

ASUR

Q4 20204 Earnings Call Transcript

CORPORATE PARTICIPANTS

Adolfo Castro, *Chief Executive Officer*

CONFERENCE CALL PARTICIPANTS

Rodolfo Ramos, *BBI*

Pablo Ricalde, *Itaú*

Stephen Trent, *Citigroup*

Pablo Monsiváis, *Barclays*

Alberto Valerio, *UBS*

Jens Spiess, *Morgan Stanley*

Alan Lucias, *Bank of America*

Enrique Sojo, *Fundamenta Investments*

Gabriel Himelfarb, *Scotiabank*

Anton Mortenkotter, *GBM*

Guilherme Mendes, *J P Morgan*

P R E S E N T A T I O N

Operator:

Good day, ladies, and gentlemen, and welcome to ASUR's Fourth Quarter 2024 Results Conference Call. My name is Sherry, and I'll be your operator. At this time, all participants are in listen-only mode. We will conduct a question-and-answer session toward the end of today's conference. If you would like to ask a question, please press star one. If you want to withdraw your question at any time, please press star 2. If you are using a speaker phone, please lift the handset before making a selection. As a reminder, today's call is being recorded. Now, I'd like to turn this call over to Mr. Adolfo Castro, Chief Executive Officer. Please go ahead, sir.

Adolfo Castro, CEO

Thank you, Sherry, and good morning, everyone.

Before I begin discussing our results, let me remind you that certain statements made during the call today may constitute forward-looking statements which are based on current Management expectations and beliefs, and are subject to several risks and uncertainties that could cause actual results to differ materially, including factors that may be beyond our Company's control.

Additional details about our quarterly and full year 2024 results can be found in our press release, which was issued yesterday after market close, and is available on our website in the Investor Relations section.

Following my presentation, I will be available for Q&A.

As usual, all comparisons discussed on this call will be year-on-year, and figures are expressed in Mexican pesos, unless specified otherwise.

Let's start with a review of ASUR's operational performance for the quarter.

Passenger traffic was basically flat year-over-year -- down 0.3% -- at 17.7 million passengers. This brought our full year total to close to 71 million passengers travelling through our airports in 2024. Sustained growth in Colombia and Puerto Rico largely offset weaker passenger traffic in Mexico.

Now, taking a deeper look at traffic by geography:

Colombia remained our strongest-performing market, with passenger traffic increasing in the mid-teens year-on-year, supported by favorable comps following the suspension of two local carriers in early 2023. Travel demand remained solid, with international traffic up 29% and domestic traffic rising 7%, as Avianca and LATAM Airlines continued reinstating routes lost last year. Looking ahead, we expect traffic trends to begin normalizing in the first quarter of the year towards the more sustainable levels of 2023.

Puerto Rico was the next best market and similar to past quarters maintained its positive trend with total traffic up nearly 10%, supported by strong growth in international traffic - up 29% while domestic traffic was up 7%. We expect traffic in this market also to normalize, after benefitting from increased operations by Frontier Airlines in the year ago.

Lastly, performance in Mexico remained soft as anticipated, declining 8.0% year-on-year, with both international and domestic traffic down in the high-single digits. Moving next for more details on the performance.

International traffic continued to experience year-on-year declines from all regions during the quarter. Specifically, traffic from Europe decreased 6.4%, from Canada 0.6%, from the U.S. 8.8%, and from South America by 11.1%.

With respect to Domestic traffic, the ongoing P&W engine restrictions together with air traffic capacity constraints at Mexico City Airport, in effect since early 2024, are constraining traffic flows. In addition, Cancún Airport is being slightly impacted by the initial ramp-up phase of the new Tulum airport. Note Tulum captured around 1.2 million passengers from Cancun last year and is expected to capture another 1.7 million this year – compared to 30.4 million passengers that travelled through the Cancun airport last year.

Looking ahead, we expect traffic to normalize in 2026 as the P&W effect dissipates and Tulum's initial ramp-up concludes. From that point, we anticipate passenger traffic at Cancun and Tulum airports to grow at a pace consistent with each region's dynamics.

Now, as we turn to the P&L, recall that all references to revenue and cost figures exclude construction.

