

Q3 2018 Earnings Call

Company Participants

- Flavia Godoy, Unknown
- Flávia Godoy, Unknown
- Marcus Macedo, Unknown

Other Participants

- Alberto Valerio, Associate Director & LatAm Transportation Equity Research Associate
- Felipe Vinagre, Head of the Latin America Transportation and Capital Goods
- Lucas Laghi, Analyst
- Lucas Marquiori, Research Analyst
- Lucas T. Barbosa, Research Associate
- Roberto Otero, Associate
- Victor Mizusaki, Research Analyst

Presentation

Operator

Good morning, ladies and gentlemen. And thank you for waiting. We would like to welcome you to the Third Quarter 2018 Earnings Conference Call of CCR S.A.

(Operator Instructions)

Before proceeding, we would like to mention that forward-looking statements about CCR's business prospects and financial and operating growths are based on the beliefs and assumptions of CCR's management and on information currently available to the company. Forward-looking statements are not a guarantee of performance. They involve risks, uncertainties and assumptions because they relate to future events and therefore depend on circumstances that may or may not occur. Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of CCR and could cause those results to differ materially from those expressed in such forward-looking statements.

Now I'll turn the conference over to Mrs. Flávia Godoy, CCR's IR coordinations. Please, Mrs. Godoy, you have the floor.

Flávia Godoy

Welcome, thank you, operator. Good morning, everyone. And thank you for attending our earnings conference call for the Third Quarter of 2018.

With us here today, we have Arthur Piotto, our Chief Financial and Investor Relations Officer; Marcus Macedo, Daniel Kuratomi and Marcela Dias, members of the IR team.

The earnings result is available on the company's website at www.ccr.com.br/ri.

Let us first take a look of some of the macroeconomic indicators we consider important for the performance of our business. We would like to start by highlighting that the unemployment rate came to 12.1% in 3Q '18 with a 0.5 pp down year-on-year and 0.6 pp down from second Q '17. The average real per capita income reached BRL 2,225 in August, in line with the same period of 2017.

Well the last data informed by the Brazilian Institute of Geography and Statistics show that the industrial production grew by 2.0% year-on-year in August and fell by 0.3% as compared to July. According to the latest credit details released by the central bank, credit granting in the financial systems moved up by 3.4% year-on-year in August. The balance of loans to individuals increased by 7%, while the balance of corporate lending decreased by 0.4%. The credit-to-GDP ratio fell to 46.7% versus 47.2% in the same comparison. Credit to finance vehicles grew by 24% year-on-year in August, as compared to the same month last year.

It is worth noting that the automotive sector is closely linked to traffic growth and has a great influence on our industrial GDP. In this sense, the number of licensed vehicles increased by 13% in 3Q '18, as compared to last year, whilst vehicle production moved up by 5% in the same comparison, according to recent data from ANFAVEA.

Now moving on to operating numbers for the quarter, we highlight the pro forma traffic, which edged down 4.2% over 3Q '17. On the same comparison basis, commercial vehicle traffic declined by 7.3%, whilst light vehicle traffic fell by 0.3%. It's worth remember that the quarter was affected by exempt suspended axles of empty trucks, according to Executive Decree 833 of May 2018. As a result, all the concessionaires, except for the federal highways, discontinued toll collections for suspended axles. Excluding the effects of these exemptions, CCR's consolidated traffic, including Renovias and ViaRio, increased by 0.1% in 3Q '18 over 3Q '17. As a consequence, there was a loss of revenue in the quarter of approximately BRL 76.3 million. However, it's worth noting that the alternative forms of compensation to reestablish the economic and financial balance of the agreements are being discussed with the granting authorities.

In our press release, you will find more information on traffic trends for each concessionaire.

We'll now show the pro forma -- the key pro forma figures in 3Q '18 considering all businesses which do not control or hold shares control, consolidated according to CCR's share in each line. We also excluded the following items from the same basis comparisons: ViaMobilidade, whose concession agreement was executed in April 2018;

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nonrecurring expenses related to the independent committee, with an impact of BRL 17.1 million on EBITDA and BRL 11.3 million on net income; and CCR's group's nonrecurring severance costs, with an impact of BRL 31.8 million on EBITDA and BRL 21 million on net income.

According to this criteria, same-basis adjusted EBITDA totaled BRL 1.4 billion, a 5% increase in (sic) (on) 3Q '17, accompanied by a margin of 63.1% with a down number of 1.2 pp. Net income in -- on the same basis, net income totaled BRL 405 million, 14% down over 3Q '17, which was chiefly impacted by the operating performance previously mentioned.

