HOTEL Conference Call Transcript – 3Q23

HOTEL Participants

- Enrique Martínez - CFO
- Francisco Zinser – Executive Vice President
- Maximilian Zimmermann - Director of IR & Sustainability

Conference Call Participants

- Andres Lomeli – LCA Capital
- Carlos Alcaraz Pineda - Apalache Análisis
- Martín Lara - Miranda Global Research

Operator

Good day, everyone and welcome to today's Grupo Hotelero Santa Fe Third Quarter 2023 Investor Relations Call. Please note, this call is recorded. (Operator Instructions) It is now my pleasure to turn the conference over to Max Zimmermann.

Maximilian Zimmermann - Director of IR & Sustainability

Thank you operator. And good afternoon everyone. 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 third quarter of 2023. On the line, we have Francisco Zinser, Executive Vice President; and Enrique Martinez, CFO.

The presentation slides will follow during the 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 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. Now I will pass the call to Francisco Zinser, our Executive Vice President. Go ahead, Pancho.

Francisco Zinser – Executive Vice President

Hello, everyone. Thank you, Max. Thank you for joining us in the call. And I would like to start by summarizing our results year-to-date for 2023. Our revenues totaled MXN 2.2 million -- 22 -- sorry, MXN 2,250 million for the first 9 months. 18% up for the same period in 2022. EBITDA was MXN 659 million for the first 9 months of the year, up 24% compared to the same period of 2022. RevPAR has a substantial increase of 16%, out of which an increase in ADR of 12% held the majority of the increase in RevPAR and 2.4% in occupancy for the first time in 9 months of the year for the period of 2022.

Since our last call, we had 2 noteworthy events. The first one, chronologically speaking was Krystal Grand San Miguel de Allende, with a 22-room hotel, I should say, suite hotel with a rental program that could bring the number up to over 100 units once the maturity of the project happens.

And inside this small, gated community called La Serena in San Miguel, which has a lot of enchantment and has a lot of personality. Basically, mimics downtown part of San Miguel and we believe that it's going to be a very successful program, as you all know, San Miguel is a city or a town that has been booming in terms of visitors from both Mexico and foreign.

The second was the opening of a Secrets Tulum Resort & Spa and beach club. This was on October the 12th. It is an amazing 326 room hotel with a note -- a dream worthy beach club -- with a noteworthy beach club in the heart of Tulum. We are able to post these results despite a decrease in tourism in Mexico, basically driven by drops in airport traffic that began since the month of April.

We have now reached high single-digit declines. Our last 12 months' EBITDA as of September 30 was MXN 875 million, and our net debt-to-EBITDA ratio is 3x, which is a range in which we feel comfortable. I should say that the Tulum property had a very successful opening in terms of demand and quality.

Now I would like to pass the microphone to Max to further go in the presentation.

Maximilian Zimmermann - Director of IR & Sustainability

Thank you, Pancho. Now let's move to Slide 2. Room, for the quarter, room revenue decreased in 2% to MXN 315 million in the third quarter of 2023 compared to the third quarter of 2022. Food and Beverage revenue increased 12% to MXN 274 million in the quarter. And other income, which includes, among other items, event rentals, parking, telephone and leasing of commercial spaces, decreased 36% to MXN 35 million in the quarter.

Vacation Club increased 20%, reaching MXN 13 million. And third-party hotel management fees were MXN 19 million, which were down 12% in the quarter.

Now please move to Slide 3. Moving on to our key operational metrics for the quarter. On a consolidated level, we posted a 1.9 percentage point decrease in occupancy reaching 62%, combined with an ADR decrease of 1%, MXN 1,575. RevPAR in the quarter was MXN 982, which was 4% lower than the third quarter 2022.

Francisco Zinser – Executive Vice President

I would just like to add to what Max is saying is that the impact of the opening is evidently has impact on both of these ratios mainly in terms of occupancy due to the addition of inventory and the start-up process of the properties.

