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HOTEL\*.MX - Q3 2019 Grupo Hotelero Santa Fe SAB de CV Earnings Call

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## CORPORATE PARTICIPANTS

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

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

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

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

## CONFERENCE CALL PARTICIPANTS

**Eduardo Alvizouri Alvarez** *GBM Grupo Bursátil Mexicano, S.A. de C.V. Casa de Bolsa, Research Division - Research Analyst*

**Martin Lara**

## PRESENTATION

### Operator

Excuse me, everyone. We now have our speakers in conference. (Operator Instructions) It is now my pleasure to turn the conference over to Max Zimmerman, Investor Relations Director for Grupo Hotelero Santa Fe. Please go ahead, sir.

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

Thank you, operator, and good afternoon, everyone. My name is Max Zimmerman, Investor Relations Director of Grupo Hotelero Santa Fe, and I would welcome you -- I would like to welcome you to the company's earnings webcast for the third quarter of 2019. On the line, we have Francisco Zinser, our Executive Vice President; Francisco Medina, our CEO; Enrique Martínez, 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 in the 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 might have.

We will now begin with the presentation. Please go to Slide 2, and I will pass the mic to Francisco Zinser.

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

Thank you, Max. And once again, thank you all for joining. 2019 has been a difficult year, a challenging year for the tourism industry in Mexico, and this has obviously impacted our company. Our first 9 months were below our expectations. Tourist activities at both resort and urban destinations continue to show softer dynamics. Resort destinations' main headwinds is slowdown in international tourism that began at the end of last year. The slowdown was driven by a combined effect of security perception in certain markets; sargassum, which is the brown algae that has impacted Cancun and Riviera Maya. And all this combined with the supply increase that, according to the local hotel associations, has been around 15% in terms of room supply.

However, tourist destination to the Pacific, such as Puerto Vallarta and Los Cabos, have had favorable results. Regarding the destinations, the slowdown in the economic activity in several segments is more acute in the group and large convention markets as well as in some corporate accounts. Government spending, as well known, I expect, by all of you, the government is in a -- has (inaudible), and this has impacted government spending. Government spending has to be also seen as all the third-party related consultants and service providers that cater to this segment.



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Our margins have also been affected by both lower RevPAR with the maturity curve of our Reflect Krystal Grand properties. Due to the previously mentioned factors, we are adjusting our guidance downwards. Revenues for MXN 2.2 billion, which would be a 7 increase -- 7% increase versus 2018. And our EBITDA guidance is now MXN 645 million, which is a 5% decrease compared to 2018.

At HOTEL, we remain committed to becoming the leading hotel company in Mexico, even in these times of difficulty and uncertainty. The extraordinary management team that we possess and the associates that we have a similar strategy and we -- that we've outlined and continue to look forward to growing efficiently and profitability for the long run. Thank you very much for all of our shareholders for their trust and support.

Now I will pass the call to Francisco Medina, our CEO.

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

Hello, everyone, and thank you, Pancho. And now, I will give you some detail on our quarterly results. Please go to the Slide 3. During the quarter, total revenue increased 7% to MXN 508 million. This was driven by a 15% growth in food and beverage revenue, 35% growth in other revenue and 2% growth in third-party hotel management fee. This factor more than offset a 2% decline in room revenue.

Food and beverage revenue increased 15% to MXN 191 million in the quarter. This was mainly driven by the Hilton Puerto Vallarta, Reflect Los Cabos and Reflect Nuevo Vallarta, which are all in the stabilization phase.

Other income, which includes event room rentals, parking, laundry, telephone and leasing of commercial spaces, increased 35% from MXN 36 million in the third quarter '18 to MXN 48 million in third quarter '19, driven by increased hotel activity. Management fees related to third-party owned hotels increased by 2% compared to third quarter '18, driven by 20% increase in the number of rooms under operation.

This month has then offset a 10% decrease in RevPAR during the period, due mainly to the agents of new hotels during this third quarter. The decline in room revenue was mainly due to softer performance in the market in both Cancun and Guadalajara, as Pancho mentioned already, which was actually offset by growth in Los Cabos and Nuevo Vallarta.

