

Q2 2022 Grupo Hotelero Santa Fe SAB de CV Earnings Call

Corporate Participants

- 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. - Director of IR & Sustainability

Conference Call Participants

- Carlos Alcaraz Pineda - Apalache Análisis - Manager of Analysis

Presentation

- Operator - -

Good day, everyone, and welcome to today's Grupo Hotelero Santa Fe Second Quarter 2022 Investor Relations Call. (Operator Instructions) Please note that this call is being recorded (Operator Instructions). It is now my pleasure to turn today's program over to Max Zimmermann, Investor Relations Director. Sir, please go ahead.

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

Thank you. 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 second quarter of 2022. On the line, we have Francisco Zinser, Executive Vice President; and Alberto Santana, our Administration Director.

The presentation slides we will follow during this call are available on our webcast, which you can find on 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. (Operator Instructions).

We will now begin with the presentation, and I will pass the call to Francisco Zinser, our Executive Vice President.

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

Hello. Good morning, everyone. Thank you, Max. Let me start by mentioning that we posted a strong quarter, the quarterly results, basically based on the recovery of the industry in general. Resort hotels are 20% above 2019 levels in terms of sales. which is, I think, quite outstanding. And urban hotels, on the other side, are about 30% below pre-pandemic levels. That show a steady recovery every week. So results are an important factor of our strong EBITDA generation for the quarter.

And as I mentioned, the occupancy in Urban Destinations is recovering, mainly the main business that was missing in the mix and the segmentation was the MCI, which is meetings, conventions and events, incentives. So they are coming back slowly, and we expect that in the next 12 to 24 months, we should be normalizing that segment. So we believe that our portfolio will continue to improve over the rest of the year.

Our last month 12 EBITDA -- 12 months EBITDA as of June 30, 2022, was MXN 630.4 million, which represents 98% of pre-pandemic 2019 EBITDA, which I also believe is an important milestone.

In terms of our net debt, our loan -- our LTM EBITDA ratio was 4x, basically in line with the ratio that we had before the pandemic began. Max will go into the details of our quarterly results.

Lastly, I would like to mention that none of these achievements would have been possible without the support of our dedicated employees, experienced management team associates and the confidence that you, our investors, have placed on us.

Now I will turn the call to Max.

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

Thank you, Pancho. Let me get into our quarterly operational results. Please move to Slide 2. Total revenues totaled MXN 670 million compared to MXN 484 million in the second quarter of last year. Room revenue was MXN 325 million. Food and beverage revenue was MXN 258.7 million and other income, which includes, among other items, event room rentals, parking, laundry, telephone and leasing of commercial spaces was MXN 55.3 million.

Vacation Club income was MXN 8.5 million and third-party hotel management fees were MXN 22.6 million.

Moving to our key operational metrics, please move to Slide 3. On a consolidated level this quarter, we posted a 14 percentage point increase in occupancy, reaching 67%, combined with an ADR increase of 19% and to MXN 1,574. RevPAR in the quarter was MXN 1,060, which was 50% higher than in the second quarter of 2021.

Now please move to Slide 4. EBITDA in the quarter increased 50% to MXN 193 million compared to MXN 128 million in the second quarter of last year. This result was driven by higher revenues combined with operational initiatives.

Moving on, operating income increased 97% to MXN 122 million compared to MXN 62 million in the second quarter of 2020. In terms of net income, we went from MXN 139 million in the second quarter of last year to MXN 47 million in the second quarter of 2022. The lower result was driven by an FX loss, which was partially offset by higher operating income.

Now please move to Slide 5. Net debt was MXN 2,512 million at the end of the second quarter of 2022, which represented a total debt-to-EBITDA last 12 months ratio of 4x, which is in a range we feel more comfortable with over the long term.

Total debt is mostly dollar-denominated, 81% to be exact. And this transfer debt has an average cost of 5.4%, while the remaining portion of 19% of total debt is peso-denominated, with an average cost of 11.3%, having a competitive overall debt mix up 6.5%. Additionally, I would like to mention that over 90% of debt maturities are long term. Our short U.S. dollar position by the end of the quarter was \$107 million, equivalent to MXN 2,157 million.

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

Thank you, Max. I would like to open up the call for questions and answers.

Question And Answers

- Operator - -

A. (Operator Instructions) And we do have a question from Carlos Alcaraz with Apalache Análisis.

- Carlos Alcaraz Pineda - Apalache Análisis - Manager of Analysis

Q. Congratulations on the results. I have two questions. The first one is when do you expect the [urban] hotel portfolio to stabilize?

And the second one is, when do you expect the subscription process for the capital increase to begin?

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

A. I'm sorry, I can't hear you very well. Can you speak a little bit louder?

- Carlos Alcaraz Pineda - Apalache Análisis - Manager of Analysis

Q. Yes. Yes. Can you hear me.

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

A. I heard the first question, but I did not catch the second question.

- Operator - -

A. Okay. Okay. I repeat that. When do you expect the subscription process for the capital increase to begin?

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

A. Thank you, Carlos. Well, first of all, as I previously mentioned, we believe that the urban portfolio should be stabilizing in the next 12 to 24 months. And that would basically mean that we would be returning to prepandemic levels, and we would expect growth from there on. And on the other hand, in terms of the capital increase, I would like Max to address that question.

