

Q3 2013 Earnings Call

Company Participants

- Alexandre Santoro, CEO
- Rodrigo Campos, CFO and IRO

Other Participants

- Mark Suarez, Analyst
- Stephen Trent, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. At this time we would like to welcome everyone to America Latina Logistica, ALL, Third Quarter 2013 earnings conference call.

Today with us we have Alexandre Santoro, CEO; Rodrigo Campos, CFO and IRO; and Vinicius Meirelles, IR Manager for ALL. We would like to inform you that this event is being recorded. (Operator Instructions)

After ALL's remarks are completed there will be a question-and-answer session. At that time, further instructions will be given. (Operator Instructions)

We have simultaneous webcast that may be accessed through ALL's IR website, www.all-logistica.com/ir. The slides presentation may be downloaded from this website. Please feel free to flip through the slides during the conference call. There will be a replay facility for this call for one week.

Before proceeding, let me mention that forward-looking statements are based on beliefs and assumptions of ALL Management and on the information currently available to the Company. They involve risks, uncertainties, and assumptions because they relate to future events, therefore depends 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 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. Rodrigo Campos, CFO and IRO for the Company for a brief explanation of how ALL's figures (represented). And again, Mr. Alexandre Santoro, CEO, who will start the presentation.

Mr. Campos, you may begin the conference.

Rodrigo Campos {BIO 16203706 <GO>}

Thank you, everyone for participating of our results conference. First, I would like to make some comments on the numbers we will release along the presentation.

The first comment is that the adjusted EBITDA that we present along this presentation is in accordance with the CVM's instruction that was released at the end of 2012. And so the numbers we released in 2012 may differ from the numbers we are releasing now.

So adjusted EBITDA is constituted by the operational profits before financial expenses added to depreciation, amortizations, and equity earnings loss on investments.

The second comment I would like to present is that the -- with -- in June 5th, the Argentina government rescinded our concessions in Argentina, and as a result, all the results coming from Argentina are presented as result of discontinued operations. So it happened in 2013 and also have -- are treated that way for 2012. So also the numbers of 2012 are restated considering Argentina as a result of discontinued operations.

And just a final comment, when we talk about railroad operations, we are talking now only about the Brazilian rail operations, and unless otherwise stated, it does not include numbers from Argentina.

Okay, with that I would like to pass to Alexandre Santoro to start the presentation.

Alexandre Santoro {BIO 7120418 <GO>}

Thank you, Rodrigo. And (technical difficulty) to the summary of how was our Third Quarter. We can see that we had a consolidated EBITDA growth of 3% with a higher margin in our rail operations and the contribution of our new businesses Brado and Ritmo. In the first nine months of the year, the consolidated EBITDA increased 10% to BRL1.5 billion.

We didn't do well in terms of volumes. We declined 5.7% compared to the same period of last year. This is a result of a 9.2% drop in the agricultural commodities, but we saw 8.1% increase in the industrial products. Our volume was strongly impacted by restrictions at the ports we serve which reduced the capacity of the logistic system directly affecting the productivity of our assets.

We had a good quarter in terms of pricing with a growth of about 9% in rail operations and we were able to pass through inflation and diesel cost increase.

Brado concluded its capitalization of BRL400 million in August, and now ALL holds 62.2% of Brado's capital and the Company is now evaluated at BRL1.2 billion. Also now we have

inaugurated our Intermodal complex of Rondonopolis (technical difficulty) -- kilometers closer to the Brazil's agricultural frontier.

This is an important step to our business and it shows that on the (conscious) growth in the agricultural production. It is important to highlight that the ramp-up occurred (inaudible) and now our terminal is ready to fully operate in the Fourth Quarter.

We will move to the next slide number 5, talking now about the consolidated influence of ALL. The revenues reached BRL943 million in this quarter, and the accumulated -- the year to date is BRL2.8 billion.

The EBITDA increased 3.3% in the Third Quarter, surpassing more than BRL500 million and 10% in the year reaching the significant milestone of BRL1.4 billion reflecting positive growth from rail operations from Brado, our container business, and from Ritmo, our highway service business.

