

Q2 2012 Earnings Call

Company Participants

- Marcus Macedo, IR Manager

Other Participants

- Jacqueline Brewers, Analyst
- Ricardo Alvish, Analyst
- Stephen Trent, Analyst

Presentation

Operator

Hello, ladies and gentlemen. Thank you for waiting. You're welcome to the CCR conference call for discussion of the results of the Second Quarter of 2012. We would like to inform that all participants will only be listening to the conference call during the presentation of the Company. But immediately afterwards, we will begin the question-and-answer session, when we will provide more instruction. (Operator Instructions)

Before continuing, we would like to clarify that any eventual statements made during this conference call relating to the Company's business prospects, projections, and operating and financial target represent mere beliefs and assumptions on the part of the CCR's management and is currently available information current from the Company.

Forward-looking statements do not assure future performance. They involve risks, uncertainties, and assumptions because they refer to the future events and therefore depend upon circumstances that may or may not occur.

Investors must understand that general economic conditions, conditions within the industry, and other operating factors may affect the Company's future results and could lead to the results that materially differ from those that are expressed in the forward-looking statements.

I would like to give the floor over to Mr. Marcus Macedo, Investor Relations Manager. Please, sir, you may proceed.

Marcus Macedo {BIO 15022391 <GO>}

Thank you, operator. Good morning, to all of you. And thank you for your presence at our earnings conference call for the Second Quarter of 2012. Today, we have with us Arthur

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Piotto, our CFO and IRO, Daniel Kuratomi, Leandro Mathias, and Flava Godoy, members of our IR team.

We would like to inform you that the results of the Second Quarter can be found on the Company's Website at www.grupoccr.com.br/investidores.

Before we speak specifically about the results, let's quickly look at some macroeconomic indicators that we understand are important for our business.

During the Second Quarter of 2012, important economic and production indicators demonstrated a slowdown. Nevertheless, the rate of unemployment in May 2012 was 5.8%, a continuous improvement compared to the 6.2% rate in May 2011.

Average real income of workers in May 2012 was BRL1.726, presenting a 4.8% increase over May 2011.

However, during the Second Quarter, industrial production declined 4.5% compared to the same period of 2011. The accumulated index for the past 12 months registered a 2.3% drop. In the comparison with June 2011, it decreased 5.5%.

In comparison with the previous quarter, industrial production also showed signs of slowing down, registering 1.51% decline.

About credit, the latest credit information from the central bank showed a positive evolution of credit from May to June 2012. It presented an increase in the volume of free and directed credit of 4.5% in the Second Quarter of 2012 with loans to individuals rising 2.6% in the same period.

It should be remembered that the automotive sector is intimately linked to the growth of traffic and has great importance in the industrial GDP. In this regard, the number of licensed vehicles declined 1.5% in the Second Quarter of this year versus the same period of 2011. And the production of vehicles also reduced -- was reduced by 7.8% in the Second Quarter 2012 when compared to the same period of last year.

With the Brazilian government's efforts to stimulate economic development in the country, we continue to maintain a positive view regarding Brazilian economy. And we are very confident regarding the future. For the very short term, we are a bit more conservative relative to traffic evolution. But we expect that the next few months must show gradual recovery until the end of this year.

In fact, preliminary numbers from July support this view. We are confident that, for the entire year, the traffic growth should be above or in line with 1.5 times Brazilian GDP as recent years the traffic data indicates.

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In terms of traffic, the consolidated traffic of our concessionaires increased 0.4% in the Second Quarter this year compared to the same period of the previous year. This result mainly was due to the slowdown of the economic activity affecting commercial vehicles more than light vehicles because rising household incomes contribute to help light vehicle traffic.

In this way, in the Second Quarter of this year, the flow of light vehicles increased 2.5% year over year. And for commercial traffic, there was a reduction of 1.4% year over year.

We emphasize that preliminary data from July indicates a light recovery of traffic, supporting our expectations of traffic growth for 2012, in line with 1.5 times Brazilian GDP.

In our press release, you will find more information regarding evolution of traffic of our concessionaires.

In terms of EBITDA margin, over the last few years, our results were impacted by business in their initial startup phase that generated costs and were not able to count under full revenue-generating potential, resulting in a temporary pressure on the EBITDA margin.

For this year, as we have been reporting, the expectation was that this effect would be lower, resulting in the expansion of our consolidated EBITDA margin.

