

Q2 2018 Earnings Call

Company Participants

- Flavia Godoy, Investor Relations Coordinator

Other Participants

- Raphael Frankel, Analyst
- Stephen Trent, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good morning, ladies and gentlemen, and thank you for waiting. Welcome to CCR's Second Quarter 2018 Earnings Conference Call. Please be advised that during the conference presentation, participants will only be able to listen to the call. Once the presentation is over, we will begin the Q&A session, and further instructions will be provided at that time.

Before we begin, we would like to clarify that all statements regarding the company's business prospects, projections, and operational and financial goals that may eventually be made during this conference call constitute the beliefs and premises (00:48) of CRR's executive board, and all the information that is currently available to the company. Considerations about the future are not guarantees of future performance as they involve risks, uncertainties and assumptions relating to future events and therefore, depending on circumstances that may or may not occur. Investors should understand that general economic and industry conditions, as well as other operating factors may affect the company's future results and may lead to results that differ materially from those expressed in such forward-looking statements.

Now, I will give the floor over to Ms. Flavia Godoy from CCR's Investor Relations team. Ms. Flavia, you may proceed.

Flavia Godoy

Thank you, operator. Good morning, everyone, and thank you for joining our second Q 2018 earnings conference call. With me today are Mr. Arthur Piotto, who's our CFO and IR Officer; Marcus Macedo and Marcela Dias of the IR team.

The company's earnings release for the second quarter is available on our website www.ccr.com.br/ir. I would like to begin with a few macroeconomic indicators that we believe are important for the performance of our business. We start by pointing out that

FINAL

during the second quarter, unemployment rate with 12.4% down by 6 bps versus the same quarter of 2017 and down by 70 bps when compared to the first quarter ended in March. The real average worker income reached BRL 2,198 in the second Q 2018, stable in comparison to the same period of 2017.

The latest data on industrial production released by IDG (00:02:54) shows a 1.7% growth in the second quarter of 2018 when compared to the same quarter in 2017 and a 2.5% decrease when compared to the first Q of this year. Credit data released by the Central Bank showed that we've grown the financial systems credit balance increased by 1.7% in relation to the same amount of 2017. Credit balance for individuals increased by 6% while for legal entities, it reduced by 3%. The credit disability (03:38) ratio fell to 46% from 47% during the same period.

During the second Q 2018, the volume of credit available for (03:50) financing increased by 27% when compared to the same quarter of 2017. We remind you that the automotive sector is closely linked to the traffic rules (00:04:03) and has a great relevance in industrial activities (04:05). In this sense, the number of licensed vehicles increased by 13% in the 2Q 2018 over the same quarter of last two years. According to the most recent data published by (04:21), vehicle production increased by 13% during the same period.

When considering this, the main operation figures for the quarter, we highlight the pro forma traffic volumes which declined by 5.1% in relation to the second quarter of 2017. Traffic volumes for commercial vehicles decreased by 4.8%; light vehicles decreased by 5.5% during the same period. However, we would like to remind you that the quarter was negatively affected by national truck drivers' strikes in May which lasted 10 days and the tow exemption on (05:09) suspended axles. We entered in support (00:05:13) also in month of May based on a decree issued on May 18 (00:05:19) that provides for the exemption of tow fees (00:05:24) suspended truck axles which was one of the requirements made by truck drivers to end of the strike.

This resulted with the tow exemption of over suspended axles at the tow booth of RodoNorte, ViaLagos and ViaRio on May 28, and at AutoBAn, Rodoanel, Oeste, Renovias, SPVias and ViaOeste as of May 31.

Excluding the effects of these exemptions, CCR's consolidated traffic including Renovias and ViaRio would decrease by 3.4% in second Q 2018 over second Q 2017. It should be emphasized, however, that the compensation to establish the current financial rebalance of the concession contracts are still being discussed with the granting authority.

The NovaDutra and MSVia concessions were not affected as such exemptions have been enforced since April 2015 (00:06:38) when the approval of the truck drivers' law was issued. More information on traffic evolution for (00:06:42) concession is provided in our earnings release.

We now highlight the main pro forma figures for second Q 2018, that is considering the businesses in which we do not have full or shared control, which have been consolidated in proportional to CCR's shares of this (00:07:06) business. We also exclude the following

items for the same base comparison: ViaMobilidade whose contract was signed in April 2018 (00:07:17) non-recurring expenses of BRL 17.6 million in EBITDA and BRL 11.6 million in net income related to independent committee; ViaRio whose stake held by CCR increased from 33% to 67% as of May 2017; and the non-recurring effects related to the acquisitions of stakes in ViaQuatro and ViaRio during the second Q 2017 in the amount of BRL 548 million in EBITDA, and BRL 362 million in the net income.

FINAL

According to this criteria, adjusted pro forma EBITDA for the same-based comparison reached BRL 1.2 billion, a 2.6% increase versus second Q 2017, with a stable EBITDA margin of 59% (00:08:17). Although traffic volumes were affected by national truck drivers' strike and the tow exemption over suspended axles, as I mentioned earlier, it is worth noting that the (00:08:32) results reflect the company's discipline in controlling cost.

Cash cost increased by 3.3% versus an inflation of around 2.6% during the same period. Net income on the same comparison basis totaled BRL 300 million, down by 5% when compared to the same quarter of 2017. This result was mainly impacted by the operational performance already described and was partially offset by control of cash cost and a better financial result.