Our net income in the quarter stood at BRL60.3 million. Excluding the assets write-offs and the results from Argentina operations, our year-to-date net income would have increased 4% compared to the same period of 2012 to BRL300 million.

Talking now about the rail operations, we had another favorable crop scenario in the quarter. However, we suffered operationally with the capacity restrictions of the port, which I will be telling you later in this presentation.

We were not able to convert this good crop scenario into volume growth. Despite the port restrictions, it's important to highlight that we grew our volume by 6.6% when compared to the last quarter confirming the efficiency of our business and our capacity to adapt to adverse situations.

Let me talk about the volumes. We were able to pass through cost increase, being -- above 9% above last year in the quarter and 10% year to date.

Rail operations EBITDA increased 3.2% to BRL480 million in this quarter in which the EBITDA grew 10% reaching BRL1.4 billion.

Agricultural commodities is the next slide page number 7. Our agricultural commodities volume decreased 9% in the quarter. Ports have become an important bottleneck mainly for this segment which is what -- dependant on the port's unloading capacity to gain the crop.

The main bottleneck was the Port of (Santos) who gained approximately half of our volume. At this port, the volume was affected by rail unloading restrictions at the main sugar terminals which reduced in almost 5% the traditional capacity when compared to the same period of last year, and by the two accidents occurred in June at the two main rail unloading terminals TGG and Terminal XXXIX which reduced the capacity during the

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whole quarter. Additionally the excessive rainfalls in July also restricted terminals' unloading capacity at the ports of Santos and Paranagua.

Compensating the volume reduction in the quarter, we were able to improve the average price in 10%, even our net revenues to increase 11%, reaching almost BRL2 billion. Adjusted EBITDA increased 12% in this year to BRL1.2 billion.

Moving forward to the next slide number 9, talking about the other business that we have, the industrial products, there is a change here. In the last quarters, we reported decrease in the volumes, but from this quarter this segment recovered and grew 8.1%.

We had a good performance both internal (technical difficulty) -- intermodal products volume increased almost 10% in the Third Quarter mainly reflecting the Eldorado projects and Brado ramp-up. Pure rail volumes grew almost 7% in the quarter due to a good performance of fuel products.

Due to a strong growth in volumes, our additional net revenue grew 14% in this quarter when compared to the same period of last year. As a result EBITDA grew 12% and reached BRL241 million year to date.

This year we also did several changes in loading and unloading terminals, the capacity of the terminals. We partnership with our clients in order to improve productivity and profitability of this business. For example, improved area of loading and unloading on the terminals, and the consequent increase in the size of the trains.

Now talking about -- to finalize, talk about Brado and about regionals. And the slide number 11 talking about Brado. We had another good quarter with a volume growth of 21% in the period. The Wide Gauge corridor increased 24%, and the Parana corridor increased 51%.

The net revenue grew at 16% in the quarter to BRL70 million, and 20% year to date to BRL200 million. Adjusted EBITDA reached BRL15 million in the quarter, and BRL37 million in year to date, 16% above last year's.

Moving to the slide number 12, our other business Ritmo; Ritmo continued to report a significant growth in its intermodal units, leading to volume increase of 13% in the quarter and 10% in the accumulated nine months of the year. Ritmo EBITDA increased 15% in the nine months of the year, contributing to an adjusted EBITDA of BRL20 million reported by the ALL Group.

Now Rodrigo will talk about our financial highlights, and then I'll come back to talk about the final comments. Thank you.

Rodrigo Campos {BIO 16203706 <GO>}

Thank you, Santoro. Going to slide 13, we see that net revenues -- consolidated net revenues increased 10.4% with stable volumes in our rail business, and (inaudible) through inflation and this requires adjustments, and also with revenue growth on Brado and Ritmo.

EBITDA, going to slide 14, increased 10% in the nine months of 2013 as compared to nine months of 2012, from BRL1.345 billion to BRL1.481 billion. And margins were stable around 53% EBITDA margin.

