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HOTEL.MX - Q3 2020 Grupo Hotelero Santa Fe SAB de CV Earnings Call

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PRESENTATION

Operator

Ladies and gentlemen, thank you for your patience in holding. We now have our speakers in conference. (Operator Instructions) It is now my pleasure to turn this conference over to Max Zimmermann, Investor Relations Director for Grupo Hotelero Santa Fe. You may begin.

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

Thank you. Good afternoon, everyone, 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 webcast for the third quarter of 2020.

On the line, we have Francisco Zinser, our Executive Vice President; Francisco Medina, our CEO; Enrique Martinez, our CFO; 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. 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 call to Francisco Zinser. Please move to Slide 2.

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

Good morning, everyone. A pleasure to be with you again in our quarterly call. I would like to start by saying that the third quarter of 2020 looks like it took the beginning of a path of recovery from the effects of the tourism industry of the pandemic in Mexico. By July, the majority of our portfolio was open, so we had 2 full months of operations in the quarter.

Please keep in mind that during the quarter, most of our hotels were limited, due to governmental regulations, to 30% occupancy. However, these measures has -- have eased at almost all locations.

Occupancy for the quarter was 26%. However, if we measure real occupancy, excluding periods we were closed, we posted 28%, which is much closer to our operational breakeven point. Just the reopening of the portfolio, we have seen small week-to-week improvements, with better trends

in resort destinations. We expect this recovery to continue in the next several quarters and exceed our operational breakeven point by the fourth quarter of 2020 and generate positive EBITDA.

Financially, we have implemented a variety of initiatives to preserve our working capital and lower our operating expenses. In the third quarter of 2020, we were able to lower our costs and expenses by over 37%. These measures that -- this economy is reflected by the implementation of a reduction of nonpriority expenses, wage reductions at all levels, both corporate and hotel levels, of approximately 50% during July and August, this on top of what has done -- what has been done in this line in the last quarters, lowering operational costs and firm nonessential CapEx.

We have also reprofiled our cash flow, thanks to the support of the banks we work with, assuring adequate working capital to restart operations.

Now referring to Slide 2, I would like to briefly remind you of our capital increase. On October 1, we held a general shareholders meeting, which approved to increase the variable portion of the capital stock of our company in the amount of MXN 500 million, through the issuance of 125 million nominative ordinary shares with fully voting rights at a subscription price of MXN 4 for each of the said shares. The subscription factor will be at a rate of 1 new share for every 3.9 outstanding shares held by the current shareholders. The period to exercise such right of this offering began on October 21 and ends on November 4. Should you have any doubts or questions, please contact our -- Max, our Investor Relations Director.

Now I would like to call -- to pass the call to Francisco Medina, to Paco, our CEO.

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

Thank you, Pancho. Hello, everyone. Welcome to our call. Now let me get into our quarterly operational results, and please go to Slide 3. Moving to our quarterly results, revenue totaled MXN 139 million, down 60% compared to the third quarter of last year. Only, we have to take into consideration that 2019 is not really comparable because of the situation of the pandemic. EBITDA was negative MXN 28 million in the quarter, a consequence of the lower revenues due to the pandemic regarding company-owned hotels. RevPAR decreased by 60% due to an 11% decrease in ADR and 35% point decrease in (inaudible).

Room revenue decreased by 65%. Food and beverage revenue decreased 71%. And other income, which includes, among other items, event room rentals, parking, laundry, telephone and leasing of commercial spaces, decreased 74%. Third-party hotel management fees decreased by 83%.

Now please go to Slide 4. Moving on to our key operational metrics. On a consolidated level, this quarter, we posted a 61% decrease in RevPAR, which is comprised of an ADR decrease of 13% and decrease in occupancy of 61% percentage points.

Now please turn to Slide 5, and I will hand the call over to Enrique Martinez, which will guide you through the financial results.