Maximilian Zimmermann - Director of IR & Sustainability

Thank you, Pancho. Now please move to Slide 4. EBITDA in the quarter decreased 9%. Okay. EBITDA in the quarter decreased to 9% to MXN 156 million compared to MXN 172 million in the third quarter of last year, which was driven by higher revenues.

Moving on. Operating income decreased 42% to MXN 58 million compared to MXN 98 million in the third quarter of 2022. In terms of net income, we went from a MXN 51 million gain in the third quarter of last year to MXN 55 million loss in the third quarter of 2023.

Francisco Zinser – Executive Vice President

Decrease, not loss.

Maximilian Zimmermann - Director of IR & Sustainability

This was driven by a higher foreign exchange rate loss combined with increased interest payments.

Francisco Zinser – Executive Vice President

A worthy to say that, as I mentioned before, the year-to-date number is 23.6% growth in terms of EBITDA.

Maximilian Zimmermann - Director of IR & Sustainability

Thank you, Pancho. Now let's move to Slide 5. Net debt was MXN 2,651 million at the quarter which represented a total debt-to-EBITDA ratio last 12 months of 3x, as Pancho mentioned. That is mostly dollar-denominated, 77% to be exact, and this tranche of debt has an average cost of 8.4%. While the remaining portion of 23% of total debt is peso-denominated with an average cost of 14.5%, having an overall debt mix of 9.8%. Additionally, I would like to mention that over 90% of debt maturities are long term. Our U.S. short dollar position by the end of the quarter was $122 million, equivalent to MXN 2,156 million.

Now please move to Slide 6, and I will pass the call back to Pancho, who will finish up the call before our Q&A.

Francisco Zinser – Executive Vice President

Thank you, Max. Before we go in the Q&A section of this call, I would like to highlight and express my gratitude to the more than 3,400 associates that have supported the company unconditionally and continue to do so every single day. As always, we are especially thankful for the trust and support of holders and again, to all of our tremendously professional and cooperative teams.

Now we would like to open up for Q&A.

Operator

Thank you. At this time, we will open the floor for your questions. Ladies and gentlemen, if you have a question, please use the raise hand function on your Zoom tool. (Operator Instructions).

Our first question comes from Martin Lara from Miranda Research.

Martín Lara - Miranda Global Research

I have two questions. The first one is, could you please explain the 12% increase in food and bev revenues? It was very strong.

And the second question is the appreciation of the Mexican peso affected occupancy levels and ADR growth in the quarter.

Francisco Zinser – Executive Vice President

Yes. Thank you. Thank you very much, Martin. I will answer the first question, and Max will answer the second question.

Our Food and Beverage revenues were very strong because addition of the Mahekal Hotel in Playa del Carmen that has a very strong food and beverage component. Food and Beverage is a very relevant part of our revenue. And we continue to thrive and to try to grow this stream of revenue throughout our properties.

Max, could you answer the second question?

Maximilian Zimmermann - Director of IR & Sustainability

A. Sure, Pancho. Thank you. So in terms of the effect of the depreciation of the Mexican peso, you mentioned, Martin, let me dive into the effect of the exchange rate first. In the quarter, our income would have grown a little bit above 4% instead of 0.5% if the Mexican peso had not appreciated since the close of '22. And then the year-to-date, revenue would have grown above 22% instead of the 17.7% that we reported.

Having said that, other than depreciation of the Mexican peso, various factors have affected our revenues, such as high inflation globally that affects - yes, sorry, that affects travel to resort destinations, also in security and the opening of other destinations such as Punta Cana, Jamaica.

Operator

Thank you. Our next question comes from Carlos Alcaraz from Apalache Research.

Carlos Alcaraz Pineda - Apalache Análisis

I have a couple of very specific questions. The first one is regarding the new hotels. What is the stabilization period you estimate for these projects? And finally, what levels of net debt-to-EBITDA ratio are you comfortable with?

Francisco Zinser – Executive Vice President

In terms of the stabilization period, as we've mentioned before, hotels usually have a window of 2 to 3 years to reach certain stabilization. So we believe that this will happen in the properties that we've opened.

Probably Tulum, as we're looking at a fantastic performance, will accelerate that period and will be a faster stabilization period. But I would say that it would be reasonable to think for a 2- or 3-year window.