Going to page 15, we see that our net income dropped a lot this year, mainly driven by the impact of the discontinuations of our operations in Argentina. And if we (dis-consider) the impacts of the discontinuations of Argentina operations, our net income would grow like 3.8% as compared to nine months of 2012.

And going to slide 16 where we show our capital structure, we see that the financial net debt to EBITDA was stable as compared to 2012. It went from 2.3 times net debt to EBITDA to 2.2 times net debt to EBITDA in nine months 2013.

With that I would like to transfer the call to Alexandre Santoro in order to make some additional comments.

Alexandre Santoro {BIO 7120418 <GO>}

Thank you, Rodrigo. I have five final comments. First is our rail operations should improve in the Fourth Quarter. Agricultural commodities should -- volumes should keep benefiting from the good second corn crop, and operations at the Rondonopolis Terminal which should be operating at full capacity during the quarter, after ramping up in the Third Quarter.

The other one, additionally, a major part of the restrictions we faced at the main grain unloading terminals at the Port of Santos should be resolved. The Fourth Quarter is an off-season period in which ports -- in which ports are less pressured, and consequently our operations should be less impacted by such restrictions.

October, for example, was our best month, which is unusual given the normal seasonality of the business.

Our industrial products, we have the expectation that's also positive with Eldorado and Brado ramp-ups.

When we talk about our new business Brado completed the capitalization and grew up between 20%-30% volume quarter over quarter. Ritmo, the intermodal continues with a strong growth according to the original plan.

And let me talk about the (inaudible) mining our iron ore project. The project follows very well, and we start the final steps for the certification of our reserves. In the engineering project, (and we obtained this), a diversification of our environmental license for the

operation of iron ore last week. We have a world class project with high-quality iron ore and low operational cost, besides having the integrated operation with mines, railroads, and ports.

And finally, in October, we have adopted legal measures related to our partnership with Rumo, aiming to discuss the contracts that rule our partnership. Until a decision is taken by the proper authority, we will continue to render railway transportation service in favor of Rumo observing however the existing restrictions of the rail and port system.

Thank you. And now we can open for the questions.

Questions And Answers

Operator

Thank you. The floor is now open for questions. (Operator Instructions) Mark Suarez, Euro Pacific Capital.

Q - Mark Suarez {BIO 16366613 <GO>}

Okay, just -- you talked about the rail unloading restrictions, and I know that we talked about in the last quarter; when do you expect that to be finalized for those -- for that capacity to resume at a normal level, if you will?

A - Rodrigo Campos {BIO 16203706 <GO>}

Okay, Mark, that's a good point. I mean, the ports restrictions were an important -- had an important impact in the second and third Q. But I mean, we believe that we'll have a much better port environment in (inaudible) in the fourth Q because the TGG and Terminal XXXIX which were affected in the second and third Q will be restored at almost all the capacity along the quarter. And more than that the fourth Q also is a quarter that is a low season when compared to the second and third Q, so that the fourth won't be so pressured in terms of grains exports during the fourth Q.

So you have less pressure on the fourth, we have terminals restoring the capacity. So it's a good combination, and as Santoro mentioned, we had the best month of the year in October in terms of volumes which is not something which is usual given the seasonality of the business, but which was like the ports' performance also.

Q - Mark Suarez {BIO 16366613 <GO>}

Got you. And if we just sit back and look at this at a high level, I know (Cory SPD), they are making a lot of infrastructure improvements around the Port of Santos and that should have some positive long-run impact. I'm wondering if you can maybe talk a little bit about that and in terms of how much time you think that will save the rails in terms of loading the cargo at the port once those improvements are finalized?

A - Rodrigo Campos {BIO 16203706 <GO>}

Mark, I didn't understand well. What improvements you're talking about?

Q - Mark Suarez {BIO 16366613 <GO>}

Well the whole point of in my view, according -- from the news and such because those improvements should save the rail in the loading of cargo, in other words you are sort of shorting the truck line. And I'm wondering how much time do you think that would save ALL once those improvements are finalized around the terminals?

