

HOTEL – Conference Call Transcript – 2Q23

HOTEL Participants

- Maximilian Zimmermann - Director of IR & Sustainability

Q&A Participants

- Martín Lara - Miranda Global Research
- Carlos Alcaraz - Apalache Análisis
- Andres Lomeli - LCA Capital
- Edson Murgía – Suma Capital

Operator - -

Good day, everyone and welcome to today's Grupo Hotelero Santa Fe Second Quarter 2023 Investor Relations Call. Please note, this call is recorded. (Operator Instructions) It is now my pleasure to turn the conference over to Max Zimmermann.

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

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 2023.

On the line, we have 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 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 posted continued growth in the second quarter of 2023. The highlights were our last 12 months EBITDA as of June 30, 2023, of MXN 890.8 million, which was the highest number we've reported in our operating history. And our net debt to last 12 months EBITDA ratio was 2.9x, which has been on a satisfying upward trend.

The quarter -- this quarter, we had 2 noteworthy events. The first event is the conclusion of the sale of the Barceló Guadalajara in May, which had a positive impact on our quarterly results. The second was the opening of the Hyatt Regency Mexico City Insurgentes in April. This property boasts 201 rooms, 1 restaurant, 2 bars, 430 square meters of meeting rooms with capacity for 300 to 400 people, over 1,900 square meters of commercial space and 87 exclusive luxury residences with a la carte hotel services.

We achieved our strong quarterly results despite a deceleration in the tourism industry in Mexico that began in April. This is mainly due to the strength of the Mexican peso, lower spending on tourism due to the high inflation and a return to normal operations from other resort locations as Mexico benefited from not closing its borders during the pandemic, among others.

Now please move to Slide 2. Room revenue increased 10% to MXN 358 million in 2Q '23 compared

to 2Q '22. Food and beverage revenue increased 14.4% to MXN 296 million in 2Q '23 compared to 2Q '22, and other income which includes, among other items, event room rentals, parking, laundry, telephone, and leasing of commercial spaces decreased 42% to MXN 32 million in 2Q '23 compared to 2Q '22. Vacation Club income increased 52.7% reaching MXN 12.9 million. And third-party hotel management fees were MXN 23 million, which were up 2% in 2Q '23 compared to 2Q '22.

Now please move to Slide 3. Moving on to our key operational metrics. On a consolidated level this quarter, we posted a 1.7 percentage point decrease in occupancy, reaching 65.7%, combined with an ADR increase of 5.2% to MXN 1,165. RevPAR in the quarter was MXN 1,088, which was 3% higher than in the second quarter of '22.

Now please move to Slide 4. EBITDA in the quarter increased 6% to MXN 204 million compared to MXN 193 million in the second quarter of last year. This result was driven by higher revenues.

Moving on, operating income reached MXN 438 million compared to MXN 122 million in the second quarter of 2022. The main driver of this growth was the extraordinary income we recorded from the sale of the Barceló Guadalajara. In terms of net income, we went from MXN 47 million in the second quarter of last year to MXN 409 million in the second quarter of 2023. The higher result was driven by the aforementioned effect of the sale of Barceló Guadalajara.

Now please move to Slide 5. Net debt was MXN 2,561 million at the end of the second quarter 2023, which represented a total debt-to-EBITDA last 12 months ratio of 2.9x. Total debt is mostly U.S. dollar-denominated, 77% to be exact, and this tranche of the debt has an average cost of 8.6% while the remaining portion of 23% of total debt is peso-denominated with an average cost of 14.5%, having an overall debt mix of 10%.

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 \$121 million, equivalent to MXN 2,075 million. Now please move to Slide 6, and I will continue. Lastly, I would like to highlight and express my gratitude to the more than 3,400 associates who have supported the company unconditionally. As always, we are especially thankful for the trust and support of our shareholders and again, to all of our tremendously professional and cooperative teams.

And with that, I would like to open the call for questions and answers. Operator?

Q&A Session

Operator

A. (Operator Instructions) Our first question comes from Carlos Alcaraz, from Apalache Research.

Carlos Alcaraz - Apalache Análisis

Q. congratulations on the results you got. I have 3 very quick questions. The first one is, will you be looking to increase your percentage of participation in the Secrets Tulum Hotel. Then I ask if you expect to maintain the rates during the second half of the year? And finally, could we see any additional divestment during the next 12 months?