The pro forma investments in 3Q '18, including financial and -- assets and maintenance, totaled BRL 457.8 million. The concessionaires which most invested in the quarter were RodoNorte, NovaDutra, SPVias, MSVia's and MetrÃ Bahia. RodoNorte's investments were mainly allocated to duplications and restoration works in several stretches. At NovaDutra, works were carried out on several bridges and overpasses. SPVias invested in resurfacing and duplications in several stretches. And investments in MetrÃ Bahia were mainly in construction works, rolling stock and systems.

The pro forma gross debt was BRL 18.8 billion in September, 19% up year-on-year. Even with this increase, the company's pro forma leverage measured by the net debt-to-EBITDA ratio remained at 2.6x due to higher cash position and EBITDA.

And subsequent events. We would like to highlight that, on October 1, the company announced the acquisition of an additional stake in San Jose International Airport and now holds directly and indirectly 97.15% of the concessions. Another highlight was that, on October 18, the Board of Directors' meeting approved, ad referendum by the company's 2019 Annual Shareholders' Meeting, the payment of interim dividends of approximately BRL 0.39 per share, to be paid as of October 31. Payment will be made to shareholders of record on October 23. And the shares will be traded ex-dividends as of October 24.

We end our comments on the quarter's results highlighting that, although the traffic has been affected by the suspended axle exemption, the same-basis pro forma EBITDA grew by 5%, underlining the resilience and solidity of our business. We would like to conclude by highlighting our commitment to the qualified and sustainable growth that has brought us an authority along our history. The strong need to invest in infrastructure in Brazil corroborates a new investment cycle for the coming years, in which we can identify over 63 potential projects to be launched individually or in groups. Only in the road segment alone, we can mention 44 highway concessions in the domestic and international markets, 13 of which are existing concessions whose contracts will mature over the next five years, besides the South integration road whose bidding process is scheduled for the next week, November 1. In the urban mobility segment, the company continues to be attentive to new opportunities such as Line 7, 8, 9, 11, 12, 13 and 15 in SÃo Paulo, in addition to some opportunities in the international markets. In the airport sector, as an ongoing process to generate profitable businesses, we are also awaiting 13 airports, which should be bid in 2 blocks.

As we can see, our diversified portfolio, our record of realizations and investment capacity enable us to participate in these opportunities, continuing our qualified and sustainable growth; and contributing to the social, economic and environmental development of the regions where we operate.

We now open the floor for Q&A. Operator, please go ahead.

Questions And Answers

Operator

(Operator Instructions) Our first, well, question comes from Roberto Otero for Merrill Lynch.

Q - Roberto Otero {BIO 16689399 <GO>}

We have 2 questions. First, on the new opportunities of growth. What's your appetite for next week's bidding process? And what do you see about the pipeline? And if there is any news about the evolution of SRPJ.

A - Flávia Godoy

Pedro (sic) (Roberto), this is Flávia. Well In regards to your first questions, on our -- as I mentioned during the call, the company remains very attentive and working with some opportunities that come about. Next week, we have the Risk South Integration roadway bidding process and the process will be delivered on 30th October. And the company is undergoing a competitive process. And any decisions are made on the eve of the auction. But we go on assessing this opportunity, for sure. And in terms of the other opportunities, we are expecting a new cycle of investments, as we mentioned. And I think that all the scenario of our economy and the country's current situations corroborate with this cycle. And we count on private players increasingly more. And not only new opportunities shall be announced in the coming years. As I listed, there are over 63 projects that we have in our pipeline but also highways that are going to end the contracts in the next five years. So the balance of highways, they are going to end the contracts by 2022 -- 2022, besides the new announcements. So the company goes on very focused on this type of new investment. And in terms of your second question, about the discussions on the investigation on AutoBA, this process started on February 2018, And on 27th February, we -- one of the ministers voted for this inspection. And recently, we had another section. And other 3 ministers also wanted to vote a favorable -- favorably for this investigation. And we still need one minister to pronounce himself. So the judgment has not been carried out. We think that this advancement was positive. But in fact, we have to wait for the end of the process for final decision. And the fifth minister still has to give his vote. He asked for more time. And only with this vote the whole process will be concluded.

Operator

Next question, Mizusaki, Bradesco billings (sic) (Bradesco BBI).

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Q - Victor Mizusaki {BIO 4087162 <GO>}

I have 2 questions. First, when you analyze the data on the third Q, you had almost BRL 32 million increase in terms of the severance line in the group. I would like to know if you are expecting any reductions in the cost of personnel as of fourth Q. And also, I would like to know the status of financing.

