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Earnings Call

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CALL PARTICIPANTS	2
PRESENTATION	3
QUESTION AND ANSWER	7

Call Participants

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Jefferies LLC, Research Division

Pedro Maulhardt

Stephen Trent

Citigroup Inc. Exchange Research

Presentation

Operator

Good morning, and welcome to the Corporacion America Airports First Quarter 2024 Conference Call. A slide presentation accompanies today's webcast and is available in the Investors section of the Corporacion America Airports website. [Operator Instructions]. At this time, I would like to turn the call over to Patricio Inaki Esnaola, Head of Investor Relations. Patricio, please go ahead.

Patricio Inaki Esnaola
Investor Relations Manager

Thank you. Good morning, everyone, and thank you for joining us today. Speaking during today's call will be Martin Eurnekian, our Chief Executive Officer and Jorge Arruda, our Chief Financial Officer. Before we proceed, I would like to make the following safe harbor statement. Today's call will contain forward-looking statements, and I refer you to the forward-looking statement section of our earnings release and recent filings with the SEC. We assume no obligation to update or revise any forward-looking statements to reflect new or changed events or circumstances.

Please note that throughout this call all references to Revenues, Costs, Adjusted EBITDA and Margin will refer to figures excluding IFRIC12. I will now turn the call over to our CEO, Martin Eurnekian.

Martin Francisco Antranik Eurnekian
CEO & Director

Thank you, Iñaki. Hello everyone, and welcome to our first quarter 2024 earnings call.

I will start today's presentation with some overall highlights on our first quarter performance. I will then hand it off to Jorge who will provide additional details in his financial review, before we open the call up for questions.

I am pleased with the good start to the new year. We delivered a positive quarter with revenues up in the low double digits against the same quarter last year and beating passenger traffic growth. Our continued focus on commercial execution is posting good results with revenues per passenger continuing to expand reaching 20.6 dollars this quarter, an all-time high since our IPO in 2018, in a normalized environment. As a reminder, there were a few quarters in 2020 where passenger figures were significantly reduced due to the pandemic, resulting in artificial revenues per PAX figures.

Reflecting our consistent focus on execution and healthy travel demand, Adjusted EBITDA increased further – up 16% year-on-year, reaching 163 million dollars, while the margin expanded 1.5 percentage points as we continue to gain operating leverage. This good performance was supported by all geographies, with the exception of Ecuador, which incurred in a mandatory one-time contribution to the Security of the country.

Moreover, our robust balance sheet with a leverage ratio at an all-time low, underscores our commitment to ensuring financial strength while providing flexibility to support growth initiatives.

Noteworthy, we recently signed an amendment to our Punta del Este concession agreement that includes, among other things, the extension of the term of the concession agreement for a ten-year period, from 2033 through 2043.

Please turn to page 4 for a review of passenger traffic trends.

Our airports benefited from the sustained recovery in travel demand, underpinned by higher load factors and the gradual return of flight routes and frequencies across our operations.

On a comparable basis and excluding Natal Airport in which we exited the concession this February as previously disclosed, passenger traffic increased 4.3% year-on-year. Growth was mainly driven by international passengers, which increased in the low teens, while domestic traffic remained flat.

Moving on to some color by country, starting with Argentina, our main market, which delivered a 5.3% year-on-year increase in passenger traffic. Growth was underpinned by international traffic - up nearly 16% reflecting increased weekly frequencies from ITA Airways, Aeromexico, and Emirates, while JetSMART and Paranaair announced the launch of new routes. Domestic passenger traffic remained flat in the context of a challenging macro backdrop. Recall that while domestic traffic comprises 65% of total traffic in the country, over 90% of Passenger Use Fees are generated by international traffic and are fully linked to the US dollar. This positive trend continued into April, when international passenger traffic grew by 9.3% against the same month of last year.

Next, Italy, where passenger traffic was up nearly 14% year-on-year. This good performance was mainly driven by a 17% increase in international traffic and mid-single digit growth in domestic traffic. Both Florence and Pisa airport delivered solid traffic growth while some domestic destinations have yet to resume at Pisa Airport. This positive trend continued into April, when passenger traffic grew by 12% year-on-year.

