

Q3 2017 Earnings Call

Company Participants

- Andrea Fernandes, IR Manager
- Marcelino Seras, CEO
- Unidentified Speaker

Other Participants

- Felipe Vinagre, Analyst
- Fernando Abdalla, Analyst
- Leandro Fontanesi, Analyst
- Pedro Bruno, Analyst
- Unidentified Participant

Presentation

Operator

Good morning, and welcome to EcoRodovias Third Quarter of 2017 Earnings Conference Call. With us here today are Mr. Marcelino Seras, the Company's CEO; Marcello Guidotti, CFO and IRO; Andrea Fernandes, IR Manager; and the IR team.

This presentation is being recorded and all participants will be in listen-only mode during the presentation. After that, we will begin the question-and-answer session for analysts and investors only when further instructions will be provided. (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 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 third quarter of 2017 results. Ms. Andrea, you may proceed.

Andrea Fernandes {BIO 21294199 <GO>}

Good morning. Welcome to another conference call by EcoRodovias, today about the third quarter 2017 results. We thank you all for your interest and your participation. The management's strategy of focusing on the highway section, the continued search for operating efficiency combined to the privileged location and the quality of our highway portfolio have provided a double-digit growth on the EBITDA of our highway concessions.

In this quarter, we achieved a record EBITDA of BRL457 million with a growth of 21%. We can see on slide number 2 that the consolidated traffic of equivalent paying vehicles in the third quarter of 2017 posted an increase of 7% and the average tariff an increase of 8.6% due to tariff adjustments and triggers recorded on the past 12 months.

Traffic increase is mainly a result of the greater traffic of commercial vehicles with a double-digit growth at Ecovias dos Imigrantes and Ecovia Caminho do Mar influenced by the increase in grain exports, and at Ecopistas due to the recovery of the industrial production in the region, and also due to the double-digit increase in light vehicle traffic at Ecovias dos Imigrantes and Ecovia Caminho do Mar due to favorable climate and weather and long weekends, and at Ecocataratas due to an increase in shopping tourism flow to Paraguay.

As for the Group's consolidated performance on slide 3, the pro-forma net revenue was BRL660 million in the third quarter, an 11% increase, and the net revenue of the highway concessions increased 15% with a positive impact with the contractual amendments in the toll tariffs and traffic improvement.

On slide 4, cash cost for the quarter presented a decrease of 1.7% when compared to the third quarter of 2016. Excluding non-recurring costs, that consulting services for the study of highway auctions and the optimization for OpEx and CapEx, the cash cost totaled BRL176 million, a 5.3% reduction even considering an installation of 2.5% in the period. The highlight is Ecoporto due to the cost reduction program implemented to save the decrease in business at the terminal. It should be noted that in the third quarter of 2016 and of 2015, cash cost presented a reduction of 2.9% and 3.5%, respectively.

Comparable pro-forma EBITDA in the quarter was BRL457 million, an increase of 21% and margin of 69% as illustrated on slide number 5. Pro-forma EBITDA of highway concessions was BRL459 million, a 23% increase and a margin of 76%, demonstrating the quality of our highway portfolio. The traffic improvement combined to the increase on average tariff and cost discipline has led to the expansion of margins and a double-digit increase on the EBITDA for the third quarter for all our highway concessions, as we can see on slide 6 and 7 with the highlight for the EBITDA increase of 21% at Ecovias dos Imigrantes, 48% at Ecovia Caminho do Mar, 26% at ECO101 which obtained margin of 50% and then 25% increase in the EBITDA of Ecoporte at a margin of 68%.

On slide number 8, we present the comparable net profit evolution from 125 million in the third quarter of 2017, an increase of 86% year-on-year, with the positive impact caused by

the increase of the comparable EBITDA, an BRL80 million, and the decrease in financial expenses by BRL42 million.

As for the investments on the slide number 9, we maintain the Company's commitment to invest according to the contracts and the business needs. And we may highlight the duplication works at ECO101 and the accesses to the red line and the Port Avenue at Ecoponte expected to be concluded by 2020 and the expansion of Ecopistas to be concluded in the first half of 2018. CapEx for this quarter was BRL227 million and the proportional EcoRodovias' share estimated for 2017 is of approximately BRL736 million.

