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HOTEL\*.MX - Q1 2019 Grupo Hotelero Santa Fe SAB de CV Earnings Call

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## CORPORATE PARTICIPANTS

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

**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**

**Pablo Enrique Duarte de León** *Actinver Casa de Bolsa, S.A. de C.V., Research Division - Real Estate Analyst*

## 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.

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

Good afternoon, everyone, and thank you for joining us today. My name is Max Zimmerman, Investor Relations Director of Hotel, and I would like to welcome you to the company's earnings webcast for the first quarter of 2019.

On the line, we have Francisco Medina, our CEO; and Alberto Santana, our Administration Director. Francisco Zinser and Enrique Martínez could not join us on the call today as they are on the road. The presentation slides we will follow during this 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 risk 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.

We will now begin the presentation, and I will pass the call to Francisco Medina.

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

Good morning, everyone, and thank you, Max. Once again, thank you for joining our webcast.

The first quarter marked a tough start to the tourism sector in Mexico, and therefore also for HOTEL. Our quarterly results were below our expectations due to the Holy Week shift from March 2018 to April 2019 combined with the external factors. In Mexico, tourist activity was negatively affected at both at resort and urban destinations. At resort destinations, the main issues were a slowdown in the international tourism combined with a lower perception of security in certain markets. Recently, the U.S. Department of State warned American citizens about incremental risks in the country.

At the urban destinations a slowdown in economic activity affected the booking activity of various segments, including meeting and conventions, corporate account and government account due to the austerity measures.



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Moving on to our quarterly results. They were affected by the aforementioned effects combined with the maturation curve of the Reflect Krystal Grand properties which have been negatively affected by these factors. Revenue in the quarter totaled MXN 622.6 million, up 8.3% compared to first quarter of '18. EBITDA on the other hand was MXN 211.2 million in the quarter, down 6.4% compared to first quarter '18.

Regarding company-owned hotels, RevPAR decreased by 12.4% due to a 7.2% decrease in ADR and 3.8 percentage points of decrease in occupancy.

It is important to mention that since beginning of the year, we have tightened our cost-cutting initiatives to protect profitability. The lower-than-expected results for the Reflect Krystal Grand properties affected our profitability since this brand has higher standards and therefore higher operating cost.

It is a natural effect, as you have to implement these standards in order to achieve higher ADR growth over time. We continue to believe that the strategic alliance with AMResorts will bring the company accelerated revenue growth coupled with a higher percentage of dollar-denominated sales. We are already starting to see these effects, as first quarter '19 we posted 48% dollarized income, a record for the company, compared to the 42% in first quarter '18.

Moving on to our quarterly operational results, please go to Slide 2. During first quarter '19, Room Revenue decreased 4% compared to first quarter '18, derived from the 12% decrease in RevPAR, comprised of a 4 percentage point decline in occupancy and 7% decrease in ADR. Lower RevPAR was compensated by a 9.6% increase in the number of rooms in operation of company-owned hotels.

Food and Beverage revenue increased 21% in this quarter as a result of the growth of the Reflect Krystal Grand hotels which are now fully all-inclusive, combined with the growth of the Hilton Puerto Vallarta Resort derived from The Hacienda by Hilton expansion.

Other Hotel Revenue, which includes among other items, event room rentals, parking, laundry, telephone, and leasing of commercial spaces, increased 42% attributed to the growth of the Reflect Krystal Grand hotels, combined with the growth at the Hilton Puerto Vallarta Resort resulting from The Hacienda by Hilton expansion.

Management Fees related to the third-party owned hotels increased by 8% compared to the first quarter '18 due to a 3% increase in the number of rooms under operation during the period, combined with a higher RevPAR. The 3% increase in RevPAR was driven by the 2 percentage points expansion in occupancy when combined with a stable ADR.

Now please go to Slide 3. Moving on to our key operational metrics. On a consolidated level, this quarter we posted a 7% decrease in RevPAR, which is comprised of an ADR decrease of 4.5% and a 2 percentage reduction in occupancy. The lower RevPAR is attributed to the factors I just mentioned.

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, Paco. EBITDA in the quarter reached MXN 223 million, a 6% decrease compared to first quarter '18. This result was driven by the effects Paco previously mentioned. EBITDA margin in the quarter was 33.9% compared to 39.2% in first quarter '18.

Moving on to operating income. We reached MXN 151 million compared to MXN 171 million in first quarter '18. The decrease was driven by the same factors, including higher cost and expenses in the Reflect Krystal Grand hotels, as explained earlier.

In terms of net income, we went from a gain of MXN 205 million in first quarter '18 to a gain of MXN 106 million in first quarter '19, mainly attributed to a higher net financing cost, combined with lower operating income. First quarter '19 net income margin was 17%.

Now please move to Slide 5. Net debt was MXN 2,771 million at the end of the quarter, which represented a total debt-to-EBITDA last 12-month ratio of 4.2x. Total debt is mostly U.S. dollar-denominated, 85% to be exact, and this tranche of the debt has an average cost of 5.7%, while the



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remaining portion of 15% is peso-denominated, with an average cost of 11.5%, having a competitive overall debt mix of 6.6%. Additionally, I will like to mention that over 93% of debt maturities are long term.

The Mexican peso appreciated 1.4% by the end of the quarter and had a positive impact on our financial cost also. Our short US dollar position by the end of the quarter was \$93 million, equivalent to MXN 2,379 million.

