

ASUR

Quarterly Report
April 26, 2019

1Q19 performs without any surprises

- **Asur reported growth in operating revenue and in EBITDA, in line with our estimates. A slight 0.6pp contraction in EBITDA margin was posted, without accounting changes, and came in at 67.5%**
- **Growth in operating revenue (+9.4%) resulted from the increase in passengers (+7.9% yoy) and a higher revenue per passenger in the aggregate (+1.4%)**
- **We have updated our DCF valuation and downgraded our PT 2019E to MXN\$345 from P\$380.1 with a Buy recommendation. Uncertainty lingers in relation to passenger performance in Mexico**

1Q19 results stood in line with estimates. Total passenger traffic for Asur rose 7.9% yoy, leading the group to report a 4.7% climb in total revenue and an 8.4% surge in EBITDA. In addition, the group added 1.0% to majority net profit, standing at MXN\$1.5 billion, above expectations. Profitability, excluding construction revenue and costs, turned slightly lower this quarter.

We have downgraded our PT 2019E to MXN\$345 from MXN\$380.1 with a Buy recommendation. Such PT represents an 11.4x 2019E FV/EBITDA multiple, the current trading level, but stands below the 1-year average (14.9x). The PT's potential yield and dividend is of 14.3%. After including the figures released in the 1Q19 report into our model, we maintain our 2019 estimates practically flat and have updated our DCF model, mainly with a more conservative terminal FV/EBITDA multiple, due to an uncertain climate in relation to the performance of passengers in Mexico given the slowdown of international tourist arrivals (especially those coming from the U.S.) to Cancun, where the group's main airport is located.

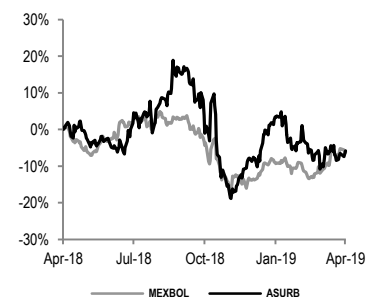
 www.banorte.com
 @analisis_fundam

José Espitia

 Airlines/Airports/Cement/ Fibras/Infraestructura
 jose.espitia@banorte.com

BUY

Current Price	\$310.67
PT 2019	\$345.00
Dividend 2019E	P\$10.0
Dividend Yield (%e)	3.2%
Upside Potential	14.3%
ADS Price	US\$162.79
PT2019 ADS	US\$169.95
Shares per ADS	10
Max – Min LTM (MXN\$)	400.4– 263.4
Market Cap (US\$m)	4,887.3
Shares Outstanding (m)	300
Float	56.5%
Daily Turnover (MXN\$m)	145.8
Valuation metrics TTM	
EV/EBITDA	11.4x
P/E	16.1x

Relative Performance to Mexbol
 LTM

Financial Statements

MXN, million	2017	2018	2019E	2020E
Revenues	12,590	15,410	17,864	22,910
Operating Income	1,477	7,779	8,657	9,479
EBITDA	7,414	9,339	10,443	11,388
EBITDA Margin	58.9%	60.6%	58.5%	49.7%
Net Income	5,834	4,988	6,551	6,333
Net Margin	46.3%	32.4%	36.7%	27.6%
Total Assets	55,566	56,182	58,557	62,077
Cash	4,461	4,585	6,572	6,592
Total Liabilities	22,031	19,500	19,219	19,917
Debt	17,371	14,500	14,233	14,266
Common Equity	33,535	36,681	39,338	42,161

Source: Banorte with data from MSE

Valuation and financial metrics

	2017	2018	2019E	2020E
FV/EBITDA	15.2x	11.9x	10.4x	9.6x
P/E	16.0x	18.7x	14.2x	14.7x
P/BV	2.8x	2.5x	2.4x	2.2x
ROE	21.6%	17.1%	20.8%	18.8%
ROA	10.5%	8.9%	11.2%	10.2%
EBITDA/ Interest exp.	19.7x	9.8x	15.1x	16.4x
Net Debt/EBITDA	1.9x	1.1x	0.7x	0.7x
Debt/Equity	0.5x	0.4x	0.4x	0.3x

