

Q3 2011 Earnings Call

Company Participants

- Paulo Luiz Basilio, CEO
- Rodrigo Campos, CFO, IRO

Other Participants

- Alex Chia, Analyst
- Angela Lieh, Analyst
- Tais Correa, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. At this time we would like to welcome everyone to America Latina Logistica ALL Third Quarter of 2011 Earnings Conference Call. Today we have with us, Paulo Basilio, CEO and Rodrigo Campos, CFO and IRO for ALL.

We would like to inform you that this event is being recorded. And all participants will be in a listen-only mode during the Company's presentation. 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 web casts that may be accessed through ALL's IR web site, www.all-logistica.com/IR. The slide presentation may be downloaded from this web site. 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 the beliefs and assumptions of ALL's management, and on information currently available to the Company. They involve risks, uncertainties, and assumptions because they relate 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 ALL, and could cause results to differ materially from those expressed in such forward-looking statements. I will now turn the call over to Paulo Basilio who will start the presentation. Mr. Basilio, you may begin.

Paulo Luiz Basilio {BIO 15046605 <GO>}

Thank you. Good morning, ladies and gentlemen. We are here to present our third Q results. And as usual, I am going to start with the highlights of the quarter. Then go over the results of our business units. I'll pass to Rodrigo, Rodrigo will talk about the financial figures. Then I come back and do -- make some additional comments till we start the Q&A session. Before I start, I would like Rodrigo to make some comments about the released numbers.

Rodrigo Campos {BIO 16203706 <GO>}

Okay. Thank you, Paulo. Prior to Paulo start, I would like just to comment that with the creation of Ritmo, and Brado, this new business. In this presentation, we will be presenting third Q 2010 and nine months 2010 numbers in two different ways. When we talk about consolidated results, we'll be always comparing 2011 with numbers of 2010, which was released exactly as in our balance sheet, so exactly the same number.

When we discuss the results by business units, so when we discuss results by ALL Railway operations, Brado and Ritmo, together compare results, we will be talking about results pro forma of third Q 2010 and nine months 2010.

The reason the comparison here should be pro forma is it's basically two. When we created Brado last year, this year -- in the beginning of this year, remember, that we did our merger with Standard. So when we have a Brado numbers in 2011, the better way to compare is with 2010 number, as Brado already existed. So I bring Standards number of 2010 to the comparison base of 2010.

When we create Ritmo in the first July, the same. We did a merger with Ouro Verde. So to better compare results of Ritmo in 2011 we are comparing with a pro forma number of 2010 which also includes results of Ouro Verde which was the company we merged last year.

So I will give -- that's how we start always with these two differences. When we talk about consolidated numbers, numbers of 2010 are released numbers in the balance sheet. When we talk about business units, all of the numbers are pro forma as Brado and as Ritmo already existed in 2010. Thank you.

Paulo Luiz Basilio {BIO 15046605 <GO>}

Okay. Thank you, Rodrigo. That being said let's start on page four with the highlights of the quarters. I think that to have five highlights -- five points that I would like to highlight. The first one is the consolidated EBITDA grew 16.4%. And here we have a mix of volume growth, improving operating performance and the consolidation of the new business as Rodrigo explained.

The second bullet, the rail -- our rail volumes increased more than 10%, 10.4% in Brazil. And with the breakdown of this number is a strong growth in agriculture volumes, almost 12%, and 6% growth in industrial product.

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Our cash flow generation has improved to almost BRL50 million when you compare to the same quarter in 2010. Due to better operational performance and improving that would be presenting our working capital needs.

In the Brado business, our -- the company that we created to explore -- the container segment, Brado has a very, very huge growth in their EBITDA -- in its EBITDA. Brado EBITDA grew almost to 59%. And basically here they benefitted from a higher intermodal volumes and improving margins.

And again, the last bullet, the financial bullet that we concluded, BRL1.2 billion of debt issuance. This was very good because that was our need -- the financial needs that would have in 2012, and 2013, and report on that in 2015 to 2016.

In addition of all of that, we got an improvement in our national rating from Fitch from A minus to A. So that -- I think that summarizes the performance of the Company in the third Q, good growth in EBITDA, good volumes, improving cash flow generation. A Brado -- presenting a huge growth in all the financial structure to the Company is better to address all the needs that I have -- that we have.