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

Thank you, Paco. Good morning, everyone. EBITDA in the quarter was negative MXN 28 million compared to the MXN 140 million in the second quarter of the last year. Also, we were able to lower cost and expenses by over 37%, this was not enough to post a positive result as revenues were still too low since we only had 2 full months with our portfolio.

Moving on, operating income was negative MXN 90 million compared to MXN 70 million in the second quarter of 2019. In terms of net income, we went from a loss of MXN 29 million in the second quarter of last year to a loss of MXN 32 million in the second quarter of 2020. This was driven by a lower operating result, which was partially compensated by an FX gain and lower interest expenses.

Now please move to Slide 6. Net debt was MXN 2,984 million at the end of the third quarter of 2020, which represent a total debt-to-EBITDA last 12 months ratio of almost 15x, mainly due to negative EBITDA in the second and third quarter of this year.

Total debt, it's mostly U.S. dollar-denominated, 95% to be exact, and the tranche of the debt has an average cost of 3.3%. While the remaining portion of 5% of total debt is peso-denominated with an average cost of [7.3%], having a complete overall debt mix of 2.6%. Additionally, I would like to mention that over 95% of debt maturities are long term.

Our short U.S. dollar position by the end of the quarter was \$128 million, equivalent to MXN 2,855 million.

Now please move to Slide 7, and I will pass call -- 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 very much, Enrique. I would just -- before we go to our Q&A session, I would like to highlight that of the peers that have reported results for this third quarter in Mexico, we are the only company that is still -- continues to have a positive EBITDA year-to-date, which I think is a clear message and a clear sign of the efficiencies and the business model that we have.

Lastly, I would like to highlight and express my gratitude to the more than 3,700 associates who have supported the company unconditionally, not only with their economic contribution, but with their tremendous attitude that goes far beyond the call of duty.

As always, we are especially thankful for the trust and support of you, our shareholders and our supporters, in these times, and again, all of our tremendously professional and cooperative teams.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question will come from Jorge Lagunas, Apalache Análisis.

Jorge Lagunas - *Apalache Análisis - Co-Director of Research*

I have 2 inquiries. The first one is, what is your feeling towards the recovery of occupancy by international travelers in your destinations for the last quarter? In this matter, could you share with us which level of dollarized income do you need to cover the debt service?

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

Okay. Paco, can you answer the first question, please?

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

Sure. First of all, let me tell (inaudible) that we have been very surprised and supported because of the Mexican market in the high [wedding] destinations, such as Acapulco, Ixtapa and Puerto Vallarta and Nuevo Vallarta. They have been reaching levels of 50% occupancy. And mainly the -- as we expected -- as we plan -- as we implemented the strategy in the Krystal Grand, the Krystal Grand has been very, very important to come back with this Mexican market.

I think answering the second question about the international market, the American market's time to travel very slowly, but the time to travel, and the winter starts in this month of October, November for the Canadian market. The main challenge there for the Canadian market is that they have

a policy of being in the -- when they return to their destination, they have to maintain 14 days in quarantine, even though they are starting to change those laws, and probably, they will have some tests that we will comply with that situation.

So we are looking forward in a very promising winter because of that. And I will say, the beginning of the year in January and March -- in January to March will be very important for the international market, but we feel the support of the Mexican market. I will call to -- I will give the call to Enrique.

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

Thank you. This is Max actually. Let me take the second part of the question. So on your question of what percentage we need of dollarized income to cover our debt service, I would tell you that more than a dollarized level, next year, it's -- we're going to have a cost of around MXN 170 million of debt service. And we feel comfortable that we will be able to generate EBITDA to cover that, even in a very stressed scenario where you could imagine that you would have sales similar to what we're expecting for 2020, in 2021, which obviously is a negative case.

Even then, if you take into account our EBITDA margin in 2017 for the same portfolio, we would be generating well over those MXN 170 million of debt service and EBITDA. So I would tell you that we feel comfortable that we will be able to cover our debt service with the EBITDA that we'll generate next year.

