

Q1 2017 Earnings Call

Company Participants

- Flávia Godoy, IR Coordinator

Other Participants

- Augusto Akihito Ensiki, Latin America Analyst, Research Division
- Renata Stuhlberger, Research Analyst
- Victor Mizusaki, Research Analyst

Presentation

Operator

Good afternoon, ladies and gentlemen. And thank you for waiting. We would like to welcome everyone to the First Quarter 2017 Earnings Conference Call of CCR S.A. (Operator Instructions)

Before proceeding, let me mention that forward-looking statements about CCR's business prospects and financial and operating goals 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 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 Coordinator. Please, Mrs. Godoy, you may begin.

Flávia Godoy

Thank you, operator. Good morning, everyone. And thank you for attending our earnings conference call for the first Q '17. With us here today are Arthur Filho, our Chief Financial and Investor Relations Officer; Marcus Macedo, Daniel Kuratomi and Marcela Dias, members of the IR team.

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

Let us first take a look at some of the macroeconomic indicators we consider important for the performance of our business. We would like to begin by highlighting that the

unemployment rate came to 13% in first Q '17, 3.80percentage points up on first Q '16 and 0.5percentage points up on 4Q '16. IBGE's latest data on industrial production saw a slight increase of 0.6% in first Q '17 over the same period in '16. In March, this figure moved up by 0.7% when compared to the same month in '16 but fell by 3.80% in the last 12 months.

According to the latest credit details released by the Central Bank, credit granted the financial season increased by 0.2% in March and dropped by 3.5% in the last 12 months. Also in March, corporate operations declined by 0.3%, while operations with individuals increased by 0.6%. The credit-to-GDP ratio fell to 48% versus 52% in March '16.

Credits to financial vehicles increased by 18% in first Q '17 over first Q '16. It is worth emphasizing that the automotive sector is closely linked to traffic growth and has a huge influence on the industrial GDP. The number of licensed vehicles increased by 3% year-on-year in first Q '17 and 11% in March compared to the March '16, while vehicle production grew 24% and 18% in the same comparison according to the recent data from ANFAVEA, the Brazilian Auto Manufacturers Association.

Before discussing this quarter's results, we would like to mention 2 subsequent [ph] events. The Shareholders' Meeting of April 11 approved the distribution of dividends of around BRL 0.19 as of April 28. On April 20, CCR concluded the financial transaction for effective acquisition of 15% of ViaQuatro shares, totaling a 75% interest in deduction [ph].

Moving on to our operating numbers for the quarter, we will highlight pro forma traffic with the beginning of collection on ViaRio in August '16, traffic was adjusted for comparison purposes, that is, excluding this asset in first Q '17 and thus leading to a 2.7% reduction in the company's consolidated results. On the same comparison basis, commercial vehicle traffic declined by 4.2%, while light vehicle traffic fell by 0.8%. In our press release, you will find more information on traffic trends for each concessioner.

We now show the key pro forma numbers for first Q '17, that is considering all businesses which we do not control or hold shared control, consolidated according to CCR's share in each line. We also adjusted the comparison basis, that is excluding from calculations STP, which was sold in August '16 and the business that were still nonoperational in first Q '16, ViaRio and VLT.

In accordance with this criteria, same-basis cash costs grew 1.5% over first Q '16, while the IPCA inflation index grows 4.6% in the last 12 months ended in March.

Same-basis adjusted EBITDA totaled BRL 1.2 billion, 3% higher than in first Q '16, with a margin of 62%, 50 bps up.

Same-basis net income totaled BRL 339 million in first Q '17, 47% more than in first Q '16, impacted mainly by cost control and the improved financial results as a result of a higher cash position, lower monetary variation and our average selling interest rates.

The company's pro forma leverage measured by the net debt-to-EBITDA ratio fell to 1.8x in first Q '17. Excluding the BRL 1.3 billion effect of the sale to STP in August '16, this indicator came to 2.3x. The current figure is a result of the proceeds from the public offering, which was concluded this February.

We end our comments on the quarter's results by highlighting that despite the weak economic scenario with the possibility of forecasting a 2017 GDP increase by only 0.5%, same-basis pro forma adjusted EBITDA grew by 3% in first Q '17 with a margin expansion of 50 bps. We also managed to curb cash cost growth, which was more than 300 bps below inflation as previously mentioned.

We will now open the question-and-answer session. Operator, please go ahead.

Questions And Answers

Operator

(Operator Instructions) Our first question, Victor Mizusaki, Bradesco.

Q - Victor Mizusaki {BIO 4087162 <GO>}

Actually, I have 2 questions. The first one, when we take a look on your figures, we can see a big drop and drag for MSVia. So I don't know if you can comment a little bit more what happened in the First Quarter and the outlook for the Second Quarter and the second half of this year.

A - Flávia Godoy

Victor, this is Flávia. Thank you for your question. Actually, this highway, MSVia, suffered more than compared to the other highways because we are in the beginning. I mean, in this concession, we are duplicating the highway. So we have some interferences along the highway. We also suffered a little bit because, if I'm not wrong, in the beginning of the last year, the production that we -- the company looked for was anticipated. And so the comparison is not so there because last year, we had this effect in the first Q. But I mean, we also had the effect on the highway, the parallel highways that had some improvement in terms of the maintenance. So we had more traffic that has been deviating for the alternative result [ph]. So we have better figures. I mean, recently, we saw the numbers from ABCR. In April, we had a better figure. And we factored the same in this highway.

