

Q1 2016 Earnings Call

Company Participants

- Andrea Fernandes, Investor Relations Manager
- Marcelino Rafart of Seras, Chief Executive Officer
- Marcello Guidotti, Chief Financial Officer, Investor Relations and Personnel Management
- Unidentified Speaker

Other Participants

- Augusto Ensiki, Analyst
- Bernardo Carneiro, Analyst
- Marcio Prado, Analyst
- Stephen Trent, Analyst
- Victor Mizusaki, Analyst

Presentation

Operator

Good morning and welcome to EcoRodovias First Quarter of 2016 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 questions-and-answer session for analysts and investors only. At this point, 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 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 information available to the Company. 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 Ms. Andrea Fernandes, who will discuss the fourth quarter of -- the first quarter of 2016 results. Please you may proceed.

Andrea Fernandes {BIO 21294199 <GO>}

Good morning. Welcome to Grupo EcoRodovias conference call today discussing the results of the first quarter of 2016. We thank you all for your interest and participation. Before we begin our results presentation, we would like to mention some important events. The operation between Primav and Gruppo Gavio has been concluded as published on the material facts of May 4, 2016. It is important to note that Gruppo Gavio has a long-term strategic view and is committed to the Brazilian infrastructure sector, particularly the highway concessions.

ECO101 signed a long-term funding agreement with BNDES in the amount of BRL882 million at a long-term interest rate of plus 3.83% and due in 2032. And Ecosul received a tariff adjustment that includes compensation for the exemption of toll on suspended axles. In accordance with our strategy, the first quarter of 2016 was marked by discipline in the operational management, resulting on comparable basis in a reduction of 12% on cash cost, saving BRL34 million. The group also achieved a 15.7% increase in the average tariff of the highway concessions and improved results in the services and holding segments.

Starting with the explanation of the results of the first quarter of 2016, we can see on slide two that the consolidated traffic of equivalent paying vehicles presented a 3.9% increase in the quarter. The highlight is the resilience of the concessions of EcoRodovias, Ecovias dos Imigrantes which presented a higher volume of passenger vehicles due to the favorable weather on weekends; and concessions Ecovia Caminho do Mar and Ecocataratas, which presented higher commercial traffic positively impacted by the increase of soybean and corn exports at the Paranagua port.

Excluding traffic at Ecoporte and the impact of the exemption of tolls on suspended axles, there was a 3.9% reduction in the quarter. This reduction is mainly due to the decline in industrial production, which has affected the flow of commercial vehicles at Ecopistas and ECO101. It is important to note that these concessionaires are the ones with the lowest toll tariff. At Ecoporto, key [ph] and warehousing operations were affected by the drop in the volume of the import containers at Porto de Santos due to the economic slowdown, the appreciation of the US dollar and the strong competition of other terminals. This quarter, Ecoporto did not operate any regular vessels at its key operation. In order to offset the drop in revenue, it implemented a program to cut costs in order to adjust to the current economic scenario and is working strongly in client perfection and in the implementation of several measures to improve its operational result.

As regards the group's consolidated performance on slide three, the pro-forma revenue amounted to BRL672 million on the first quarter of 2016, a 6.2% increase. The revenues were positively impacted by the contractual adjustments to the toll tariffs of the highway concessions and the operational start-up of Ecoporte. However, they were negatively affected by the decrease of movement at Ecoporto Santos.

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Moving on to slide four, cash costs came to BRL271 million in the quarter, a reduction of 3.6%. Even with the cost increase resulting from the operational start-up of Ecoponte and the consolidation as of July 2016 of a 100% of the cost from Elog compared to 80% consolidated until June 2015. Excluding these effects on comparable basis, the reduction was of 12.2%, saving BRL34 million. The highlights are, the BRL14.1 million in savings at the services and holding companies related to the optimization of headcounts and the lower expenses with third-party services for consultant fee and studies; and a reduction of BRL24.5 million at Ecoporto as a result of the lower level of operations and the optimization of headcount.