Having said that, I think it's important to add that if you look at our quarterly report, we still have a high percentage of over 35% -- or almost 40% of dollar-denominated revenue, even under these circumstances.

Jorge Lagunas - *Apalache Análisis - Co-Director of Research*

If you let me -- thank you very much for that. It gives us a lot of color in this matter. If you let me a follow-up question, finally. Some participants in the environment, including the airlines, are talking about this trend called [beach office]. Do you think that HOTEL is core positioned to take advantage of this trend?

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

Yes. Yes. I think -- and I've been visiting all of our destinations in the past months, that includes Vallarta, Puerto Vallarta, Cancun and et cetera. And as you are saying, we have seen a trend in the market, and there is a lot of people working in the -- by the pool and the beach. So we are doing an investment in Wi-Fi -- white proposal. So that also comes with the trend and everybody seems like they prefer to be working in the open field of the ocean than in the home office.

So as we have seen, it's been a trend, and hopefully, it will continue for the next winter.

Operator

Our next question will come from Martin Lara, Miranda Global Research.

Martín Lara - *Miranda Global Research - CEO & Founding Partner*

I have 2 questions. The first one is if you could confirm the EBITDA generation in fourth quarter. Is it going to be positive? And how positive?

And the second one is with the funds that you're going to raise with the capital increase, do you expect to accelerate your expansions or undertake some acquisitions?

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

Yes. Thank you very much. Well, as you well know, we cannot give future-looking statements regarding our results. But we hope, and if the trends continue to be as we are looking at them, we hope that we will achieve positive EBITDA in the quarter.

And regarding the increase of capital that we're doing, the main purpose of the increase in capital is, I would say, the first sign is a very good and clear sign of the trust that our investors have in the company and the business model and in what we are doing.

And that is a very good sign, especially in these times. The objective is to solidify our financial position. If we continue to see the recovery we're seeing, the resources of -- that we might need additional resources, probably not necessarily. So we would then focus on opportunities, which I think will rise, and we want to be ready to take advantage of any opportunity that we have in the market.

Operator

(Operator Instructions) Our next question will come from [Edson Mariam, ECS Capital].

Unidentified Analyst

I have a couple of questions. The first one is, if I listened correctly, Francisco said in the last remarks that you generate positive EBITDA, if I'm listening correct?

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

Yes. Yes.

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

Yes, that is our expectation for the fourth quarter.

Unidentified Analyst

So that is the expectation for the fourth quarter?

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

Yes.

Unidentified Analyst

Okay. But on this third quarter '20, the EBITDA was negative MXN 28.5 million, right?

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

That is correct. Correct. And if you look at the previous report, it was negative 87%.

Unidentified Analyst

Exactly. Yes. Okay. Yes. Okay. Yes, that's really clear, just to understand that, because I understand, either way, I'll come and -- but it's completely clear.

The second question is regarding to the cost-cutting strategy. Last quarter, you mentioned 4 measures. I will not say it again because you said it in the call right now. But I want to understand, what are the differences between those measures that you were taking in account on the second quarter and this third quarter? It seems similar. I will not be saying that they are the same. But could you give us more color on that?

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

Yes. Thank you. Francisco Medina. Basically, we continue with the same strategy. We -- as you said, we were going to repeat the same strategies. They are going to continue for the next quarter. But you have to take into consideration that we are reaching better levels of occupancy, ADRs. We opened with a lot of promotions, as all the competitors did, in the last quarter.

We are finishing the infomercials, so we are increasing in a very important way our occupancy. So if we continue with the same trend of savings plus increase in revenue, that will then go to the good EBITDA and positive EBITDA that Pancho has mentioned.

Unidentified Analyst

Okay. Great. And regarding -- a follow-up on this. You mentioned that you reprofiled your cash flow. But I was wondering if you can give us more details about how do you reprofile this? And can you give us more specifics about the relationship with the banks? And why in this quarter it was important to mention?