So that being said, I am going to talk a little bit about the consolidated numbers in page five. As I said, EBITDA increased more than 16%, achieving BRL430 million in nine months. EBITDA increased almost 11% to BRL1.220 billion.

Our net income was increased marginally when you compare to the third Q 2010. And here we have the fact of the increase in interest rate here in Brazil. That increased almost 2percentage points from 10.5% to 12.2 %. This represents in our income statement a figure around (BRL25 million, BRL10 million) in the quarter.

That being said, let's go to the page six when we start to explain each our companies and business units. Starting with the ALL Rail operations in Brazil. Our rail operations in Brazil increased volumes 10.4%. Our gross yields increased 3%, pretty much in line with the pass through of the inflation and the stable -- the stability that we have in diesel prices. Our EBITDA in Brazil was up almost 13%, achieving BRL400 million and in the nine months, achieving BRL1.172 billion.

Going to the next page when we can break down the operation -- the rail operation in Brazil. Let's talk about the agricultural commodities business units. We have a strong growth in volumes, the volume has increased 12% the third Q, mainly supported by productivity gains. We had -- we almost don't have any derailed cars when you compare 2010. And our market share increased marginally from 68% to 71%.

We gained market share in Port of Santos, in Port of -- in the state of Sao Paulo, and we lost market share in the southern ports. And basically because of the market, the sugar exports in Port of Santos decreased 3%. And the soy export -- and here I am talking about the market, not about our volumes. The soy exports increased more than 30% in the ports of the south region. So good growth and volume, marginal increase in market share.

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Going to the next slide, page eight. We are going to discuss the financials of the agricultural commodities business unit. Gross revenue rose, 15%, 12% growth in volumes, 3% increase in yields. Pretty much the best two of the inflation and stable diesel surprises. And our EBITDA grew almost 15%, achieving BRL320 million. Our margin we were -- we have a margin improvement from 56.9% to 57%, pretty much the same margin.

Going to page nine, where I will start to discuss the industrial products. We have our industrial volumes increasing 6% in the quarter. And here again, breaking down, intermodal volumes increasing 4.5% and pure rail volumes increasing 7.4%,

When you take a look in the intermodal volumes, you can see a huge growth in the steel products. And a decrease in food products of 9.4% in the quarter, we are recovering our transportation of steel and we had more rail cars to transport these volumes, as I am going to explain when we talk about the pure rail industrial products.

When we go to the pure rail industrial products, we have a huge growth in fuel products. Most of this related to the interruption of the refineries that we had in 2010. And now we are recovering the number. And the construction, we had a reduction in the transportation of a clinker, which is a raw material for cement for one of our clients.

And we take out the -- take off the rail cars from this segment. And we put to transport in the steel products segment. So this help this two product segments to have this -- the growth that they presented.

Going to the next slide when we are going to discuss the industrial product financials. The gross revenues of the units grew 10% in the third Q, 6% volumes, 3.8% increase in yields, pretty much the pass through of the inflation and diesel prices stable. The EBITDA grew 7%, achieving BRL80 million. And margins marginally improving from 48.9% to 49.1%.

So that's the summarize the industrial products results. And we can go to the Argentina operations, rail operations in slide 11. In Argentina, the volume was -- the volumes were pretty much stable. And we had a huge increase in the gross yields. Pretty much reflect in the inflation pass-through that we have -- we are having in the country. It's a good news where we are being able to pass through the inflation Argentina. Our EBITDA increased almost 20%, achieving BRL9.6 million with stable margins.

When you go to the next slide, slide 12, here we are going to explain Brado Logistico which is the company that we created with Standard at the beginning of this year. The company dedicated to explore the opportunity that we see in the container segment. Brado having a huge increase in their EBITDA, increasing almost 60% in the third Q, mainly gaining increasing intermodal volumes and gaining margins.

That's the two main reasons of the increase in EBITDA. Very, very in line with the business plan that we have. And for the next year, all the investment plan that Brado has is already -- is already -- is on schedule. They are going to -- they have already received almost 20 rail cars. And here I'm talking about the spinning rail cars, 80 feet so we can put two

containers, two 40-foot containers, one in line with the other, pretty much the same efficiency that we would have with the double-stacked rail cars.

