

Q2 2018 Earnings Call

Company Participants

- Andrea Fernandes, Investor Relation Manager
- Marcello Guidotti, Chief Financial, IR Officer & HR Management and Member of Executive Board
- Unidentified Speaker, Unknown

Other Participants

- Lucas Marquiori, Research Analyst
- Pedro Bruno, Research Analyst
- Ricardo L. Alves, Equity Analyst
- Stephen Trent, Director
- Unidentified Participant, Analyst
- Victor Mizusaki, Research Analyst

Presentation

Operator

Good morning. Welcome to EcoRodovias' Second Quarter of 2018 Earnings Conference Call. With us here today are Mr. Marcello Guidotti, the company's CFO and IRO; and Mrs. Andrea Fernandes, IR Officer; and executives of the company. This presentation is being recorded. (Operator Instructions) The audio and the slides of this conference call are being broadcast simultaneously at www.ecorodovias.com.br/ir. There, 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 statements.

I will now turn the floor over to Mrs. Andrea Fernandes, who will discuss the Second Quarter of 2018's results. Ms. Fernandes, you may proceed.

Andrea Fernandes {BIO 21294199 <GO>}

Good morning. Welcome to another conference call by Grupo EcoRodovias, regarding the results of the Second Quarter of 2018. We thank you all for your interest and your participation. Before beginning our presentation about the results, I would like to mention some important events.

In April, Ecovias dos Imigrantes signed a contractual amendment with ARTESP, which included construction works in the amount of BRL 270 million in the concession contract, which will be rebalanced by marginal cash flow with the concession period extended by approximately eight months.

In June, the subsidiary ECO135 entered into a concession agreement with the SETOP. The existing system was transferred to the concessionaire on July 1 of 2018. And the collection is expected to begin in the Second Quarter of 2019.

In July, we concluded the issuance of debentures in the amount of BRL 350 million for EcoRodovias Concessões e Serviços, with a term of seven years and exit to IPCA. And this quarter, the company's Board of Administration approved the payment of dividends in the amount of BRL 207 million pertaining to the results of 2017, which were paid in May.

Regarding Eco (inaudible), we knew that the construction works are delayed. And we are awaiting a provision from the government of São Paulo regarding the conclusion of works and the timing of the contract -- the concession contract. As for the conclusion of the MGO purchase, we are awaiting approval from ANTT to transfer the concession.

The results of the Second Quarter of 2018 have been impacted by the truckers' strike. And the estimated financial impact was of BRL 47.2 million in the toll collection revenue. And also, with the beginning of the toll exemptions for suspended axles at Ecovia Caminho do Mar, Ecocataratas, Ecovias dos Imigrantes and Ecopistas, it's important to note that the toll exemption for suspended axle will be an object for contractual rebalance.

In this quarter, we've remained focused on operational management and cost discipline as a way to partially offset the impact of the strike, contributing to the stability of the Second Quarter results.

As we can see on Slide 2, consolidated traffic of equivalent paying vehicles in the Second Quarter of 2018 had a 5.1% decrease. If we exclude the toll collection for suspended axles and the impact of the truckers' strike, the comparable consolidated traffic posted an increase of 2.8% in the quarter.

We should note also that the consolidated traffic in April had an increase of 5%. In May, there was a decrease of 17.4% and in June, a reduction of 2.6%. Excluding toll collection for suspended axles and the impact of the truckers' strike, consolidated traffic posted an increase of 1.6% in May and of 1.5% in June.

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Comparable traffic of heavy vehicles at Ecovias dos Imigrantes, Ecovia Caminho do Mar and Ecocataratas was positively impacted by the increase in the export of agricultural commodities at the ports of Santos, Paranaguá and Rio Grande. Ecopistas and ECO101 presented an increase due to the recovery of the region's production -- industrial production.

In addition, the traffic of light vehicles was affected by the truckers' strike, by the increase in the price of fuel and the low flow of vehicles during the game -- days of Brazilian soccer team's games at the FIFA World Cup. At Ecovias dos Imigrantes, Ecopistas and Ecovia Caminho do Mar, comparable traffic of light vehicles presented a growth driven by the increase in the flow of tourists due to the favorable weather in the month of April.

At Ecocataratas, there was a reduction due to the decrease of shopping tourism to Paraguay. And at Ecosul and ECO101, the reduction was due to unfavorable weather conditions in the month of April.

As for the group's consolidated results performance in Slide 3, the pro forma net revenue was of BRL 584 million this quarter.

Net income of highway concessions was of BRL 554 million in the Second Quarter due to the truckers' strike, with a negative impact estimated in BRL 47 million for the toll revenue.

On Slide 4, consolidated cash costs in the quarter amounted to BRL 183 million, presenting an increase of 0.5% in the quarter. It's worth noting that the cash costs of highway concessions, the most relevant segment for the group's consolidated results, presented a reduction of 1% comparing to the Second Quarter of 2017, even with an inflation rate of 4.4% in the period. A result of the company's continuous search for operational efficiency over the last years. Pro forma EBITDA was of BRL 401 million with the margin stable at 69%.

