see a large movement on the rates, you may see also the same effect.

Bruno Amorim:

Okay, thank you very much.

Adolfo Castro Rivas:

You're welcome.

Operator:

We will take our next question from Rogerio Araujo with UBS. Please go ahead.

Rogerio Araujo:

Hi Adolfo, thanks very much for the opportunity. I have a couple of questions. The first one is on non-aeronautical revenue per passenger. We saw a drop year-over-year in Cancun of about 3%, which I suspect is maybe related either to a high comparable base than last year. If this is the case, could you give more color on what happened last year, or if this is not the case, is this related to somewhat not that advertisement that you already spoke before? This is the first question.

My second question is regarding aeronautical tariffs. I have the impression we had an increase below [inaudible] in Mexico, so my question is does ASUR have room to expand those tariffs above inflation in the upcoming quarters because of that? Thank you very much.

Adolfo Castro Rivas:

Hi, good morning. In the case of the commercial revenues in Cancun, you were mentioning, yes, that we saw a 3% increase and this is not enough, and this is not enough for me as well. In my initial remarks, basically what I said was that this was a result of several effects. One was the case of advertising, you can see the line, a strong decrease there for all the airports in Mexico. The second one was the appreciation of the Mexican peso. We compared the average exchange rate from the first quarter 2017 against the first quarter 2018. We had an appreciation of 7.6%. Finally, the case I already mentioned in Terminal 2.

In terms of aeronautical revenue, your comment about the DPI, basically this comment is because in some of the groups which show an increase, a very extraordinary increase, which is not the case of ASUR. The DPI increased roughly, round numbers, around 5% in the case of last year. If you were to add traffic and the efficiency factor, you are very close to the number we are showing. In that sense, be careful because if you just see aeronautical revenue, you should consider the other piece that is the non-aeronautical revenue, so regulated revenue is—it's really total revenue ex-construction, minus commercial revenue, and that's what you should see there.

Rogério Araujo:

Okay, that makes sense. Thanks very much, Adolfo.

Adolfo Castro Rivas:

You're welcome.

Operator:

Our next question comes from Stephen Trent with Citi. Please go ahead.

Stephen Trent:

Good morning, again, Adolfo, and thanks for taking my follow-up. Just one other quick one from me. When we think about your master development plan review, and I imagine you're in the thick of the process right now, and Mexican presidential elections on July 1 with the new president taking office on December 1, do you think it's possible or at least within the rules that your MDP could be approved even before December 1?

Adolfo Castro Rivas:

Well, we are in the process and working with authorities to achieve that goal. We have 11 months for that purpose in accordance with the calendar we have. I hope that we can make it; that's basically what I expect, otherwise what I expect is that this will not be a [inaudible] year because 30 days will not be enough for the new government to approve this situation. In that sense, then maybe they request an extension as they did in the year 2009. If you go back to that year, you can see that the MDP was approved at the end of March the year after.

Stephen Trent:

Perfect, and in 2009, if I remember correctly, that was still the point where they were trying to launch that Riviera Maya airport.

Adolfo Castro Rivas:

Exactly. That was the date of the Riviera Maya airport, but the trouble was that the three people in charge of this review or this update were changed at the end of the month of November, so I'm talking about the minister of communications and transport, the undersecretary of communications and transport, and the head of the DPAC. Those three people were removed at the moment, so the new ones didn't approve this for 30 days, that's why they asked for the extension.

Stephen Trent:

Okay, very helpful. Appreciate that, Adolfo. I'll let someone else ask a question.

Adolfo Castro Rivas:

Okay, thanks.

Operator:

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

Mauricio Martinez:

Thank you, good morning, Adolfo. Thank you for taking my question. My question is regarding the increasing cost of services per passenger, especially in Mexico, so probably if you can share with us what are your expectations on this matter and if we should expect a decrease going forward throughout the year, maybe because the high cost were used during the second half of the 2017 due to the construction of Terminal 4.

Adolfo Castro Rivas:

Mauricio, good morning. Basically the levels we are seeing today is reflecting almost all the costs resulting from Terminal 4. I am saying almost all because some of the equipment that is included in the new building is today under guarantee. That equipment is passenger bridges, electrical stairs and elevators, so during the first year, the maintenance is included into the guarantee from the vendor. As from, I would say, first quarter next year, we will have to start paying maintenance for this equipment, so from now until that moment, you will not see any more increases resulting from Terminal 4.

Mauricio Martinez:

Perfect, thank you.

Adolfo Castro Rivas:

You're welcome.

Operator:

Our next question comes from Pablo Monsivais with Barclays. Please go ahead.

Pablo Monsivais:

Hi Adolfo, thank you very much for taking my question. Just maybe a follow-up on the commercial revenues in Cancun. How Terminal 4 is performing compared to your expectations? How is the ramp-up period evolving? Can we expect a much higher commercial revenue per passenger in the coming quarters? Thank you.

Adolfo Castro Rivas:

Well, as far as I know, you were there, so you saw the building. There are some moving parts, as I mentioned in the initial remarks, but I would say in general terms, it's working well. There's some spots that are not doing perfectly. There is one that is not doing well; it's one store that sells Italian clothes so probably they will leave the premises. In general, I would say, yes, there are some missing parts and I hope things will show better results in the coming months, but I believe that by the third quarter, all operations should be completed.

Pablo Monsivais:

Okay, so until October, we will see your—later on now, the full impact of this new terminal?

Adolfo Castro Rivas:

Absolutely.

Pablo Monsivais:

Thank you.

Adolfo Castro Rivas:

You're welcome.

Operator:

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

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

We have no additional phone questions at this time, so I would like to turn the call back to Mr. Adolfo Castro for any additional or closing remarks.

Adolfo Castro Rivas:

Thank you, Irene, and thank you, everybody, for joining us today on this conference call for our first quarter results 2018. Have a great week. Goodbye.

Operator:

Ladies and gentlemen, once again, this concludes today's conference and we thank you for your participation. You may now disconnect.