A - Flávia Godoy

Victor, this is Flávia again. Well in terms of the nonrecurrent effects and then labor severance discussions, we don't have a figure to inform you. But this is a continuing and ongoing process. We are carrying out this in an ongoing basis. And the greatest impact is over already. It was mentioned now in this 3Q. And the company is going over some processes to make the company more agile, more flexible. And part of this program requires the preparation of some of our members to take over new responsibilities in the future. And we are going over the roles what can be accumulated or not. So this will be a continuous exercise. The greater impact is over already. But the benefits, I think, we are going to be able to see in a year's time or even a longer period.

Q - Victor Mizusaki {BIO 4087162 <GO>}

I would like to mention the headcount and how much this represented as a reduction.

A - Flavia Godoy

Victor, well, we don't have this information in numbers to tell you. But I can tell you that some of these personnel cuts were on the executive level. And we are going over another restructuring process. And this was started last year. And all this is part of what we announced as part of our successions plan restructuring. In terms of your second question, the independent committee, well, the investigations are still ongoing. So we didn't have any detail on how it stands or something more that we could share with you. But I want to reinforce that the independent committee is really independent. None of us have access to them. And therefore we have to wait for the conclusions.

Operator

Next question, Felipe Vinagre from Crédit Suisse.

Q - Felipe Vinagre {BIO 19282922 <GO>}

I have 2 questions. First, about ViaQuatro, if you'll have any updates on the status of the imbalance or what I want to discuss in order to really perform the numbers. And how do you think you can rebalance it? What are the views you have on the rebalancing?

A - Flávia Godoy

Vinagre, this is Flávia. Well ViaQuatro, ViaQuatro is set. We admit and we have noticed the imbalance. And the company is talking in order to find a way of rebalancing it. So we started to have -- or we started 2 processes. One is how to resolve the loss of revenue. And the other is how to pay back these losses since MTU didn't recognize these losses. But we don't have a deadline to conclude it. But we hope that this will be concluded by

2019, next year. As the imbalances formed, in the case of ViaQuatro, since it is a PPP, these PPP processes have a limitation in the deadline extensions. So the balance, the rebalance, I think, would fit better with the compensation chamber. And today, 10% of passengers that go through ViaQuatro, from 10%, we get the full price; and 90% hedge price. So the compensation will go around these.

Q - Felipe Vinagre {BIO 19282922 <GO>}

I have 2 other questions on 2 assets. One, on the airport of Belo Horizonte, I would like to know your view on Pampulha. How does it stand? And what have you taken as -- at en priere, what have you decided with them? And how can you increase demand?

A - Flavia Godoy

Vinagre, as to the possible reopening of Pampulha airport, I want to say that the concessionaire started -- filed a suit preliminaire and asking that all the documents will be reanalyzed for the reopening of Pampulha. But we still wait for the final sentencing in order to discuss whether Pampulha will be reopened or not. So the reopening of Pampulha airport has not been definitely canceled. In terms of MetrÃ´ Bahia, we had very important advances this year and in terms of the demand. But passengers, we concluded the project as well. And the cut of the lines, which were foreseen in our concession concept, this is still in an implementation phases. This is very important for the company, for the performance of our business in this specific asset. And also, to improve the implementation, we had a very good advance in third Q as compared to second Q. And we hope that this will be finished by end of the year. The company -- I wants to mention also that, since this is foreseen in the concept, this could have more delays. The company has the right to file a suit for rebalancing.

Operator

Next question, Alberto Vanedu (sic) (Alberto Valerio) for -- from UBS.

Q - Alberto Valerio {BIO 20716048 <GO>}

I think that the federal auctions next week will have a new rule for the concession grant. You will have to provision the amount. And as an off, you'll give the discount on the tariff. I would like to know, how will -- this provisioning, how will it be made?

A - Marcus Macedo {BIO 15022391 <GO>}

Well Alberto, this is Marcus. Well in terms -- it's slightly different from what you said. The rule is that, for each percentage of discount offered in the tariff, the auction winner will have to put a higher capital amount in the projects. The project is not per concession. Unfortunately, since we are in a competitive bid, we cannot share with you the conditions and the company's strategy for the project. But after the auction, if we are successful, or even if we participate and because the decision will be made much closer to the auction. And then we will be able to mention and comment in more details. I hope you understand it. But since we are in a bidding process, we cannot share these figures with you.

