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HOTEL\*.MX - Q2 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*

**José Alberto Santana Cobián** *Grupo Hotelero Santa Fe, S.A.B. de C.V. - Chief Administrative Officer*

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

## CONFERENCE CALL PARTICIPANTS

**Martin Lara**

## PRESENTATION

### Operator

Excuse me, everyone, we now have our speakers in conference. (Operator Instructions) It is now my pleasure to turn today's 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*

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 2019. On the line, we have Enrique Martínez, our CFO; and Alberto Santana, our Administration Director. Francisco Medina could not join the call today as he's on the road and (inaudible) could not participate today, as he had to travel for his daughter's wedding but is available to answer any additional questions or would like a follow-up call with him.

The presentation slides we will follow during the call are available on our website, 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 uncertainty, 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.

Now let me begin. Despite a turbulent year for the Mexican tourism sector, our sequential growth improved. Even so, our quarterly results were below our expectations due to external factors, which were partially offset by the Holy Week shift from March 2018 to April 2019.

In Mexico, tourist activity at both resorts and urban destinations continue to show softer dynamics. At resort destinations, the main headwind was the slowdown in international tourism that began at the end of next year -- at the end of last year, sorry, driven by a combined effect of perception of decreased security in certain markets, and the large amount of (inaudible) washing up along the beaches of Cancún under (inaudible).

Regarding urban destination, the slowdown in economic activity continued to affect booking activity in several segments, including the impact conventions, corporate accounts and government's accounts due to the austerity measures.

Moving on to our quarterly results, they were impacted by the aforementioned items combined with the maturation curve of the Reflect Kystral Grand properties, which have been negatively affected by the same factors, which weighed on our performance.

Quarterly revenue totaled MXN 542 million, up 15% compared to the second quarter of 2018. 2Q '19 EBITDA on the other hand was MXN 134 million, up 1% compared to Q2 '18.



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Regarding company-owned hotels, RevPAR increased by 8% due to the combined effect of an 8% decrease in ADR and a slight contraction in occupancy. We would like to emphasize our increasingly stringent cost-cutting initiatives to maintain profitability, which have proved to be effective on a sequential basis. For the lower-than-expected results in Reflect's Krystal Grand properties affected our profitability, and this brand has higher standards, and therefore higher operating costs. Before growing into normal at higher standards must be met in order to achieve higher ADR growth over time.

The strategic alliance with AMResorts will bring about accelerated revenue growth for us, coupled with a higher proportion of dollar-denominated revenues. This dollar-denominated revenue is starting to grow, and we have estimate this trend will continue. Actually, in the first half of the year, we are over 40% of dollar rise rights revenues.

Now moving on to our quarterly results, please go to Slide 2, and I will pass the call on to Enrique Martínez.

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

Thank you, Matt, good afternoon to everyone. During second quarter of 2019, (inaudible) revenue increased 4% compared to second quarter of 2018. Deriving from the 30% increase in hotel rooms, which was offset by an 8% lower RevPAR.

Lower RevPAR driven by an 8% decrease in ADR combining with a slight reduction in occupancy of company-owned hotels. (inaudible) revenue increased 27% this quarter, driven by the maturation of the Reflect sargassum and Reflect to start grand (inaudible). As a percentage of revenues of all-inclusive results, our (inaudible) revenues.

All other revenue, which include all other items, (inaudible) rentals, parking, land route, (inaudible) and leasing of commercial space increased 47% attributed to the growth in the Reflect Kystal Grand hotels, combining with the growth at the Hilton Puerto Vallarta Resort resulting from Hacienda by Hilton Refresh.

Management is related to the third party (inaudible) hotels increased by 16% compared to second quarter in 2018 due to a 9% increase in the number of rooms under operation during the period, combining with a 30% increase in RevPAR. Growth in RevPAR was driven by a 7% (inaudible) expansion in occupancy, combined with a 2% increase in ADR.

