

Q3 2021 Grupo Hotelero Santa Fe SAB de CV Earnings Call

Corporate Participants

- Enrique Gerardo Martínez Guerrero - Grupo Hotelero Santa Fe, S.A.B. de C.V. - CFO
- Francisco Medina Elizalde - Grupo Hotelero Santa Fe, S.A.B. de C.V. - CEO
- Francisco Alejandro Zinser Cieslik - Grupo Hotelero Santa Fe, S.A.B. de C.V. - EVP
- Maximilian Zimmermann Canovas - Grupo Hotelero Santa Fe, S.A.B. de C.V. - IR Director

Conference Call Participants

- Carlos Alcaraz Pineda - Apalache Análisis
- Edson Munguia - Sumacap
- Luis Hernandez - Miranda Global Research

Presentation

Operator

We now have our presenters in conference. I would now like to turn the conference over to Max Zimmerman, Investor Relations Director of Grupo Hotelero Santa Fe.

Maximilian Zimmermann Canovas, Grupo Hotelero Santa Fe, S.A.B. de C.V. - IR Director

Good afternoon and thank you for joining us today. My name is Max Zimmermann, Investor Relations Director of HOTEL, and I would like to welcome you to the company's earnings webcast for the third quarter of 2021. On the line, we have Francisco Zinser, Executive Vice President; Francisco Medina, our CEO; Enrique Martínez, 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 in our Investor Relations section of 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 risks and uncertainties, and actual results may differ materially based on a number of factors. Please refer to detailed notes in the company's press release regarding forward-looking statements. At the end of the presentation, we will open the call to any questions you may have. We will now begin with the presentation, and I will pass to Francisco Zinser, our Executive Vice President.

Francisco Alejandro Zinser Cieslik, Grupo Hotelero Santa Fe, S.A.B. de C.V. - EVP [3]

Thank you, Max, and thank you all of you for joining. The third quarter of this year have shown a continued growth of our occupancies, which is clearly the underlying factor for the strong EBITDA generation for the period. Occupancy was mainly driven by resort hotels that are recovering at a faster pace than urban hotels.

During the portfolio -- during the quarter, sorry, our portfolio exceeded its upper breaking point and generated strong EBITDA, of which Paco Medina, our CEO, will go into detail following this presentation. I would like to reiterate that we will remain focused on prudently navigating through the continuing unprecedented environment posed by the pandemic, which means to continue with our health and safety measures for our associates as well as our guests and our customers, the antigen complementary tests that are given in our resort hotels, continue with a tight control of expenses, liquidity levels and the continued search of operation and financial opportunities to ensure the long-term sustainability of our business.

To wrap up, I would like to mention that none of these achievements would have been possible without the support of our dedicated employees, experienced management team and the confidence that our investors have placed in us.

Now I would like to pass the call to Francisco Medina, and please go to Slide 2.

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

Thank you, Pancho. Good morning, everyone. Now let me get into our quarterly operational results, and therefore, please go to Slide 2.

Revenue totaled MXN 463 million compared to MXN 179 million in the third quarter of last year.

Room revenue was MXN 288 million, revenue was MXN 185 million and other income, which includes, among other items, given room rentals, parking, laundry, retail and leasing of commercial spaces, was MXN \$25 million. Third-party hotel management fees were MXN 14 million.

Now please go to Slide 3. Moving on to our key operational metrics. On a consolidated level, this quarter, we posted a 26% -- point increase in occupancy, where occupancy was 52%. Combined, with an ADR increase of 24%. RevPAR in the quarter was MXN 757.

Now please move to Slide 4, and I will hand the call over to Enrique Martinez, which will guide you through our financial results.

Enrique Gerardo Martínez Guerrero, Grupo Hotelero Santa Fe, S.A.B. de C.V. - CFO [5]

Thank you, Paco. EBITDA in the quarter was MXN 103 million compared to negative MXN 28 million in the third quarter of last year. This result was driven by higher revenues combined with operational efficiencies.