Now please go to Slide 2 (sic) [4]. Moving on to key operating metrics. On a consolidated level, this quarter, we posted a 7% decrease in RevPAR, which is comprised of an ADR decrease of 5% and 1.2% reduction in occupancy. This was driven by the factors we just mentioned, besides, as I mentioned too, of an increase of 8.2% in the number of available wells.

Now please go to Slide 5, and I will hand the call over to Enrique Martínez.

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

Thank you, Paco. EBIT in the quarter was MXN 140 million, a 3% decrease compared to third quarter '18. This result was driven by the combined effect of lower power and higher operating costs mainly due to the Reflect hotels. EBITDA margin in the quarter was 27.5% compared to the 30.3% in third quarter '18.

Moving on to operating income. We reported MXN 75 million compared to MXN 90 million in third quarter '18. The decrease was driven by the factor I just mentioned.

In terms of net income, we went from a gain of MXN 123 million in third quarter '18 to a loss of MXN 29 million in third quarter '19. This variation was attributed to a negative FX result in the quarter.

Now please go to Slide 6. Net debt was MXN 2.6 billion at the end of the third quarter '19, which represent a total debt-to-EBITDA last 12-month ratio of 4x. Total debt is mostly U.S. dollar-denominated, 95% to be exact. This tranche of the debt has an average cost of 5.2%, while the remaining



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portion of 5% is peso-denominated with an average cost of 11%. This results in a competitive overall debt mix of 5.5%. I will also like to mention that over 89% of debt maturities are long term.

The Mexican peso depreciated 3% by the end of the quarter, which had a negative impact in our financial cost. Also, our short U.S. dollar position by the end of the quarter was \$132 million, which is equivalent to MXN 2.6 billion.

Now please go to Slide 7, and I will pass call back to Max, who will talk about our recent announcement.

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

Thank you, Enrique. I would like to highlight our 3 latest announcements. First, we announced the signature of a management contract for the AC Hotel by Marriott Santa Fe with 168 rooms located in Mexico City Santa Fe District. The hotel, which is owned by a third-party and which was inaugurated in May of 2017, is located on (inaudible) just steps away from the Santa Fe -- from the Centro Commercial Santa Fe Mall.

Second, we announced the signature of a management agreement for the Courtyard by Marriott Puebla with 154 rooms located in the City of Puebla. This hotel, which is also owned by a third-party, is located minutes away from the (inaudible) Mall.

Third, in order to strengthen our balance sheet and lower the amount of company-owned assets whose results are not consolidated in our financial statements, we announced the divestment of our stake of MXN 88 million in the Breathless Tulum Resort & Spa. However, note that our management contract for this hotel remains in place.

Lastly, before I open up for questions, I would like to mention that we have demonstrated that we know how to grow profitably while being disciplined with valuation. We also believe that we are in a unique position to continue to take advantage of the growing hotel industry in Mexico and becoming the leading hotel company.

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

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## QUESTIONS AND ANSWERS

### **Operator**

(Operator Instructions) Our first question comes from Eduardo Alvizouri with GBM.

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### **Eduardo Alvizouri Alvarez** - *GBM Grupo Bursátil Mexicano, S.A. de C.V. Casa de Bolsa, Research Division - Research Analyst*

I have a question regarding the operating metrics. In particular, could you give us some color on why the average daily rate dropped so much this quarter for stabilized owned hotels even below the levels shown in hotel's industrialization stage?

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

Eduardo, this is Francisco Medina. Mainly the reason that Pancho mentioned about Cancun because the other hotel were either in line or above last year. And basically, it's 3 hotels that we have in Cancun. As we mentioned, Cancun has been experiencing a decrease in the demand besides an increase on the supply, combined with the problems with sargassum. And also Guadalajara, in the concept, we have seen that the city has reduced around 10 points of occupancy mainly in the main expos at the Expo Guadalajara. They have 8 main major events during the year, and basically, that has been decreasing around 26%. So basically, that's the main 2 points.

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**Operator**

Our next question comes from Martin Lara with Miranda Global Research.