And all of -- it is important to say that all of these investments plan is being addressed with the net cash that Brado has. Just remember that when we created Brado, and we merged Brado with the Standard, Standard came with a net cash of almost BRL50 million, and this cash it was sufficient to address all the investment plans that the Brado has for 2012, not only rail cars, but the terminals and the areas that Brado acquired to do their volumes in support for the next year.

Here it is important to tell that when you think about the Brado, the idea behind the creation of Brado is that Brado has a huge market of (quarters). A huge investment plan to grow. It is important to mention that Brado is always free cash flow positive when you not consider the CapEx for growth to the next year. So Brado is already -- is always a positive free cash. Then they take the free cash and invest to grow volumes for the next year, based in rail cars and locomotives.

To address the needs of CapEx that Brado is going to have for the following year, we think that we are going to need to have equity operation in Brado in order to address this need. So Brado will not have -- not -- we're going to receive any free cash flow coming from ALL. The way that Brado will support all the investment plans that they have is with BNDES and with equity rate in the following years. But that being said, it's important to mention that for 2012 it's already addressed, the capital needs, because of the net cash position that Brado has.

Going to the next slide, this slide talk about our Ritmo Logistica which is the company that we created to explore the highway services around our rail network. And here I'm talking basically about the (less mile) be at less mile provider with Ouro Verde so the company has two months of -- since the creation two months.

All the integration processes are going very well, all the systems and the maintenance systems and the team of the company, we are very positive -- our view for the future of the company is very positive and we expect to present the good increasing numbers, starting next year because of the starting of the new contract with the railroad.

The clients of the railroad that we will have to provide the volumes for the less mile to this company. The gross revenue of this company was down 16%. And when you compare to last quarter in EBITDA was down 8%, pretty much BRL1 million below the pro forma results of 2010. That being said I would ask Rodrigo to go over the financial figures.

Rodrigo Campos {BIO 16203706 <GO>}

Thank you, Paulo. When we go to slide 14, we can see that our revenues increased 16% consolidated revenues, mainly driven, as Paulo explained by increasing in the rail volumes and the consolidation of the new business and the growth on this new business, Brado and Ritmo.

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When we go to slide 15 we can see that our EBITDA growth was 11% from nine months 2010 to nine months 2011. With pretty stable margin actually, 1%, a lower margin in 2011. And main reason behind that it's because our yield is a little bit below the inflation, as you remember we always -- we start to pass through inflation. But as diesel price was stable this year, and diesel price represent 40% of our inflation, total yields grew a little bit lower than inflation. It reflects stability of the diesel price.

In page 16, we see our net income very in line with last year. We improved a lot operational results. But financial expenses were higher this year. Basically because interest rates in Brazil were 15% higher on average, if you compare nine months '11 with nine months 2010. So our financial expenses grew proportionally more or less compensating the increase that we have in our operational results. As the interest rates in Brazil start to go down, it should be a positive effect for our net income in 2012.

In page 17, that we show our balance sheet. The net debt EBITDA ratio, we improved from 2.1 times EBITDA financial debt to 2.3 times EBITDA net financial debt. And the main reason behind that is our CapEx in the (Rondonopolis) project, which is an additional CapEx for this year. With that, I pass to Paulo to make some additional comments.

Paulo Luiz Basilio {BIO 15046605 <GO>}

Thank you, Rodrigo. I think we have four comments -- additional comments to make before we start the Q&A session. I say that the first one is that we have a stability of agricultural export in this year. And we have, considering the growth in the crop that we had. We are very -- we will expect to have a favorable market for the four Q and for the inventories that are going to start next year.

The second bullet is about 2012. Again, we expect -- we are very positive for the next crop for the next year. We have already 54% of the soybean area planted here in Brazil. This number is 26% ahead of the same number that we had last year. Just to give an idea, in state of Mato Grosso, we are seeing 74% of total area planted in November. So that is the very good news.

We expect to have around 4% or 5% increase in planted areas. Here we expect to have 3% increase in soybean area and 13% increase in corn area in the second crop of corn. So we are very positive we're going to expect another very good crop in Brazil next year. We expect to have some decrease in the productivity level, but again, another very good crop to the country and for us to operate.

The third bullet is about a Itiquira, the Rondonopolis project where we are beginning in 2012, that's in January to operate Itiquira. Itiquira is a city -- actually it's a terminal that we have. We have just finished in the middle of the business between Alto Araguaia end on Rondonopolis. And this terminal will bring us two million tons of volume additionally to our addressable market. We are going to operate Itiquira all over the year. And Rondonopolis we will expect to conclude the construction of Rondonopolis at the end of 2012.

