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HOTEL*.MX - Q3 2017 Grupo Hotelero Santa Fe SAB de CV Earnings Call

EVENT DATE/TIME: OCTOBER 26, 2017 / 5:00PM GMT



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CORPORATE PARTICIPANTS

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Francisco Zinser *Grupo Hotelero Santa Fe SAB de CV - CEO*

Francisco Medina *Grupo Hotelero Santa Fe SAB de CV - Deputy CEO*

Enrique Martinez *Grupo Hotelero Santa Fe SAB de CV - CFO*

CONFERENCE CALL PARTICIPANTS

Hector Vazquez *GBM - Analyst*

Jeronimo Longo *GBM - Analyst*

Sara Maldonado *Santander Asset Management - Analyst*

PRESENTATION

Operator

Ladies and gentlemen, thank you for your patience in holding. We now have your presenters in conference. Please be aware that each of your lines is in a listen-only mode. At the conclusion of today's presentation, we will open the floor for questions. (Operator Instructions)

It is now my pleasure to introduce today's first presenter, Mr. Maximilian Zimmermann.

Maximilian Zimmermann - *Grupo Hotelero Santa Fe SAB de CV - Director IR*

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 public earnings broadcast for the third quarter 2017.

I am here with Francisco Zinser, our CEO; Francisco Medina, our Deputy CEO; Enrique Martinez, 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 on our Investor Relations section of our website.

Before we begin, I would like to remind you that this call is being recorded, and the 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 for any questions you may have.

We will now begin the presentation, and I will pass the mike to Francisco Zinser.

Francisco Zinser - *Grupo Hotelero Santa Fe SAB de CV - CEO*

Good morning, everyone. 2017 continues to be a great year for the Mexican tourist industry. Growth remains robust supported by the solid underlying fundamentals.



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According to figures from tourism, the international visitors grew 12% in the first half of 2017, and foreign investments almost doubled the figure reported in 2016.

Moving on to our quarterly results, I can ask Paco to please continue the presentation. Go to Slide 3, please.

Francisco Medina - *Grupo Hotelero Santa Fe SAB de CV - Deputy CEO*

Good afternoon, good morning, everyone. And thank you, Pancho, and good afternoon.

During the quarter, company revenue increased 25% to MXN384 million driven by 21% growth in room revenue, 45% growth in food and beverage revenue, 15% in other revenue, which more than compensated a 14% decrease in the Third Party Hotel Management Fees driven by the sale of Krystal Grand Reforma.

Group revenue growth has risen by the Krystal Grand Los Cabos and Nuevo Vallarta, and also performance of the Krystal Urban Cancun and Krystal Urban Guadalajara, which are in the stabilization stage.

Food and beverage revenue increased 45% (inaudible) in the quarter, mainly driven by the incorporation of the Krystal Grand Los Cabos and Nuevo Vallarta, which are in the early stages of the stabilization.

[Transfer fees] related to third-party owned hotels decreased by 13% compared to the third quarter of 2016 driven by [another] contradiction in the number of rooms [under-operating] during the period due to sale of the Krystal Grand Reforma.

Now, please go to Slide 3.

Moving on to deeper operational metrics, on a consolidated level, this quarter we posted a flat RevPAR, which is comprised of an ADR growth of 5% and (inaudible) occupancy driven by external factors such as hurricanes, rainfall, and earthquakes among others.

Francisco Zinser - *Grupo Hotelero Santa Fe SAB de CV - CEO*

Here I will just like to add something that I think is quite relevant. Considering the difficulties and the challenges that we had during the quarter, we still achieved (inaudible) but still [growth] in terms of RevPAR. Sorry, Paco, please.

Francisco Medina - *Grupo Hotelero Santa Fe SAB de CV - Deputy CEO*

Thank you, Pancho.

Now, please move to Slide 4. And I will turn the call over to Enrique Martinez, who will guide you through our financial results.

Enrique Martinez - *Grupo Hotelero Santa Fe SAB de CV - CFO*

Thank you, Paco, and good afternoon, everyone. (Inaudible) the quarter reached MXN121 million, a 12% increase compared to third quarter 2016. This result was driven by revenue growth. For the first nine months of the year, EBITDA reached MXN382 million compared to the first nine months of 2016, also driven by revenue growth.

EBITDA margin in the quarter contracted to 31.5% as a result of lower occupancy during the quarter driven by the external factors such as the hurricanes, rainfall and earthquakes, among others. For the first nine months of the year, EBITDA margin contracted to 33.5% due to the same reasons.