**Martin Lara**

Could you please give us an update on how do you see the occupancy rate in the next few quarters?

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

As you know -- thank you very much for participating. As you know, we cannot give forward-looking statements, but we believe that we should be keeping similar levels to what we have today. We don't foresee additional drops in a relevant manner. One very important thing is that when you look at this industry, you should look at the RevPAR, which is a key metric because it's the combination of ADR and of (inaudible) occupancy. And if you look at RevPAR, what we're trying to do is maintain a certain level of occupancy, and maybe with the effects of the rate that Pancho just mentioned, we try to keep ourselves within the market.

**Operator**

(Operator Instructions) Our next question comes from Ed (inaudible) with [ECS Capital].

**Unidentified Analyst**

I have a couple of them. The first one is if you can give us an update of the project in Hyatt (inaudible)

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

Yes. We are very close to being able to announce the continuation of the construction and we should be doing that shortly.

**Unidentified Analyst**

Okay. So -- but at this time, the project is on hold, right? It's because of the regulatory requirements of the Mexican local government and et cetera?

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

Yes. We are -- we continue to be in the same situation that we communicated last quarter, but we have expectations that this could be resolved soon.

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

And when we have news that it's resolved, we will let you know...

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

Immediately.

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

Through a press release.

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

We've been in constant communication with the authorities, and things are going in the right direction.

**Unidentified Analyst**

Okay. My second question is regarding what you already said about other lower results of Reflect Krystal brand properties. So my question is, what was the reason on why these results were lower than you expect?

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

Well, when we started the year and we felt the booking, which is reservations looking forward, started in January '19, we were not expecting the reduction of Guadalajara and Cancun basically. And this is mainly for the reason we just mentioned about the sargassum, the -- as we -- Pancho mentioned in the report, the perception of security, and the third main topic was sargassum, which has been shown in that decrease of occupancy in the -- mainly in the Reflect hotels, which is the case at the Cancun, Los Cabos and Nuevo Vallarta, and more and more affected Cancun than the other one.

**Unidentified Analyst**

Okay. Okay. That's really helpful. And the last question is, well, despite of the fact that you have 31% U.S.-dominated dollars revenue, my concern is if you have any -- I don't know if FX hedging strategy for the next quarter, even though for the next year it helps, it seems as if FX exposure that you already have, if -- well, at the end, it results in this quarter that we have a loss instead of a gain, so do you have a hedging strategy upcoming? Or what are the next steps of mitigating these FX rates?

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

Yes. Thank you. Basically, our -- as you see in the quarter in our report Page 13, we have, as you mentioned, 31.7% of our revenues in dollars but 91.1% of our cash flow in the same currency, and that's due to the fact that we barely have no U.S.-denominated expenses. If you look at the accrued as January, September, this number is almost 38% in revenues and 103% -- 102.6 of cash flow, which means that we actually have to go and sell dollars to...

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

(inaudible)

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

No, no. We have to sell dollars for pesos because we don't have that need -- that much need for the U.S. currency. So we have a natural, natural hedging, and we believe that this puts us in a very good position because financial expenses, as you saw in Enrique's presentation, are about half of the cost of peso-denominated debt. So -- and our hedging is due to the presence that we have in all the major U.S.-generating dollar markets.



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**Unidentified Analyst**

Okay. So just to be clear about this. You are not planning to, let me term this way, to have a derivative strategy in order to mitigate the FX exposure, right? Because at the end...

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

We are evaluating options, and -- yes. But at this point, we want to be very, very -- with the hedging we have, we want to be sure that we make a smart decision in the case we make it.

**Operator**

And we have no further questions in the queue at this time.

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

Okay. Well, we would like to thank all of you for participating and for the trust that you have placed in us. We want to reaffirm our commitment to maximize your investments. And we'd also like to thank all of our associates for their constant and excellent efforts in their everyday work. Have a great weekend, everyone, and thank you for joining.

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

Thank you.

**Operator**

Ladies and gentlemen, this concludes today's conference. You may now disconnect your phone lines and log off of the webinar platform.

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