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HOTEL*.MX - Q1 2017 Grupo Hotelero Santa Fe SAB de CV Earnings Call

EVENT DATE/TIME: FEBRUARY 23, 2017 / 6:00PM GMT



CORPORATE PARTICIPANTS

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CONFERENCE CALL PARTICIPANTS

Raphael Cordova *Santander - Analyst*

Edgar Vazquez *GBM - Analyst*

Jorge Huerta *GBM - Analyst*

PRESENTATION

Operator

Excuse me, everyone, we now have all of our speakers in conference.

(Operator Instructions)

I would now like to turn the conference over to Mr. Maximilian Zimmermann. Sir, you may begin.

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

Hi, 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 our company's earning webcast for the fourth quarter 2016.

I'm here with Francisco Zinser, our CEO; Enrique Martinez, our CFO; and Alberto Santana, our Administration Director.

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.

The presentation slides we will follow here in the call are available on our webcast, which you can find on our website. At the end of the presentation, we will open the call to any questions you may have.

We will now begin with the presentation. I will now turn the call over to our CEO, Francisco Zinser.

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

Thank you, Max. And once again, thank you, everyone, for joining us on this call. I'm connected from a remote location, so most of the call will be handled by Enrique and Max.

2016 was a very good year, as we all know, for the industry and for Grupo Hotelero Santa Fe. We continued to post strong growth with solid underlying fundamentals. The sector is well-positioned in light of the recent events including the depreciation of the Mexican peso.



This fact alone has brought us a double-dip effect, because foreign travelers have hard currency that make much more pesos for their travel, and Mexicans have an exchange rate that is complicated to travel outside Mexico because it's too expensive.

We've all seen that this year travelers have grown 9% in terms of international visitors, and the Mexican Ministry of Tourism also stated that the U.S. entered Mexico by plane by 12%.

Let's go to slide 2, please. I would like to mention that a few days ago, as we previously announced, we closed a large transaction to acquire 50% of two hotels in Los Cabos and Nuevo Vallarta. With 933 rooms, that will be rebranded into the Krystal Grand brand.

Both locations are very strategic for us, because they are complementary to our resort supply. Also, I would like to state that this represents growth of 16% in operated rooms and 37% in owned rooms. The total transaction was of about \$120 million, and we only have 50% ownership.

Enrique, can you go to slide 3, please?

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

Thank you, Francisco. Good afternoon, everyone. We're happy to announce that we exceeded our guidance in both revenues and EBITDA in 2016. In terms of revenues, we outperformed our guidance by 7%, and in terms of EBITDA, we outperformed our guidance by 14%. That translates into 220 basis points outperformance of our EBITDA margin guidance, reaching 35%.

Moving on to our revenue rundown, please go to slide 4, where I will pass the floor back to Maximilian.

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

Thank you, Enrique. Room revenue growth was driven by the performance of the Krystal Satellite Maria Barbara and the Urban Cancun, which are in the stabilization stage. The solid performance of stabilized hotels including the Krystal Grand Punta Cancun Hotel, the addition of three hotels under the structure of third party management contracts that were not part of the portfolio in 4Q 2015, and the opening of Krystal Urban Guadalajara Hotel which was added to the portfolio 1Q 2016.

We are taking advantage of Mexico's tourism industry's strong fundamentals and our sources of revenue had experienced significant growth year-over-year. Room revenue increased 20% compared to 4Q 2015 derived from 8% increase in the number of rooms in operation of company-owned hotels and the RevPar improvement of 11%, which in turn was comprised of a 7% ADR increase and 2 percentage point (inaudible).

Food and beverage revenue and other hotel revenue have increased as a result of the evolution of stabilized hotels through our constant asset management, seeking additional sources of revenue, as is the case (inaudible) as well as the growing curve of hotels in stabilization stage and the additions of new hotels to the portfolio.

Revenue from third party management contracts increased by 45% year-over-year due to the addition of the Krystal Monterrey Hotel that was not part of the portfolio in 4Q 2015, combined with the owner-driven expansion of the Krystal Resort Cancun and Krystal Grand Reforma Uno. It is important to mention that management has a very solid expertise in managing and creating value, not only for owned hotels but also for third party-owned hotels.

Now please move to slide 5. EBITDA for 4Q 2016 increased by 20% year-over-year. This is a result of the combined effect of revenue growth, the inclusion of the Krystal Urban Guadalajara as a company-owned hotel, and Krystal Monterrey as a third party hotel to the portfolio. In 4Q 2016, we had the benefit of a depreciating peso. The exchange rate of the peso versus the dollar had a double positive impact for us, as Francisco mentioned.