Total revenues for the quarter increased 19% year-on-year to Ps.7.4 billion, reflecting strong performances across all three regions. Colombia once again led growth, posting a 30% increase in top-line revenue, supported by rising passenger traffic. Mexico and Puerto Rico also delivered solid results, with revenue growth in the low teens.

- Mexico, which accounted for 72% of total revenues, posted a mid-teen increase in top-line performance. Growth was primarily driven by a low-20s increase in aeronautical revenues following recent tariff adjustments, while non-aeronautical revenues rose in the low single digits.
- Puerto Rico represented 15% of total revenues and delivered high-20s growth, supported by strong increases in both aeronautical and non-aeronautical revenues, further boosted by foreign exchange benefits from the weaker peso.
- Colombia, contributing 12% of total revenues, recorded a robust 31% increase in top-line revenue. This growth was fueled by strong performance in both aeronautical and non-aeronautical segments, with revenues rising in the low 30s. Both segments benefited from continued recovery in domestic and international traffic.

As part of strategy to expand commercial offerings, we opened 45 new commercial spaces over the past 12 months. This included 12 locations in Mexico, 5 in Puerto Rico, and 28 in Colombia. As a result, total commercial revenues grew in the high single digits, with Puerto Rico posting a nearly 26% increase and Colombia delivering strong year over year growth of 31%. In Mexico, commercial revenues saw a low single-digit increase, marking a positive shift from the previous trend.

On a per-passenger basis, commercial revenues grew in the high single digit year-on-year, reaching Ps.130 in the quarter. This solid performance was supported by growth across all three markets. In Puerto Rico and Colombia, commercial revenues per passenger rose in the mid-teens with Puerto Rico benefiting from a stronger U.S. dollar and Colombia from new openings. Mexico also posted solid growth in the low-single digits to Ps.158 per passenger also benefiting from the FX impact.

On the cost front, total expenses increased 13% year-over-year. In Mexico, costs were up 12%, primarily reflecting the 80% increase in concession fees mandated by the Mexican government and a 20% rise in minimum wages, mainly affecting cleaning and security services—both effective since January 1 of last year. These impacts were partially offset by a 50% reduction in technical assistance fees. In Puerto Rico, costs increased in the high teens, driven mainly by the depreciation of the Mexican peso against the U.S. dollar, while in Colombia, costs rose just 7%, benefiting from a reversal in the provision for maintenance and conservation, which helped mitigate overall cost pressures.

Consolidated EBITDA was up 23% year-on-year to over Ps.5 billion in the quarter, while the Adjusted EBITDA margin, which excludes construction, improved 200 basis points to 69.7% driven by solid profitability across the three regions. Colombia reported the strongest performance with EBITDA up 61%, followed by Puerto Rico a 39% increase, while Mexico posted an increase of 17% in EBITDA.

Our balance sheet remains robust, closing the quarter with cash and cash equivalents of over Ps.20 billion with debt to last 12 months Adjusted EBITDA remaining at a negative 0.3 times.

During the quarter, capital expenditures accelerated, reaching Ps.2.5 billion and accounting for half of the full year total of Ps.4.4 billion in 2024. Main projects during the quarter included the reconstruction and expansion of Terminal 1 at Cancún Airport, as well as the expansion of the terminal at Oaxaca Airport. In Puerto Rico, expansion works at Terminal D and runway remodeling remain on track. As a reminder, all construction activities will take place outside operational areas to ensure no disruption to airport operations.

We expect investments to gradually ramp up CapEx throughout this year as we advance key infrastructure projects. Those projects include the reconstruction and expansion of Terminal 1 at Cancún Airport with estimated completion in 2026, while Terminal 4 is scheduled for completion by 2028. Terminal 2 is expected to see operational improvements once Terminal 1 is completed, helping to alleviate bottlenecks on the non-aeronautical side of the business. This enhancement will also optimize the processing of traffic to and from South America, further supporting revenue generation opportunities.