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

A. Yes, the first period of the subscription should be happening in August. We still don't have the exact date, exactly, but we would estimate it should be in August, hopefully, in the first half. But as soon as we have news, we will let you know.

- Operator - -

A. (Operator Instructions) And our next question will come from [Edson Morge with SumoCap].

- Operator - -

Q. I have a couple of them. The first one is a follow-up on the subscription. I'm just trying to understand if the price action of the stock is reflecting that it might not be MXN 400 million, or the target of EUR 400 million is achievable? That's the first question.

Regarding the second one is, could you give us a little bit an update about the (inaudible) transition because within the report, it says that the part of the bet has a hedge with LIBOR. And if you get to specifics, most of the hedging as we (inaudible). So I was wondering if you can give us an update on that.

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

A. Sure. Let me start with the second one because we didn't really hear the first question, but let me answer the second one, and we can go from there. So the update on the LIBOR, I would say that as you know, LIBOR is eventually going to be transitioned. However, the majority of the packs that we work with are still -- since LIBOR was originally going to be stated earlier than it is now, the truth is that most of the banks are still, for us, we are still able to use LIBOR.

And eventually, we will move to SOFR, as you know, which will be the new reference. But when that happens, we will also update our hedging, which is very small, as you know. But for now, the truth is that things haven't changed. We have a pack for when that should change, but currently, there has been not too much change.

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

A. And on the first question, I'm not sure we -- I mean we clearly can hear you very well. I believe that U.S. if we were confident in achieving the capital increase?

- Operator - -

Q. Yes, because just trying to -- maybe I can (inaudible) the question because 1 part of the capital increase is by variable part of the company, which is MXN 450 million. And the other one is issuing new shares and the target amount is MXN 400 million.

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

A. Maybe there's a confusion there.

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

A. Let me get into the details. So basically, what we are doing is we are going to be issuing rights. Yes, we're going to be issuing rights. But just to talk in terms of the number of shares, this is going to be a capital increase of MXN 400 million, which will bring 100 million shares, new shares.

So currently, we have 616 million shares, and that 616 million will be moving to 716 million. So that's basically the 100 million new shares. So basically, for people that have... So basically, people on -- the shareholders that have shares will be able to participate and get a percentage depending on how much they own at the company.

So for example, if you own 1% of the company, you will be able to -- in the rights offering, you will be able to buy 1% of that rights offering if you decide to do so. And if you decide not to participate, then you could be diluted by the people that will be increasing their part.

So it's basically -- it's pretty plain vanilla, so there's not much in terms of variable and fixed. If you get into the details of the shares, yes, we have a part that is fixed and a part that is variable, but

the truth is that for, let's say, practical purposes, you have to take the 616,530,000 in exchange shares, which is basically what we have of total shares issued.

- Operator - -

Q. Okay. That was super helpful. On the last question, I was wondering if you can give us a not a summary, an update, but could you give us when Hyatt Centric Campestre Leon Hyatt will be stabilized for -- I don't know, for the following quarters? So what are your expectation on this property?

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

A. Yes. Well, in recent figures, the hotel has shown, I would say, a substantial increase in terms of occupancy. You know that the (inaudible) region was very hard hit with all this crisis and the coronavirus. So it was one of -- it is probably one of the most -- the slowest market as an area in the country, but it is recovering. And we expect it will be reaching, as I said, stabilized numbers in the next the 12 to 18 to 24 months.

- Operator - -

A. (Operator Instructions) Our next question will come from Regina Gonzales with Miranda Global Research.

- Operator - -

Q. Congratulations for the very strong results. I have two questions. The first 1 is, did you believe that there is an additional room for improvement in occupancies and ADRs, or if they should remain more stable going forward?

The second one is, where do you see the leverage ratio by the end of the year?

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

A. Okay. I see that there is room -- there is significant room for improvement in terms of the urban segment, which we've talked about and discussed previously. I think results will show a steady occupancy once reaching the numbers that we have between 70% and 80% that is almost as busy as you can get in a hotel.

So I would say that we believe resorts might have a small increase depending on the market, but they will reach stabilization, obviously, or have reached sooner than the urban properties. We do believe they will remain strong since demand patterns and demand the booking pace that we're seeing is quite strong, and we expect that we will have a good -- a very good summer. And hopefully, this goes throughout the rest of the year.

In terms of the debt ratio, we expect to be, as our objective has always been between 3.5 and 4x EBITDA which we already achieved this quarter. Important to keep in mind that the higher [agency

to package] it into has, which we will open at the end of this year. It's already -- we already have a full depth of that property. And it is a nonperforming asset because, obviously, it hasn't opened. So that will bring a substantial break to that ratio.

- Operator - -

A. At this time, there are no further questions. I would like to turn the call back over to our speakers for any closing or additional remarks.

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

A. Thank you very much. We would like to thank for the trust that you have put on you, our investors and you our associates and employees, and we want to reaffirm our commitment to maximize your investment. So with no further ado, I would like to wish all of you a great weekend, and thank you for joining. And hopefully, we'll meet again in the next quarterly call. Bye-bye. Thanks.

- Operator - -

A. Thank you, ladies and gentlemen. This does conclude today's call, and we appreciate your participation. You may disconnect at any time.