Now please move to Slide 6, and I will pass the call back 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. I would like to highlight our latest announcement. Last month, Nexus Capital distributed their HOTEL shares among its investors, which are equivalent to 19.1% of total outstanding shares as part of their natural exit plan. We believe we will benefit from this action in the short- and long-term as our higher float and liquidity should be a catalyst and support the company's objective of enhancing shareholder value. Just to remind you, our float is now over 65%.

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 profitably in the long run. As always, we are thankful for the trust and support of our shareholders.

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

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) And our first question comes from Pablo Duarte with Actinver.

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**Pablo Enrique Duarte de León** - *Actinver Casa de Bolsa, S.A. de C.V., Research Division - Real Estate Analyst*

How have you seen the more recent booking trends? Have they shown a recovery following the first quarter's weakness? And what do you expect in terms of RevPAR performance for the rest of 2019?

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

Pablo, this is Francisco Medina. We are optimistic about the second half of the year based that the country and the external situation will improve in terms of the companies that, in the first 6 months, were not traveling as they used to do in the 2018. We are foreseeing, as you mentioned, in the booking pace, some recovery that is solely based on the perception of the recovery of the country. So we are actually expecting that external situation will improve in the second half of the year that will bring us to a better performance.

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### Operator

Our next question comes from Martin Lara with MGR.

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### Martin Lara

I only have one question. Where do you see your EBITDA margin in the next few quarters?

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

This is Max from Investor Relations. Well, we did not change our guidance. So basically, what we are expecting for the year is an EBITDA margin of 33.5%. So if you consider that this quarter we were in that ballpark, we would expect similar profitability going forward. Consider that normally, the first -- there's some seasonality involved, where the first quarter normally has higher profitability. That's not the case for this year. But again, this is going to depend, as Paco mentioned, on how the economy starts -- when the economy starts growing in Mexico and, of course, also on the development curve of the AMResorts which, as we mentioned, have higher costs, and therefore has affected our profitability. But if things go in the right direction, we would expect this to improve. However, I think similar margins to what you saw in this quarter is what we're expecting for the full year.

**Operator**

(Operator Instructions) And our next question comes from [Edson McGwee].

**Unidentified Analyst**

I have a couple of them, but I'll like to start with, if you can give an update about the property in Insurgentes. It seems that -- I don't know -- you can give some advise on how local government dispositions, local government regulations have affected this property? And how it's going to impact in the delay the pace of construction?

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

Thank you for your question. The status is basically the same as when we -- as last month, when we gave you the updates on the -- or the press release on this. As you know, our property is under temporary suspension, and as part of a plan of Mexico's new government intended to review the documentation of large construction. So this is something that is not specific to us. It's happening in the whole city. And I think it's going to a matter of time, sort of, before this is solved. We don't have any specific time frame of when that may happen. However, we are taking all the legal steps that we can. We're following through with them, having dialogue with the proper authorities in Mexico City, and as soon as we have an update on that, we'll definitely let you know.

**Unidentified Analyst**

Okay. And a follow-up of this. Are you considering a cost impact because of this government suspension?

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

Not so much as a cost impact. However, the time of when the project would be ready could be impacted considering that -- these delays that we have and we have suffered. There are some operational costs as the construction stopped. However, fortunately, those are not relevant as of now. However, we will see. I think that for now, the budget that we have -- and that we announced of the building, should not change in an important manner and definitely not in this year. So when we have updates on this, and when we send the update, once we have news of the construction, and we'll also let you know if there is a change in budget. However, that's not something that we are foreseeing.

**Unidentified Analyst**

Okay. And the last question is regarding to the cost-cutting strategy that you are following. It seems that when you have this plan for cost cutting, I mean, it work on paper, but in the reality, as we saw in this quarter 2019, and specifically with Krystal Grand -- Krystal hotels, it seems that it is not working. And my question is, why it's not working? It doesn't matter if it's going to be because of the high levels of properties or of the brand, I



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perfectly understand that, but the thing is, are we going to see, for the next quarter, the same? Or it's only like a specific matter of days? High-end Krystal Grand hotel's quality standard you have to follow.

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

Yes, Edson. This is Francisco Medina. I would like to, first of all, say that the strategy is working, and I will separate it in 2 different ways. One part is the Krystal Hotels and Hiltons and this and that, that our strategy of reducing on the cost is working very well, and that part of the portfolio has shown a very good result based on the experience we have under these circumstances, including the reduction in the employees cost, in cost and direct cost of rent, F&B et cetera, that is working very well. The other part of the portfolio, which are the Reflect Krystal brand, we are taking the hit, as we mentioned, based on -- even though we are doing a small reductions in some areas, we are having higher costs compared to the last year because we are implementing the new standards. And we think that in the second part of the year, that will show in a better way, taking into the consideration that AMResorts started co-branding after July. So there's 2 parts. One is working very well. The other, we decided to take the hit of the higher cost because of the implementation of this newer standard and we're seeing, we will get the balance that we need after 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*

When you have higher standards, you also have higher ADR. So you sometimes have to take a hit in the short term, so you can have higher ADR going forward. And that's part of the thinking. It's kind of the chicken and the egg dilemma that's regulating this. It is working, and keeping those standards, we believe we will have a better ADR. However, as we mentioned, the curve of the that reflects on Grand resorts have been slower-than-expected because of all of the external factors which also affect it. However, we do believe in the underlying fundamentals of the (inaudible).

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**Operator**

And we have no further questions at this time. I would now like to turn the conference back to Mr. Francisco Medina for closing remarks.

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

We will like to thank you for the trust you have placed in us and reaffirm our commitment to maximize your investment. We also would like to thank all of our associates for the constant effort, and we wish you have a great day, everyone, and have a great weekend. Thank you very much.

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**Operator**

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

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