Wrapping up, we closed 2024 with another strong quarter and a solid full-year performance, despite navigating industry challenges such as the Pratt & Whitney engine issue and capacity reductions at Mexico City Airport. Net majority income for the year rose 33% year-on-year to Ps.13.6 billion, supported by resilient operational performance and disciplined execution. Our results also benefited from a Ps.2 billion foreign exchange gain, driven by the depreciation of the Mexican peso against the U.S. dollar, compared to an FX gain of nearly Ps.840 million in 2023.

We remain focused on strengthening our airport network through strategic infrastructure investments that enhance the passenger experience, expand commercial opportunities, support long-term traffic growth and create value for the shareholders. We achieved substantial progress on our strategic objectives and have a solid foundation in place, which positions ASUR for continued success in 2025 and beyond.

That concludes our prepared remarks. Operator, please open the call for questions.

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.

Operator

Thank you. Again, ladies and gentlemen, it is star then one for questions. Again, please make sure your mute function is turned off or the handset is picked up before pressing the corresponding digits.

Our first question comes from the line of Rodolfo Ramos with Bradesco BBI. Please proceed with your questions.

Rodolfo Ramos

Thank you, good morning, thanks a lot for taking my question. I have a couple, if I may. Can you share with us your traffic growth expectation for this year, and whether you're seeing any pickup in route openings or network development by airlines, specifically on the Mexico side?

Then the second question is on the commercial revenue per passenger, I mean the Mexican peso depreciation certainly helps on that front, but all else constant, do you expect the traffic at the Tulum airport, these 3 million passengers that you expect this year on a full annualized basis to cannibalize your commercial revenue per passenger? I don't know if you see a higher/spend per passenger on that particular passenger that was cannibalized by Tulum. Thank you.

Adolfo Castro

Thank you, Rodolfo and good morning. In the case of the Mexican traffic, we will continue suffering from the restriction in capacity at Mexico City and the problem with Pratt & Whitney. I am sure that you have heard what Volaris said yesterday, and basically, they are expecting to continue with the Pratt & Whitney engine problem during next year.

Of course, they have been receiving airplanes in accordance with requested airplanes they have done in the past. It's true that we would suffer from some aircrafts on ground as a result of Pratt & Whitney, but the situation is improving. I would say yes, we will be affected, but not as much as we were affected last year. I hope that by the end of the third quarter the situation will improve in that front, as well in the case of the restriction of Mexico City airport.

In terms of commercial revenues, as I said during the initial remarks, we are still suffering in the case of Terminal 2. We know that we are losing some commercial opportunities there, and we are expecting those to improve once we open Terminal 1. We expect to open Terminal 1 at the end of the second quarter 2026, so for the moment we don't see a decrease, but we know that we are losing commercial opportunities.

Rodolfo Ramos

Thank you.

Operator

Thank you. Our next question comes from the line of Pablo Ricalde with Itaú. Please proceed with your question.

Pablo Ricalde

Hey, thanks, good morning, Adolfo. I have two questions. One is a follow-up to Rodolfo's. We have seen some press about the capacity of the Mexico City airport should increase this year. I don't know if you have heard something on that point. The other one is on dividends. I don't know if you have some expectations about what you will propose next at the shareholders' meeting.

Adolfo Castro

In the case of the restrictions in the capacity of Mexico City airport from 52 to 43 ATMs per hour, what I have seen in the news recently is that the Mexico City airport manager is open to eliminate this restriction and probably to go back to the 52. Remember that we are coming from 63. That's why I am expecting these to be lifted by the end of the third quarter. Also remember that next year we have, or Mexico City will receive, some passengers due to the World Cup that will take place in June next year. I hope that the government will change this restriction by the third quarter. Also, as Volaris has more planes, I'm sure that they will put some pressure on this front.

In the case of dividends, I have prepared my proposal, and it will be sent to the Board of Directors, and I'm sure that you will hear from these on March 14. That's what I can say for the moment.

Pablo Ricalde

Perfect, Adolfo. Very clear.

Operator

Thank you. Our next question comes from the line of Stephen Trent with Citi. Please proceed with your question.

Stephen Trent

Thank you very much for taking my question, Adolfo, and good morning. I know that certainly there's a lot of political rhetoric at the moment in North America, and we've of course seen some currency movements which you've mentioned. Are you seeing any nuances in your international traffic flow, for example, Canadians visiting Mexico more frequently than you expected, and maybe some of these folks are no longer going to Disney World or something like that? Any sort of pivots that you've noticed?