Now please move on to slide 6, where I will pass the call back to Enrique Martinez, our CFO.

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

Thank you, Max.

Net debt was negative by MXN396 million at the end of 4Q 2016, which represented a total debt to EBITDA last 12 months ratio minus-0.9 times; total debt of which 79% is U.S. dollar-denominated. That's an average growth of [41%], and 21% is peso-denominated with an average cost of 9.2%. Additionally, I would like to mention that 90% of debt maturities are long term.

The Mexican peso depreciated by 6.5% by the end of the quarter and did not have a negative impact on our financial cost. Also, our short U.S. dollar position by the close of the quarter was \$6.5 equivalent to MXN233 million.

Now, I will pass the call back to Francisco Zinser, our CEO, who will read our 2016 guidance and closing remarks.

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

Thank you, Enrique.

We expect to grow revenues from MXN1.2 billion to MXN1.7 billion in 2017. This represents a 40% increase in revenues. In terms of EBITDA, we expect to grow from MXN426 million to MXN619 million in 2017, and this represents a 45% increase, as you can see on the chart.

I would like to add that this guidance was using an average exchange of 20.5 pesos per dollar. And also, this guidance includes our 50% acquisition of the two hotels in Los Cabos and Nuevo Vallarta that I mentioned before.

However, this guidance excludes any additional growth that we could generate from our remaining firepower of approximately \$45 million; a product of the follow-on that we did in June of last year that remained cash for our 2016 follow-on. We expect to deploy these resources in the next 12 to 18 months.

Now, please move to the next slide for the closing remarks. For fourth quarter, we expect to deploy the follow-on proceeds, as I said, in the next 12 to 18 months. The fourth quarter shows our ability to continue with a solid pace in both efficiencies and revenues and the closing of the year gave us fantastic results. Our four hotels under development are in line with our expected completion timeline as we've informed to the market.

We will continue to strengthen the presence of the Krystal brand, which is very solid and very well-known and very well-positioned in the Mexican market, and it is key in our model to generate better results due to its penetration. We have a unique position in the market, taking advantage of the growing hotel industry and its strong fundamentals in order to become the leading hotel company in Mexico.

I would like to open the call for questions and answers.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) [Raphael Cordova] from Santander.

Raphael Cordova - *Santander - Analyst*

One question about the investment that you're making on the new hotels, could you tell us if those investments include all the, well, not only the expansion but any refurbishments or any changes that you need to make for these hotels to comply to your standards?



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

Yes, the [\$119 or approximately \$120 million] investment includes everything. It's a turnkey operation, so it's a full-blown Krystal brand standards and product.

Operator

(Operator Instructions) [Edgar Vazquez] from GBM.

Edgar Vazquez - *GBM - Analyst*

My questions are as follows; how will the fees work for the recently acquired hotel? Is there any fee for brand management, I mean, is there going to be any success fee for the operation of these hotels?

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

These hotels are in our regular standard fee scheme, fee scenario. So, it's the regular fee that we charge to third party-owned hotels. We do have an incentive because we have 10% of our fee based on the operating profit. So, if we do very well, we will be benefitted by that, but it's the regular fee structure that we have.

Operator

(Operator Instructions) [Jorge Huerta] from GBM.

Jorge Huerta - *GBM - Analyst*

My question is the following; do you have an expected occupancy and other ADR for the new hotels?

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

Yes, we have it. As you know, we cannot give forward-looking statements and we do have a very good business plan as you can see in our communication to the market. We said that those two markets are about 70% occupancy, both of them, according to [La Tatur] sources. So, we expect them to be very much in line with the occupancies that we have on our resort destinations.

Operator

Thank you, everyone. At this time, we have no further questions. I'd like to turn the call back over to Mr. Francisco Zinser to close the call.

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

I would just like to ask if anybody else would have a question, and if not, we want to thank all of our investors for the trust they have placed in us, and we affirm our commitment to maximize their investment.

We also would like to thank all of our associates and all the people that work in this great company. We have the best staff in the hotel industry in Mexico, and we have to thank them for their constant effort.

Have a great day, everyone, but I would not like to close if anyone has a question. Could you please ask, moderator?

Operator

At this time, I'm still showing no questions.

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

Well, thank you very much, everyone, and have a great weekend.

Operator

Thank you, ladies and gentlemen. This concludes today's teleconference. You may now disconnect.

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