

Q3 2013 Earnings Call

Company Participants

- Marcello Guidotti, Chief Financial and Investor Relations Officer
- Raquel Turano de Souza, Investor Relations

Other Participants

- Alexandre Falcao, Analyst
- Kevin Kessinger, Analyst
- Victor Mizusaki, Analyst

Presentation

Operator

Good morning and welcome to Ecorodovias third quarter and nine months of 2013 earnings conference call. With us here today are Marcelino Seras, the company's CEO; Marcello Guidotti, CFO and IRO and Raquel Turano, Investor Relations. This presentation is being recorded and all participants will be in a listen-only mode during the presentation. After that, we will begin the question-and-answer session, analysts and investors only, and 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, where 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's 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 hence 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. Raquel Turano, who will discuss the third quarter and first nine months of 2013 results. Mrs. Raquel, you may proceed.

Raquel Turano de Souza {BIO 21085763 <GO>}

Good morning, and welcome to EcoRodovias conference call for the third quarter and first nine months of 2013 results. Thank you for your interest and for taking part in this call. Our

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main aim is to answer any questions you may have about our results. We believe the pillars already established in our operations played a fundamental role in our third quarter achievements.

On slide two, you can see that we conclude the sale of the 27.5% interest in ECO101 on November 1. EcoRodovias now hold 58% of the concessionaire's capital and maintains a strategic partnership within the state of Espírito [ph]. On November 10, we will begin operating (inaudible) then providing mechanical and user service in the concessionaire. The initial work and the construction of 10 toll plazas are already underway in line within the contractual schedule.

It's also worth noting that on October 3, we conclude the sale of interest held in STP, EcoRodovias now hold 11.4% of the capital stock. The acquisition of 10% by (inaudible) is designed to expand STP's operations through the development of electronic dues [ph] and service charging (inaudible) station.

Moving onto our operating performance, consolidated traffic in terms of equivalent paying vehicles in our highway concessions had shown on slide three, increased by 8.5% in the third quarter and 5.6% in the first nine months. The (inaudible) third quarter performance was (inaudible) of several factors. In São Paulo state, traffic on Ecovias grew due to the large volume of soybean and corn exports, and Ecopistas was positively impacted by the increase in the state overall industrial activity. These highway concessions also began collecting toll tariffs for suspended axles on São Paulo state highways, this is new.

It's also worth pointing out, the increase in traffic on Ecosul's highway in Rio Grande do Sul state due to the increased shipment of soybean and corn to the Port of Rio Grande.

The third quarter operating performance of our port (inaudible) concession, Ecoporto Santos was affected by the reduction in the number of containers handled, due to the discontinuation of a particular service. On the other hand, warehousing operations grew by 5.5%, due to increased container volume at Ecoporto Alandegado, as shown in slide four.

In the logistics sector, Elog was affected by reduced handling at CLIA Santos and Curitiba Dry Port, due to the status of new port terminals in these regions, the reduced cargos real time [ph] in Border Dry Port and the negative impact of discontinuation of some service and distribution centers.

As announced yesterday, and showed here in slide five, third quarter net revenue was within our expectations, moving up by 21.5% over the same period of last year, grew by the highway concessions and Ecoporto's commercial performance.

As you can see in slide six, third quarter EBITDA recorded a slight year-over-year reduction, due to the upturn in operating cost at Ecoporto Santos. Reduced logistics revenues and the operation and start up of ECO101. And specifically at Ecoporto Santos, the reduction in EBITDA was influenced by higher commissions in warehousing operations to attract additional clients, personnel expenses related to the retroactive

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collective bargaining agreements to the first half of 2013, and incurring additional freight expenses.

The company does not expect the previous 25% EBITDA margin to be repeated in the coming quarters, despite increased compensation at Port, the company believes that margins will return to levels reported in the first nine months of the year. In relation to Elog's EBITDA, and EBITDA margins, the Group is aware of the scenarios and forecast models and is already taking measures to improve its operating performance in the logistics area, which should become apparent after the first quarter of 2014.

