

Y 2019 Earnings Call

Company Participants

- Andrea Fernandes, Investor Relations Director
- Marcello Guidotti, Chief Financial Officer

Other Participants

- Alberto Valerio, Analyst
- Victor Mizusaki, Analyst

Presentation

Operator

Good morning and welcome to EcoRodovias' Fourth Quarter of 2019 Earnings Conference Call. With us here today are Mr. Marcello Guidotti, CFO and IRO; Ms. Andrea Fernandes, the IR Director, as well as executives of the company. This presentation is being recorded and all participants will be in listen-only mode during the presentation. After that we will begin the question and answer session for analysts and investors only and further instructions will be provided. (Operator Instructions) The audio and slides of this conference call are being broadcast simultaneously at www.ecorodovias.com.br/ir where you will find the presentation for download from the webcast platform in the Investor Relations section.

Before proceeding, we would like to clarify that the forward-looking statements that may be made during this conference call relating to EcoRodovias' business prospects, projections and operational and financial targets are based on the management's beliefs and assumptions as well as on currently available information. They involve risks, uncertainties and assumptions as they refer to future events and hence depend on circumstances that may or may not occur. Investors should understand that general economic conditions, industry conditions and other operating factors may affect the future performance of EcoRodovias and lead to results that differ materially from those expressed in such forward-looking statement.

I will now turn the floor over to Ms. Andrea Fernandes who will discuss the fourth quarter of 2019 results. Ms. Andrea, you may proceed.

Andrea Fernandes {BIO 21294199 <GO>}

Good morning, welcome to Grupo EcoRodovias conference call today pertaining to the results of the fourth quarter of 2019. We thank you all for your interest and your participation. We would like to mention some important events of this period. In

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December 2019 Ecovias do Cerrado and the National Ground Transportation Agency, ANTT signed the concession agreement for commercial operation of BR-364/365 highway for 30 years. This is one of the main corridors connecting the Midwest region of Brazil and the state of Sao Paulo. This is consistent with EcoRodovias Group's strategy of focusing on highway concession assets and extending the duration of our portfolio. BNDES approved the long-term financing for Eco135 in the amount of BRL996.4 million at TLP plus 3.49% per year and a term of 23.5 years.

The National Waterway Transportation Agency, ANTAQ approved the Economical, Environmental, Operational, Technical, Feasibility Study of Ecoporto Santos envisaging the economic and financial rebalancing and expansion of the agreement till 2048. The process is still pending approval from the Secretariat of Ports at the Ministry of Infrastructure. In January 2020, the decision on the suspension of the bid process of Concessionaria Rodoanel Norte, Ecorodoanel until June 30, 2020 was published. In January or in the fourth quarter of 2019 EBITDA pro forma of new concessions Eco135 Eco050 amounted to BRL78 million, representing approximately 13% of the consolidated pro forma EBITDA. On slide 3 we can see consolidated traffic of equivalent paying vehicles in the fourth quarter of 2019 posted an increase of 29.8%. Excluding the start-up operations at Eco135 and Eco050, consolidated traffic posted an increase of 2.4% in the fourth quarter. Heavy vehicles traffic posted an increase at Ecocataratas, Ecovias dos Imigrantes and Ecosul due to the exports of agricultural commodities. In both Ecovia Caminho do Mar and Ecocataratas there is an increase of traffic due to tariff reductions as of October 2019.

Eco101 presented a decrease due to the cycle of the pulp industry in the region and unfavorable economic conditions in the state of Espirito Santo. In addition, the increase in light vehicle traffic at Ecovia Caminho do Mar, Ecocataratas, Ecovias dos Imigrantes, Ecopistas and Ecosul is due to the improvement in climate and weather conditions during weekends and holidays as well as traffic induction at Ecovia Caminho do Mar and Ecocataratas due to tariff reductions. At Ecoponte there was a decrease due to the works at the Rio de Janeiro BRT close to the access to the bridge.

As for the Group's consolidated financial results on slide 3. The net revenue excluding construction revenue in this quarter amounted to BRL804 million and net revenue of highway concessions posted an increase of 26% due mainly to the start of operations at Eco135 and the consolidation of Eco050. Moving on to slide 4, comparable cash cost in the quarter amounted to BRL203 million, an increase of 4.4%, mostly due to the increase of costs of maintenance at the concessionaires and an increase in expenses with third-party services at Ecoporto due to the increase of handling activities. It's important to notice is that the company has already began the process to adjust its corporate structure at the holdings to support future growth opportunities and the new assets recently acquired by the Group.

Pro forma EBITDA amounted to BRL592 million in the fourth quarter, an increase of 39% and margin of 74%. Note that the exemption for -- toll exemption for suspended access reduced toll revenue BRL32 million in the fourth quarter of 2019 and BRL129 million in the year 2019. This toll exemption will be the object of a financial economic rebalancing of the contracts. Most concessions presented EBITDA growth as we can see on slides 5 and 6

mainly due to tariff adjustments and traffic increase. The highlights are the new concessions Eco135 and Eco050 with pro forma EBITDA totaling BRL78 million.

On slide 7, we see the evolution of the recurring net income impacted positively by a higher EBITDA but negatively on the other hand for -- by the financial results due to the beginning of the accounting of inflation adjustments on the concession rights of Eco135 and a higher depreciation and amortization, resulting in net income of BRL91 million. As for investments on slide 8, in 2019 CapEx amounted to BRL1.3 billion. Estimated CapEx for 2020 is of approximately BRL2.1 billion, highlighting the duplication works at Eco101, expansion works at Eco050, the works to connect the Rio Niteroi Bridge to the Linha Vermelha and the Port Avenue at Ecoponte, works at Eco135 that already have the BNDES financing, works pertaining to initial works to build toll plazas at Ecovias do Cerrado and contractual amendment works at Ecovias dos Imigrantes.