Operator

Next question, Lucas Laghi, Citibank.

Q - Lucas Laghi {BIO 20757425 <GO>}

I have 2 questions to Flávia. One relates to the timing for the financial rebalance. And the second regards ViaMobilidade. Can you give any idea of additional impact that these actions of end of the quarter -- how will these be added in assets demand?

A - Flávia Godoy

Lucas, Flávia again. Well in terms of the negotiation of the suspended axles, the negotiations have been started. But we do not have a definition. The company is still negotiating with the government of the State of São Paulo and the other governments as well because we have concessionaires in other states as well. But I focus in São Paulo because the concentration of our assets is here. But being the negotiations are taking place -- in fact, the reception was very good by the government and our company. But rebalance, for me, has not been defined. We have to wait. In terms of Line 5, the project for the operation was started in August. At the end of the quarter, we opened 2 new stations, very important ones, for Line 5. And the expectation, which is the information that was given by the government, is that with the line 100% operational, the idea -- when we must probably will reach the level of 700,000. And our expectation therefore is that we will meet this number in the next few months.

Operator

(Operator Instructions) Next question, from Lucas Barbosa with Morgan Stanley.

Q - Lucas T. Barbosa {BIO 20835372 <GO>}

Flávia, I want to follow up on the compensations for the suspended axles. In your minds and in the concessions in the State of São Paulo, do you think that the dispute would affect, could be a barrier for you to close a deal in order to have this balance for not charging the suspended axles, or what?

A - Flavia Godoy

Lucas, I don't, we don't believe that there would be any type of interference because -- in this dispute because it's a right -- it's a contracts right we have. The negotiations are in an ongoing basis with the granting authorities. But we did not find a way. We haven't defined the way we will find the rebalance of this. But we don't think that these discussions in -- impact the negotiation. This is a period of a contract. And the period of the contract has to respected.

Operator

Next questions, Lucas Marquiori from Safra.

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Q - Lucas Marquiori {BIO 17907247 <GO>}

I have 2 quick questions. Flávia, please tell us on MSVia. What is the company's thoughts in making the compensations to find the rebalancing? And the second point is that you mentioned several opportunities for new investments, airports, highways and urban mobility. And respecting your limitations in mentioning all of these subjects. But I would like to know if you could make a return metrics -- matrix comparing airports and urban mobility and highways. Where do you see more, greater opportunities of return? This will help us on the company's allocation appetite for new assets.

A - Flavia Godoy

Lucas, well, in terms of MSVia's, the company has filed a suit to discuss the contractual imbalances. We are living with this; and this, we are going -- undergoing a contractual imbalance. And the law 13,448 incorporates enables highways to return the assets within this period. But we -- the company was not regulated so far. So we have this idea of rebalancing. We filed the suit. We have a provisional injunction that eliminates any probability along the line. So we have to wait for the suits to go on.

Q - Lucas Marquiori {BIO 17907247 <GO>}

And in terms of the attractiveness comparison within the 3 modes, what do you think?

A - Marcus Macedo {BIO 15022391 <GO>}

Well this is Marcus. Well it's always very difficult to speak about the potential return on competitive processes because we will have, more or less, competition. And this can impact the return on the project. But looking at the history of what happened so far between airports, highways and mobility, we could place mobility as the segment that could generate higher returns due to the higher complexity and risk and therefore, what we saw in the past, a limited number of competitors. And in second place, we could put highways because, even having in the past few players for each of the projects we launched, this segment historically -- and depending on the project, we are able to get 4, 5, 6 players bidding for one same highways. So there is the possibility of having higher competition and lower returns. And the third would be airports because, when we saw the last auctions, the last bidding processes with an -- several foreign players and the bids are very high. And this suggests that the returns were not as high as expected by the market. So I think this would be the order. But it's always very difficult to foresee this. You have a launched highway, a very high, very large, big highway that requires more capital with a higher number of participants. And sometimes, you save the bid. You're -- win the bid with an attractive return. But obviously, we're thinking on different companies. And sometimes the return view of another company is different from ours. So this is very strict in terms of capital. And we will be very competitive in all the bidding processes. But we will not set aside the capital gains.

Operator

(Operator Instructions) We now close our Q&A sessions. Now we would invite Mrs. Marcela -- or Flávia, sorry, for the closing remarks.

A - Flávia Godoy

Well 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 further questions. Our contact information is available in our releases and on our investors relations website.

Thank you very much.

Operator

The earnings results webcast of CCR is closed. Thank you for participating. And thank you for joining Chorus Call.

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