Net income grew by 11.3% [ph] over third quarter 2012, as showing slide seven. And to our investments, we maintain our commitments to invest in all operational segments. This quarter's highlights were the works at Ecovias dos Imigrantes and Ecopistas in line with the contractual obligations. Work related to the Ecovias contractual amendments and the initial works at ECO101.

And slide nine shows that EcoRodovias debt remains flat with the pro forma net debt over EBITDA ratio of 1.8 times. Finally, we would like to emphasize new business opportunity. We continue to keep a close eye on the new business opportunities in the Highway Concessions segment. The federal government has already had two options this year, BR-163 in Mato Grosso for November 27, and BR-060 for December 4, which are being carefully studied by the Group.

Another excellent future prospect is the lead for the Tamoios highway in Sao Paulo space for which notice will be published in December with the auctions scheduled for the end of January 2014.

We have also been carefully analyzing the big for Galeao Rio de Janeiro and Confins in Minas Gerais scheduled for November 22. In the Port segment, we are awaiting publications for the bid notice for the port terminal in Saboo (inaudible).

After this brief explanation, we are now ready to begin the Q&A. Thank you. You can take it from here, operator.

Questions And Answers

Operator

Thank you. We'll now begin the question-and-answer session for investors and the analysts. (Operator Instruction) Our first question comes from Alexandre Falcao at HSBC.

Q - Alexandre Falcao {BIO 5515455 <GO>}

Good morning, everyone. My question is regarding the ports operation; first, I'd like to know what's the impact on the -- not only in the handling but the port itself on the beginning of operations off of the new terminals? That's the first question. And the second question is, regarding the bids and the auctions that the government is planning

to do, what's your participation on that first? And how feasible you think these projects are? Thank you.

A - Marcello Guidotti {BIO 16618352 <GO>}

Hi Alexandre, this is Marcello. Regarding to the port, the port operational environment and what is happening in Ecoporto Santos. Of course, as we have seen in the number that have shown the market share of the terminals in the port in the last -- in this third quarter have reached an important share. This was expected and this will continue, of course, with the interest of BTP along 2014.

Unfortunately, as it was affected as well, and new volumes are entering the Ecoporto Santos. Our organic growth of 8% is experienced this year, it will continue in the next year and the new lines that were never received by Santos and new kind of operation like transshipment have been entering Santos. So these may have -- not worry about the scenario of 2014 and 2015, of course, there will be a pressure on the commercial side. This was shown already in this quarter.

But as we always tend to say that Ecoporto has a lot of clients that are not major shipping lines and it's already working commercially, in order to renew the contract for the next year or two years, and also working with lot of port operations. So, we don't see a decrease in the revenues line in the next two, three years, maybe it can be flat, of course, we have room to decrease our cost. These are all administrative costs, these are costs related to some technological facilities that we are already working on.

Today there was a news in the newspaper that a new deal between the labor force and the public terminal was concluded. So this will bring some important economies in the labor costs. So we see that, which is that with our margin that we have in the first nine months even with the end of November 4, and we did see that a gain was expected, we knew that was there, we expect that they won't be affected significantly. So in our expectation, we can continue to maintain the margin that we have in this first nine months. In terms of new auction, I think you are referring to all the auction, and not only the Saboo area auction, all the auctions.

Yes, yes.

Even the -- In terms of the auction, they are there, the government has made a lot of improving the numbers and assumptions, we are as in the process of, I think that the next auction are okay, we're working very, very intensively and try understand to be very sure in what is the total CapEx, the total OpEx of this project, because as everyone knows, especially in the Highway sector, the amount of capital in the first year is very important.

So, as EcoRodovias approach is very simple in terms of what we have to do. We need to study the project deeply, understand where are the risk, where are the upsides. And of course, we'll have our IRR as target, and we will -- we are ready to participate today, we are not worried, we believe that in the next -- in the past six, seven, eight months, important improvement in the bidding process were released. So I think, as I said, we are ready to participate.