In addition to the cost reduction already presented in the quarter, the company will maintain its efforts to identify productivity improvements and efficiency gains. In the quarter, the pro-forma EBITDA was BRL403 million, a 14% increase, and margin of 60% as demonstrated on slide five. Irrespective of the adverse market conditions, our highway concessions showed the effects of the management of the cost in the results as measured by the 15.7% EBITDA increase in the first quarter of 2016, in comparison to the same period of 2015.

On slide six, we present the evolution of net income. The main effects of the variation between quarters were the increase of BRL50 million in the pro-forma EBITDA and the reduction of the net financial expense, a BRL19 million, due to the appreciation of the reais vis-a-vis the US dollar.

As you can see, investments on slide seven, we maintained the company's commitment to invest according to the contracts and business needs, highlighting the initial works at ECO101 and the works at Ecopistas. The proportional CapEx to EcoRodovias share was of BRL88 million in the first quarter of 2016 and the estimated for 2016 is approximately BRL780 million. Continuing on to slide eight, we have highlighted debt by type, were 82% in debentures. We can also see our debt by index, the main ones being IPCA and CDI. The indicator, pro-forma net debt and pro-forma EBITDA was of three times at the end of the first quarter of 2016.

On slide nine, we closed the quarter with cash of BRL916 million. Of the total of commitments for 2016, BRL307 million regard the BNDES bridge loan at ECO101 already paid for with the long-term loan, BRL152 million in debentures at Elog undergoing restructuring, and BRL120 million in promissory notes at EcoRodovias Concessionaires to be refinanced in the fourth quarter of 2016 and BRL462 million to be amortized using the company's own funds.

As already seen in the results for 2015 and during this quarter, we implemented actions seeking a new level of operational efficiency, especially through opportunities for improvement and cost reduction. We will intensify our efforts in 2016 regarding our processes, cost on CapEx bases, applying the zero base budget methodology to our businesses. We stress that the company continues to follow the infrastructure program and remains focused on the contract amendments of its highways. It is worth noting that the investment opportunities are always underlined with capital discipline in mind and they are weighted according to the company's financial capacity and the return of each project.

With this, we conclude the presentation. We would like to move on to the questions-and-answer session. Operator, we are ready for the questions from our analysts and investors. Thank you.

Questions And Answers

Operator

Thank you. We will now begin the questions-and-answer session for investors and analysts. (Operator Instructions) Our first question is from Mr. Bernardo Carneiro from Brasil Plural.

Q - Bernardo Carneiro {BIO 4037872 <GO>}

Good morning. I have two questions. First, I'd like to understand if the reduction in administrative expenses and the diluting [ph] of cost especially at holding somewhat on Ecoporto and Elog will continue to appear in the second quarter, so there will be more benefits for us to see on the EBITDA margin throughout 2016 or if the majority of these gains are already posted? Thank you.

A - Marcelino Rafart of Seras {BIO 16618338 <GO>}

Good morning, everyone. Good morning, Bernardo. This is Marcelino. This cost reduction that we are seeing quarter-on-quarter will continue through the improvement of processes, the increase of productivity. We will now begin an interesting program in the budgetary and supply areas and CapEx. And there are factors that over the next quarters we'll follow the same efficiency that we followed in the cost area.

Q - Bernardo Carneiro {BIO 4037872 <GO>}

My second question then is about the contractual amendments that the company is negotiating. You know, our opportunity is there with Ecovia Caminho do Mar, Ecopistas considering that the future interest rate is decreasing in the future market and the reais is pointing towards much lower rates next year and 2018. I would like to know if the company is more favorable or leaning towards accepting the actual 9.9% or 10% and that's expedited the process, so I understand that the amendments were on -- somewhat on standby. And I'd like you to add some information if possible as regards to the timing of this. Is it -- are you going to fund the amendments shortly or is it still under negotiation, is it on a standby? I would like to understand a little more about the amendments. Thank you.

A - Marcelino Rafart of Seras {BIO 16618338 <GO>}

Bernardo, we continue prioritizing the contractual amendments in our concessions. There is an important announcement from the new government, it remains a priority to have new infrastructure measures and this is very positive. And the improvement of the model and the regulatory marks is essential to our industry.