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Moving on the net income, we posted MXN45 million compared to MXN64 million in the third quarter 2016. This variation is explained by increased interest expense due the lowering of interest expenses in third quarter 2016 driven by the interest income from the cash received from the follow-on from that quarter.

Now, please move to Slide 5.

Net debt was MXN791 million at the end of third quarter 2017, which represented a total debt to EBITDA ratio of 1.6 times.

Total [EBIT margin] U.S. dollar denominated, 39% of the impact (inaudible), and each tranche of the debt have an average [cap] of 4.4%, while the remaining portion of 21% is peso denominated, [with an average] cost of 10.4%, having a competitive overall debt mix. Additionally, I would like to mention that over 85% of debt maturities are long term.

(Inaudible) 6.2% 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 MXN33 million (sic - see slide 5, "\$33 million"), equivalent to MXN605 million.

Now, please move to Slide 6, and I will turn the call over to Max, who will talk about our evaluations in the quarter.

Maximilian Zimmermann - *Grupo Hotelero Santa Fe SAB de CV - Director IR*

Thank you, Enrique. Let me start by mentioning our two projects that we started operating in the quarter. The first one is the Krystal Grand Suites [Insurgentes] Avenue, and has 150 oversized, [long stay] suites with kitchenettes. Please take a look at our communication so you can see some photos of this excellent product.

We are proud to be the first Grand Turismo Hotel on all of these Insurgentes Avenue, one of the longest streets in the world. This project was a lease conversion of an existing office building where the investments were in line with our budget of MXN493 million.

Now, we move to Slide 7. The second one is the Altitude Tower of the Krystal Grand Cancun. The building has 100 suites, which will be added to the 295 existing suites of the Krystal Grand Punta Cancun. These suites are an inventory expansion of the hotel, which has a 50% higher ADR than the Company average. The investment of the project was in line with our budget of MXN222 million. As you can see on the presentation, the rooms and views are simply spectator.

Now, we move to Slide 8 where I will pass the call back to Francisco Zinser, our CEO, who will talk about 2017 updated guidance and future growth.

Francisco Zinser - *Grupo Hotelero Santa Fe SAB de CV - CEO*

Thank you, Max. I will start by sharing our updated 2017 guidance that was posted yesterday.

We're expecting to grow revenues and EBITDA by [27%] and 24%, respectively. The reasons are due to various non-recurring factors, most of them external and beyond our control.

We had a lower exchange rate which translates into fewer pesos from our dollar-generating hotels. It was originally set at 20.5. And the average annual peso exchange rate closed around 19. This translated to approximately an 8 percent devaluation of about one-third of our (inaudible).

We are also affected by hurricanes and bad weather, which affected the markets of Los Cabos, Vallarta and Cancun, among others, impacting our property. As you can see in the slides, (inaudible) the record in September with more days of hurricanes than the record of 1926.

Thirdly, the meteorological phenomena impacted U.S. and Texas and Florida, which generated cancellations from people traveling to other destinations, amongst them, Mexico. We also experienced the earthquake generating general slowdown, impacting travel around the country.



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Furthermore, we did not have a long weekend, which last year was on working days. We had the travel warning from the U.S., which has also impacted U.S. travel to Mexico.

Internal factors was delayed in the opening of the hotel in Los Cabos, which was due to open in the month of February and opened in the month of May, which affected our (inaudible).

Please move to Slide 11. I would like to talk about valuations in the Company. 45% of our fixed furniture and equipment have not generated EBITDA in the last 12 months. This translates to about 1,600 rooms. This part of the portfolio will drive important top and bottom line growth for 2018 and 2019. Looking ahead, the good news is that 2018 growth will not be impacted by the external factors that affected us in 2017, which we just explained.

Nevertheless and having said all this before -- by myself and my colleagues, we at Grupo Hotelero are very proud of the results we have achieved amidst very complicated markets and environments, the growth we are posting is not as we expected at the beginning of the year, it's still very strong and we are showing very solid figures.

With this, I would like to open the call for a Q&A session.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions) Our first question comes from Hector Vasquez with GBM.

Hector Vazquez - GBM - Analyst

I was wondering if you could give us more color regarding the turnaround of the recently acquired hotels? How long should it take to reach occupancy levels above industry average in those destinations? And what should we expect in terms of consolidated EBITDA margin in a stabilized stage? Thank you.

Francisco Zinser - Grupo Hotelero Santa Fe SAB de CV - CEO

Okay. Paco, you can take the first part of the question.

Francisco Medina - Grupo Hotelero Santa Fe SAB de CV - Deputy CEO

Sure. Thank you. Well, we have to consider, as Pancho said, that fortunately, the hurricanes and earthquakes, we are (inaudible) won't happen again in the 2018. And fortunately, they were in one of the lowest months of the year, which was September.

