

Q2 2015 Earnings Call

Company Participants

- Guilherme Machado, Investor Relations Manager
- Jose Cezario, Vice President of Finance and Investor Relations Officer

Other Participants

- Mark Suarez, Analyst

Presentation

Operator

Good afternoon, ladies and gentlemen. At this time, we would like to welcome everyone to Rumo ALL's First Quarter of 2016 Results Conference Call. Today with us we have Mr. Julio Fontana, CEO; Mr. Jose Cezario, CFO and Investor Relations Officer; and Mr. Guilherme Machado, Investor Relations Manager.

We would like to inform you that this event is recorded and all participants will be in a listen-only mode during the company's presentation. After Rumo ALL's remarks, there will be a question-and-answer session for industry analysts. At that time, further instructions will be given. (Operator Instructions). The audio and slide show of this presentation are available through live webcast at ir.rumoall.com. These slides can also be downloaded from the webcast platform.

Before proceeding, let me mention that forward-looking statements will be made under the Safe Harbor of the Securities Litigation Reform Act of 1996. Forward-looking statements are based on the beliefs and assumptions of the company's management, and on information currently available. They involve risks, uncertainties and assumptions because they relates to future events and therefore depend on circumstances that may or may not occur in the future.

Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of Rumo ALL and could cause results to differ materially from those expressed in such forward-looking statements.

Now, I will turn the conference over to Mr. Jose Cezario. Sir, you may now begin.

Jose Cezario {BIO 19290961 <GO>}

Thank you. Good afternoon, everyone, and thank you for joining us in the second quarter 2015 earnings conference of Rumo ALL. This is the first earnings release after the

acquisition of ALL by Rumo, which was formalized on April 1, 2015.

In this presentation, we will cover the growth of our business units which are divided into North Operations, which include the North Network, the Paulista Network, and the Terminals we control the Port of Santos; South Operations, which include the West Network and the South Network; and Container Operations, which represent the results of Brado, our subsidiary, and other results of the containers operation.

This breakdown represents all the new management of Rumo ALL, who have managed the performance of our business from (inaudible). We will also present the combined results of Rumo and ALL for their respective previous periods just to enable better comparison of their operational performance.

So let's move to slide four, starting with the consolidated results of Rumo. We had a quarter marked by nearly 6% growth in the total volume transported, which totaled 11.3 billion RTK, this growth was mainly due to the 9.6% increase in the volume offered in agricultural products transported, especially soybean, corn and sugar, which is in line with CONAB's recently announced prospect for a record grain crop.

Volume of the industrial products fell 6.9% this quarter, mainly due to the interruption of services on few roads in the West Network due to operational safety issues. The consolidated average transportation yield also increased from BRL90.9 per RTK in the second quarter of 2014 to BRL91.5 per RTK in this quarter.

Loading volumes at our terminal is controlled by Rumo ALL in the Port of Santos decreased 12.3% this quarter compared to last year's same quarter, due to lower sugar shipments, mainly due to the scenario of an attractive prices for exporters of sugar, which should be offset with higher shipment volumes in the coming quarters. This quarter, we also had grain volumes loaded at our port terminals, which helped to mitigate this mentioned decrease in sugar loaded volume.

Moving on to slide five, we will present the consolidated financial performance. The financial performance also was better this quarter in comparison with the previous year. Consolidated net revenue grew approximately 6% in the second quarter this year, driven by higher volumes offered in agricultural products and the higher average yields for rail freights.

This improvement in the transport performance offsets the lower port loading volume as explained earlier, which is used to hedge the EBITDA growth of about 9%, which reached BRL587 million in the quarter, followed by margin expansion, mainly due to our cost cutting efforts into the start of capturing the benefits of the operational improvements according to our investment plan.

Note that, this quarter we had an extraordinary gain of almost BRL30 million, which is an accounting non-cash asset resulting from the Federal calculating on the pre-existing relationship between Rumo and ALL, according to the IFRS rules accountable. As a result, we recorded net income of BRL33 million in this quarter, down 36% from the second

quarter of last year, due to higher financial expenses and expenses with income tax and social contribution in this comparison.