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Similarly, the new government clearly states that the role of the government have impacted the critical social areas and we see that very positively. And I believe this will have to slow of all the amendments and the investments that have been under discussion in all areas, both in the federal government level and the state government level, all because of the decrease in revenue in the state and municipalities and besides your government. We are not disappointed on the short-term basis. There is a series of measurements, the new government must take and if there is a project that must be approved by the National Congress. So yes, we are hopeful that we will be able to conclude the negotiation of the amendments with the granters throughout this year.

Q - Bernardo Carneiro {BIO 4037872 <GO>}

Thank you.

Operator

Our next question comes from Mr. Stephen Trent from Citi. Please, Mr. Stephen, you may proceed.

Q - Stephen Trent {BIO 5581382 <GO>}

Thank you very much for the question, everybody and good morning to you. Just -- partially with respect to your wish list, perhaps what number of concessions you would ideally go after and what are your thoughts with respect to minimum level of returns considering I think as Bernardo was saying, interest rates seem to be on the way down, and that will be my first question.

A - Marcello Guidotti {BIO 16618352 <GO>}

Good morning. This is Marcello Guidotti. I would summarize your question quickly because we had a problem with the connection. We didn't hear the first part, if you could --

Q - Stephen Trent {BIO 5581382 <GO>}

Oh, yes, certainly. So what I was just asking was, with the likelihood that we get some auctions, forward auctions in over the medium term, so what would be the ideal outcome for EcoRodovias maybe in terms of your thoughts on the opportunities on the new auctions, and what are your thoughts with respect to what kind of -- perhaps what kind of leverage hurdle rate would be attractive for you guys given that interest rates, long-term rates seem to be on their way down?

A - Marcelino Rafart of Seras {BIO 16618338 <GO>}

We need to give the new government some time now, it just took office yesterday. And as I said, measures and improvement of the models and the regulatory mark will be discussed between the government and the private sector and government agencies, so that we can combine after the much needed and prudent new auctions. I think on the short term, the government has these instruments of the contractual amendments that may lead the investments to pick up again. The expectation that I have personally for the new auctions is focusing more on towards 2017.

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Q - Stephen Trent {BIO 5581382 <GO>}

Okay, very helpful. And just one other quick question --

A - Marcelino Rafart of Seras {BIO 16618338 <GO>}

We discussed and might come about soon are still not attractive for the private initiatives. So all the enhancements and improvements are necessary for those that are already concluded as well as for the future model that will be implemented.

Q - Stephen Trent {BIO 5581382 <GO>}

Okay. That's very helpful. And just one last question and I'll let someone else ask a question. When you think about the Ecoporto operations, have your thoughts changed with respect to actually Ecoporto and Elog, your potential long-term strategies on those businesses, maybe could we expect EcoRodovias to be almost entirely a toll road operator 10 years from now or could we perhaps still in your long-term view still think about you guys retaining some of these ancillary businesses?

A - Marcelino Rafart of Seras {BIO 16618338 <GO>}

The decision making and prioritizing and focusing in the infrastructure area in the highway sectors is a long-term one. It's the long-term goal of the company. That's where we have a history and a performance that is widely recognized by the industry. So in the long-term, the non-core factors for the company today will probably be divested.

Q - Stephen Trent {BIO 5581382 <GO>}

Okay. Thanks very much and I will let someone else ask the question. Appreciate that.

Operator

Our next question comes from Mr. Victor Mizusaki from Bradesco BBl. Please, Victor, go ahead.

Q - Victor Mizusaki {BIO 4087162 <GO>}

Good morning. I have two questions. The first on the cost side, we've been seeing cost cuts on the operational aspects. But can -- I would like to know if on the CapEx side, we can expect an optimization of this CapEx?

And the second question regards to debt, with this scenario of the likely decrease of interest rate in the second half of the year, where the company paid those BRL422 million [ph] and use the cash to pay debt and what's your strategy for the leverage considering this scenario of decrease in interest rate, do we still see Eco as a net debt EBITDA of three months or is there room to change that?

A - Marcello Guidotti {BIO 16618352 <GO>}

Victor, thank you. It's Marcello. About your first question, regarding the CapEx, as Marcelino already anticipated, I'd said that yes, we've started now a program for the

improvement of the supply processing, seeking efficiencies in the contraction and negotiations and especially CapEx. We will prioritize now in the next quarter, the efficiency on the group's CapEx as the balance structure.