These are the highways, we are ready to participate on the airport, and of course we are studying closely the same Saboo area bid. In that case, I think the documents are still in the TCU, and there will be -- probably and we understand that they need some improvement, and I think this will take few months more. Okay?

Okay. Thank you.

Operator

Our next question comes from Stephen Trent of Citigroup.

Q - Kevin Kessinger {BIO 7006994 <GO>}

Hi, good morning. This is actually Kevin Kessinger filling in for Stephen Trent. I guess the first question is on, I guess going back to four auctions, I know you kind of want to process or about looking at the different terms and likely checking out the numbers against your hurdle rates. But are there any particular auctions that look very attractive to you, I might have missed that?

A - Marcello Guidotti {BIO 16618352 <GO>}

In terms of highways auction, I think you are referring this --

Q - Kevin Kessinger {BIO 7006994 <GO>}

Yeah.

A - Marcello Guidotti {BIO 16618352 <GO>}

We will see, the next two auction will be the BR-163 and then there will be in December about the BR-060, both of them, then there will be the BR-040. As you see, the next four that are, as we see that will be the auction at the -- in terms of volumes and kilometers are the largest one. All of them we see that can have important upside, but again, due to the volume of the investment, the volume of the CapEx, OpEx, we need to be very, very sure about the numbers.

So, again, as Ecovias will be that all of them in terms of size, volume, and numbers can be good opportunities. We're participating, I think I missed an answering in the next -- the previous question, we are participating in concession not 100% in all of them, we have -- as we did in the previous 262 and 050, we were in concession, we are still in concession. So, all our participation in this project is between 55% and 75% depending on the concession.

And again, in the next four concession, I think, all of them requires our pension and we are working to be prepared and to submit this. So, obviously, we don't really know, we are, we have our threshold in terms of IRS, this would be our decision driver. But again, I think that the process now is much more -- much better than it was seven, eight months ago.

Q - Kevin Kessinger {BIO 7006994 <GO>}

Okay. Great. That was very helpful. Now, I guess a little follow-up to that would be, do you know foreigners might participate in the next round of total auctions or is that quite really limited like their port auctions?

A - Marcello Guidotti {BIO 16618352 <GO>}

Foreign operator, we didn't saw apart from the ones that are already in Brazil. We didn't see new foreign operators are entering this bid and personally I think we won't, this is how we're seeing. The port -- in the airports of Guarulhos, we will see the foreign operators, because it's the requirement of the rules (inaudible). But in the highways, no, the highways apart from the ones that are already here in Brazil. I don't see participation new or new players, foreign players.

Q - Kevin Kessinger {BIO 7006994 <GO>}

Great. And just one last question, (inaudible) change and how much you expect to invest in (inaudible)?

A - Marcello Guidotti {BIO 16618352 <GO>}

What we expect to invest? We don't know, we didn't change. I think we are stick with our plans of investment in some equipment that it was -- some equipment, that it was, we are just a little bit, we have postponed the decision, but just it was a method of days that we say months and not a cancellation and we didn't cancel our (inaudible) we have just postponed because we have some delays in preparing the bid to submit to the providers of this equipment, that are not in Brazil, of course, so we have some delays. Of course this new auction of the Saboo area is making us to -- they're seeing some investment, but not -- again, we didn't cancel, we will invest to -- in this portainers (inaudible), I think in the next weeks, months and we will have the decision and we can be assertive, we can inform the market about this decision. But it's not an cancellation, we just have postponed for some weeks this decision.

Q - Kevin Kessinger {BIO 7006994 <GO>}

Okay, great. Thank you for taking our questions.

Operator

The next question comes from Victor Mizusaki at UBS.

Q - Victor Mizusaki {BIO 4087162 <GO>}

Hi, good morning. Marcello just a follow-up question on Ecoporto. When we take a look on operating cost, we consider that personnel report of the increase year-over-year. And as you mentioned in your press release, you concluded a collective bargaining and negotiations that you need in the third quarter. But I like to know is there any non-recurring costs in this line?