Moving on, operating income was MXN 43 million compared to negative MXN 90 million in the third quarter of 2020. In terms of net income, we went from a loss of MXN 32 million in the third quarter of last year to a loss of MXN 62 million in the third quarter of 2021. This was largely attributed to a negative FX exchange effect on our dollar-denominated obligations arising from a weaker Mexican peso.

Now please move to Slide 5. Net debt was MXN 2.5 billion at the end of the second quarter of 2021, which represented a total debt to EBITDA for the last 12 months ratio of 10.4x due to a lower EBITDA in the last 12 months, driven by the pandemic. Total debt is mostly U.S. dollar-denominated, 87% to be exact and the tranche of the debt and an average cost of 3.2%. While the remaining portion of 30% of total debt is peso-denominated with another cost of 7.8%, having a competitive overall debt mix of 3.2%.

Additionally, I would like to mention that over 90% of the maturities are long term. Our short U.S. dollar position by the end of the quarter was \$126 million, equivalent to MXN 2.5 billion.

Now please move to Slide 6, and I will pass the call back to Pancho, who will finish up the call.

Francisco Alejandro Zinser Cieslik, Grupo Hotelero Santa Fe, S.A.B. de C.V. - EVP [6]

Thank you very much, Enrique. Lastly, I would like to highlight and express my gratitude to the more than 2,800 associates who have supported the company unconditionally, with the tremendous attitude that goes way beyond the call of duty. As always, we are very thankful for the trust and support of our shareholders in these times, and again, to all of our tremendously professional teams.

With that, I would like to open the call for Q&A.

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Questions and Answers

Operator

(Operator Instructions) Our first question comes from Carlos Alcaraz with Apalache Analysis.

Carlos Alcaraz Pineda, Apalache Analysis - Manager of Analysis

I have a couple of questions. The first one is due to the recent reopening of activities in most of the countries and states, have you observed a growth in both things in the segment? And the last question is, when do you expect the Century campus alone stabilized?

Francisco Alejandro Zinser Cieslik, Grupo Hotelero Santa Fe, S.A.B. de C.V. - EVP

Okay. I will answer the first part and the second question will be answered by Paco. We are seeing a slower recovery in the urban destinations rather than the resort, as I mentioned at the beginning of the call, but we are seeing an upward trend. We believe that one of the key elements that will make the urban segment take off is going to be the MICE segment, which is meetings, incentives, conventions, and events. So, we are seeing slow but steady growth in urban destinations, which contrasts with the very significant growth that we see in our resort destinations. Now Paco will answer the other question.

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

Yes. Thank you, Carlos, for the question. I was in Lyon at the beginning of the month in October. And I was happy to see that we are turning to recuperate accounts, business accounts, corporate accounts, and we are going to close in a good occupancy from the other month you compared the other months. Compared to the first, let's say, 8 months of the year, October is going to look a lot better than before ICA a trend of recuperated occupancy in ADR as well because we are going to have a very good ADR as well in October. So, I see that the first semester of the 2022 will be a trend of recuperated level of occupancy and at the level of 2019 but reduced in a big way the gap among 2020, 2021.

Operator

Our next question comes from Edson Munguia from Sumacap

I have a couple of them. The first one is related to the ADR. Because if we compare it to past quarter in this third quarter '21, the ADR is above average consuming in the past 6, maybe even 8 quarters. So, the question specifically is, are you expecting to maintain the ADR in that level? Or

maybe this specifically quarter is related more likely to the inflation rate that we have been seen in the past couple of months?

The second one is related on cost and inflation, though. Competitors in the hospitality sector mentioned in different meetings and even extending their worry about inflation. So the question is, have you identified negative impact with the inflation rates that we have seen from April to the first weeks of September? And is that so, could you give us a little bit more color about it?

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

Thank you very much, and this is Francisco Medina. While we finished the first quarter at the end of March. We saw that the second part of the year after June, July, it was going to be a challenge. It was going to be a challenge because we were expecting to have a very good second semester. Then we, as a strategy, increase the ADR proposal in all the channels and distribution and became a real strength for the company. At the end, as you saw the results, and as you mentioned in the third quarter, we have a very good result. In the area if the market, it's in the proper way to maintain that increase, we will do it or otherwise, the supply and demand will lead us to a different strategy.