Our net banking debt came to about BRL7.1 billion on June 30, 2015 compared to BRL6.8 billion on March 31, 2015 as a combined entry [ph], which represents a leverage of almost five times net banking debt to EBITDA, if we consider the EBITDA of the last 12 months.

So let's move to slide six to talk about our business units, starting with North Operations. We had a quite good results this quarter from the North Operations and by the latest projections from CONAB announced this Tuesday, in 2014/2015 grain crops should grow about 11.6% in relation to the previous year crop, mainly due to improved productivity and to the increase in planted areas, registered among almost all producers state, especially in the Midwest region and Parana.

A part of the growth was already seen in the first half of 2015 and reflected in our transportation volumes.

Volume of agricultural products transported accounts for 70% to 80% of our total transportation volume. We had growth in the volumes of soybean and corn transported, related due to the advancement of the second crop due to a better international prices for this commodity.

In the case of sugar, the volumes transported declined in the North Operations, mainly due to a scenario of an attractive price for exporters. With regard to industrial products, the highlight was the higher volume of fuel transported, due to the operational start-up of Raizen and Ipiranga plants in Rondonopolis, Mato Grosso.

Moving to slide seven, we will see how this market behavior reflects in the results of North Operations. Total volume transported grew approximately 10% year-over-year to 7 billion RTK, driven by higher volumes of agricultural products continues as earlier explained.

Net revenue posted similar growth of 9.6% to BRL817 million, driven by the higher volumes transported and a 2.2% increase in the average yield directed [ph] of BRL101.8 per RTK. As a result, EBITDA from the North Operations was BRL492 million in the second quarter of 2015, with EBITDA margin expanding to 60%, reflecting the better operational performance and the benefit of the operational improvements and the implementation.

Remember that, this EBITDA figure includes the non-recurring non-cash gain of almost \$30 million due to the pre-existing contractual relationship between Rumo and ALL, that no more exists when ALL was consolidated into Rumo on April 1st, this year.

So let's turn to the next slide, which shows the performance of the South Operations. From the market standpoint, according to the Ministry of Development, Industry and Foreign Trade, reduced grain exports in this quarter from the ports where we operate in the South Operations remained stable year-over-year.

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The growth of 7.2% in agricultural product volumes transported by us was basically driven by the behavior of soybean, due to the resumption of operations at a grain terminal at the Port of Paranagua, and also due to the resumption of our relationship with an important client in the State of Parana. We also have achieved a record soybean harvest in the state of Rio Grande do Sul which also contributed to this result.

In the case of sugar, the volume growth of 46.1% was driven by the migration of ship nominations from the Port of Santos in Sao Paulo to the Port of Paranagua in this quarter, which will not necessarily be seen in the next quarters.

Industrial products volume declined 15.6% in the quarter, mainly due to the reduction in the services on a few routes in the West Network, due to safety operational reasons and in May we also had an interruption in our refinery called REFAP in our South Operations that also caused some volume decrease of this quarter.

So let's turn to slide nine please, which shows the operational and financial performance of South Operations. The total volume transported remained stable year-over-year, due to the growth in soybean and sugar volumes transported, which was offset by the interruption of service of certain routes of the West Network as already mentioned.

Net revenues in the quarter decreased 4.3% to BRL320 million, due to a lower average yield spreads [ph]. It is important to note that the average yield spreads in the South Operations in the second quarter of last year was very high, which ended up adversely affecting transport volumes in industrial, but also affecting the conversion bill for average yield in the second quarter of this year.

As a result, EBITDA in the South Operations was BRL107.3 million in this quarter, with EBITDA margin of 33.5%, reflecting the lowest transportation of industrial volumes, especially fuels, the lower average transportation yield and the temporary shutdown of refinery called REFAP.

Let's turn to the next slide please, which has the points of the Container Operations. The total volume of containers transported increased by approximately 12% over the same quarter in 2014, with operational gains in North and the Central corridors of Parana. EBITDA was negative BRL12 million in the second quarter of the year, mainly due to increased fixed and variable cost, which outpaced gains resulting from an increase in the transported volumes.