And I would like to ask Enrique to answer your second question.

Enrique Martínez - CFO

Yes, sure. Regarding the levels of net debt-to-EBITDA ratio, we feel comfortable in a ratio between 3x and 4x. We are currently in 3x the ratio of net debt-to-EBITDA.

Operator

Yes. The next question comes from Andres Lomeli from LCA Capital.

Andres Lomeli – LCA Capital

My question is regarding the drop in EBITDA margins that went to 23%. Was this solely based on the new hotels incorporation and their ramp or was it something else?

Francisco Zinser – Executive Vice President

Thank you very much, Andres. No, it's several factors. I would say that the 3 key factors are, one of them mentioned by Max, which is the appreciation of the peso, around 34% of our revenues dollar-denominated, which is a very substantial part of the revenue stream. And with the big difference from almost MXN 22 to MXN 17, MXN 16 and now closer to MXN 18. This is a significant impact because not only do we have less pesos for each dollar that is spent in the company, but inflation has been rampant. As you all know, now it looks a bit under control, but we did have an increase in prices.

So we have kind of a deadly mix in terms of Mexico's peso appreciation and growth in inflation. So it was a double whammy on both sides. But I still think we did a fantastic job in terms of maintaining very, very reasonable margins of EBITDA. I would also say that, obviously, openings have an impact, but I would say that, that would be the lesser part. So the 3 elements would be appreciation of the peso inflation and the minimal at this point, impact of openings.

Maximilian Zimmermann - Director of IR & Sustainability

And let me just add to that, around 1/3 of that effect that Pancho mentioned has to do with appreciation of the peso.

Andres Lomeli – LCA Capital

Perfect. And just a quick follow-up. Throughout the year, you've had several acquisitions and developments, Mahekal in the past year and then the purchase of the Secrets Tulum. Going forward, what CapEx should we expect? Is there still more development to come? Or would it be mostly maintenance?

Francisco Zinser – Executive Vice President

We are always looking for opportunities to grow. We don't have an amount on disclose at this point, but we're always looking at opportunities to grow and always analyzing, as you have seen with the -- as you mentioned, the strong pace that we've had in the past 12 months including Mahekal, San Miguel de Allende, Hyatt maybe in (inaudible), and now Secrets Tulum. So yes, we are constantly looking at opportunities but have no information to disclose at this point.

Maximilian Zimmermann - Director of IR & Sustainability

And complementing Pancho, I would tell you that I'm talking about maintenance CapEx going forward. You should see it at levels of around 4% of revenues, which is normally what we set aside just for maintenance CapEx.

Andres Lomeli – LCA Capital

Understood. And if I may, just one quick one. This year, you paid out a substantial dividend. Is it something that you might want to incorporate going forward, maybe of course, at a lower percentage or payment, but is it something that has been discussed?

Maximilian Zimmermann - Director of IR & Sustainability

Thank you, Andres. Just to clarify, we did not pay a dividend. It was a redemption of capital, which is important to mention because it is different, although it is similar. And having said that, I'll pass the word to Pancho.

Francisco Zinser – Executive Vice President

Yes. At this point, we consider ourselves a company in growth and looking for opportunities for growth. So, at this point, we believe that the best allocation of our resources is capturing the opportunities that we have been capturing before and that we expect to capture in the future.

Operator

A. (Operator Instructions). With no further question, I would like to turn the call to the management.

Francisco Zinser – Executive Vice President

Thank you again. I would once again like to thank you, our investors and the interested parties in this company. We are very proud of what we're doing. We are very, very focused in terms of the right allocation of capital, of our efficiencies. As you can see, we are one of the most efficient hotel companies in terms of margins, and we will continue to be in that line, and we are very disciplined in terms of investments and in terms of opportunities of growth.

We always try to add as much value as we can to our shareholders. And again, I would like to very much thank all of our collaborators and all of our associates, which do a fantastic job every single day and every single one of our properties.

Thank you very much for joining and have a great weekend.

Operator

Thank you, you may disconnect.