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Asur - Results 1Q19

MXN, million

Concept	1Q18	1Q19	Var %	1Q19e	Diff% vs Estim.
Revenue	3,917	4,101	4.7%	4,327	-5.2%
Operating Income	2,197	2,217	0.9%	2,169	2.2%
Ebitda	2,456	2,663	8.4%	2,675	-0.5%
Net Income	1,455	1,468	1.0%	1,340	9.6%
Margins					
Operating Margin	56.1%	54.1%	-2.1pp	50.1%	3.9pp
Ebitda Margin	62.7%	64.9%	2.2pp	61.8%	3.1pp
Net Margin	37.1%	35.8%	-1.3pp	31.0%	4.8pp
EPS	\$4.85	\$4.89	1.0%	\$4.47	9.6%

Income Statement (Million pesos)

Year	2018	2018	2019	Change	Change
Quarter	1	4	1	% YoY	% QoQ
Net Revenue	3,916.6	3,924.4	4,101.4	4.7%	4.5%
Cost of goods sold	77.1	252.6	85.3	10.6%	-66.2%
Gross profit	3,839.5	12,337.2	4,016.0	4.6%	-67.4%
General expenses	763.3	10,209.4	1,799.2	135.7%	-82.4%
Operating Income	2,197.4	2,127.9	2,216.8	0.9%	4.2%
Operating Margin	56.1%	54.2%	54.1%	(2.1pp)	(0.2pp)
Depreciation	258.3	331.9	446.1	72.7%	34.4%
EBITDA	2,455.7	2,459.8	2,662.9	8.4%	8.3%
EBITDA Margin	62.7%	62.7%	64.9%	2.2pp	2.2pp
Interes income (expense) net	(196.3)	(189.5)	(191.3)	-2.5%	1.0%
Interest expense	311.5	315.8	284.4	-8.7%	-9.9%
Interest income	70.2	71.6	111.2	58.2%	55.2%
Other income (expenses)	0.0	0.0	0.0	N.A.	N.A.
Exchange Income (loss)	0.0	0.0	(18.1)	N.A.	N.A.
Unconsolidated subsidiaries	0.0	0.0	0.0	N.A.	N.A.
Income before taxes	2,001.1	1,938.2	2,025.5	1.2%	4.5%
Income taxes	534.0	390.4	506.3	-5.2%	29.7%
Discontinued operations	0.0	0.0	0.0		
Consolidated Net Income	1,467.1	1,547.9	1,519.2	3.5%	-1.9%
Minorities	12.5	89.2	50.7	307.0%	-43.1%
Net Income	1,454.6	1,458.7	1,468.4	1.0%	0.7%
Net margin	37.1%	37.2%	35.8%	(1.3pp)	(1.4pp)
EPS	4.849	4.862	4.895	1.0%	0.7%

Balance Sheet (Million pesos)

Total Current Assets	7,250.2	6,000.9	7,721.7	6.5%	28.7%
Cash & Short Term Investments	5,725.3	4,584.5	5,853.7	2.2%	27.7%
Long Term Assets	49,656.5	50,180.9	49,566.2	-0.2%	-1.2%
Property, Plant & Equipment (Net)	455.1	558.5	501.8	10.3%	-10.2%
Intangible Assets (Net)	49,201.4	49,586.3	49,031.5	-0.3%	-1.1%
Total Assets	56,906.7	56,181.8	57,287.9	0.7%	2.0%
Current Liabilities	2,516.7	2,408.2	2,389.2	-5.1%	-0.8%
Short Term Debt	449.6	500.1	375.6	-16.5%	-24.9%
Accounts Payable	532.6	313.6	360.5	-32.3%	15.0%
Long Term Liabilities	19,614.5	17,092.2	16,849.6	-14.1%	-1.4%
Long Term Debt	10,005.2	14,000.3	13,812.2	38.1%	-1.3%
Total Liabilities	22,131.2	19,500.4	19,238.8	-13.1%	-1.3%
Common Stock	34,775.5	36,681.4	38,049.1	9.4%	3.7%
Preferred Stock	7,496.8	7,575.2	7,570.4	1.0%	-0.1%
Total Equity	27,278.8	29,106.2	30,478.6	11.7%	4.7%
Liabilities & Equity	56,906.7	56,181.8	57,287.9	0.7%	2.0%
Net Debt	11,288.3	9,915.9	8,334.1	-26.2%	-16.0%

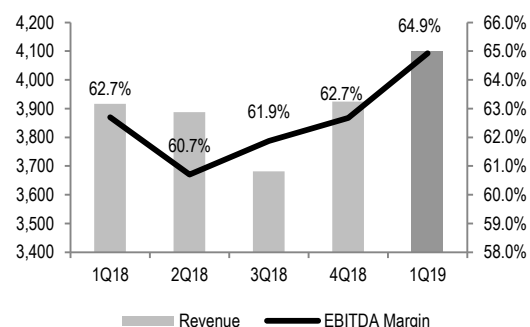
Cash Flow (Million pesos)

FX differences in cash & equivalents					
Cash Flow from Operating Activities	1,980.3	1,696.6	1,901.7		
Cash Flow from Investing Activities	(530.5)	194.9	(187.1)		
Cash Flow from Financing Activities	(401.9)	(1,876.1)	(445.5)		
Change in Cash Balance	1,047.9	15.4	1,269.2		

Source: Banorte, MSE.