Adolfo Castro

I'm sure that you have heard my initial remarks. In the case of international traffic for the quarter, all the regions were negative. In the case of Canadians, they were negative 0.6%, which is almost flat, I would say. I didn't see any change due to the situation in the U.S. during the last quarter. The traffic was weaker. Of course, you need to understand that some of this traffic is going to Tulum. Tulum last year brought around 1.2 million passenger traffic, and 75% of these was from the U.S. If you make the math basically what we are losing, in terms of the U.S. traffic, Canadians are not so much, and the other let's say 20% is Mexico, it's domestic traffic. But no, I have not seen any changes due to the new politics in the U.S.

Stephen Trent

Appreciate that, Adolfo. Just one other quick follow-up. I wasn't sure if I heard you. But are you getting, or do you expect to get, any meaningful traffic flow out of Felipe Ángeles? For example, if already doing not make any adjustment in Benito Juárez air traffic movements?

Adolfo Castro

The case of the AIFA is basically traffic to and from Tulum, and I would say in the second place to Cancún. Most of the traffic has been managed by Viva Aerobus directly to Tulum. Also, Mexicana Airlines is having some flight there as well. The airport is growing, of course, because of the restriction in Mexico City airports. I hope that if the restriction is lifted, we would have some benefit there from Volaris flying directly to Cancún.

Stephen Trent

Okay, very helpful. Thanks, Adolfo.

Adolfo Castro

You're welcome.

Operator

Thank you. Our next question comes from the line of Pablo Monsiváis with Barclays. Please proceed with your question.

Pablo Monsiváis

Hi Adolfo. Thanks for taking my questions. Just want to learn a little bit more if you have any conversations with Viva, particularly from U.S. carriers, towards capacity expansion plans into Cancún for the second half of (audio interference). Thank you.

Adolfo Castro

We're in the process of receiving the summer season schedule, so that should be received, I would say, in the coming weeks. For the moment we do not have visibility for the summer season.

Pablo Monsiváis

Perfect. A second question, if I may. On the commercial revenues, once you do the works that are expected to be done in the NBB, is there any target on commercial revenues per passenger that you are estimating?

Adolfo Castro

There is no specific number; I would say, and we used to say internally, that it's a moving target. We always want more. That is why we are always looking forward to the passenger—is looking in terms of price growth and service, so what we know today is that we are losing commercial opportunities, due to the lack of capacity in some commercial areas, specifically in Terminal 2. That's why we are expanding and

reconstructing Terminal 1, that as I said before we are expecting to open at the end of the second quarter 2026.

Pablo Monsiváis

Perfect. Thank you very much.

Operator

Thank you. Our next question comes from the line of Alberto Valerio with UBS. Please proceed with your question.

Alberto Valerio

Thank you for taking my question, Adolfo. Two quick follow-ups on my side. Actually, only one. We see that you have some rebalancement on Colombia and Puerto Rico. Could you provide a little bit of detail on this rebalancement, and also, from your expectation, how has Tulum been operate so far? How has traffic at Tulum been versus your expectation so far? Thank you very much.

Adolfo Castro

In the case of Colombia and Puerto Rico I would say they are working, and they are getting great results. I'm really surprised by the resilience of Puerto Rico. I was expecting traffic to become more normal. If you see the report, in the case of January is still strong, very strong. Colombia, of course, is in the process to, well, it has concluded the process to recuperate the two airlines that we lost at the beginning of 2023. So we are back on track, and I hope that Colombia will continue with the normal growth in the coming quarters. That's basically what I can say for the two cases.

Operator

Thank you. Our next question comes from the line of Jens Spiess with Morgan Stanley. Please proceed with your question.

Jens Spiess

Thank you, Adolfo. Just one question on capacity in Cancún. Under a hypothetical scenario where international remains weak and there's an increase in capacity that the local domestic airlines want to increase to Cancún, are there any constraints in the terminals where you service the national carriers? Or would you be able to allocate, or would you need to reallocate, basically, your operations there? Any color on that, appreciate it.