In fact, we ended the Second Quarter of 2012 with EBITDA margin at 62.5%, an expansion when compared to the same period of 2011. And we still have some of the business not reflecting their full potential, suggesting that the EBITDA margin should continue to rise as this business become more mature and attracted growth.

CCR presented a net income of BRL224.3 million in the Second Quarter, an increase of 37.7% year over year. This improvement in performance is a reflection of better operating and financial performance as well as cost and financial reductions, along with bigger contributions from same projects that were initially in their startup phase.

Regarding our debts, the Company's leveraging measured by the net debt EBITDA ratio was two times, which is likely above than the ratio presented in the previous quarter of 1.9 times, mainly due to the recent acquisitions of airports, which are still not reflecting its EBITDA in our income statements.

We believe that the current level is quite comfortable situation that permit the Company to continue its strategy of qualified growth based on capital discipline.

CCR management proposed an intermediate dividend distribution to its shareholders deferring to the fiscal year of 2012 in the amount of BRL953.4 million, representing approximately BRL0.54 per share. Considering the dividends paid on April 27 this year in the amount of close to BRL100.7 million, representing BRL0.06 per share, and if the proposal is approved, the Company will have made a total cash payout of BRL1.050 billion

in dividends for this year, which represents a dividend yield of 4.9% based on the closing share price of the first working day of 2012, which was BRL12.24 per share.

In other words, if an investor had purchased a share in the first working day of the year, their dividend yield would have been 4.9%.

We are just concluding our comments about the Second Quarter 2012 earnings. And we are now at your full disposal to respond to any questions you might have. Operator, please proceed.

Questions And Answers

Operator

Ladies and gentlemen. we will now begin the question-and-answer session. (Operator Instructions) Our first question comes from (Mr. Ricardo Alvish) with Morgan Stanley.

Q - Ricardo Alvish

Hi. Good morning. I have a quick question regarding the investment in Quito Airport of about BRL280 million, if I'm not mistaken. Looking at the cash flow statement, we have an outflow of about 190 actually. I'm just trying to understand what's in here -- so, for this difference. Is there -- is it just the cash acquired, or is there anything else I'm missing? That's the first question. Thank you.

A - Marcus Macedo {BIO 15022391 <GO>}

Hi, Ricardo.

Q - Ricardo Alvish

Hi.

A - Marcus Macedo {BIO 15022391 <GO>}

It's Marcus. This difference is because we are presenting there the net proceeds because we acquired some cash position at the airport.

Q - Ricardo Alvish

So the cash, yes.

A - Marcus Macedo {BIO 15022391 <GO>}

Yes, so, the cashing appears in the cash position directly.

Q - Ricardo Alvish

Perfect.

A - Marcus Macedo {BIO 15022391 <GO>}

Okay?

Q - Ricardo Alvish

Just want to clarify that. Okay. Thank you.

A - Marcus Macedo {BIO 15022391 <GO>}

Thank you.

Q - Ricardo Alvish

The second question, also very quickly, the tariff reduction for Controlar, do -- when do you expect to have the final decision by the Justice Court? Is there anything you can say to us ahead of the decision, or I mean, what are your expectations, if any? Thank you.

A - Marcus Macedo {BIO 15022391 <GO>}

So hi, Ricardo. Actually, yes, we had -- we are having actually a discussion in court. It's an administrative process. The government made this evaluation based on incorrect assumptions in our view. We are discussing within Justice with the government trying to get our rebalanced in this contract.

But we are pretty confident that this is going to happen. But the Justice has to take its time to evaluate the process. So we -- it's difficult for us to give you a deadline for this. But we expect that to happen in the coming years.

Q - Ricardo Alvish

Okay. Thank you, Marcus.

Operator

(Operator Instructions) Our next question comes from Mr. Stephen Trent with Citigroup.

Q - Stephen Trent {BIO 5581382 <GO>}

Hi. Good morning, everybody, and apologize if you already had mentioned this and I was - - unfortunately had to log into this call a little bit late. But with respect to the opportunities you see from the change of Brazil infrastructure package, any thoughts with respect to how much you might look at one subsector versus another? And to what degree are you pursuing other potential airport projects outside of Brazil aside from the Portuguese potential privatization? Thank you.

A - Marcus Macedo {BIO 15022391 <GO>}

Hi, Stephen. Thank you. We -- yes, we are pretty confident about projects that the government are preparing to launch. It seems that, on the newspaper, it's been said that

the government's preparing to announce some projects this week. So we do expect to be more active in the coming months.