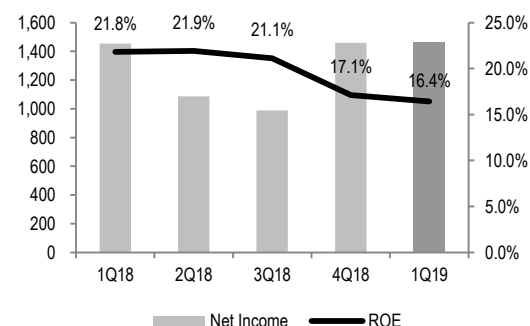
Revenue & EBITDA Margin

MXN, million



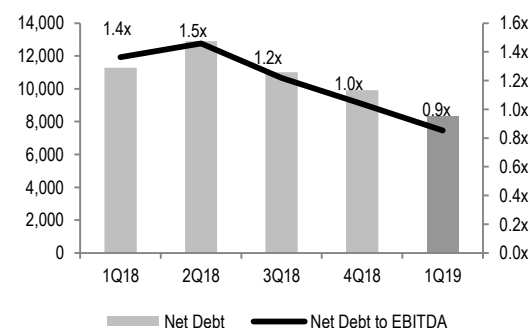
Net Income & ROE

MXN, million



Net Debt & Net debt to EBITDA ratio

MXN, million



Total passengers surged 7.9% yoy, which translated into a solid 9.4% increase in operating revenue. In 1Q19, total passenger traffic for Asur soared 7.9% (vs. 1Q18). Total passenger traffic from the 9 airports that operate in Mexico presented a 2.4% increase, comprised of 4.4% domestic and 1.0% international. Such sluggish growth was due to a slowdown of international tourist arrivals to the destination where the group's main airport is located, Cancun, and which presented a 1.7% passenger increase vs. 1Q18. In addition, there was an adverse calendar effect as in 2019 the Easter week period was celebrated in April, as opposed to March in 2018.

The LMM Airport posted a strong 23.8% yoy increase in passenger traffic, displaying a recovery against an easy comparative basis due to the impact of Hurricane Maria which hit the island on September 21st, 2017. Finally, the airports in Colombia (Airplan operations), presented a solid 15.1% growth in passengers.

Aeronautical and non-aeronautical revenue growth represented 7.8% and 11.9%, respectively (a 13.1% increase in commercial revenue), while in terms of construction services, these fell 49.2%. The sum of aeronautical and non-aeronautical revenue rose 9.4%, standing at MXN\$3.9 billion (-2.5% vs. our estimate). Further, for the airports that operate in Mexico, the sum of aeronautical and non-aeronautical revenue posted an increase of 7.4%, closing at MXN\$2.8 billion.

Slight contraction in EBITDA margin, without considering construction revenue and costs. Asur's operating margin stood at 54.1% (-2.1pp vs. 1Q19). In turn, EBITDA margin rose by 2.2pp, standing at 64.9%. Total operating costs and expenses surged 12.0% yoy, in comparison to a lower 4.7% increment in total revenue. It should be noted that when comparing 1Q19 to 1Q18 margins, without considering construction revenue and costs, which are actually accounting entries, results indicate that profitability in the group's EBITDA underwent a 0.6pp decline, to stand at 67.5%.

As for the airports operated by the group in Mexico, EBITDA rose 6.6% vs. 1Q18, closing at MXN\$2.0 billion. 1Q19 EBITDA margin, excluding construction revenue and costs, underwent a 0.6pp drop, posting a 73.9% reading mainly given higher service costs.

In turn, Puerto Rico reported a sharp 8.3pp expansion in EBITDA margin (excluding construction services), standing at 57.6%. The cost of services rose only 0.7% and there was also MXN\$41.4 million in revenue from the recovery of an insurance claim submitted from losses incurred in the aftermath of Hurricane Maria in 2017.