The main cause of cost increases was driven by higher electricity prices, which are important items at our services units in this container operations and increases in the price of diesel fuel and spending with asset maintenance and personnel.

So, let's move on to the next slide. Net banking debt increased by 3.5% from BRL6.8 billion last quarter to BRL7.1 billion at the end of this quarter, equals to a leverage drop of approximately five times. This increase was the result of net funding in the quarter considering the need and beginning of the short-term investment plan, as well as with the results of the accrual of interest.

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The main debt transactions in the period include BRL1.4 billion related to a private debentures for the early settlements of the eighth and ninth series of ALL debentures and BRL247 million from BNDES through the FINAME. It's important to mention that the company obtained a waiver for all its creditors, including the BNDES to (inaudible) from December 2014 and with this bank debt was reclassified as long-term in this quarter.

Slide 12 represents the consolidated financial results and cash flow of Rumo ALL. Financial results increased by approximately 3% due to expenses with the interest on net debt resulting from increasing in interest rate in Brazil between periods, and an increase in the average debt balance in the quarter.

Returns from financial investments decreased as a result of the reduced average cash balance, despite increase in the interest rate, I previously mentioned. This effect was partially offset by the reduction in financial transactions involving suppliers and non-recurring banking expenses we had in 2014. Looking at the cash flow; net cash consumption in the quarter were BRL35 million, driven by investment activities and financial expenses in the period.

The next slide provides information on adjustments on the opening balance sheet. After Rumo acquired ALL, opening balance sheet of Rumo ALL was prepared on April 1, 2015, to record at fair value, the price paid by Rumo to the acquisition -- for the acquisition of ALL, as well as all the assets acquired and liabilities assumed to reach the transaction. The price paid was defined with line, the total number of ALL's outstanding shares at that time, on the date immediately prior to the merger in this trading price on the day (inaudible). Plus the estimated value of pre-existing relationship, I already mentioned.

Furthermore, adjustments were made to the fair value of ALL's assets and liabilities on the transaction date that may affect of which includes the fair value of approximately BRL1.5 billion to PP&E, property, plant and equipment; and increase in probable contingency of approximately BRL270 million; and a concession of an intangible assets related to the exploration rights on the law of network concession equal to BRL7.5 billion. These adjustments did not affect the results reported by Rumo ALL.

So moving on to the operational improvement. We are already implementing some operational adjustments late investments in accordance with the 18 month plan announced in April this year, the short-term plan. So with regard to the rolling stock, we already acquired new AC44 new locomotives from GE. So this is a fleet renewal we planned. We also implemented a new renovation standard for the old locomotives and freight cars in our current rolling stock for the renovation of 32 C30 locomotives of which three have already been completed and are currently in operation.

So moving on to the next slide, on slide 16, in our North Operations, we can highlight a record production in May when we achieved 2.6 billion RTK transported for the record. We also would like to mention our fleet renewal that is still on the process, with the delivery of 24 new GE locomotives called AC44, already delivered by June 2015, so a total of 43 expected locomotive for the whole year. And the 355 new freight cars already ordered and expected to be delivered in the second half of 2015.

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We also had 3.9% reduction in transit time from Rondonopolis to Santos -- sorry, it was 9% reduction in the transit time from Rondonopolis to Santos. And we also saw improvement -- already improvement in the rail structure of the North Operations.

So moving on to the next slide, the South Operations highlights. We had acquisition, we already made acquisitions of 375 [ph] new freight cars to be delivered in the second half of 2015, and we also ordered 47 new locomotives to the south operations, which will be delivered in 2016 and 2017. We saw reduction of almost 8% in transit time to the access to the Ports of Paranagua and Sao Francisco do Sul. And we'd like to mention also a resumption of operations at a bulk terminal in the Port of Paranagua, expected to be finished by the end of 2015.