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And the last bullet that talks about our new business developments. We are very positive about this strategy. And we are continuing working intensively in our project based mainly in iron ore and terminals. And we're very excited with the opportunity that we are seeing in these two segments. That being said, I would like to open for Q&A session.

Questions And Answers

Operator

Thank you. The floor is now opened for questions. (Operator Instructions) And our first question comes from Tais Correa from Goldman Sachs. Please go ahead.

Q - Tais Correa {BIO 20240598 <GO>}

Good morning, gentlemen. I have a question on volumes. We saw that industrial volumes have been growing at a slower pace than agricultural volumes. Are we supposed to expect a further deceleration going forward, together with a slowing industry activity? And what about the food volumes that also have fallen a lot? You said that they're kind of recovering. How do you see these industrial volumes?

A - Paulo Luiz Basilio {BIO 15046605 <GO>}

Okay Tais, this is Paulo. I think it is important to separate the industrial volumes and intermodal and the pure rail. We expect to have the intermodal and the fuel -- if you take consideration the fuel volumes, we expect to have a higher growth than agricultural. And the pure rail of volumes not considering fuel, because you have four projects that is going to enter next year that will increase our fuel volumes in alcohol and in diesel to Mato Grosso.

But we should expect to have more growth in intermodal volumes than fuel, agriculture, and then the pure rail industry. I forgot the next -- the other question.

Q - Tais Correa {BIO 20240598 <GO>}

Yes. It was --

A - Paulo Luiz Basilio {BIO 15046605 <GO>}

Oh about the food. About the food. Okay. In food market, we have a decrease in volumes of industrialized sugar in port of -- in the south ports that in Brazil. That was the reason, because we had this drop in the volumes of food.

Q - Tais Correa {BIO 20240598 <GO>}

And you expect that to normalize going forward?

A - Paulo Luiz Basilio {BIO 15046605 <GO>}

Yes, I think it's going to come back in the next year.

Q - Tais Correa {BIO 20240598 <GO>}

Okay. And could you give us an update on your R&R project that you have in terminals. Where are we standing now?

A - Paulo Luiz Basilio {BIO 15046605 <GO>}

Tais, we are very positive on this project. We have been working very intense within that. And we, as soon as we have clear information and solid information, I'm going to provide to the market. But from our own, this is all that I can say.

Q - Tais Correa {BIO 20240598 <GO>}

Okay thank you.

A - Paulo Luiz Basilio {BIO 15046605 <GO>}

Yes.

Operator

Thank you. And our next question comes from Steve Trent from Citigroup. Please go ahead.

Q - Angela Lieh {BIO 17568261 <GO>}

Hi. Good morning, everybody, this is actually Angela Lieh dialing in. We were wondering what was the reason for the two to three-month delay in the Rondonopolis CapEx program? Any color you could give us, that would be great.

A - Rodrigo Campos {BIO 16203706 <GO>}

Yes, Angela, basically because of the -- some environmental lines that we expected to have, and it's delayed three months, actually. So all the budget of the -- the construction is pretty much the same. And for next year, we expected to have more CapEx in the first semester. The first half of the year. And now it is going to be distributed all over the year. But same CapEx, but three months of delay because of the concession of some limitation licenses here and our environmental initiative here in Brazil.

Q - Angela Lieh {BIO 17568261 <GO>}

Okay so it would be mostly related to licenses, environmental licenses, just so if I understood you correctly?

A - Rodrigo Campos {BIO 16203706 <GO>}

That's right.

Q - Angela Lieh {BIO 17568261 <GO>}

Okay thank you. We were also wondering if over the long-term, you would have a target market share at each core facility and if so, what would be your target at the different ports?

A - Rodrigo Campos {BIO 16203706 <GO>}

Angela, when you think about the target of market share, the first thing that's important to mention is that all of the share that we released is about the addressable market. When you think about the volumes of railroad in Brazil, railroads are worth 20% of the volumes in Brazil. So every time that we release the market share is when you considered exactly the addressable market that we have. So we should have 90% or 95% of these addressable markets.

Q - Angela Lieh {BIO 17568261 <GO>}

Okay. And I guess in no specific information on a target for each specific port, so it would be more to do with rail lines themselves?