Uruguay also posted strong traffic growth – up 29% benefiting from the addition of new routes and frequencies. This positive trend continued into April while Jetsmart and Sky have both announced new routes starting in May.

By contrast, traffic was weaker in Armenia, Ecuador and Brazil.

- Armenia posted relatively flat traffic, following the significantly strong performance over the past couple of years. In April, total traffic was down 4% versus the same month of last year.
- In Ecuador, traffic declined nearly 3% driven by weaker domestic traffic following the exit of a local airline in October last year, while international traffic was up 1%. Traffic in April was down 6% year-on-year as weaker domestic traffic more than offset a 2% increase in international traffic.
- Lastly, in Brazil, traffic dynamics remain heavily impacted by financial and aircraft constraints at some local airlines which together with rising ticket prices affected travel demand, resulting in a comparable year over year decline of nearly 2% when excluding Natal airport. This challenging industry environment continued into April.

Moving on to Slide 5, cargo volumes continued to recover and were up in the low single digits year-on-year.

Armenia, Ecuador and Argentina were the main drivers behind cargo volume growth this quarter while the other geographies posted slight declines.

Cargo revenues, in turn, increased 6% during the quarter, with year-on-year improvements in all countries of operations.

I will now hand off the call to Jorge, who will review our financial results. Please, go ahead.

Jorge Arruda Filho
Chief Financial Officer

Thank you, Martin, and good day, everyone.

Let's start with our top line on slide 6. Total revenues ex-IFRIC increased 12.4% year-on-year. This was well above the 4.3% passenger traffic growth, ex Natal, for the quarter, benefiting from consistent positive momentum in both the aeronautical and commercial businesses.

Aeronautical revenues were up 19.4% year-on-year mainly driven by higher international passenger traffic in Argentina and tariff increases in Uruguay. Importantly, aeronautical revenue growth remained robust across the board, also supported by strong performance in Italy, Ecuador and Armenia which delivered double digit year-on year growth in the first quarter of 2024.

Commercial revenues increased 5.1% year-on-year benefitting from growth in the majority of our geographies and the impact of IAS29 in Argentina. We saw strong performance in Brazil, Uruguay, and Italy mainly driven by higher VIP, Cargo and Advertising revenues. This was partially offset by lower Duty-free revenues in Argentina, impacted by the December 2023 Peso devaluation and by lower fuel-related revenues in Armenia.

Combined, these factors contributed to a 10% increase in revenue per passenger to 20.6 dollars this quarter, up from 18.8 dollars in the first quarter of 2023.

Turning to slide 7.

Total costs and expenses ex-IFRIC12, increased 8.5% year-on-year, generally following the growth of our business, but nonetheless remained below the 12.4% revenue growth.

This was mainly explained by higher salaries in Argentina as the local inflation rate was above average currency depreciation, coupled with higher concession fees in line with increased year-on-year activity. This was partially offset by a decrease in fuel costs in Armenia due to lower fuel sales in the quarter.

Notably, as a testament to our streamlined cost structure, we experienced material reductions in Opex per passenger in Argentina, Italy and Uruguay.

Moving on to profitability on Slide 8.

Our topline growth continued to drive operating leverage which resulted in solid Adjusted EBITDA growth and margin expansion in the quarter. Adjusted EBITDA Ex IFRIC12 totaled 163 million dollars, up 16.4% year-on-year, well above the 4.3% growth in passenger traffic, ex Natal. This contributed to a 1.5 percentage point expansion in Adjusted EBITDA Margin to 41.7% in the quarter.

Moreover, except for Ecuador, we maintained strong momentum across all countries, achieving Adjusted EBITDA growth that exceeded the increase in traffic, and margin expansion. I would like to highlight the exceptional performance of our business in Uruguay, where Adjusted EBITDA increased 36% primarily driven by solid passenger traffic growth, combined with higher tariffs, VIP Lounges and Duty-free revenues.

Turning to Slide 9. Supported by our strong cash flow generation, we closed the quarter with a total liquidity position of 545 million dollars, up 87 million dollars when compared to year-end 2023, with most of our operating subsidiaries reporting positive cash flow from operating activities.