Now the Winter is coming. The booking [phase] looks good for the time in January, at the end of the month of December, which is the highest week of the year. So we expect to start the year in a very strong way in January throughout April.

Francisco Zinser - Grupo Hotelero Santa Fe SAB de CV - CEO

Okay. Hector, the second part of your question was related to margins, correct?



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Hector Vazquez - *GBM - Analyst*

Yes.

Francisco Zinser - *Grupo Hotelero Santa Fe SAB de CV - CEO*

Okay. Because I heard you a little bit cut off.

In terms of margins, we expect to see margins similar to the margins that we've been performing in previous quarters. Of course, there are still some possibility of growing margins because of not only hotels coming in from stabilization to stabilized mode, but also from new management contracts and other opportunities that we are seeing in the future.

Operator

(Operator Instructions) Our next question comes from [Jeronimo Longo] with GBM.

Jeronimo Longo - *GBM - Analyst*

Just two quick questions. And the first one, are your expansion plan advances in line with the expected opening dates? And if you expect future ADRs going high single digits, and how much above inflation?

Francisco Zinser - *Grupo Hotelero Santa Fe SAB de CV - CEO*

Okay. We expect ADRs to continue to grow because if you see about half of our portfolio is more in the Grand Tourism category that Paco just mentioned -- and Max -- which is a category that runs at a higher ADR.

So as our hotels in the markets that we are in, such as Mexico City and (inaudible) such as the two hotels that were mentioned in Cabos and Vallarta that are under the Grand brand will show growth. And yes, we do expect to grow at least a couple of points above inflation, not considering any FX impacts that would enhance, in any case, that number.

And in terms of our expansion plans, yes, we are in line with our expansion plans. We continue to keep to our previous presentations in terms of the openings of the hotels. And we are also, as we announced before, in the process of some hotels that are [handling conference] being built, one in Monterrey and the other one in Zacatecas. So the answer is yes, we are in line and we expect to be in a position to be able to announce something in the future.

Operator

Our next question comes from [Sara Maldonado] with Santander Asset Management.

Sara Maldonado - *Santander Asset Management - Analyst*

Just on the new management contracts on the stabilization, what are the margins that we should be expecting throughout 2018? And also, regarding the occupation, what should be the performance now that you have seen during October and the occupation that we should be expecting throughout the last quarter?



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Francisco Zinser - *Grupo Hotelero Santa Fe SAB de CV - CEO*

Thank you very much. As you know, we cannot talk about forward-looking statements. But we see that all [indexes] both occupancy and ADR continue within the guidelines that we have and that we have given [out] to reach our goals.

Management contracts and owned hotels run at a very similar margin. We manage our hotels as if they were ours -- managed hotels or either hotels where we have an equity stake at. So there's no variation in terms of margins.

But, as you know, in the case of a management contract, we charge a fee on revenues and a fee on gross operating profit. So, evidently, the participation in terms of absolute numbers to the bottom line is smaller than it would be with an owned hotel.

Maximilian Zimmermann - *Grupo Hotelero Santa Fe SAB de CV - Director IR*

And also to complement that, this is Max. I think that something that we can share with you is that we have definitely seen a pick up from September, which was a difficult month for us because of all the factors explained. So things are beginning to grow -- to grow again. Thank you.

Maximilian Zimmermann - *Grupo Hotelero Santa Fe SAB de CV - Director IR*

(Inaudible)?

Operator

(Operator Instructions) Sorry?

Maximilian Zimmermann - *Grupo Hotelero Santa Fe SAB de CV - Director IR*

Okay. Any other questions?

Operator

At this time, we have no other questions, so I'd like to turn it back to Mr. Francisco Zinser for closing remarks.

Francisco Zinser - *Grupo Hotelero Santa Fe SAB de CV - CEO*

Okay. Well, in case there are no other questions, we would like to thank you for your trust and the trust that you have placed in us and our teams. And we'd like to reaffirm our commitment to maximize your investments.

We would also like to thank all of our associates, which makes this possible. It would be impossible to achieve what we have without the effort of each and every one of the almost 3,000 people that work with us, our associates. And we thank them for their constant effort, and we wish you a great day.

I would just like to see if there are any other question before we cut off, before we cut off (inaudible).

Operator

No, sir, at this time, no questions.



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Francisco Zinser - *Grupo Hotelero Santa Fe SAB de CV - CEO*

Okay. Well, than you very much again, and have a great day.

Operator

Ladies and gentlemen, that concludes today's presentation. You may disconnect your phone lines, log off the webinar. And thank you for joining us this afternoon.

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