

THOMSON REUTERS STRETEVENTS

EDITED TRANSCRIPT

HOTEL*.MX - Q1 2018 Grupo Hotelero Santa Fe SAB de CV Earnings Call

EVENT DATE/TIME: APRIL 20, 2018 / 5:00PM GMT



APRIL 20, 2018 / 5:00PM, HOTEL*.MX - Q1 2018 Grupo Hotelero Santa Fe SAB de CV Earnings Call

CORPORATE PARTICIPANTS

Max Zimmerman *Grupo Hotelero Santa Fe, S.A.B. de C.V. - IR Director*

Francisco Zinser *Grupo Hotelero Santa Fe, S.A.B. de C.V. - CEO*

Enrique Martinez *Grupo Hotelero Santa Fe, S.A.B. de C.V. - CFO*

PRESENTATION

Operator

The following is a recording of the Max Zimmerman teleconference with Grupo Hotelero Santa Fe on Friday, April 20, 2018 at 12:00 p.m. Central Time.

Excuse me, everyone. We now have our speakers in conference. (Operator Instructions) I would now like to turn the conference over to Mr. Max Zimmerman. Mr. Zimmerman, you may begin.

Max Zimmerman - *Grupo Hotelero Santa Fe, S.A.B. de C.V. - IR Director*

Thank you, operator, and good afternoon, everyone. Thank you for joining us today. My name is Max Zimmerman, Investor Relations Director of HOTEL, and I would like to welcome you to the Company's earnings webcast for the first quarter 2018.

I'm here with Francisco Zinser, our CEO; Enrique Martinez, our CFO; and Alberto Santana, our Administration Director. The presentation slides we will follow during the call are available on our webcast, which you can find at our website.

Before we begin, I would like to remind you that this call is being recorded, and that information discussed today may include forward-looking statements regarding the Company's financial and operating performance.

Our projections are subject to risk and uncertainty, and actual results may differ materially based on a number of factors. Please refer to the detailed notes in the Company's press release regarding forward-looking statements. At the end of the presentation, we will open the call up to any questions you may have.

We will now begin the presentation, and I will pass the mic to Francisco Zinser.

Francisco Zinser - *Grupo Hotelero Santa Fe, S.A.B. de C.V. - CEO*

Thank you, Max. Thank you, everyone, for joining our webcast.

The first quarter of this year has been a great start for HOTEL. As you have seen in our results, they are in line with our expectations.

The tourist activity in the country continues to be as strong and [posts] robust growth. Our president in this, [Quienes], held a couple of days ago, announced that we could become the sixth most visited country in the world. This would be a major milestone for the industry.

We have also seen an increase in both domestic and international travel as reported publicly by airport data. Among all this, we also see very strong underlying fundamentals for the industry. So we are quite optimistic about the tourism industry and sector.

Moving on to our results, I will pass the call back to Max, and please go to Slide 2.



APRIL 20, 2018 / 5:00PM, HOTEL*.MX - Q1 2018 Grupo Hotelero Santa Fe SAB de CV Earnings Call

Max Zimmerman - *Grupo Hotelero Santa Fe, S.A.B. de C.V. - IR Director*

Thank you, Pancho. During the quarter, total revenue increased 49% to MXN575 million, driven by a 44% growth in revenue, 92% growth in food and beverage revenue, 8% in other revenue, which partially compensated a 28% decrease in third party hotel management fees driven by the sale of the Krystal Grand Reforma by a third party.

Room revenue growth was driven by three main deals. First, the opening of the Krystal Grand Los Cabos, Krystal Grand Nuevo Vallarta, and the Krystal Grand Suite Insurgentes.

Second, the performance of the Krystal Grand Punta Cancun, considering the opening of the new Altitude Tower.

Third, by the stellar performance of stabilized hotels, including Krystal Beach Acapulco and Krystal Urban Ciudad Juarez.

Food and beverage revenue increased 92% to MXN201 million in the quarter, driven mainly by the incorporation of the Krystal Grand Los Cabos, Krystal Grand Nuevo Vallarta, and Krystal Grand Suites Insurgentes, which are early in the early stages of stabilization.

Francisco Zinser - *Grupo Hotelero Santa Fe, S.A.B. de C.V. - CEO*

I would just like to add to what Max is saying that, being that the hotels before mentioned have a significant participation, in terms of food and beverage due to the all-inclusive model, this has had a very important impact on these numbers. Sorry, Max.

Max Zimmerman - *Grupo Hotelero Santa Fe, S.A.B. de C.V. - IR Director*

Perfect, Pancho. And continuing, management fees related to third party-owned hotels decreased by 28% compared to the first quarter of 2017, driven by a 12% reduction in the number of rooms under operation during the period due to the sale of the Krystal Grand Reforma by a third party, which I [had said].

Now please move to Slide 3.

Moving on to our key operational metrics, on a consolidated level this quarter, we posted a 5.6% decrease in RevPAR, which is comprised of an ADR decrease of 3.2%, and a 2 percentage point reduction in occupancy, driven by the inclusion of the Krystal Grand Los Cabos, Krystal Grand Nuevo Vallarta, and the Krystal Grand Suites Insurgentes, which amounts for over 1,000 rooms that are at the beginning of their stabilization stage.