The company's pro forma leverage measured by (00:09:11) net debt/EBITDA reached 2.6 times in June of this year. In March, the smaller ratio of 2.2 times resulted in non-recurring effect from the acquisition of ViaQuatro and ViaRio in the second Q 2017 (00:09:34) EBITDA by BRL 548 million.

We concluded our comments of the quarter highlighting that although traffic volumes were affected by national truck driver's strike and the tow exemptions over suspended axles, pro forma EBITDA on the same-base comparison increased by 2.6% confirming the company's discipline in controlling cost.

We may now begin our Q&A session. Operator, please go ahead.

Q&A

Operator

Ladies and gentlemen, we will now begin the Q&A session. Our first question comes from Stephen Trent, Citigroup.

Q - Stephen Trent {BIO 5581382 <GO>}

Hi. Good morning, Flavia and team and thanks very much for taking my questions. I was just curious if you could give us your view with respect to your expectations on upcoming auctions and opportunities in the secondary market. And that's my first question. Thanks.

A - Flavia Godoy

FINAL

Hi, Stephen. This is Flavia. Thank you for your question. Well, in terms of new opportunities, actually I would say that CCR is quite optimistic. We do believe that we are going to see another investment cycle in Brazil. So, although this year is an election year, we already have some opportunities by the end of the year. Actually, we have a two-tender process. One, the first tender process is going to be November 1. This is tender process for a highway located in (11:46) the federal highway. And the second tender process is a monorail, Line 15. It's a project located here in São Paulo City, the State of São Paulo concession, and the tender process is up to November 22. So, like those opportunities, we expect to have more.

It's important to mention that we already had some tender process this year, close to three to four tender process and we expect more opportunities like that, not only this year but as I've said before, by the beginning of the next year, the company is quite optimistic, we do believe it that I mean over the next five years, we are going to have a bunch of opportunities.

Regarding the secondary market opportunities, I would say that CCR have been analyzing some opportunities. Unfortunately, I cannot give you more details on that due to some confidentiality agreement. But (00:13:04) I would say, yes, the company was proactive in the past and the company already acquired some concessions in the quarter. The company has been pursuing some opportunities from the secondary market.

Q - Stephen Trent {BIO 5581382 <GO>}

Very helpful, Flavia. I appreciate that. And just one very quick follow-up question, I mean, I know in the past that you guys have done some investments in airports in Brazil, outside Brazil, even in the United States. Any thought at this point regarding the Brazilian government thinking on potentially auctioning more airports? Is that something that may also interest the company?

A - Flavia Godoy

Hi, Stephen. Yes. There are more opportunities. Actually, the Brazilian government already announced the three closures (00:14:03) of airports in Brazil. The government is conducting the public hearing. And according to the government, they expect (00:14:14). We still don't have the official date. But I mean they are working on that. I mean, by the end of this year or the beginning of the next year, we shall see those opportunities.

Q - Stephen Trent {BIO 5581382 <GO>}

Okay. That's perfect. Thanks for the color, Flavia.

A - Flavia Godoy

Thank you.

Operator

Our next question comes from Raphael Frankel, Bradesco BBI.

Q - Raphael Frankel {BIO 19785605 <GO>}

Hi. I have two questions. The first is do you have any updates on the rebalance regarding the (14:55) axles tariff exemptions? And the second is I'd like to know if - actually you already answered the first part of the question, but I'd like to know if you are analyzing any potential acquisitions right now. Thank you.

A - Flavia Godoy

Hi, Rafael. This is Flavia. Well, regarding your first question related to the exemption, the company is still negotiating with the government how the company will be rebalanced to exempted standard axles (00:15:35). So, it's important to mention that in our concession contracts, we have some mechanisms to rebalance the contracts, but it is still under discussions. I mean I don't have at the moment more details to share with you. But at the company, definitely we'll be compensated.

Regarding your second question related to the M&A opportunities, CCR has been pursuing some opportunities from the secondary market. I mean, we already did in the past some acquisitions. Unfortunately, I cannot give you more details on that or to talk about a specific project. I mean (00:16:25) confidentiality agreement and to our strategy I cannot share more details with you.

Q - Raphael Frankel {BIO 19785605 <GO>}

Okay. And just a follow-up on a number you mentioned during the first call. Regarding MSVia, you said you invested BRL 76 million during the first half of 2018 and will invest more BRL 4 million to BRL 5 million in the second half. Is that right?

A - Flavia Godoy

Hi, Raphael. Let me check. Okay, let me get those numbers. In MSVia during the first Q 2018 we invested BRL 76 million. We released that information in our press release. And according to our estimated investments, we should end the year with the total investment around BRL 150 million - BRL 145 million.

Q - Raphael Frankel {BIO 19785605 <GO>}

BRL 145 million. Okay. Thank you.

A - Flavia Godoy

Thanks.

Operator

We now end the Q&A session. I would like to turn the floor over to Ms. Flavia Godoy for the company's final consideration. Ms. Flavia, you may now proceed.

A - Flavia Godoy

FINAL

Bloomberg Transcript

On behalf of CCR, I would like to thank you for your time and interest. Please do not hesitate to contact any of us if you have any further questions. Our contact information is available on our release and on the IR website. Thank you.

Operator

CCR's conference call has concluded. Thank you for your participation. Have a good day and thank you for using Chorus Call.

This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP. © COPYRIGHT 2022, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.

FINAL

Bloomberg Transcript