Moving on to slide 10, the debt per instrument is composed by 89% debentures and for index it's 50% IPCA and 40% CDI. You should note that the average cost of the debt is of 8.8% in September 2017 and the Company continues to benefit from the decrease in inflation and decrease in the SELIC rate, and the increase of the long-term interest rate as debt index [ph]. The indicator of the net debt and pro-forma EBITDA was of 2.5 times at the end of this quarter.

Continuing on slide 11, we closed the quarter with cash of BRL768 million and a long debt profile reinforcing our financial strength. The total commitment for the fourth quarter of 2017, the maturities of BRL53 million in highway concessions and BRL163 million at the Holdings are already equated. It's important to note that we are in the advanced stages of equating the maturities of 2018.

Operating results, financial results and the continued search for efficiency and technology innovations and process innovations are the basis for our strategy of expanding the duration of the highway concession portfolio to be sustainable in the long term, adding value to our shareholders. We are dedicated to studying new opportunities in the highway sector in state and federal auctions, watching the opportunities at the secondary market and amendments to our matured concessions.

Finally, the disinvestment in non-strategic assets with the creation of value and reduction of our capital cost continue -- remains a priority for the Company. This concludes our presentation. I would like to turn over for the question-and-answer session. Please, operator, we are ready to welcome questions from our analysts and investors. Thank you.

Questions And Answers

Operator

We will now begin the question-and-answer session for investors and analysts. (Operator Instructions) First question is from Pedro Bruno from Santander.

Q - Pedro Bruno {BIO 19082978 <GO>}

Good morning. My question is about traffic. You (inaudible) traffic increase in the third quarter, 7%, I believe is even above what the market expected and much higher than the level of the first half of the year, even above the national data that Bizyar [ph] releases.

This morning, Bizyar's data were released for October, very strong in line with last month, but higher than the third quarter. Can you tell me a little bit more of what you see already within the fourth quarter in terms of traffic and whether we can expect it to be higher than the number we see for the country as a whole? Thank you.

A - Marcelino Seras {BIO 16618338 <GO>}

Pedro, good morning. This is Marcelino. In October, it presented the same traffic increase and the same trend presented by EcoRodovias in the third quarter. We see some concessions, three of them with a double-digit growth in the heavy vehicle traffic. Again, EcoRodovias stands out and it is above the average mentioned by Bizyar. Our expectation for the next quarter, our projections are the same that has been confirmed during the third quarter.

Q - Pedro Bruno {BIO 19082978 <GO>}

Excellent, Marcelino. Thank you.

Operator

Our next question is by Felipe Vinagre, Credit Suisse.

Q - Felipe Vinagre {BIO 19282922 <GO>}

Good morning. Very quick question, do you have any update to give us about the potential acquisition of MGO, how this process is developing, when it should be finalized and how big the investment would be?

A - Unidentified Speaker

Felipe, we do not comment on newspapers articles, what we can tell you is that the Company's constantly analyzing opportunities for investment in the highway concessions, both in the primary and secondary market. As the opportunities evolve, we will then notify on it from the market.

Q - Felipe Vinagre {BIO 19282922 <GO>}

Excellent, thank you.

Operator

(Operator Instructions) The next question is by (inaudible) from JP Morgan.

Q - Fernando Abdalla {BIO 15381888 <GO>}

Good morning. Actually this is Fernando Abdalla. I have a quick question. The government of (inaudible) recently launched a highway concession program for the state. I would like to just ask whether you looked at it, if you have any opinion, the invitation should be -- probably going to be released in November, the auction by the end of the year, do you have any position about it?

A - Unidentified Speaker

We don't have any position. As always, we study, right? We analyze these opportunities, but we don't have at this moment anything to say about this.

Operator

Next question by Pedro Bruno from Santander.

