

Q2 2017 Earnings Call

Company Participants

- Daniel Kuratomi, Unknown
- Flávia Godoy, Unknown

Other Participants

- Alexandre Pfrimer Falcao, SVP
- Unidentified Participant, Analyst

Presentation

Operator

Good afternoon, ladies and gentlemen. And thank you for waiting. We would like to welcome everyone to the Second 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 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 Mr. Daniel Kuratomi, member of CCR's IR team. Please, Mr. Kuratomi, you may proceed.

Daniel Kuratomi

Thank you, operator. Good afternoon, everyone. And thank you for attending our earnings conference call for the Second Quarter of '17.

With us here today are Arthur Piotto, our Chief Financial and Investor Relations Officer; Marcus Macedo; Flávia Godoy; and Marcela Dias, members of the IR team.

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

FINAL

Bloomberg Transcript

FINAL

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 June, 17 bps up year-on-year and 7 bps down from first Q of '17. Real capital income reached BRL 2,104 in the quarter ending June, a 3% increase over the same period last year --

IBGE's latest data on industrial production show a slight year-on-year increase of 0.5% in June. When compared to May, this figure remained stable.

According to the latest credit details released by the Central Bank, credit granted in the financial season moved up by 0.4% in June and dropped by 2.4% in the last 12 months.

Also in June, the corporate purchase volume grew by 0.3%, while the individual purchase volume increased by 0.5% in the month.

The credit facility ratio fell to 48.2% compared to 51.1% in June '16. Credit to finance vehicles grew by 21% in second Q '17 over '16. It is worth emphasizing that the automotive sector is closely linked to traffic growth and has a huge influence on industrial GDP. The number of licensed vehicles increased by 9% year-on-year in second Q '17 and 13% in June compared to June '16, while vehicle production grew 22% and 15% in the same comparison, according to recent data from ANFAVEA, the Brazilian Auto Manufacturers Association.

Before we get on this quarter's figures, it is worth mentioning that on April 20, we concluded the acquisition of control in ViaQuatro, reaching a 75% stake. As of second Q '17, the concessionaire's results has been consolidated on a line-by-line basis rather than only under the equity income method.

On May 24, we acquired an additional stake of 33% in ViaRio, totaling a 67% stake. The concessionaire's results are still consolidated under the equity income method.

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 purpose, that is excluding this asset in second Q '17. As a result, the company's consolidated results fell by 0.8%, indicating a recovering traffic considering that the drop between first Q '17 and '16 reached 2.7%.

In second Q '17 versus '16, commercial vehicle traffic declined by 3.4%, while light vehicle traffic grew by 2.7%.

It is worth highlighting the improvement in traffic performance observed on the July traffic data published by ABCR, showing 2.4% of traffic growth with 3% increase in commercial vehicle and 2% increase in light vehicles. In our press release, you will find more information on traffic for each concessionaire.

FINAL

We now show the key pro forma numbers for second Q '17, that is considering all businesses which we do not control or hold share control, consolidated according to CCR's share in each line. We also adjusted the comparison basis by excluding from calculations STP, which was sold in August '16; ViaQuatro, in which we increased our stake in April; and businesses that were still not operational in second Q '16, ViaRio and VLT. In addition, we also excluded one-off effects of the acquisition of stake in the ViaQuatro and ViaRio.

Due to the acquisition of control in ViaQuatro, CCR's previous 60% stake in the concessionaire was remeasured, generating an intangible asset in the amount of BRL 512 million, with a counter-entry recorded in the quarter's results.

On the other hand, the company's stake in ViaRio grew by 33%, without the acquisition of control, generating negative goodwill in the amount BRL 36 million.

In accordance with this criteria, same-basis adjusted EBITDA totaled BRL 1.1 billion, 4% higher than in second Q '16, with a margin of 59%. Same-basis net income totaled BRL 288 million in second Q '17, 196% more than in second Q '16, impacted mainly by the improvement in financial result due to the higher cash position and lower average selling rates.

The company's pro forma leverage, measured by the net debt-to-EBITDA ratio, remained at 1.8x in the second Q '17. Excluding the BRL 1.3 billion effect of the sale of STP August '16 and the one-off effect of ViaQuatro and ViaRio mentioned earlier, totaling BRL 548 million, this indicator would have come to 2.6x.

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 increased by only 0.5%, same-basis pro forma adjusted EBITDA and net income grew by 4% and 196% in the second Q '17, respectively, indicating the resilience of our business.

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

Questions And Answers

Operator

(Operator Instructions) First question, Alexandre Falcao, HSBC.

Q - Alexandre Pfrimer Falcao {BIO 5515455 <GO>}

My question is -- I have 2 questions, actually. The first one is regarding traffic. I just wanted to know if -- what brought down traffic in the second half, right in the Second Quarter for the commercial specifically. That's just for one row. But when you strip all the other lines, you see a trend up 3 quarters here. Some of the consolidated data for other roads point to a little bit more of a strong traffic. So if you can delve on what happened in July and August, that would be super helpful. And second, I know it's a good comment on

acquisitions. But there's a lot of noise that (inaudible) down there that will be buying into the (bar). Just wanted to know, you've got great money from the IPO. Also, for the follow-on. Just wanted to know, when do you expect to have an acquisition or announce something in that sense?

A - Flávia Godoy

Regarding the traffic, actually, we have seen an improvement month-over-month. So in the first Q of '16, we have a negative traffic, around 7% in the first Q '17. The traffic dropped 2.7% in the second Q '17. We've had a slightly negative (inaudible) around 0.8%. So we have seen a recovering in May and June. So one thing that we can share with you because CCR doesn't disclose traffic in month-over-month. But I can share with you the ABCR data, where the traffic was positive around 2.7%. So considering July or the second half of the year, we expect to see a recovery, not only because of the improvements there we saw recently in the industrial production and unemployment rate. But also in the weaker comparison basis. If you consider the traffic that we released during the second half of 2016, you are going to see that our traffic dropped a lot. So we are going to see a weaker comparison basis. Regarding your second question, related to the acquisition, CCR has been pursuing several new opportunities, not only in the secondary markets but also in the primary markets. So this would (inaudible) the argument. I'm not allowed to share more details with you regarding the secondary market opportunity.

Operator

(Operator Instructions) Next question from (inaudible), HSBC.

Q - Unidentified Participant

Just a quick question regarding CCR USA and TAS. (inaudible) three months ago, there was some issuance regarding CCR USA and TAS. Just wondering how that falls into the sort of strategy in the U.S.?

A - Flávia Godoy

This is Flávia again. Could you repeat your question, please?

Q - Unidentified Participant

Sure, I'm sorry. So my question is essentially regarding the new issuance for CCR USA and TAS here in the U.S.

A - Flávia Godoy

Okay. Well why would you like to know? I didn't follow your question. Can you repeat it again or could you say it again? What exactly would you like to know about TAS?

Operator

(Mr. Neetu) has just dropped off the conference.

FINAL

Bloomberg Transcript

We now end the Q&A session. I would like to turn the conference over to Mr. Daniel Kuratomi for his closing remarks.

A - Daniel Kuratomi

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

Operator

That does conclude CCR audio conference for today. Thank you very much for your participation. Have a good day.

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