Maximilian Zimmermann - HOTEL - Director of IR & Sustainability

A. Thank you, Carlos. Great questions. So in terms of our participation in Tulum, as you know, we acquired 25% of that hotel. And I do not see that we would increase our participation more,

although we would like to. But there are other investors of the hotel. So I think we will be staying at that 25%. By the way, that hotel should be opening in October, and we are very excited as the hotel is almost ready, and we're in the final steps to be ready for the opening.

In terms of your second question, in terms of the ADR and the rates for the second half of the year, at least for now, we estimate rates to be flat or to be maintained, maybe see slight increases towards the end of the year. If you remember, we increased our ADRs in the first quarter, but probably increased them a little bit too aggressively. And after the deceleration that we mentioned, we saw that we were -- we had increased them too much. So we lowered them a little bit. We're still having interesting growth against the second quarter of '22.

However, we're going to see if we can increase them a bit more and take action. But that will still take a couple of months to see the results and how tourism is going to be trending for the next months.

And in terms of your third question about divestments, well, we are not actively seeking to make any divestments as was the case last year. However, we received an offer by Barceló, and that was why it was a good offer and we decided to pursue it. So I can't guarantee that we will not be receiving other offers. But we are not actively seeking any divestments currently.

Operator

A. Our next question comes from Martín Lara from Miranda Global Research.

Martín Lara - Miranda Global Research

Q. I have 2 questions. The first one is, did you pay down debt with the funds that you raised with the sale of the Barceló Guadalajara Hotel? And the second one is the reduction in the average occupancy rate in owned hotels compared to last year, it has to do with the change in the portfolio or more with market conditions?

Maximilian Zimmermann - HOTEL - Director of IR & Sustainability

A. Thanks, Martin. Those are great questions. Let me start with the second one. I think it's great that you asked this because it has to do with both. So as you know, we have -- we included the Hyatt Regency Mexico City Insurgentes in the quarter to our portfolio. And that hotel, as you know, when hotels open, they normally have a maturation curve. So we still have low occupancies in this hotel as expected. And it should be increasing in the following months. So that is affecting our occupancy.

And as I mentioned, there has been some deceleration from tourists coming from -- coming into the hotels, especially international tourists. So that also has affected a little bit. So I would say maybe it is a combined effect. But the hotel in -- that we have in Insurgentes definitely is having some effect on the occupancy. And moving to your first question.

So Yes, we did pay down debt with some of the funds from the sale of Barceló Guadalajara. We paid down approximately \$10.8 million of debt. That was majorly around \$9 million, which we still owned from the loan that we had on the specific hotel of the Barceló Guadalajara, and we also prepaid another loan from the Krystal Urban Monterrey, which was a little bit less than \$1 million. As you know, we made a capital reimbursement of \$40 million, and we kept a little bit of the rest of the proceeds for general corporate books.

Operator

A. (Operator Instructions) our Next question comes from Andres Lomeli from LCA Capital.

Andres Lomeli - LCA Capita

A. Perfect. Thank you, Max, and thank you for the call. I just wanted to ask a question regarding the extraordinary capital reimbursement that was paid out during the quarter. Given this payment, have you thought about paying recurring dividends going forward given the current cash position that you guys hold? Or could you shed some light on what you just mentioned about the proceeds being used for general corporate purposes.

Maximilian Zimmermann - HOTEL - Director of IR & Sustainability

A. Sure, Andres. Thank you. So as you know, we have various projects. We made the investment for the 25% in Tulum, which as you know, we disclosed was \$15 million. And we also have the project of Hyatt Regency Mexico City Insurgentes, which we still have -- some of the residences are still to be sold. So we do expect some cash to be coming in from that in the following months.

And we have historically not paid a dividend, but it is something that's on the table and that we recurrently have conversations about with top management and the Board. But until now, we have not done so. I think it will depend on the results and also importantly on the projects that we have in the pipeline to consider paying dividends. So I would tell you, it is on the table. We have no specific time line yet.

Andres Lomeli - LCA Capita

A. Okay. And a quick follow-up question regarding the current projects in pipeline. Around how much CapEx is expected will be put into these projects in the next maybe 12 to 24 months?