Finally, operations in Colombia posted a 13% drop in EBITDA and a significant contraction in the corresponding margin, excluding construction services, which stood at 43.9% (-12.9pp vs. 1Q18). The latter was mainly due to sharply higher service costs (+76.2%) from a MXN\$6.5 million increment of the maintenance provision due to the replacement of future fixed assets, in accordance with IFRIC 12, electrical energy services, a

MXN\$37.1 million compensation from the Rionegro parking lot and a provision from the recognition of a charged-off account for MXN\$8.6 million.

Majority net profit rose 1.0% vs. 1Q18, standing at MXN\$1.4 billion.

The latter due to a modest climb in operating profit, a lower comprehensive financing costs (-2.5% yoy) and lower income taxes (-5.2% yoy), partially offset by a higher non-controlling interest amount (+307%).

It is worth noting that as at 1Q19, the 12m Net Debt/EBITDA is 0.9x vs. 1.0x in 4Q18, which still reflects the group's financial strength.

2019 Estimates

Our 2019 estimates include a 6.2% increase in total passenger traffic for Asur. Regarding total revenue, we expect a 15.9% increase, in addition to a 9.4% climb in operating revenue and an 11.8% increment in EBITDA, as well as a 66.0% EBITDA margin, excluding construction services. We forecast slight margin improvements for operations in Mexico and a sharper growth in Colombia, whereas expecting a profitability setback in Puerto Rico.

Valuation and PT 2019E of MXN\$345.0

Through the DCF method, we obtained a 2019E target price of MXN\$345.0 per share, which represents an 11.4x 2019E FV/EBITDA multiple, which is the current trading level but stands below the 1-year average (14.9x). Within these assumptions we considered a 12.6% WACC; a 7.7% average interest-bearing debt; a 0.97 Beta; an 8.35% risk-free rate, a 5.5% market risk premium and an 11.7x terminal FV/EBITDA multiple (below the 6-month average of 13.1x and similar to the year-to-date average of 11.8x) for the perpetuity value. Our results show an 11.1% potential yield vs. its current price, which added to the 3.2% estimated dividend yield, offers a 14.3% potential return, thus we reiterate our Buy recommendation.

ASUR-DCF

MXN, million

Concept	2020e	2021e	2022e	2023e	2024e	Perpetuity (2024e)
EBITDA	10,687	11,511	12,408	13,292	14,297	
Change in working capital (-)	231	183	197	244	232	
Capex (-)	5,243	3,214	2,008	979	2,160	
Taxes (-)	2,160	2,344	2,548	2,753	2,988	
Free Cash Flow	3,052	5,770	7,655	9,315	8,916	167,745
						Stocks (million)
						300
						MXN\$
						PT DCF
						345.00
DCF Value	103,450					Current Price
						310.67
Market Cap.	93,201					Potential Return
						11.1%

Source: Banorte /The numbers presented take into account the proportional part of Asur's participation in the LMM Airport.

Certification of Analysts.

We, Gabriel Casillas Olvera, Delia Maria Paredes Mier, Alejandro Padilla Santana, Manuel Jiménez Zaldivar, Tania Abdul Massih Jacobo, Katia Celina Goya Ostos, Juan Carlos Alderete Macal, Víctor Hugo Cortes Castro, Marissa Garza Ostos, Miguel Alejandro Calvo Domínguez, Hugo Armando Gómez Solís, Gerardo Daniel Valle Trujillo, José Itzamna Espitia Hernández, Valentín III Mendoza Balderas, Santiago Leal Singer, Francisco José Flores Serrano, Francisco Duarte Alcocer, Jorge Antonio Izquierdo Lobato and Leslie Thalía Orozco Vélez, certify that the points of view expressed in this document are a faithful reflection of our personal opinion on the company (s) or firm (s) within this report, along with its affiliates and/or securities issued. Moreover, we also state that we have not received, nor receive, or will receive compensation other than that of Grupo Financiero Banorte S.A.B. of C.V for the provision of our services.