A - Rodrigo Campos {BIO 16203706 <GO>}

Yes. You should remember -- if I understand correctly, I mean, we did -- there were two important improvements for this year. One of that improvements in terms of rail in the ports was the duplication in the rail line in the entrance of the Port of Santos which was MRS rail lines which are completed.

So we expected to capture (inaudible) duplication. We were not able given the problems we had at the port. But I mean, once the capacity of the port normalized it's an important investment.

Also there was the segregation in one of the margins of operations of rail and trucks by Codesp, the investment Codesp did to segregate both operations which is also good improvement.

So both things should sustain through logistic gains for this year that we were not able to capture given the fire in TGG, the accident in the ship-loading in Terminal XXXIX, all the problems in the capacity presented the impact in sugar terminals, but I mean, once we have a better -- all these problems in the grain terminals are solved, we should be able to capture the improvements that we see at the ports for this year.

I'm not sure if those kind of improvements you are talking about or if you are talking about something else.

Q - Mark Suarez {BIO 16366613 <GO>}

No. I was talking about the Codesp infrastructure improvement you just mentioned.

A - Rodrigo Campos {BIO 16203706 <GO>}

Okay.

Q - Mark Suarez {BIO 16366613 <GO>}

Then just turning to Brado for a second, I know you had a very good quarter, good volumes. And now with the new capital injection, I'm wondering where and how quickly do you see spending that money to support the operations there and how should we think about container volumes as we head into 2014?

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A - Rodrigo Campos {BIO 16203706 <GO>}

Yes. I mean, Mark, when we announced Brado, we announced a plan -- a 5-year plan of BRL1 billion in CapEx. Brado was investing less there which was like more or less BRL200 million per year on average. If you look in the last two years, I mean, Brado has invested less than that, between BRL80 million and (BRL122 million), of course because Brado has to survive with the strong balance sheet, so leveraging needs strong cash and needs strong balance sheet.

And with all the capitalization we have, Brado can come back to the normal level of investments, would accelerate investment, also accelerate growth at the rates we are seeing today which is (prescient) rates, but remember that Brado had -- has more market share and has a huge competitive advantage when compared with the alternative logistics in the field.

And so at the end of the day the investment should accelerate. We expect volumes should -- volume growth will accelerate also, and investments will be very concentrated on the terminals on the countryside and a CapEx improvement on the railroad, in rolling stock, locomotives, and improvements on rail infrastructure.

Operator

Stephen Trent, Citi.

Q - Stephen Trent {BIO 5581382 <GO>}

Just two questions from me. The first is when I look at the issues in the ports, there was the fire, there was the other accident, and there is the ongoing expansion. Can you just tell us where we are in terms of how close we are to these three issues being totally straightened out? Are we 40% there on one and 80% there on another, but just some general color would be great.

A - Rodrigo Campos {BIO 16203706 <GO>}

Stephen, this is Rodrigo. When we take the grain terminals, all of these problems will be solved in the fourth Q, and I mean, we don't expect those restrictions affecting fourth Q volumes, I mean, the opposite, because fourth Q is a Q which start to be an off-season Q if you compare it with second and third Q.

And so the port is not so pressured as in the second and third Q in the grain side, and the problems in all those terminals are very addressed and will be completely solved along the fourth Q.

Santoro mentioned that actually October was the best month in the year in terms of volumes which is nothing normal because of the seasonality of the business, but which was (inaudible) improvements in the capacity of the ports.

Q - Stephen Trent {BIO 5581382 <GO>}

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And just one other question. I recall several months ago, I mean, perhaps the end of 2012, Brazilian authorities put these restrictions on truck drivers in terms of how many hours they were allowed to operate and there was supposed to be another phase where we would see tougher enforcement of these restrictions.

And just to get an idea where would you say we are in that process, and what should be the read-through on fees charged by the truckers?

A - Rodrigo Campos {BIO 16203706 <GO>}

Okay. Stephen, actually it was the measures -- you are pretty correct on that. This was the measures taken by the Brazilian Congress in September last year, so it's more than a year ago. And it was -- the enforcement of this law was postponed by six months and was postponed again. And now the Congress is thinking -- is reconsidering all the -- this legislation again.