Despite the truckers' strike impacting all highway concessions, the majority of the concessions still posted an increase in EBITDA in the quarter, as we can see on Slides 5 and 6, with a special highlight of the increase in 9% at Ecopistas, 15% at ECO101 and an increase of 12% at Ecoponte's EBITDA.

On Slide 7, we post the evolution of comparable net income of BRL 82 million in the Second Quarter of 2018, an increase of 2% compared to the same period of the previous year. This was influenced mostly by the cost of maintenance provisions, income tax and social contribution. The net income attributable to noncontrolling shareholders negatively affected by a greater depreciation and amortization and the EBITDA and due to the traffic decrease resulting from truckers' strike.

As for investments, on Slide 8, the CapEx this quarter was BRL 207 million. Estimated CapEx for 2018 is up approximately BRL 889 million. We maintain the company's commitment to invest according to contracts and business needs. We may highlight the beginning of works for the connection of the Rio-Niterói Bridge to the Red Line and the

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Port Avenue at Ecofonte, the beginning of works in the amendment of Ecovias dos Imigrantes and the continuation of application works at ECO101.

Moving on to Slide 9, we closed the month of June with cash of BRL 2.1 billion and a loan/debt profile which highlights the robustness of our financial condition. The indicator net debt over comparable pro forma EBITDA was of 2.58x. These figures allow us to implement comfortably the commitment of investments in the assets recently acquired as well as to evaluate future privatization programs.

Debt by index was of 54% in CDI and 37% in the IPCA. And the median cost of debt was of 8.35% in June of 2018.

We would like to close highlighting that the recent acquisitions made by the group and the contractual amendment at Ecovias dos Imigrantes extended the duration our concession portfolio to 17 years and six months.

We note that the company continues -- or remains focused on the execution of its growth strategy through the study of contractual amendments to existing concessions and the participation in federal and state bids.

We should note that the investment opportunities are always analyzed considering the capital discipline. And they are considered according to the company's financial capacity and the return of each project.

This concludes our presentation. And we would like to move on to the questions-and-answer session. Operator, we are ready for the questions. Thank you.

Questions And Answers

Operator

(Operator Instructions) Our first question is from Ricardo Alves from Morgan Stanley.

Q - Ricardo L. Alves {BIO 16840901 <GO>}

I have 2 questions. But first, I would like to discuss more about the cost performance at the highways. I think it's the fourth consecutive year, maybe even more, that you've been achieving a cost much lower than the inflation rate. So I would like a little bit more detail of where this is coming from and if there's any concessionaire that has something more that can be done. I see that you mentioned an optimization of the personnel structure. I don't know if there's more room now in the next quarters for further adjustments. Just for us to know what to expect in terms of the margin of highway concessions in the second half of the year. That's my first question.

A - Marcello Guidotti {BIO 16618352 <GO>}

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Ricardo, it's Marcello speaking. About your question, the company has the duty of studying all highway concessions. Not only that. But analyzing the supply area and other activities of the concessions and as synergy and we are harvesting the results. I think the main result is due to the actions taken over the last few quarters. And I think it's important to have a connected supply department that can hire service providing contracts that are the main areas of cost in the highways. And to do so in an organized way and with predictability, allowing us to achieve more efficiencies. (Extra) personnel, which we try to use technology results to replace the workforce when possible. And I think it's a good news that we continue. Of course, there will be a time where we will have to invest more in order to find solutions that can continue achieving these efficiency gains.

Q - Ricardo L. Alves {BIO 16840901 <GO>}

Excellent. Highway margin, considering the traffic decreased so much due to that nonrecurring event, do you think we could assume a margin expansion for the Second Quarter, year-on-year? Would that be reasonable?

A - Marcello Guidotti {BIO 16618352 <GO>}

I would say that we have to consider that we will not have that situation. But for the moment, we're not considering that for the highways in Paraná and São Paulo. But that may lead to an impact. In the Second Quarter, the impact was limited to that. So the company will try to achieve an extension of the margin.

Q - Ricardo L. Alves {BIO 16840901 <GO>}

Excellent. My third question, a very specific one on Ecopistas. It's an update. And I apologize if I missed any comments. But regarding those additional investments made in the past year. But an update on the timing. And I don't know if you've talked about this recently or not, if there is a possibility for any type of agreement and what impacts we can expect for the concessionaire? Any update on this issue would be helpful.

A - Marcello Guidotti {BIO 16618352 <GO>}

As we mentioned in the discussion that we're looking for an agreement with the agency. So that -- those are the discussions that are being maintained. We don't have a clear definition of what type of negotiation or what the result will be. But certainly, we are negotiating with the agency to be able to have a rebalance of this.

Operator

Our next question, Victor Mizusaki, Bradesco BBI.

Q - Victor Mizusaki {BIO 4087162 <GO>}

I have a few questions. First, an update about the MGO process. You mentioned you're waiting for the approval. And I would like to know if you have any expectation of when this will take place. And if this process shall take longer pending this approval, will there be an adjustment in the price of the transaction?