Adolfo Castro

Absolutely. Today we do not have restrictions in terms of operational capacity in Terminal 2. What we have is restrictions on the non-aeronautical side. The capacity, I would say, in the middle of the day probably you will not find the space to have your meal. But in the case of the operational front, we do not have problems. Of course, once Volaris recovers its operations from the problem they have with Pratt & Whitney, we will need more capacity, and that's why we are constructing and expanding Terminal 1. In Terminal 2, what we

have is basically Viva and Volaris plus South America. What we are intending to do is to subtract South America and move back to Terminal 1, and that will leave additional space for these two airlines.

Jens Spiess

All right. Perfect. Thank you.

Adolfo Castro

You're welcome.

Operator

Thank you. Ladies and gentlemen, as a reminder, if you'd like to join the question queue, please press star one on your telephone keypad. Our next question comes from the line of Alan Lucias with Bank of America. Please proceed with your questions.

Alan Lucias

Hi, good morning, Adolfo, and thank you for the thoughts. Just a question on Mexican tariffs. Were you able to implement the tariff increase last year? Is there any spillover that we might see for this year? Thank you.

Adolfo Castro

Alan, hi, good morning. I cannot hear you, your line is cutting, so if you can repeat your question, please?

Alan Lucias

Yes, can you hear me better?

Adolfo Castro

Better.

Alan Lucias

Just on Mexican tariffs, if you were able to implement the increase in 2024, and if we might expect some spillover for this year on Mexican tariffs. Thank you.

Adolfo Castro

It was basically implemented last year.

Operator

Thank you. Our next question comes from the line of Enrique Sojo with Fundamenta Investments. Please proceed with your question.

Enrique Sojo

Hello Adolfo, thanks for taking my question. My question is actually related to passenger growth. It's a bit of a double click on some things you mentioned. As you referred Volaris yesterday stated during the earnings call that they expect GTF Engine issues and pushing out their fleet all throughout 2025, '26 and '27. They ...

Adolfo Castro

Enrique, again, could you repeat your question please?

Operator

Sorry, it seems that we've lost Enrique. We'll move to the next question.

Our next question comes from the line of Gabriel Himelfarb with Scotiabank. Please proceed with your question.

Gabriel Himelfarb

Hi Adolfo, thanks for the call. Question on Tulum. Is there any somehow uplift in mechanisms or compensating mechanisms for the traffic that is being taken from the Tulum airport from Cancún? Thank you.

Adolfo Castro

Hi Gabriel. I would not call it compensation, because at the end of the day, if you go back to the regulatory framework that was published on October 19, 2023, the formula is looking forward, is not looking backward. Of course, the effects of Tulum airport were included in those calculations. To give you a very clear response, yes, it has been included, the effects on Tulum, but of course we cannot call it compensation.

Gabriel Himelfarb

They were included in the MDP, on last year's MDP.

Adolfo Castro

Absolutely.

Gabriel Himelfarb

Thank you very much.

Adolfo Castro

You're welcome.

Operator

Thank you. Our next question comes from the line of Anton Mortenkotter with GBM. Please proceed with your question.

Anton Mortenkotter

Hi Adolfo. Thank you for the call and congrats on the results. I'm sorry if this has already been asked, I had some issues with my line, but my question is related to the commercial side. We saw really good performance of the non-idle per Pax growth. I was wondering, is this a result of the mix from having maybe a stronger U.S. dollar and maybe some pent-up demand or something, or also if there has been any strategic shift in how you renew your contracts, maybe a little bit of pricing power on that side? I am not sure if you could provide some color there.

Adolfo Castro

Absolutely, it had to do with the FX, and you can see it very clearly in the fourth quarter results, and partially on the third quarter last year results, because we saw some kind of peso devaluations since the third quarter. But of course, the most important effect was in the fourth quarter. That's basically what we have for the full quarter, some effects, good results, no question about it. But I don't see any problem for the future, except that we know that we are losing commercial opportunities there.

Anton Mortenkotter

Also, just a little bit of a follow-up there, Adolfo. Roughly what amount of your commercial contracts are due each year? Are you able to renew with them with maybe open terms, or are those getting renewed with maybe fixed terms, or an automatic clause or something like that?

