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HOTEL*.MX - Q4 2017 Grupo Hotelero Santa Fe SAB de CV Earnings Call

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CONFERENCE CALL PARTICIPANTS

Geronimo Blanco *GMB - Analyst*

Evan Johnson *Daiwa Asset Management - Analyst*

PRESENTATION

Operator

Excuse me, everyone. We now have all of our speakers in conference. Please be aware that each of your lines is in a listen-only mode. (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. - Investor Relations Director*

Thank you, operator, and good afternoon, everyone, and 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 fourth quarter 2017.

I am here with Francisco Zinser, our CEO; Francisco Medina, our Deputy CEO; Enrique Martinez, our CFO; and Alberto Santana, 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 the 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 the mike to Francisco Zinser.

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

Hello, everyone. Thank you, Max. Thank you very much for joining. 2017 has been another great year for Mexican tourism industry. It has had robust growth, and underlying fundamentals are still very solid. The country is now the eighth most visited country in the world, which is clearly a very important milestone. And it is expected by the tourism authorities to continue to gain positions in this ranking.

International travelers increased 5%, reaching 39 million, and income from these travelers increased 5% to amount of \$21 billion; so the sector is very well-positioned. An important item is to mention that Mexico, Cancun, and Los Cabos -- the destinations Cancun and Los Cabos were removed from the travel warning issued by the U.S.

We will move on to our quarterly results, and I will pass the word to Paco Medina, our Deputy CEO, who will guide you through these numbers.



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

Thank you, Pancho, and good afternoon, good morning to everyone. During the quarter, total revenue increased 39% to MXN441 million, driven by a 38% growth in room revenue, 59% growth in food and beverage revenue, and 3% in other revenue, which partially compensated the 31% decrease in third party hotel management fees driven by the sale of the Krystal Grand Reforma.

Room revenue growth was driven by the opening of the Krystal Grand Los Cabos and Krystal Grand Nuevo Vallarta, the performance of the Krystal Grand Punta Cancun, considering the opening of the new Altitude Tower, and the performance of the Krystal Urban Guadalajara, which is in the stabilization stage.

Food and Beverage revenue increased 69% to MXN87 million in the quarter, mainly driven by the incorporation of the Krystal Grand Los Cabos, the Krystal Grand Nuevo Vallarta, and the Krystal Grand Suites Insurgentes, which are in the early stages of the stabilization.

Management fees related to third-party owned hotels decreased 31% compared to fourth quarter 2016, driven by the 14% reduction in the number of rooms under operation during the period due to the sale of the Krystal Grand Reforma.

Now please go to Slide 3. Moving on to our key operational metrics. On a consolidated level, this quarter, we posted a 3% decrease in RevPAR which is comprised on an ADR decrease of [1] and [6] percentage point reduction in occupancy, driven by the inclusion of the Krystal Grand Los Cabos, Krystal Grand Nuevo Vallarta, and Krystal Grand Suites Insurgentes which amounts for over 1,000 rooms that are at the beginning of the stabilization stage.

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

Paco, I would just like to jump in and mention something which I think is relevant. Out of the rooms that Paco just mentioned, a large portion of them are rooms that are new, are rooms that were not operating before. So this is clearly -- the decrease in occupancy is clearly due to the factors that Paco mentioned.

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

Thank you, Pancho. Now please move to Slide 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, Paco, and good morning, everyone. EBITDA in the quarter reached MXN150 million, a 37% increase compared to fourth quarter 2016. This result was driven by revenue growth. For 2017, EBITDA reached MXN528 million compared to 2016 in line with our adjusted guidance.

EBITDA margin in the quarter contracted to 33.3% as a result of the incorporation of the three Krystal Grand hotels just mentioned. For 2017, EBITDA margin contracted to 33.4% due to external factors we mentioned last quarter, combining with the incorporation of the new hotels.

Moving on to the net income, we posted MXN117 million loss compared to a MXN40 million gain in fourth quarter 2016. The increasing income from operations was offset by an FX loss, higher financing costs, and higher income tax.

Now please move to Slide 5. Net debt was MXN2,119 million at the end of fourth quarter 2017, which represented a total debt to EBITDA last 12 months ratio of 4 times. This ratio should begin normalizing in 2018 considering that these hotels have not generated 12 months of EBITDA by the end of the year.



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Total debt is mostly U.S. dollar denominated, 85% to be exact; and the tranche of the debt has an average cost of 4.4%. While the remaining portion of 15% is peso denominated with an average cost of 10.4% having a [combinative] overall debt mix.

Additionally, I would like to mention that over 84% of debt maturities are long term. The Mexican peso appreciated 4.4% by the end of the quarter, and had a negative impact in our financial costs. Also, our short U.S. dollar position by the end of the quarter was \$102 million, equivalent to MXN2,005 million.

Now please move to Slide 6, and I will pass the call over to Max who will talk about our new operating contracts and hotels under construction.

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

Thank you, Enrique. Let me start by mentioning an announcement we made a few weeks ago, the signing of a management contract for a four star hotel, the Hyatt Place Aguascalientes with 144 rooms located in Aguascalientes, Aguascalientes, and owned by a third party. The hotel is being constructed and is expected to open by the first quarter of next year.