Now please move to Page 4. And I will hand the call over to Enrique Martinez who will guide you through our financial results.

Enrique Martinez - *Grupo Hotelero Santa Fe, S.A.B. de C.V. - CFO*

Thank you, Max, and good morning, everyone. EBITDA in the quarter reached MXN226 million, a 50% increase compared to the first quarter 2017. This result was driven by combined impact of revenue growth, the inclusion of the Krystal Grand Los Cabos and Krystal Grand Nuevo Vallarta, our company-owned hotels; and the performance of the Krystal Punta Cancun, due to the [disruption] of the Altitude Tower.

EBITDA margin in the quarter expanded to further 39.2% as a result of the operational efficiencies.

Moving on to the net income, we reached MXN225 million (sic - see press release "MXN 204.9 million"), compared to our MXN185 million in first quarter 2017. The increase was driven by two factors.

First, an FX gain generated by effects of the multimarket dollarization effect of our lower USD exchange rate applied through our dollar denominated debt.

APRIL 20, 2018 / 5:00PM, HOTEL*.MX - Q1 2018 Grupo Hotelero Santa Fe SAB de CV Earnings Call

Second, higher income from operations. Both of these quarters were partially offset by the higher income taxes due to our low comparison base in 2017.

Now please move to Slide number 5.

Net debt was MXN1,923 million at the end of the first quarter 2018, which represented a total debt to EBITDA last 12 months ratio of 3.2 times. Total debt is mostly US dollar denominated, 84% to be exact; and this tranche of the debt has an average cost of 4.4%, while the remaining portion of 16% is peso denominated with an average cost of 10.4%, having a competitive overall debt mix of 5.3%.

Additionally, I would like to mention that over 94% of debt maturities are long term. And the Mexican peso appreciated 10% by the end of the quarter, and have a positive impact in our financial cost. Also, our short US dollar position by the end of the quarter was \$93 million, equivalent to MXN1,708 million.

Now please move to Slide 6, and I will pass the call back to Pancho, who will start talking about our operating of the expansion of the Hilton Puerto Vallarta Hotel.

Francisco Zinser - *Grupo Hotelero Santa Fe, S.A.B. de C.V. - CEO*

Thank you, Enrique. Let me start by showing you the pictures of this amazing product that we have opened in Puerto Vallarta. As you will all recall, this is the expansion of the Hilton Puerto Vallarta, and that is named the Hacienda. It is intended to be an adult-only area of the hotel. This is a strategy that works very well because then this way, we will have a family hotel and we will have an adult area within the same property. And this also achieves us or let's us achieve, sorry, higher ADR and a higher revenue per guest because the tax revenue of the adult area is higher than the family area.

Now please move to Slide 7.

So you can see more pictures of the expansion. I have to say that these pictures were taken unprofessionally meaning that they were taken -- they're not the official pictures that you will see shortly, as soon as we finish the roadshow. But still, it shows a very good product.

And also -- and we would also like to share with you that both the investment and the pre-opening were in line with our budget of MXN520 million, and the pre-opening was in March, in line with our latest estimate. This hotel will certainly contribute for the rest of the year and for the following quarters to achieve our goals.

Please move to Slide 8.

Additionally, we have three hotels. Actually, it would be four hotels under construction, the Krystal Grand Insurgentes, which is scheduled to open next year, which will have the 250 grand tourism rooms in the prime location across the World Trade Center in Mexico City. We also have the Curio Collection, that is a third party hotel with 32 suites; the Hyatt Place in Aguascalientes, which is also a third-party management contract with 144 suites; and the AC by Marriott, a 168 rooms by -- and these will be -- the first two will be by the second half of 2018; and the third one, which is the AC, would be the second quarter of 2019. I'm sorry, it's second half of 2018.

Before I open up for questions, I would like to say that, we continue to demonstrate that we know how to grow profitably, and especially [have] a very, very disciplined approach in valuation. We continue to strengthen our Krystal brand, which is key in our business model, and we believe we are in a position to continue to take advantage of the growing hotel industry, and thus, become the leading hotel company in the country. By this, I do not mean to say the largest, I mean to say the most profitable, if that brings us to be the largest, fine, but the objective is always [profitability].

We feel comfortable in achieving our guidance, which is 42% and 52% of revenue and EBITDA, respectively.

Having said the before mentioned, I would like to open the call for questions and answer.

APRIL 20, 2018 / 5:00PM, HOTEL*.MX - Q1 2018 Grupo Hotelero Santa Fe SAB de CV Earnings Call

Operator

(Operator Instructions) No questions at this time.

Francisco Zinser - Grupo Hotelero Santa Fe, S.A.B. de C.V. - CEO

All right. If there are no questions, we would like thank all of the investors and all of you for joining our call, and for the confidence that you have placed in us, and reaffirm our commitment to maximize your investment, our [investment] as well. We would also like to thank all of our associates for their constant efforts, without them, this would be impossible. Have a great weekend, everybody.

Operator

Ladies and gentlemen, this concludes today's presentation. You may now log off the webinar and disconnect the phone lines.

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2018, Thomson Reuters. All Rights Reserved.