So I mean, it's hard to know what will be the final outcome. Probably, it won't be something so severe as it was in the beginning, but probably several new restrictions will be added by this new regulation.

So the -- I believe that that will be some intermediary legislation, it won't be so severe as it was first approved. And also it will be a lot of new things as compared to the legislation we had today. So -- but it's not defined yet. We still -- it's still needed to be defined.

Operator

(Operator Instructions) Mr. Mark Suarez, Euro Pacific Capital.

Q - Mark Suarez {BIO 16366613 <GO>}

I just had one final question on the regulatory fund. We hear talks that the government is thinking of auctioning some rail concessions for the right of building rail tracks and expanding the rail network throughout the country. Now they're saying I think it's November.

I'm wondering what your thoughts are on that, and will you have any interest in maybe expanding your own rail network through the bidding process, if you will?

A - Rodrigo Campos {BIO 16203706 <GO>}

Mark, you are correct. I mean, the government has a plan of expanding -- building new rail tracks in several regions of Brazil that today are not covered by rail tracks. So it's a plan to think the logistics infrastructure of Brazil, thinking 30 years-50 years ahead. So it's a big plan that the government has.

And there are auctions programming for this year, and government is already setting off all those things in order to try to make this auction easier.

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When we see ALL, we believe this is the new track to the -- the new constructions of those new tracks will be in a model that separates the owner of the rail tracks to the rail operators that will transport, that will hold the cargo inside those tracks.

So in this model, I believe the DNA of ALL is more to be the rail operator decides that who will make the transport in the new rail lines. So we see ourselves more doing the rail transportation there than the guy that will build the tracks. That's our position related to that.

We believe this is a big opportunity for us once those rail lines are there. I mean, we are the guys which have skill, which have know-how, we are the general cargo guy in Brazil, and it would be a great opportunity to bring our operations to other regions at a much more (inaudible) model, rights of ways and operates cargo on those new tracks.

So that's how we see our model for -- this model for our business as you asked. But we've seen a very good way all this movement of the government is improving.

Operator

We have a question from website.

A - Rodrigo Campos {BIO 16203706 <GO>}

The first question from Internet here is do you keep the (inaudible) measures set as average velocity, and terminals' (inaudible). This is the first question of (Evan Hoo).

Sure, we have. Actually, our Group model is highly based on productivity gains on -- we look very closely to (IPTs) per rail car, IPTs per locomotive, and we try to improve the capacity of the system every year, improving the productivity of the system.

So at the end of the day, when one -- in your question as I understand is the average velocity; we look to the average speed, but we look more than that also. We look all the cycles of railcars and locomotives.

So the average speed on the track, the crossings, the terminals real timing at the ports, so all those things together account for the asset cycle which is again important -- a very important indicators for our rail operation.

And the second question also from Evan Hoo is consolidated CapEx plan for 2014 and general comments about that amount per year beyond 2014, (inaudible).

So if we think that the CapEx plan for 2014, if we were to separate railroads -- in terms of railroad, we have investment now of BRL700 million per year. So we should -- keeping these CapEx in real terms, that's the level of CapEx we should have in order to sustain our operating growth rate for 2014, and for the years after that, and in real terms. So that's the level of the CapEx we see.

It's small, like 50% maintenance, 50% expansion, and that's it. And for the other business, as we comment here, with the capitalization Brado should grow to its curve of more or less BRL200 million per year. And Ritmo is a business that does not demand too much capital because it's a very asset-light business, the main business of -- intermodal business of intermodal trucking transportation where basically we hire trucks at the ports.

Operator

I will turn over to Mr. Alexandre Santoro for final considerations. Mr. Alexandre Santoro, you may give your final considerations.

A - Alexandre Santoro {BIO 7120418 <GO>}

Thank you. I want to reinforce our confidence in our business, and remind that we are located on a region that represents 70% of Brazil's GDP, with lots of opportunities to grow and improve our productivity and profitability. And we have a great team to do that. I thank everyone, and have a great day. Thanks.

Operator

Thank you. This concludes today's ALL earnings conference call. You may disconnect your lines at this time.

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