This announcement is an important milestone for the company as it will be first Hyatt that we will be managing in Mexico. We look forward to growing together with Hyatt, and we are also excited as both the City of Aguascalientes and Hyatt Place fit our strategy for operating a third party hotel in Mexico.

Now please move to Slide 7. I would like to highlight that we have an additional three hotels under construction in Mexico. First, the Krystal Grand Insurgentes, which is scheduled to open next year, which will have 250 grand tourism rooms in a prime location across from the World Trade Center in Mexico City; second, the Curio Collection Zacatecas; and third, the AC By Marriott Distrito Armida, our third party hotels, which we will begin operating in the second half of 2018 and in the second quarter of 2019, respectively.

Here, I would like to pass the call back to Francisco Medina, our Deputy CEO, which will talk about our full year results.

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

Thank you, Max. First, let me recap our 2017 results. Revenues were up 30% and EBITDA was 24% in a year with an adverse external factors such as the FX and the unexpected meteorological events.

We grew almost 900 net rooms, which are represented -- which represents a 16% increase compared to 2016. We closed the largest acquisition for the company in Los Cabos and Nuevo Vallarta. We added the 100-unit Altitude Tower in the Krystal Grand Punta Cancun as well as the Krystal Grand Suite Insurgentes Sur with 150 suites. Additionally, we signed five new operating contracts for the third party hotels.

With that, I will pass the call back to Pancho, which will talk about 2018 guidance and the future growth.

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

Thank you, Paco. First of all, I would just like to add to what Paco just said, that this addition of 900 net rooms that was done during this year considers the 500 rooms that we manage in the Krystal Grand Reforma. So it means that we not only covered those 500 rooms, but we added an additional almost 900 rooms, which I think is a very, very good sign of the Company's capacity to react.

We are proud to share the guidance that we have for the company. We expect higher growth in 2018 than what we saw in 2017. Please move to Slide 8.

We expect to grow revenues by 42%, reaching MXN2.250 million; and we expect our EBITDA to grow by 52% -- 5-2 -- reaching MXN803 million. We also expect a very healthy margin expansion from 33.4% of the closing of this year, percentage of EBITDA versus revenues, to 35.7%. We think



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that this takes into consideration all of the announcements and all of the assets that we have been adding through the year of 2017. So 2018 looks like a very promising year.

Please go to Slide 9. I would like to highlight something very important regarding some valuations. As you can see on the graph, 45% of our FF&E has not generated revenue nor EBITDA in the last 12 months. This amounts roughly to 1,600 rooms. Of course, this will drive important top and bottom line growth for this year and looking forward.

Before I open up for questions, I would like to mention that we have demonstrated we know how to grow profitably while being very disciplined with valuations. We will continue to strengthen the Krystal brand, which is key in our model. We are in a unique position to continue taking advantage of the growing hotel industry to become the leading hotel company in Mexico.

With that, I would like to open the call for questions and answers. Thank you.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions) The first question comes from [Geronimo Blanco] of [GMB].

Geronimo Blanco - GMB - Analyst

Congratulations on your yearned results. Just one question. Could you give us some insights regarding CapEx for the next couple of years on your already announced pipeline? Thank you.

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

Yes. the CapEx that we already announced is around -- for the next couple of years is around MXN900 million.

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

Enrique, maybe if you would think a large part of that will be this year, or --

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

I believe in this year will reach something around --

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

40%?

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

60%.



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

I'm sorry, yes, [46%]. Yes, correct.

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

Correct.

Operator

(Operator Instructions) And our next question comes from Evan Johnson of Daiwa Asset Management.

Evan Johnson - *Daiwa Asset Management - Analyst*

Congratulations on the results. Just one quick question. If you could provide an update on the expansion projects for both the Hilton, Krystal hotels that are expected to be opening here in the first quarter, that would be great.

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

Yes, sure. And as you mentioned, we will have the expansion of the Hilton at Hacienda at Hilton, which is the name of the expansion. By the month of March of this year, everything is line with expectations. And I'm very happy and proud to say that it's probably one of the best resort properties in terms of quality of rooms and product in Mexico. It's a fantastic asset. So that will be opening as scheduled in the first quarter, by the end of the first quarter.

We will also have the management contract expansion of the Krystal Vallarta, which will expand by around 300 units and that will also be coming in line during the quarter. And for the rest of our expansion plans, as all of you know, we cannot give any information or any light on what we are dealing with unless it's binding. We are looking at several options. We feel very happy and confident with our pipeline. We have a strong pipeline in terms of management contracts; and we have also an interesting pipeline in terms of organic growth so -- inorganic growth, sorry. And we will be -- as soon as possible, we will be sharing the information once it's due to be shared.

Operator

(Operator Instructions) We have no further questions in queue, and I would like to turn the call back to Francisco.

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

Thank you very much, Casey. We would like to thank once again the trust that you have placed and all the investors have placed in us, and reaffirm our utmost commitment to maximize your investment. We would also like to thank very specially all of our associates without which this would be absolutely impossible. We thank them and recognize their constant efforts. We wish all of you a fantastic day and a great weekend, and thank you for trusting and investing in Grupo Hotelero.

Operator

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

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