A - Rodrigo Campos {BIO 16203706 <GO>}

No. I think that you can -- when you use the market share that we release, we -- you can consider this 90%, 95%, and 93% in all the ports.

Q - Angela Lieh {BIO 17568261 <GO>}

Okay. Okay I am going to let somebody else ask a question. But thanks, very much.

A - Paulo Luiz Basilio {BIO 15046605 <GO>}

Okay thank you.

Operator

(Operator Instructions) And our next question comes from Raymond -- of Alex Chia from Raymond James. Please go ahead.

Q - Alex Chia {BIO 4853781 <GO>}

Hi, you mentioned a huge investment plan for Brado. How much equity are you looking for to raise over the next three years?

A - Rodrigo Campos {BIO 16203706 <GO>}

Alex, sure, to raise equity is part of the plan for Brado. You know that all the investment plan will be financed by equity issuance and by that in Brado's balance sheet, without any guarantee from AOL. So you are correct.

When we look to Brado's cash flow, we see that actually, even with a CapEx plan of BRL1 billion, Brado cash flow, Brado business has the characteristics that you make an

investment in one year, and you start to generate cash flow in the next year. Because I mean major part of the Brado CapEx plans are 80% are locomotives and rail cars.

So when you look at the cash flow needs, maximum cash flow needs over time, you are talking about BRL300 million in five years, despite BRL1 billion CapEx plan. So at the end, when you consider this is the maximum cash flow needs that we have, and at the end of the day, we are looking in a number between -- in the beginning years, it could be something around BRL150 million, BRL300 million. I think it would be adequate for the first years of Brado.

Q - Alex Chia {BIO 4853781 <GO>}

All right. Thank you.

Operator

(Operator Instructions) And our next question comes from Steve Trent from Citigroup. Please go ahead.

Q - Angela Lieh {BIO 17568261 <GO>}

Oh hi. Just a couple more follow-up questions. One would be, if you would see any opportunities to reduce your cost of debt? And my second question would be, if you could give us any update on the JV with (Humo), if things were going as expected, or if you are seeing any changes than originally planned? Thank you.

A - Rodrigo Campos {BIO 16203706 <GO>}

Thank you, Angela, this is Rodrigo. In terms of cost of that, what we believe that a lot of the time -- we should start to improve the portion of our debt which is BNDES and reduce the portion which comes from other sources of markets. So it -- along the time should reduce my interest expenses.

And remember also that we are improving cash flow. And we should start to be for cash flow positive after the conclusion of Rondonopolis. So as we start to reduce total net debt, at the end of the day, we accelerate this process of having major part of our debt in BNDES debt which is sure is cheaper than market debt.

And a third factor that you have to consider is that we hold today a large cash. A cash around BRL2 billion. Of course, to hold this cash has a cost, has an interest rate on cash is lower than the interest rate we pay on the debt. So starting to be free cash flow positive, naturally average cash should go down and also it should improve our financial interest.

So this is the first -- your first question. In the second, in the second question, Humo, just to correct one thing. We don't have like a joint venture with Humo because we don't have any state on Humo. But the project with Humo is going very well. We -- all the CapEx in rolling stock is done. In terms of all of the rail cars were delivered. All the locomotives were delivered. The CapEx that they were doing on terminals is on schedule.

And we are starting to build the duplication of the way to Port of Santos, something that we should have completed until 2013. So it is going well.

A - Paulo Luiz Basilio {BIO 15046605 <GO>}

Just to say a little -- some more things about the Humo. As Rodrigo said it's going very well. It's important to mention that with this duplication we are going to increase very much our capacity in the productivity of all of the assets of that rail line. And of course all of the volume of debt that we have (high) with Humo. They just go up if we have this infrastructure build. So that is the key information that I think is important to say at this moment.

Q - Angela Lieh {BIO 17568261 <GO>}

Okay. Thanks, very much.

A - Paulo Luiz Basilio {BIO 15046605 <GO>}

Okay.

Operator

Thank you. And I am showing no further questions. I will turn over to Mr. Paulo Basilio for final considerations. Mr. Basilio, you may give your final considerations.

A - Paulo Luiz Basilio {BIO 15046605 <GO>}

Okay. Thank you, wherever you are for the interest in our company. And if you have any additional questions, please we are all available to answer. And have a nice day.

Operator

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

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