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	Reference
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HOLD	<i>When the share expected performance is similar to the MEXBOL estimated performance.</i>
SELL	<i>When the share expected performance is lower than the MEXBOL estimated performance.</i>

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History of PT and Ratings

Stock	Date	Rating	PT
ASURB	04/24/2019	Buy	MXN\$345.0
ASURB	01/14/2019	Buy	MXN\$380.1
ASURB	10/22/2018	Buy	MXN\$420.0
ASURB	07/23/2018	Hold	MXN\$375.0

Research and Strategy

Gabriel Casillas Olvera	Chief Economist and Head of Research	gabriel.casillas@banorte.com	(55) 4433 - 4695
Raquel Vázquez Godínez	Assistant	raquel.vazquez@banorte.com	(55) 1670 - 2967

Economic Analysis

Delia María Paredes Mier	Executive Director of Economic Analysis	delia.paredes@banorte.com	(55) 5268 - 1694
Katia Celina Goya Ostos	Senior, Global Economist	katia.goya@banorte.com	(55) 1670 - 1821
Juan Carlos Alderete Macal, CFA	Senior Economist, Mexico	juan.alderete.macal@banorte.com	(55) 1103 - 4046
Miguel Alejandro Calvo Domínguez	Economist, Regional	miguel.calvo@banorte.com	(55) 1670 - 2220
Francisco José Flores Serrano	Economist, Mexico	francisco.flores.serrano@banorte.com	(55) 1670 - 2957
Francisco Duarte Alcocer	Analyst, Global Economist	francisco.duarte.alcocer@banorte.com	(55) 1103 - 4000 x 2707
Lourdes Calvo Fernández	Analyst (Edition)	lourdes.calvo@banorte.com	(55) 1103 - 4000 x 2611

Fixed income and FX Strategy

Alejandro Padilla Santana	Head Strategist – Fixed income and FX	alejandro.padilla@banorte.com	(55) 1103 - 4043
Santiago Leal Singer	FX Senior Strategist	santiago.leal@banorte.com	(55) 1670 - 2144
Leslie Thalía Orozco Vélez	Fixed Income and FX Strategist	leslie.orozco.velez@banorte.com	(55) 5268 - 1698

Equity Strategy

Manuel Jiménez Zaldivar	Director Equity Research — Telecommunications / Media	manuel.jimenez@banorte.com	(55) 5268 - 1671
Victor Hugo Cortes Castro	Technical Analysis	victorh.cortes@banorte.com	(55) 1670 - 1800
Marissa Garza Ostos	Equity Research – Conglomerates / Financials/ Mining / Petrochemicals	marissa.garza@banorte.com	(55) 1670 - 1719
José Itzamna Espitia Hernández	Equity Research – Airlines / Airports / Cement / Infrastructure / REITs	jose.espitia@banorte.com	(55) 1670 - 2249
Valentín III Mendoza Balderas	Equity Research – Auto Parts/ Consumer Discretionary / Real Estate / Retail	valentin.mendoza@banorte.com	(55) 1670 - 2250
Jorge Antonio Izquierdo Lobato	Analyst	jorge.izquierdo.lobato@banorte.com	(55) 1670 - 1746
Itzel Martínez Rojas	Analyst	itzel.martinez.rojas@banorte.com	(55) 1670 - 2251

Corporate Debt

Tania Abdul Massih Jacobo	Director Corporate Debt	tania.abdul@banorte.com	(55) 5268 - 1672
Hugo Armando Gómez Solís	Senior, Corporate Debt	hugo.gomez@banorte.com	(55) 1670 - 2247
Gerardo Daniel Valle Trujillo	Manager, Corporate Debt	gerardo.valle.trujillo@banorte.com	(55) 1670 - 2248

Wholesale Banking

Armando Rodal Espinosa	Head of Wholesale Banking	armando.rodal@banorte.com	(55) 1670 - 1889
Alejandro Eric Faesi Puente	Head of Global Markets and Institutional Sales	alejandro.faesi@banorte.com	(55) 5268 - 1640
Alejandro Aguilar Ceballos	Head of Asset Management	alejandro.aguilar.cebillos@banorte.com	(55) 5268 - 9996
Arturo Monroy Ballesteros	Head of Investment Banking and Structured Finance	arturo.monroy.ballesteros@banorte.com	(55) 5004 - 1002
Gerardo Zamora Nanez	Head of Transactional Banking, Leasing and Factoring	gerardo.zamora@banorte.com	(81) 8318 - 5071
Jorge de la Vega Grajales	Head of Government Banking	jorge.delavega@banorte.com	(55) 5004 - 5121
Luis Pietrini Sheridan	Head of Private Banking	luis.pietrini@banorte.com	(55) 5004 - 1453
René Gerardo Pimentel Ibarrola	Head of Asset Management	pimentelr@banorte.com	(55) 5268 - 9004
Ricardo Velázquez Rodríguez	Head of International Banking	rvelazquez@banorte.com	(55) 5004 - 5279
Víctor Antonio Roldan Ferrer	Head of Corporate Banking	victor.rolan.ferrer@banorte.com	(55) 5004 - 1454