On slide 9 the pro forma net debt to EBITDA indicator presented a reduction, reaching 3.2 times. We closed the quarter with cash balance of about BRL2.1 billion, which together with the future cash generation makes us comfortable as regards the Group's financial capacity. As for the investments in 2020, we are already in advanced stages to negotiate the first half financing. Company remains mindful of growth opportunities and posted a proposal for the bid of BR-101 in Santa Catarina, which will occur this Friday. We are currently studying federal concessions BR-153 Tocantins, Goiás and BR-116/101 Dutra and concessions in the São Paulo coast in the government of São Paulo. We are optimistic with the agenda of the state of São Paulo's government which in addition to new privatizations processes is making progress in the discussion of new contractual amendments to Ecovias dos Imigrantes and the solution of the pending adjustments.

This concludes the presentation. We'd like to move on to the questions and answers session. Operator, we're ready for the questions from our analysts and investors.

Questions And Answers

Operator

Thank you. We will now begin the question-and-answer session for investors and analysts. (Operator Instructions) First question, Victor Mizusaki, Bradesco BBI.

Q - Victor Mizusaki {BIO 4087162 <GO>}

Good morning. Just one question about Ecoporto, you mentioned that now you have the final approval, you need the final approval of the Ministry of Infrastructure. I'd like to know if you have any idea of when you should get this approval and once this process is concluded what would your strategy be for this asset? Thank you.

A - Marcello Guidotti {BIO 16618352 <GO>}

Good morning, Victor, this is Marcello. The process now is for the analysis. This process has very well defined stages. So we'd expect that by the end of the first quarter of 2020

we will have a conclusion. Ecoporto has been showing recovery of volumes being more dedicated to its operations and Project Cargo, other activities.

We don't have a strategy. We can't advance you any information, but we'll always certainly operate or support Ecoporto's operations in the recovery of values and numbers that get better and better. We are focusing now on the renewal process. Thank you.

Operator

Alberto Valerio, UBS.

Q - Alberto Valerio {BIO 20716048 <GO>}

Good morning, Andrea, Guidotti. I have a few questions here. If you could give us more detail about Eco135 EBITDA's margin. It's very good for a new concession and comparing it with Eco050 that wasn't as good and it's a concession that's -- you had for a little longer. That would be my first question.

A - Andrea Fernandes {BIO 21294199 <GO>}

Thank you for your question. The EBITDA margin needs to take into account, the type of tariff, tariff increase but 135 has a higher margin, because it has a different structure in the concession rights. There is a financial debt throughout the construction so the EBITDA needs to be worked to pay for that concession, so it has a higher EBITDA margin. But there are obligations throughout the concession to pay for it and that explains a little bit why there is a difference in the two margins and 050 is different, there is no concession rights fees to be paid. So the contract structure is a little bit different, but you should also note that 135 has been doing very well. Traffic is growing well. And we should also say that it's also growing at 050. But the main difference is the structure of the contract, the type of agreement.

Q - Alberto Valerio {BIO 20716048 <GO>}

If you can remind me 135 doesn't have to be duplicated in its entire extension. It's all only in the -- in the hills going up. It doesn't have to be duplicated in its entirety?

A - Andrea Fernandes {BIO 21294199 <GO>}

No Eco135 has the duplication over the third lane and shoulders that's correct and 050 is different. By the end of the year it will be completely duplicated and the duplication works are bringing good results and attracting a lot of traffic.

Q - Alberto Valerio {BIO 20716048 <GO>}

Another question from me. On the fourth quarter last year there was something about the CapEx that had to be done and the concessions and the main impact was 56% in the asphalt price. This year there was an adjustment as well. I would like to know if it was due to the asphalt and how much the asphalt increased in price?

A - Andrea Fernandes {BIO 21294199 <GO>}

The increase in the asphalt cement was already reflected. There are some analysis and some increases in the paving expenses for the concessions. There were some adjustments, especially at Ecopistas because it's longer and there is a lot of paving involved in the others as well. It's not -- this increase is not due to the increase in the price of the asphalt. That's in the CapEx division that we made and it was made clear.

Q - Alberto Valerio {BIO 20716048 <GO>}

And my final question then about those Friday's bid, if you could tell us a little bit about your expectations, whether you're going to think it's going to have a lot of competition as the other recent auctions we are seeing between 6% and 7% for Friday you deliver the bid. Thank you.

A - Andrea Fernandes {BIO 21294199 <GO>}

It's a competitive bid. It's public already. There's three players, that's us, CCR and the GLP Fund. It's a different asset, it's smaller with robust traffic already, the main investments and it has duplicated section. So it's a lighter asset in that sense, but we'll see. We need to wait for Friday and depending on the result we'll talk about it again. Thank you.

Operator

(Operator Instructions) EcoRodovias' Q&A session is now over. We turn over to Ms. Andrea Fernandes for her final remarks. Please Ms. Andrea, you may proceed.

A - Andrea Fernandes {BIO 21294199 <GO>}

I would like to thank you for your attention in this call. My team and I remain available for any future questions. Thank you. Have a good day.

Operator

EcoRodovias' conference call is now closed. Thank you very much for your participation. We wish you all a very good day.

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