Moving on to the debt and maturity profile on Slide 10. Total debt at quarter end was 1.3 billion dollars, while our net debt decreased to 821 million dollars from 964 million dollars at year-end 2023.

We remain committed to maintaining a robust balance sheet and healthy debt profile. Sustained growth in Adjusted EBITDA and a reduction in debt levels have contributed to further reducing our net leverage ratio, bringing it down to 1.2 times from 1.4 times at December 2023.

Wrapping up from my side, I also would like to highlight that despite certain headwinds mentioned herein, we delivered growth on revenues, revenues per pax, EBITDA, and EBITDA margin, without

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any real expansion in our costs. I am pleased with the performance of our portfolio.

I will now hand the call back to Martin, who will provide closing remarks and discuss our view for the year.

Martin Francisco Antranik Eurnekian

CEO & Director

Now to wrap up, please turn to Slide 12.

We started the year on a positive footing, delivering a solid performance across key operational and financial metrics. Higher operating leverage contributed to drive sustained EBITDA growth and margin expansion, and a record low net leverage ratio.

Advancing on our strategic priorities, we met two milestones this quarter:

- First, we obtained a 10-year extension of the concession agreement of our Punta del Este airport, in Uruguay, and
- Second, we have recently been notified by the ICSID Arbitral Court of the final award pertaining to the arbitration procedure concerning the Chinchero International Airport in Peru, demoing the Republic of Peru to pay a gross amount of 91 million dollars to the consortium, in which we hold a 50% economic interest.

We continue to advance in connection with the negotiations related to the expansion of our airports in Yerevan and Florence. At the same time, we continue to selectively assess expansion projects across different geographic regions to further expand our airport network.

We continue to witness positive dynamics in Uruguay and Italy, which have been contributing to our overall growth. Despite facing challenges in the Brazilian market, we have successfully managed our business throughout this challenging cycle posting EBITDA growth. We are closely monitoring the macro and political environment in Argentina, a concession we have successfully managed for over 25 years, as well as the geopolitical dynamics in the Caucasus region. We remain committed to delivering strong results, maintaining a healthy balance sheet and creating value for our shareholders. Thank you for your continued support and confidence in our company.

This ends our prepared remarks. We are ready to take your questions.

OPERATOR, please open the lines for questions.

Question and Answer

Operator

[Operator Instructions]. And your first question will be from Alejandro Demichelis at Jefferies.

Alejandro Anibal Demichelis

Jefferies LLC, Research Division

Yes. One question and one follow-up. The first question is going to be, how you're seeing the evolution of international traffic into Argentina through the end of the year given the discussions you're having with the airlines, given the thought that you're kind of being reserved and so on? That's the first one.

And then the second is, I think both Martin and Jorge, you mentioned this record low gearing level how should we think or how are you thinking about balancing growth, investment, those M&A opportunities and cash return to shareholders. Can we think about some dividends coming at some point?

Jorge Arruda Filho

Chief Financial Officer

Hi, Alejandro, Jorge here. How are you?

Alejandro Anibal Demichelis

Jefferies LLC, Research Division

Well. Thank you.

Jorge Arruda Filho

Chief Financial Officer

Good. Thank you very much for your question. So we remain positive in connection with international traffic, generally speaking across our portfolio, most notably Argentina, Uruguay and Italy. I think these are markets that are performing -- that have performed well, and we are positive.

In Argentina, we are seeing traffic in several directions. Notably, I think going forward, within America given the Open Sky agreements that are being put in place. So yes, remain positive.

Regarding your second question, first of all, I think as we have been saying, our main focus for the next couple of years is to grow our portfolio. So our main objective will continue to be -- to grow our portfolio.

We also remind you that as we previously reported, we are in discussions in Italy and Armenia in connection with CapEx. And those CapEx will require leverage, not equity from the shareholders in principle. But primarily debt at the local level. So yes, so our objectives are as I mentioned.

Operator

Next question will be from Pedro Maulhardt at Latin Securities.