Maximilian Zimmermann - HOTEL - Director of IR & Sustainability

A. Well, I would tell you that the majority of the CapEx has been invested. 724 is basically ready. We're in the last just details of furnishing up the commercial areas and finishing up some apartments. So the majority of that CapEx has already been made. Talking about our investment in Tulum that has also been made, and we do not expect any additional capital going in from there.

So I would say that we would be for now expecting maintenance CapEx. And if there would be other projects in the pipeline, which if they would exist haven't -- wouldn't be disclosed until it's the correct time, we would make the announcement at that moment. But for now, we have nothing disclosed. So I would say it's a difficult number to quantify. But basically, we would be expecting maintenance CapEx for now, which tends to be around 4% of revenues.

Operator

A. Our next question comes from Edson Murgía from Suma Capital.

Edson Murgía – Suma Capital

Q. I have 2 questions. The first one is related to the LIBOR transition because I was reviewing the XBRL document that was uploaded to the Mexican Stock Exchange. I've got my attention that some BBA loans are pricing in LIBOR (inaudible). So I was wondering if this is something particular

with this financial institution or trying to pare out what will be the process.

And the second one, just a follow-up on the prepaid debt. If I -- well, Max, you mentioned that you prepaid the Monterrey hotel. But on the earnings report, it mentioned that it was a prepayment of Hyatt Insurgentes. So could you give us a little bit more color, please?

Maximilian Zimmermann - HOTEL - Director of IR & Sustainability

A. Sure. Sure. Thank you, Edison, and it's great to hear you. Great questions. So first, talking about your first question. So your question is, when is the transition from LIBOR to SOFR happening?

Edson Murgía – Suma Capital

Q. Basically because if I understood correctly from Banco Mexico at some point this 2023, we are not going to price any type of derivatives with LIBOR.

Maximilian Zimmermann - HOTEL - Director of IR & Sustainability

A. Yes, that's correct. Actually, LIBOR stopped publishing their rates in June. So that was the last quarter where we're going to be having reporting our loans with LIBOR. And we have been in the process for the past couple of months for transitioning that rates to SOFR. And we have concluded that. And so that means that for our next quarterly report, our payments that we make in July and so forth will be in SOFR.

Edson Murgía – Suma Capital

Q. And a follow-up on this so quickly. Do you not expect any type of negative impact or probably a positive impact with this LIBOR transition.

Maximilian Zimmermann - HOTEL - Director of IR & Sustainability

A. No, I think it will be pretty much in line from what we will be paying. If you've seen the differential that there is between LIBOR and SOFR, a little bit of that differential is also because LIBOR is starting to not be used by some institutions, and it became a less, say, used indicators. So we think that the difference in rates that we will be paying should be minimal. So this is the thing that worries us too much.

Talking about your second question in terms of repayment of the debt, yes, so I was specifically talking about the use of proceeds from the sale of Barceló Guadalajara, talking about the amount that was prepaid. But yes, as you will mention, we also have -- we also have a prepayment that we made to our project from 724. So what was that related to? So as you know, the 724 project, which is the Hyatt Regency Mexico City Insurgentes has 3 parts. We have the part of the hotel. We have the part of the commercial area, and we have the residential segment. So we have different loans for different segments of that. And what we did was we prepaid the loan on the residential segment because we already have enough revenues from the sale of residences to make that prepayment.

So that was a prepayment that was for around MXN 74 million, MXN 75 million, which we also made in the year-to-date. I believe it was in the first quarter.

Edson Murgía – Suma Capital

Q. Okay. Okay. Makes sense. And last, you mentioned that you have 68 residential apartments in Hyatt Insurgentes. But my question is how many has been sold from those 68.

Maximilian Zimmermann - HOTEL - Director of IR & Sustainability

A. That's a great question, Edson. So give me one second. So there, I would tell you that we don't disclose the exact information, but I would tell you that we are well above 50% of sales from residences in 725.

Operator

A. With no further questions in the queue, I would like to turn the call to the management.

Maximilian Zimmermann - HOTEL - Director of IR & Sustainability

A. Thank you, everyone, for connecting. I would like to thank you for the trust that you have placed in us, and reaffirm our commitment to maximize your investment. We would like to thank you -- thank all of our associates for their constant efforts. And have a great day and great weekend, everyone. Thank you.

Operator

A. With this, we conclude our conference. You may disconnect.