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

Sure. This is Max. So we did some -- it depends on the package, as you know. We have loans on the different hotels with different banks and institutions. Basically, the 2 large ones are (inaudible) and [BBVA]. And so then, since the beginning of the pandemic, it was basically 12 months where we did not have to make payment.

And the other one is BBVA that originally gave us 6 months, and they recently extended that to 12 months. And we have a couple of other banks that have also given us similar concession. So of course, that kind of reprofiling that we did helped us not to make payments this year or make a few payments this year and also at the beginning of next year. However, all of that, that we did, we did without increasing the spread or changing any of the details of the credit [agreement].

Unidentified Analyst

Okay. That's really helpful. And regarding with the relationship with those banks, I was wondering if you start talking about this from LIBOR to SOFR transition, and if you have performed an assessment to understand the possible impact on your net debt or is it going to have an impact on the transition?

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

Again, I mean, I kind of understood your question, but the audio wasn't the best. I heard about the relationship with the banks and the net debt, and I heard something about LIBOR. So did you mean, if we've made analysis, if the LIBOR is going to be moving, and that's going to be affecting our net debt? Or could you repeat your question?

Unidentified Analyst

No. Yes. Probably, I'll rephrase my question. It's regarding to the debt that it's denominated in U.S. dollars. And the question is, if you have performed or you have analyzed how the transition from LIBOR to SOFR will impact on this debt that is in U.S. denomination dollars.

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

Well, the truth is that the effect is not noticeable. So we feel comfortable now. And remember, every time you want to change over your debt or you want to reprofile it, you might have to get a new contract, and that new contract will have new terms, which might also have different kinds of spreads. So for now, we feel very comfortable with what we have.

Unidentified Analyst

Okay. Very comfortable. And last, this is my last question. On the earnings release, you mentioned the potential breakeven point. But I was wondering if you can give us more color about. Because I remember that on the second quarter, you mentioned that your breakeven point, as part of an average, was between 25% or 35%. So I was wondering if you have reached in this third quarter? Or you are changing this breakeven point because of the natural condition that we are living right now.

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

Yes. Basically, what we mentioned is that before the pandemic, we were in the level of 3 to 35 in the breakeven point. Now because of the circumstances and the new strategies of savings, we reduced that to 25 to 30. It depends on the hotel, depends on the occupancy. But basically, what we had done is still reschedule or stopping that and operational expenses in CapEx.

Operator

Our last question will come from Froylan Mendez, JPMorgan.

Fernando Froylan Mendez Solther - *JPMorgan Chase & Co, Research Division - Analyst*

So I wanted to have your opinion on the ADR outlook. So far, for example, the decline that we have seen in your peers has been related to the mix on which hotels were open and which are reopening faster than others. But in past crises, we have seen ADRs declining almost 10% from the peak to the trough, and it has taken almost 4 years to fully recover. Could you share your thoughts on what's your view on what could be the case for ADRs in this crisis?

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

Yes. Thank you, Froylan. This is Francisco Medina. In terms of the ADR, all the competitors start with, as I said, with big promotions. Now everybody is recovering the ADR, and those promotions were very aggressive for the past 3 months. This last quarter, we have a (inaudible) in general terms of the different destinations in other competitors as well. The ADRs, we don't have that problem in the future for the next year, as you said, to wait years and years to come back to the same ADS. So we feel comfortable that we did what we have to do in the beginning, but we know that the ones that need to travel will pay for its worth in any part of the properties or destinations.

Operator

Speakers, at this time, we have no further questions in the queue. So I'd like to turn the conference back over to Francisco Zinser for any closing remarks.

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

Thank you very much, operator. Thank you very much all of you for participating in our call. We would like to again thank you for the trust that has been placed on us and reaffirm our commitment to maximize your investment. Again, this would never be possible without the participation and the passion of our associates, for which I thank them for their constant efforts. Have a great day and a great weekend, everyone. Thank you for joining.

Operator

Thank you very much. Ladies and gentlemen, thank you for joining us today. This now concludes our conference. You may disconnect your phone lines, and have a great rest of the week. Thank you.

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