Pedro Maulhardt

Congratulations on the quarter results. And I want to know when do you expect any adjustments or tariff provisions for Aeropuertos Argentina or middle concession throughout this year. Which are the key events for the rest of the year concerning your 3 main projects nowadays, which are the master plan in Florence, in Armenia and also the potential acquisition of Abuja, Nigeria.

Martin Francisco Antranik Eurnekian

CEO & Director

Pedro, thank you for your question, Martin here. Regarding tariff provisions in Argentina, as you probably know, we are due a revision. The control agency has just been filled in terms of the Board that makes the decision that they were just named only a few weeks ago.

So we expect the new leadership to come in and start engaging with us in terms of having better visibility on the tariff revision that is due since this year, actually. And also on the catch-up that we need to do in terms of the domestic tariff that is denominated in Pesos and needs to have a catch-up.

So we are positive on this engagement, but we still are in a very early stage to have a clear idea in terms of timing and else. I will pass on to Jorge for your follow-up question.

Jorge Arruda Filho
Chief Financial Officer

Pedro, Jorge here. So we continue in very active discussions with the respective governments in Italy and Armenia in connection with the respective CapEx plans. In Italy, to remind everyone is in connection with a new runway and a new terminal in Florence and -- which is much needed. And the airport is a premium airport in a fantastic location in the heart of Tuscany, et cetera. So we are really looking forward to obtain that approval.

And in connection with Armenia following the significant growth we have enjoyed in the past 18, 24 months, there is a need of an expansion in many aspects of the airport. And again, we are in advanced discussions with the government with a view to close this as much as possible. Obviously, it's difficult for us to precise the timing, but we are working around the clock to make that happen as soon as possible.

Martin Francisco Antranik Eurnekian
CEO & Director

And Martin here, jumping in on your comment on Nigeria. We are still waiting for the government to take the next step towards the signing of the contracts. It's been delayed, and we still don't have a clear indication on timing, but it has not gone the other way either. So we are waiting.

Operator

[Operator Instructions]. Next is Jay Singh at Citi.

Stephen Trent
Citigroup Inc. Exchange Research

This is actually Steve Trent. Sorry, having trouble with my phone. Just kind of two questions on my side. The first is, I saw you're in the process of negotiating something with, I believe, Armenia, beat some higher CapEx to come. Assuming that goes through, do you have any color on what should be your annual maintenance CapEx in the next couple of years?

Martin Francisco Antranik Eurnekian
CEO & Director

I think we have a problem with the line and it's muted, but give us one second.

Stephen Trent
Citigroup Inc. Exchange Research

No problem.

Patricio Inaki Esnaola
Investor Relations Manager

Steve, this is Inaki, I think we are having some trouble with Jorge line. In terms of maintenance CapEx, the number that you should kind of have in mind is around \$30 million or less for the company aggregate on a consolidated basis.

Stephen Trent
Citigroup Inc. Exchange Research

Okay. Great. Thank you very much, Inaki. And just one other quick one for me. I know you have that guaranteed return for your Argentine operations. On a high level going forward, to what degree is it possible to consider another extension of AA2000 rather than tariff increases?

Martin Francisco Antranik Eurnekian

CEO & Director

Hello, Steve, Martin here. Thanks for your question. As you know, generically, the point of adjustments of these contracts are CapEx studies and duration. It's still too early to say whether -- how are these variables going to kick in and if this is going to turn into a full negotiation or not.

Remember that the IRR has to be achieved at the end of the concession. So that also depends on the forecast looking forward into the end of the concession. So I think it's too early to say whether which levy is going to really pull in order to reach the economic equilibrium of this concession.

But as you probably imagine, we are permanently engaging with the government and the control agency towards understanding how can that be achieved and what is the easiest and most direct way that also impacts positively on the industry overall.

Operator

Thank you. And at this time, it appears that we have no further questions. I would like to turn the call back over to Martin.

Martin Francisco Antranik Eurnekian

CEO & Director

Thank you. I wanted to thank everybody for taking the time to be with us today and remind you that our team is available to engage with any of you if you have any further doubts or inquiries on our company. Thank you very much. Enjoy the rest of your day.

Operator

Ladies and gentlemen, this does indeed conclude today's conference call. Once again, thank you for attending. And at this time, we do ask that you please disconnect your lines.

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