And my second question, I mean, what can we expect in terms of operating costs going forward in this business?

A - Marcello Guidotti {BIO 16618352 <GO>}

Non-recurring, yes, we have in this line as we say, it was a personnel cost that was the adjustment, the salary adjustment that was forecast to be concluded in March, I think in March end, between March and June of this year. It was postponed and it was all reduced in this quarter. So it is more or less R\$4 million of cost that are not related to this quarter but they are related to the whole nine months. Okay?

Going forward, we have to say, Ecoporto and all the port in Santos have recently closed a deal with the unionized labor force. So all of them can be -- they are able now to use half unionized, and half -- three [ph] markets. So this will reduce an importance in the cost of personnel in the next year and also probably the last quarter. And Ecoporto is very focused and it's investing time and resources to develop an operational system that will be fully operational in 2015. But they, I think, the second half of 2014, half operation -- and that can reduce labor force in the Ecoporto. This basically, we will automatize [ph] all the inbound and outbound operation. Okay?

So these are things that have been developed together with this new deal with the union labor force. And also some modification of the loans and the taxation on the labor force in the Port sector that was reduced this year. All of that because the reduction in the cost of the personnel. And this is -- more than these, of course, we are still watching on reduction in cost, general cost, operational cost. We didn't have yet reach our best point in terms of cost in the Ecoporto. So we are confident, we know, I particularly know that we have room to reduce cost, operational cost. This will again compensate, I would say the flat trend that we will see in the revenues.

Q - Victor Mizusaki {BIO 4087162 <GO>}

Okay. And with regards to Elog, I mean, I want to take a look on historical margins. The peak of EBITDA margin was in the 3Q '12, and since then margins started to decline. So I don't know, if you can give some color in terms of what are the measures that EcoRodovias taking in order to expand margins in this business?

A - Marcello Guidotti {BIO 16618352 <GO>}

The pictures you are referring was due to an operation that in the (inaudible) operation that was some relentless in the operational due to the federal activity in the (inaudible) area, but this closed in that quarter, a lot of container that stay in the (inaudible) area, we have (inaudible) area for lot of time. So this was a peak that was not really normal. What we expect now, reviewing all the Elog portfolio after what was the MP 612 [ph] after the entrance of the new concurrency, (inaudible) port.

We are working on -- Elog is working in -- readjust the portfolio and we foresee that is very efficient (Technical Difficulty) and EBITDA margin, minimal EBITDA margin between 15% and 17%, this is the target that they all can reach. And they will work, a log is working now, and that was, if you see the cost line of a log, basically stay well, if you compare the

cost line in the last quarter, it's stable. So Elog is losing revenues, they need to recuperate the revenues line, they need to do this, so we want them working on the revenue line (inaudible). Now we have recently hired a new commercial director, a very experienced commercial director, who will be focused in this.

So we see a log in recuperating revenues, of course, this won't happen immediately as we said in the call in the last quarter, and maybe I think the first quarter of 2014 still will be affected by the (inaudible).

But we're seeing along with this EBITDA margin that can run between 15, 17, normally would -- and we need to boost the revenues. This is the line that Elog is assuming for 2014, 2015 and so on.

Q - Victor Mizusaki {BIO 4087162 <GO>}

Okay. Thank you.

A - Marcello Guidotti {BIO 16618352 <GO>}

Thank you.

Operator

At this time, we show no further question. And I'd like to turn the floor over to Raquel Turano, IR Manager for closing remarks.

A - Raquel Turano de Souza {BIO 21085763 <GO>}

Once again, thank you for taking an interest in participating in our conference call. More information is available in our website, and the Investor Relations team is always ready to help. Have a nice day.

Operator

EcoRodovias' conference call is now closed. Thank you very much for your participation. And we wish you all a very good day.

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