I would say that we may have the scenario of interest increase and the debt that we intend to pay that in the holding level. The idea is to use those funds to release and deleverage, but the projects that we believe that -- I would say that our net debt is well controlled and it is under control and in adequate level. And the level of investments on ECO101 and Ecoporto is in that program. I see that this level is what we should expect for this year.

Q - Victor Mizusaki {BIO 4087162 <GO>}

Is it too soon for us to maybe expect proportionally, with the operational cost decrease that you had, considering that there could be those levels of savings with the CapEx or do we still have to wait to know better?

A - Marcello Guidotti {BIO 16618352 <GO>}

CapEx is the main line in the cash line of the company. Now, we are saving with this program of purchasing an acquisition and hiring for each of the (inaudible) office, the project's office and the office that provides consultancy in the projections, the records in the market of these loans, (inaudible) I believe the sound is not clear, I apologize for that.

Operator

Our next question comes from Mr. Augusto. Please you may proceed.

Q - Augusto Ensiki {BIO 15988025 <GO>}

Good morning. I have a question about the Ecoporto closing. Is this going to occur now in the second quarter? What can we expect on that front? Thank you.

A - Unidentified Speaker

Augusto, you mean closing of Ecoporto transport? No -- no more than a decision of closing a company that was providing services to Ecoporto and start hiring third-party services. It's a comparable cost, so we need to reduce these costs and work with that.

Q - Augusto Ensiki {BIO 15988025 <GO>}

Thank you.

Operator

Our next question is from Mr. Marcio Prado from Goldman Sachs. Please go ahead.

Q - Marcio Prado {BIO 15398968 <GO>}

Good morning. Thank you for the call. I wanted to follow-up on the CapEx trends and leverage. In fact, I'd like to discuss BNDES a little bit more. I was told this first quarter -- and you've talked about it in the beginning of this replacement of the BNDES bridge loan with a long-term debt.

So we have a small part of the total CapEx for ECO101. But I would like to understand, throughout the year, considering the CapEx, total CapEx guidance that you have regarding BNDES, what's the program? Are there more credits to come in overtime and there is -- the understanding of this replacement of the bridge loan with the long-term debt, will it take longer than you expected to understand the dynamics of how your relationship is with BNDES not only of Eco, but the infrastructure industry as a whole at this time?

A - Unidentified Speaker

Marcio, actually with BNDES, there is the ECO101 contract that starting in 2013 and we have the bridge loan. And with programs little bit -- with the BNDES in 2015, it took some time, but it was more due to scheduling issues in our projects on the pipeline, but nothing -- no problem there. So now, we already have the long-term contracts signed and over the months, as the CapEx is realized, BNDES releases the funding.

So, it's now the day to day in the contracts. We have an excellent relationship with BNDES. We are now on the negotiation stage for the funding of Ecoponte that would classify there is urban mobility. So it was -- it's not formally financed, but we are in the advanced stages of the negotiation. And again, whenever necessary and if BNDES shows interest, we will -- we go to them and present our demand.

Q - Marcio Prado {BIO 15398968 <GO>}

And with regard to the ECO101 specifically, as long-term credit now, it doesn't equate all the fundability of the CapEx for ECO101 throughout the project. Overtime possibly there will be new credit lines with BNDES, correct? Am I thinking it right?

A - Unidentified Speaker

The BNDES funding has evolved, first -- the first five years of the investments. So this is the funding that we had with the projects cash projections. They equate the investment of the first five years. It was the second phase of the project at ECO101 with a varied CapEx and the projects will find some support line, so that's a little bit of the dynamics for ECO101.

Q - Marcio Prado {BIO 15398968 <GO>}

Thank you.

Operator

(Operator Instructions) As there are no further questions, I'll turn over to Ms. Andrea Fernandes for her final remarks.

A - Andrea Fernandes {BIO 21294199 <GO>}

I would like to thank you all for your presence at this call. And I remain available and the IR team for any further demand. Thank you very much. Have a good day.

Operator

EcoRodovias conference call is now closed. We thank you for your participation. Have a good day.

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