A - Unidentified Speaker

Victor, the process is moving along normally. There's a delay in this period. But this is quite usual. We are following up. And we believe that we need to wait. We are not concerned. We have to just wait and let the right time to go by for the agency to give its opinion. And I don't expect a price adjustment. Everything's under control. I think it's just a matter of time. With a little bit more patience, we will obtain the approval.

Q - Victor Mizusaki {BIO 4087162 <GO>}

And a final question, about traffic. I don't know if you have a partial number for July or what the trend is for now and about the government's negotiations about this rebalance with the suspended axle.

A - Unidentified Speaker

About your first question, July is going well. We need to consider the suspended axle. But we are moving in a positive direction compared to July 2017, which was good. Last year was (about) 5%. But still, July is going on in a positive trend. But with the suspended axle, of course, we will have a change. So there's a positive number without considering the suspended axle. About the rebalance of the suspended axle, we are discussing with the agencies. There is an opening. And we are discussing this. But we expect to have a solution soon and this is very important. But we do not have a definition as of or how this will be rebalanced in São Paulo or Paranaguá. But we are discussing this.

Operator

Our next question, Pedro Bruno, Santander.

Q - Pedro Bruno {BIO 19082978 <GO>}

My question is about the amendment. You signed a relevant amendment recently at Ecovias with the state of São Paulo. And with the uncertainty in the current regulatory scenario, it conveys an important positive message about your intervention with the regulator. But are there more amendments being negotiated? Or is there anything we can expect in the midterm, not only in the state of São Paulo but overall?

A - Unidentified Speaker

Well normally, we declare that we have discussions being analyzed with the grantor. But there's no solution. The state of São Paulo has been more active in this sense, especially Ecovias. It's a message that has opportunities because it is located in a very important, or the most important, maybe, metropolitan area. And it has been presenting opportunities. So yes, we are discussing Ecovias and the other investments. But in the other concessions, we have the opportunity of discussions that may be useful for the contract and for society. So this is an activity that has always been done. And it will continue to be so.

Operator

(Operator Instructions) Alberto (inaudible), UBS.

Q - Unidentified Participant

I would like to know about the auction, if EcoRodovias is interested in participating in this bid? If there's -- or if there's a need for a raising of funds for this bid?

A - Marcello Guidotti {BIO 16618352 <GO>}

We are studying this, obviously, concluding the details about traffic and engineering. We're getting ready for this bid. The company understands that with a longer CapEx, there will be no need for that on EcoRodovias. We are not working with this event.

Q - Unidentified Participant

Excellent, Guidotti. And if you can remind me, please, about the pipeline for the Carvalho Highway in (inaudible). When will be the implementation of the toll plazas?

A - Marcello Guidotti {BIO 16618352 <GO>}

We signed the contract. We started working. And the expectation is by the end of March next year, to have the toll plazas in operation.

Operator

Lucas Marquiori, Banco Safra.

Q - Lucas Marquiori {BIO 17907247 <GO>}

Two quick questions. Guidotti, you gave us an update about the MGO negotiations. And if you can also update us about an estimation or the term for the North Beltway. And when do you expect to put this asset in? And also, an update about the internal investigation commission that, if you have any update on that?

A - Marcello Guidotti {BIO 16618352 <GO>}

About MGO, there are no negotiations going on right now. We are waiting for the grantor's position about it. That's the only thing that we need to wait for. So there's no -- it's well known that this type of -- the authorization from the grantor takes a while. So we will have a positive response. About the Beltway, the works are delayed, which is known. And the main condition for the contract, for the delivery of the first section, the works are delayed. So the signature -- the signing of the contract is also delayed. We are discussing this with the grantor, trying to understand the time line for this. About the independent committee, the works have begun. The activities are being developed. And we expect a conclusion in the upcoming months.

Operator

Next question in English by Stephen Trent.

Q - Stephen Trent {BIO 5581382 <GO>}

Most of my questions have been answered. But just one follow-up. When we think about your view of new projects over the back half of this year, are you maybe still looking at any potential opportunities in the secondary market? Or state versus federal? And if you are looking at such opportunities, what's your view with respect to the potential for foreign competitors placing bids in the federal auctions?

A - Unidentified Speaker

Steve, thank you for your question. Stephen's question was about whether EcoRodovias is considering assets in the secondary markets and the possibility of auctions. His second question was about the possibility for foreign competitors. So about the auctions, I was asked about this. And we're studying it. We need to understand. And there's opportunity. But starting 2019, there will be many opportunities both in the state market in São Paulo and others and in the federal market. So we're watching this. But the secondary market, I would say, no, at this point, we're not considering anything in the secondary market. About the foreign competitors, now, I would say that the company's intentions, that the players that participated and that came about in the last year at those auctions, need to guarantee that we'll be the same players that will appear in the coming auctions. There's nothing new that we see in this area.

Operator

This closes the question-and-answer session. I will turn over to Andrea Fernandes for her final remarks. Please, you may proceed, Ms. Andrea.

A - Andrea Fernandes {BIO 21294199 <GO>}

Thank you for the participation. If you have any doubts, our Investor Relations department is available to answer you. Thank you very much. Have a good day.

Operator

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

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