Now please go to Slide 3. Moving on to our key operational metrics, on a consolidated level this quarter we post 1% decrease in RevPAR, which is comprised of an ADR decrease of 4% and 2 percent point increase in occupancy.

Now please move to Slide 4, and I will hand the call over to Alberto Santana, which will guide you through our financial results.

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### **José Alberto Santana Cobián** - *Grupo Hotelero Santa Fe, S.A.B. de C.V. - Chief Administrative Officer*

Thank you, Enrique. EBITDA in the quarter reached MXN 134 million, a 1% increase compared to second quarter '18. Due to somewhat driven by the effect (inaudible) EBITDA margin in the quarter was 24.8% compared to 28.2% in second quarter '18.

Moving on to operating income, we reached MXN 65 million compared to MXN 77 million in second quarter '18. The decrease was driven by the same impact, including higher cost and benefits in the Reflect Krystal Grand hotels, as explained earlier.

In terms of net income, we had an interim loss of MXN 78 million in second quarter '18, to a gain on MXN 20 million in second quarter '19. Many attributed to a net foreign exchange gain compared to net foreign exchange loss in second quarter '18. Second quarter '19, net income margin was 4%.



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Now please move to Slide 5. Net debt was MXN 2,700 million at the end of the quarter, which represented a total debt to last 12 months EBITDA ratio of 4.1x. Total debt is mostly U.S. dollar denominated, 92% to be exact. And this tranche of the debt has an EBITDA scope of 5.4%, while the remaining portion of 8% is denominated with an EBITDA score of 11.5%, having a competitive overall debt mix of 5.9%.

In second quarter '19, we purchased 2 Mexican peso denominated bank loan and obtained 2 new U.S. dollar denominated credit facilities for the same amount. Additionally, I would like to mention that over 91% of debt maturities are long term.

The Mexican peso appreciated 1.1% by the end of the quarter and has a positive impact on our financial cost. Also, our short U.S. dollar position by the end of the quarter was MXN 121 million, grew well into MXN 2,322 million.

Now please move to Slide 6, and I will pass the call back over to Max, who will finish off the call.

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

Thank you, Alberto. At Hotel, we remain committed to becoming the leading hotel company in Mexico. The extraordinary management team and associates we have assembled, and the strategy we have outlined, will allow us to continue growing efficiently and profitability in the long run. As always, we are thankful for the trust and support of our shareholders.

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

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Our first question comes from Martin Lara with Miranda Global Research.

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### Martin Lara

I only have 1 question. Could you please give us an update on the guidance for the year?

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

Martin, thank you for connecting, and thank you for your question. For now, our guidance remains unchanged. We are still aiming for MXN 780 million and EBITDA by the end of the year.

Even though we've had a slow first half of the year and also affected our -- that has affected our profitability, we do expect the second half of the year to be better, especially because if you'll recall, at the second half of last year, the Reflect Krystal Grand Resorts were in the integration with AM model. And that took little bit longer than expected, and therefore the generation of business by those hotels was affected. Therefore, we do think that with the rhythm and pace that we've seeing in those hotels, there will be an improvement for the second half of this year. However, depending on how we do in the quarter, we'll give you an update on guidance in our next conference call.

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### Martin Lara

Okay. And what to expect in terms of tariff, average daily tariff and occupancy rate for the second half of the year?



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

Thank you for your question, Martin. We don't give guidance for the operational metrics going forward. However, we do expect the trends to improve a little bit. I think we've been affected by a lot of external factors in this first half of the year. But especially, I think that the factors that will help us most will be the performance of the Reflect Krystal Grand hotel and also the continued maturation of our hotels, which have not reached maturity yet. That's what we can share for now.

**Operator**

(Operator Instructions) And we have no further questions in the queue at this time, I would now like to turn the conference back to Mr. Max Zimmerman, Investor Relations Director, for closing remarks.

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

Thank you, operator. We would like to thank all of you for the trust that you have placed in us, and we affirm our commitment to maximize your investment. We also would also like to thank all of our associates for their constant efforts. Have a great day, everyone.

**Operator**

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

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