In terms of which project we would have better eyes on, I'll say that are those that could offer better returns for the shareholders. We are looking to actually -- (in private) in our sector that we can operate. And as you know, we diversified our portfolio. So now, the number of opportunities are pretty big. We do look to high rates to service to urban mobility projects, but in also to airport projects as we recently approved to change our bylaw.

In terms of airports outside Brazil, we are still -- in the very beginning in this sector, we are analyzing opportunity, yes, outside Brazil. And as you know, there's a project in Portugal. The Portuguese government tries to sell some of -- some assets in the airport business. We did out of our consortium, we signed an MOU with Brisa to analyze this project.

But it is still too early to talk about that as the (inaudible) documents and the numbers and -- I mean, everything is not defined. So I would say that we are looking to this project. We think that airports are a very -- might be a very good business presenting good returns. And we have to go after the projects. We cannot just sit down and wait the governments to launch projects.

So we are pretty active analyzing many opportunities. And we do believe that some of them are going to end up to be a success for us. But it is difficult to measure to you how much of the future projects are eventually going to -- we are going to win or we are going to acquired.

What I can tell you is that, because we have many -- a line of business now, then we can look to many other opportunities. It's -- the possibilities that we are going to be successful in some of them are pretty bigger than in the past. And I -- .

Q - Stephen Trent {BIO 5581382 <GO>}

-- Okay. Great -- .

A - Marcus Macedo {BIO 15022391 <GO>}

-- Just to remember you, when you look to the past 10 years, although the government had launched, if I'm not mistaken, close to 22 or 23 projects, we added close to 10. So our success rate is pretty big, even when not considering projects from the government because we can go to the secondary market.

Q - Stephen Trent {BIO 5581382 <GO>}

Okay. Great. Appreciate the color. And just one other follow up. Would you happen to know whether all or some part of President Dilma's plan is going to require congressional approval?

A - Marcus Macedo {BIO 15022391 <GO>}

For -- sorry, for what?

Q - Stephen Trent {BIO 5581382 <GO>}

For President Dilma's infrastructure plan, would you happen to know if all of it or some part of it is going to require congressional approval?

A - Marcus Macedo {BIO 15022391 <GO>}

No.

Q - Stephen Trent {BIO 5581382 <GO>}

Okay. Perfect.

A - Marcus Macedo {BIO 15022391 <GO>}

Not necessary the congressional approval.

Q - Stephen Trent {BIO 5581382 <GO>}

Okay. Perfect. That's -- those are the questions I had. Thanks very much.

A - Marcus Macedo {BIO 15022391 <GO>}

Thank you, Stephen.

Operator

Our next question comes from (Ms. Jacqueline Brewers) with (Uchilico).

Q - Jacqueline Brewers

Yes, hi, Marcus. It's Jacqueline Brewers here from Uchilico. It's just really a follow-up question to what was previously asked regarding the new concessions that made it up for grabs, just wanted to understand your criteria for bidding for these concessions and understanding whether you guys are still ensuring that you're, I suppose, maintaining a high sort of low or single-double-digit returns and that you're not going to sort of come too aggressive in your bids in order to win any of these concessions that are coming up.

A - Marcus Macedo {BIO 15022391 <GO>}

Hi, Jacqueline. Yes. We expect for this options that are expected to be launched or to be announced by the government, the bidding criteria is going to be (name on) tariff. And I mean, I'll say that the returns are defined by competition. But I can assure you that CCR is going to follow its tariff-to-risk capital (inaudible). We are not going to bid aggressively like some other players did in the past or even recently. Okay? So I don't see CCR doing that.

Q - Jacqueline Brewers

Okay. Thank you.

Operator

This concludes today's question-and-answer session. I'd like to invite Mr. Marcus to present with his closing statement. Please go ahead, sir.

A - Marcus Macedo {BIO 15022391 <GO>}

Well once again, together with the members of the CCR IR team, I would like to thank you for your time and interest in our Company. Please do not hesitate to contact any of us if you have additional doubts. Our contact information is available in our press release on our Website, www.grupoccr.com.br/investidores. There, you will find additional information about our Company. Thank you, all.

Operator

That does conclude the CCR's audio conference for today. Thank you very much for your participation. Have a good day. And thank you.

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