Adolfo Castro

Well, there is no way to say that this year 20% of the contracts will expire. Every business line has its own term; I would say it could go from seven to three years, depending on the business line. Normally what we do is to continue with the same kind of terms, increasing, as you have mentioned, increasing prices, increasing the concession fees, not the way to maximize revenues, probably in some cases could be the opposite. Remember that what we want today is to sell more, and we to get more, so in that sense the most important thing is to be able to get as much as we can, in terms of sales, not in terms of prices.

Anton Mortenkotter

Perfect, that is really clear. Thank you.

Adolfo Castro

You're welcome.

Operator

Thank you. Our next question comes from the line of Guilherme Mendes with J.P. Morgan. One moment, please proceed with your question.

Guilherme Mendes

Hey Adolfo, thanks for taking the question. The first one is a follow-up on Tulum, you said it was included on the MDP, but can you share how it's trending when compared to your expectations it's going in line or not? The second, why in terms of capital allocation there was some news on the Dominican Republic asset last year? I understand it's still on hold. If there's anything else that the Company would consider outside of Mexico. Thank you.

Adolfo Castro

In the case of Tulum, what I can say to you is it was as expected basically, probably not so strong. Let me say, this year, probably originally, we're expecting around 3 million, I'm saying 2.9 million from this year, and that will be the ramp-up for Tulum, so the ramp-up during '24 and '25 from there, Tulum will have to grow as the dynamics of the region.

In the case of Dominican Republic, we do not have any update, we continue with the legal process there, and I hope that we will have some results during this year.

Guilherme Mendes

Okay, thank you and just to confirm, anything else outside Mexico and outside Dominican Republic that you would consider?

Adolfo Castro

Of course we want to consider all, we review all the projects that are there, but for the moment I would say I do not have any significant project in front of me in the short term.

Guilherme Mendes

Perfect. Thanks very much, Adolfo.

Adolfo Castro

You're welcome.

Operator

Thank you. Our next question comes from the line of Enrique Sojo with Fundamenta Investments. Please proceed with your question.

Enrique Sojo

Apologies, my line dropped. Were you able to listen to me?

Adolfo Castro

Now I can hear you.

Enrique Sojo

Okay, thank you. My question is actually kind of a double-click on some things you mentioned, more specifically Volaris, as was mentioned yesterday during the earnings call, they're going to have to get the engines for this year, next year, and possibly 2027, and they have moreover renegotiated the aircraft deliveries with Airbus to further slowdown capacity increases. Do you believe that this new information significantly hinders growth in the short to medium term? Do you think it may be indicative of a weaker domestic market and players? Thank you.

Adolfo Castro

Yes, Enrique. What is important for us is the additional capacity they are including as we speak, not just Volaris, but also the case of Viva and the case of Aeromexico. If you see the report of Volaris of course, I'm not so sure that what they report is the operational aircrafts. But if you see the report at the end of 2023, they reported 130. At the end of 2024 they reported 143. If we just use those two numbers, we will say they have more aircrafts in comparison what they had before Pratt & Whitney. The problem with those two numbers is that we don't know how many of those are in the shop.

Also, it was announced yesterday by them that some of the aircraft that have already been recalled will have to go again for some additional works. So that is why I said during my remarks that next year we will see—the problem will be felt there. Of course, in a smaller manner. My expectation is that these first three quarters are going to be the last strong effects from Pratt & Whitney in the case of Volaris.

Enrique Sojo

Great. Thank you very much.

Adolfo Castro

You're welcome.

Operator

Thank you. Ladies and gentlemen, as a final reminder, if you'd like to ask a question, please press star one on your telephone keypad. We'll pause a moment to allow for any other questions.

Mr. Castro, as there are no other questions at this time, I'll turn the floor back to you for any closing comments.

Adolfo Castro

Thank you, Elisa. Thank you all of you again for joining us today for this fourth quarter 2024 conference call. We wish you a good day, and goodbye. Now you may disconnect.

Operator

Thank you, ladies and gentlemen. This concludes today's conference call. You may now disconnect your lines.