Q - Pedro Bruno {BIO 19082978 <GO>}

One more question from my side. You reduced the CapEx estimate for this year, adjusted it at around 7% down for the CapEx this year. I'd like to know if this is great efficiency in CapEx (inaudible) delay of CapEx for next year? And the CapEx involvement timeline that you have, if there's still any possibility of additional efficiencies within that timeline, considering what has to be executed from now till the end of the concession?

A - Unidentified Speaker

About this year's CapEx, last year we had already demonstrated that those investments made had a lot of -- about 10% of savings and now in this first nine months and the trend towards the end of the year, point any investments being made will have savings of around 13%. The other part are delays for 2018. And there is also anticipation for this year due to the good weather of the last quarter that has enabled some works to evolve quickly, including the extension of Carvalho Pinto, which we estimate in the -- for the first quarter of next year to be open. So, opening this very important work. The third lane of Padre Manoel da Nobrega as well which will be opened now in November with the presence of the State Governor.

Q - Pedro Bruno {BIO 19082978 <GO>}

Excellent. Thank you.

Operator

(Operator Instructions) Next question is by Leandro Fontanesi from Bradesco BBI.

Q - Leandro Fontanesi {BIO 20270610 <GO>}

Good morning. If you could update us on Elog process and also talk a little bit about Ecoporto, you had a positive EBITDA. So what is the expected trend for upcoming quarters considering that you only have the warehousing price and once the volumes return to the port, you may be also able to bring something from (inaudible) on this EBITDA to be continued during the first quarter.

A - Unidentified Speaker

About Elog, we are at advanced stages of the disinvestment in this initiative but without confirmations to be yet sent to the market. As for Ecoporto, there is -- we have been seeing a more positive relationship between Brazil and other countries now from the second half of the year. And we expect that next year there may be the opening of new

services from Brazil, which will possibly enable Ecoporto to participate in this bid. There's a lot of work being done on Ecoporto, for maintenance and reserves, maximizing saving, increasing productivity, technology, concentrating the expertise in port areas (inaudible) important to maintain this asset, while it has not performed the port services, at least to pay off for its activities.

Q - Leandro Fontanesi {BIO 20270610 <GO>}

Okay. And at Ecoporto, are you still working on the maturity extension processes or where are you now in this process?

A - Unidentified Speaker

The administrative processes continue, being analyzed by the regulatory agency. We don't have an expected timeline to conclude the processes yet.

Q - Leandro Fontanesi {BIO 20270610 <GO>}

Excellent, thank you.

A - Unidentified Speaker

You're welcome.

Operator

(Operator Instructions) Our next question is by (inaudible).

Q - Unidentified Participant

Good morning. My question is about this cost efficiency that you have been presenting here in every quarter. About personnel [ph], maintenance. My doubt is, how comfortable are you to maintain this space of cost reduction without maybe affecting contract requirements with the concessionaires and was that the consultancy services that showed you or what were you able to see now that you were not able to see before this work that you hired the consulting services for?

A - Unidentified Speaker

(inaudible), I don't want to leave any doubt, but I want you to be certain, the reduction made in the Company are sustainable. It was a three-year long processes, just showing or -- the results quarter-by-quarter done mostly through internal works, but also external works. We make cuts every week. There's always room for improvement.

There is always opportunities for efficiencies with new technology solutions or the reduction of a long-term cost for one process. So what we are showing the market every quarter is that all such actions implemented by EcoRodovias, which is continuous and will continue -- I'm sorry, I'm repeating myself, but this has also a taken advantage of an important moment in the Brazilian economy, which is the growth of the economy and its traffic.

So you will see every quarter, if the Brazilian economy does indeed go back to increasing that the estimate -- the projections and this results will be on the top line by the Company's results.

Q - Unidentified Participant

Excellent, thank you.

Operator

(Operator Instructions) We now close the questions-and-answers session. I will turn over to Andrea for her final remarks.

A - Andrea Fernandes {BIO 21294199 <GO>}

I thank you all for your participation. The IR team and myself remain available for any questions. Thank you. Have a good day.

Operator

EcoRodovias' conference call is now closed. Thank you very much for your participation and have a very good day.

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