The second question which is the inflation. We are foreseeing, and we were talking about that the past week. We are foreseeing in some cases, increases in supplies in the hotels between 4% to 6% and in some of them until 8%. So basically, the mix of that will lead us about 5.5% to 6% increase. And what we are doing is that we are reflecting that increase in our prices and the EP hotels and the mainly prices and the hotels and the package will be included that increase to cover the inflation cost.

Edson Munguia from Sumacap

Okay. Really helpful. A follow on maybe it will be about CapEx. Of course, if we compare it to the quarter '20, of course, the increase is relatively high. However, if we compare to the second quarter, and I remember asking you about the right now in the third quarter doubled from the second quarter '21. So, the question is, are you going to maintain the same level of CapEx for the following months or quarter even first half of 2022?

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

Okay. Just to make sure we understood well because the audio to is not very clear. Just to make sure we understood what you're asking is is the level of CapEx going to be more or less in the same path than it is today for the rest of the year?

Edson Munguia from Sumacap

Not only for the rest of the year, maybe in the first half of 2022.

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

Well, remember that most of the CapEx and Enrique will address this now, but most of the CapEx is related to the construction of the Hyatt Regency in intended the investment that we'll do in Tulum that was not for the secret.

Enrique Gerardo Martínez Guerrero, Grupo Hotelero Santa Fe, S.A.B. de C.V. - CFO

Yes, that's correct. The CapEx that we have is as of -- yes, the capital that we have as of September of this year was basically on the construction of our project in Insurgentes, which will be finished by the end of the next year in the fourth quarter of next year. And we also announced an investment to acquire 25% of property in, and it will be also ended by the end of the next year.

Edson Munguia from Sumacap

Okay. Really helpful. And last but not least, maybe it's too early to discuss. But let's put it on a best-case scenario and everything goes back to normal in the next year. What would be the strategy for Grupo Hotelero Santa Fe in the long run? Have you ever thought about it? Or are you planning to expand or maybe even recycling properties that you might not be interesting?

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

Yes. Well, basically, what -- If you look at our cash position, we have a acquisition of MXN 532 million. And you remember that we made a capital increase not too long ago of MXN 500 million. So, we've been able to, let's say, keep the capital increase at hand for possible acquisitions and possible possible deals that we are currently evaluating. And regarding the turnover of assets, we would only do it if it's an opportunity to make it accretive for the company and not to increase necessarily a cash position that is -- that you don't have many opportunities to disimburse. Just to give you an idea the discounts that have been seen by COVID are not existent in resorts. They're even getting more expensive because now they have what they call a resilience prime. They've shown that they do quite well under such a tremendous scenario like the COVID pandemic has shown. So now they're even trading above 3 levels in some markets. And in the European markets, we are looking at opportunities, but we're very careful because we don't -- we want to see how exactly the urban market will return and the pace of discovery of recovery. So of the main markets.

Operator

Our next question comes from Luis Hernandez with Miranda Global Research.

Luis Hernandez from Miranda Global Research

for the strong results. I have one question. Do you expect any impact as a result of the electricity reform?

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

Yes, this is Francisco Medina. No, not really, not really because we have considered that all the electricity, gas and water at the end will increase based on our analysis for the next year around 6%. And we are considering that in the increase of the price. So it's covered.

Operator

At this time, I am showing no further questions in the queue. I would now like to turn the call back over to Max Zimmermann for closing remarks.

Maximilian Zimmermann Canovas, Grupo Hotelero Santa Fe, S.A.B. de C.V. - IR Director [19]

Thank you. We would like to thank you for the trust that you have placed in us. and we affirm our commitment to maximize your investment. We also would like to thank all of our associates for their constant efforts. Have a great day, everyone. Have a great weekend.

Thank you, ladies and gentlemen. This concludes today's teleconference. You may now disconnect and log off.