So moving on to our next slide, slide 17, we revised our consolidated guidance for Rumo ALL, mainly due to the evolution of our operations in the first half of the year, and also to attract the better estimates we have today for the closing results of the year we ended in the coming December. So in terms of EBITDA, we narrowed the guidance range after adjusting our projections based on our performance in the first six months of the year. So the guidance range for EBITDA is now BRL1.75 billion to BRL2 billion for the year. Regarding CapEx, we also narrowed the guidance range and revised the criteria of certain projects that used to be treated as recurring CapEx, and are now treated as expansion CapEx. Therefore in addition to narrowing the range by a BRL100 million, we also relocated a BRL100 million between the recurring and expansion lines without changing the total.

So, I will now conclude my presentation and we can start the question-and-answer session. I remain (inaudible) together with Guilherme Machado and Julio, and our financial team who will have (inaudible) if you require more detailed information. So, thank you.

Questions And Answers

Operator

Thank you. We will now begin the question-and-answer session for investors and analysts. (Operator Instructions) Our first question comes from Mark Suarez with Pacific Capital.

Q - Mark Suarez {BIO 16366613 <GO>}

Good morning, gentlemen, and thanks for the detailed presentation here. A set of questions, well, maybe we could start with the agricultural volumes. It seems to me that the corn productivity has increased and that could actually be a very big positive in second half and in terms of sugar volumes and since it's picking up in the second half.

Do you feel that you have the capacity to take on the increase in volumes in the second half given some of the issues you had in the past, especially with the sugar terminals in Santos and so on? I am wondering if you can give me a sense of what -- whether you have that capacity to move out that volume going forward.

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A - Guilherme Machado {BIO 17920567 <GO>}

Hi, Mark. It's Guilherme. In fact, yes, we do see very good forecast for corn as we have a CONAB's projections already being delivered last Tuesday, and also as Julio mentioned on the Portuguese conference call, sugar volumes were delayed due to the rains in the beginning of the crop season. So we do -- we are very excited for the second half in terms of volumes. We do believe that we are not going to face any constraints in the ports since we are going to -- we are in the process to implement -- the improvement in order to make the reparation and to make the discharge of the cargos in Santos. So I don't think that -- and we're quite confident that we're going not any constraints in the second half in order make it possible to move all the corn as well sugar volumes in our network over the next six months.

Q - Mark Suarez {BIO 16366613 <GO>}

Got you. And I am wondering if you can also give me an update on rail duplication work we've had. I know mentioned there is Carapina to Campinas stretch, there is a potential project, and I am wondering how that's going. And also the big one on the Campinas - Santos road duplication project. I'm wondering if you can give us an update on how that's the process there?

A - Jose Cezario {BIO 19290961 <GO>}

Yes, pretty well. We're in the final process of the duplication, there is about couple of kilometers that we have to finalize into duplication. Certainly this is something that will help the operation overall. But we are also working in the stretch that is previous in Carapina-Campinas -- in order to improve the efficiency as well. And as you mentioned in your first question, the access to the port. So as soon as we finalize the duplication, we potentially going to see improvements overall, and we're going to capture that in our volumes.

Q - Mark Suarez {BIO 16366613 <GO>}

Okay. And then I guess finally, would be sugar terminals. I know that last year there were some problem with sugars, specifically the one in Santos. I am wondering if that has been resolved, did you see that issue going forward, especially we have a very strong sugar volume in the second half. And are you thinking of expanding some of capacity there due to -- basically deal with that volume increase?

A - Jose Cezario {BIO 19290961 <GO>}

Well, I think that the operation is performing extremely well for what we saw July and the forecast for August we are operating at full capacity in the terminals that we operate. The previous Rumo terminals, so they're operating very well. We have the final (inaudible) that we were building partnership with Capiq is already finalized and this is something that will help the process as well.

Q - Mark Suarez {BIO 16366613 <GO>}

Okay. Thanks for your time, Jose, and I appreciate the details.

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A - Jose Cezario {BIO 19290961 <GO>}

Thank you.

Operator

(Operator Instructions) That concludes the question-and-answer session for investors and analysts. Please go ahead, sir.

A - Jose Cezario {BIO 19290961 <GO>}

Thank you, everyone. See you soon in the next quarter conference call. We are available for any specific doubts that you might have. Thank you very much.

Operator

This concludes Rumo ALL conference call for today. Thank you very much for your participation and have a good day.

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