Q - Victor Mizusaki {BIO 4087162 <GO>}

Okay. And my second question, thinking about M&A. I don't know if you can give some color on the current negotiations.

A - Flávia Godoy

As we mentioned during the offering, CCR increased its capital recently to address new opportunities. We have been analyzing some new opportunities. I would say mainly M&A transactions. It's quite difficult to provide more details on that because we have some

confidential agreements. So I cannot give you more details. But I would say that CCR has been pursuing to buy some opportunities [ph]. Just to try to address your question, if you consider the last offering that we did, the first one was in 2004. We took around six months to conclude the acquisition. And the last one, I mean, before the recent one, in 2009, we took more than one year to conclude the acquisition. So I mean, I would say that our expectation may be to announce something soon or I would say soon enough short term (inaudible) to provide you more details on that.

Operator

Next question, Renata Stuhlberger, Goldman Sachs.

Q - Renata Stuhlberger {BIO 18678532 <GO>}

One question for me here, also related to the use of the proceeds from your recent capital increase. So this quarter, you reported that you postponed some -- that you were able to roll over some short-term debt. So I was wondering how much of your proceeds do you plan to use for that reorganization issues and not necessarily just growth to new acquisitions.

A - Flávia Godoy

Renata, this is Flávia. Thank you for your question. Actually, the offering that we did recently, 70% of the proceeds is to expansion -- I mean, new opportunities. And 30% is to improve our cash position. So when you compare the position that we had, the cash position that we had in December '16, only in the holding company we had close to BRL 1.5 billion. So proceeds from the offering are going to use to improve our cash position. But it's important to mention that the BRL 1.5 billion that we had in the past, we are using to amortize some of that, that we do not have a very fiscal benefit or that are costing more for CCR.

Operator

(Operator Instructions) Next question, Augusto Ensiki, HSBC.

Q - Augusto Akihito Ensiki {BIO 15988025 <GO>}

Just one question for the highway division. How is EBITDA trending for the highways and relative to last year and how you see that going for the rest of the year?

A - Flávia Godoy

Augusto, this is Flávia. Thank you for your question. Actually, the recent -- the numbers that we released yesterday, we released our traffic growth [ph] around 2.80%. We already saw an improvement compared to the 4Q '16 that we had close to 7%. So the numbers from ABCR, that is our association in Brazil, all right, indicates a better -- slightly improvement in terms of traffic. So as soon as we have better numbers from the economy, economic activity, we are going to have this effect in our traffic. I cannot give you, I mean, what is our expectation. But if you consider the elasticity that we had in the

past, our elasticity, I mean, the number was close to 1.5x to 2x GDP. This elasticity we had in activity that we had are passed to the GDP [ph]. So we expect the same going forward.

Q - Augusto Akihito Ensiki {BIO 15988025 <GO>}

Sorry, Flávia, actually also wanted to know about how the EBITDA margin for the highway division was relative to -- or performance for this quarter relative to last quarter -- sorry, last year.

A - Flávia Godoy

Actually in terms of EBITDA margin, again we do not provide any guidance related to that. But usually, if you analyze our historical numbers, you can see that per year our EBITDA margin expands around 100 to 150 bps. Assuming that we have some products that are under implementation and those products will be concluded by the end of this year, we expect to have more cash, more EBITDA from those products that are under implementation. So maybe we are going to have better numbers there compared to the past.

Operator

Next question, Renata Stuhlberger, Goldman Sachs.

Q - Renata Stuhlberger {BIO 18678532 <GO>}

So just one more follow-up call for me. There was some news flow on the Valor newspaper today commenting on a book of new projects that the São Paulo state is aiming to launch over the next months, including several new concessions. And regarding that, I was -- given that you did not participate in the past 2 São Paulo state auctions that took place over the past couple of months, how is your expectations for this next round of São Paulo state concessions? Do you plan to participate on those next bids? Or is there any issue that you have been seeing in terms of the returns of these projects from the São Paulo state regulator have been offering? Can you comment a little bit on how you see those projects?

A - Flávia Godoy

Renata, CCR has been pursuing some opportunities, not only in secondary markets. But also primary markets. So we didn't participate in the past because we didn't find value, according to our stead [ph]. But we analyze case by case. So we have interest in those opportunities. We needed to have the documents, just to analyze better, those opportunities and to see if CCR is going to participate or not. Actually, at the moment, we are analyzing the product that we are going to have, the same -- the process in July, the Line 5 and the Line 17. This product CCR has been analyzing. The other opportunities, again we are going to wait for the documents. CCR always pursue opportunities, not only from the secondary markets. But also primary market. And we are going to analyze it to see if we are going to find value or not.

Operator

(Operator Instructions) We now end the Q&A session. I would like to turn the conference over to Mrs. Flávia Godoy for her closing remarks. Please, Mrs. Godoy, you may proceed.

A - Flávia Godoy

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

Operator

That does conclude the CCR conference for today. Thank you very much for your participation. And have a good day.

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