

Q3 2016 Earnings Call

Company Participants

- Andrea Fernandes, Investor Relations Manager
- Marcelino Rafart de Seras, Marcelino Rafart de Seras, CEO and Highway, Logistics and Business Development Officer
- Marcello Guidotti, Marcello Guidotti, Chief Financial, Investor Relations Officer

Other Participants

- Bernardo Carneiro, Analyst
- Bruno Amorim, Analyst
- Leandro Fontanesi, Analyst
- Marcio Prado, Analyst
- Rogerio Araujo, Analyst
- Sami Karlik, Analyst
- Victor Mizusaki, Analyst

Presentation

Operator

Good morning and welcome to EcoRodovias Third Quarter of 2016 Earnings Conference Call. With us today, we have Mr. Marcelino Seras, the Company's CEO; Marcello Guidotti, CFO and Investor Relations Officer; Andrea Fernandes, Investor Relations Manager; and the Investor Relations team. We would like to inform you that this presentation is being recorded and all participants will be in listen-only mode during the Company's presentation.

After that, we will begin the question-and-answer session for analysts and investors only, when further instructions for you to participate will be given. (Operator Instructions) The audio and the slides of this call are being broadcast simultaneously at www.ecorodovias.com.br/ir, where you will find the presentation for download as well 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 related to EcoRodovias' business prospects, projections, and operating 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 therefore 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.

Now, we would like to turn the floor over to Ms. Andrea Fernandes, Investor Relations. And she will make the opening remarks about the results of the third quarter of 2016. You may proceed.

Andrea Fernandes {BIO 21294199 <GO>}

Good morning and welcome to another call of the EcoRodovias Group, today referring to the results of the third quarter of 2016. Thank you very much for your interest and your participation in this call.

Before starting, we would like to mention that the Board of Directors approved on November 4th payment of BRL146 million in dividends, referring to the results of the 2015 and 2016 fiscal years. This decision is supported by a strong cash generation, a strong performance as well coming from the segment of highway concessions and aligned with the strategy to maximize value for our shareholders.

The nine months of 2016 were marked by operating management discipline that resulted in a reduction of 7.3% in our cash cost in spite of an 8.5% inflation rate in the period. The Group also delivered a 10.1% growth in the comparable pro forma EBITDA.

On slide number two, we may see that the consolidated comparable traffic of equivalent paying vehicles in the third quarter of 2016 had a drop of 7.4%. This reduction results mainly from the lower traffic of commercial vehicles in the Ecovias dos Imigrantes, Ecopistas, Ecosul and ECO101 concessionaries, impacted by a slowdown in the economy, also a slowdown in industrial production, the consequent decrease in the volume of imports and finally by the lower exported volume of grains.

Ecocataratas had its traffic positively impacted by the return of the collection of the suspended axles as well as the Ecovia Caminho do Mar. Ecoponte had a reduction due to the restriction of traffic during two months in certain times of the day due to the Olympics and the Paralympics and also due to the slowdown in the economy.

Passenger vehicle traffic in the Ecovias dos Imigrantes, Ecovia Caminho do Mar, Ecosul and ECO101 concessionaries was impacted by the unfavorable weather that inhibited the flow of tourists going through the state of Sao Paulo, Parana and Rio Grande do Sul coastline, and also due to the slowdown of the economy as well.

Ecocataratas had a growth in traffic that was driven by the increase in the tourism or shopping tourism show in Paraguay. And Ecopistas had a reduction in traffic due to the drop in the industrial activity in the region that affected the flow of passenger vehicles. Ecoponte delivered growth due to the increase in the number of tourists during the Olympics and the Paralympics.

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In relation to the consolidated performance of the Group on slide number 3, in a pro forma fashion, net revenue reached BRL593 million in the third quarter of 2016, a 1.9% growth. Revenues were positively impacted by contract adjustments in the toll tariffs in the highway concessions.

Nevertheless, they were negatively impacted by a reduction in the Ecoporto Santos handling operations and also the performance of traffic in our highway concessions. The comparable pro forma net revenue of highway concessions grew by 2.7%, in spite of a 7.4% drop in traffic, emphasizing the resilience of the segment.

Now going to slide number four, the cash cost in the quarter dropped by 2.9% in spite of an 8.5% inflation in the period and the highlights are the highway concessions and the holding companies due to the cost reduction program implemented, showing the discipline of the Group.

The company will continue to make its best endeavors to identify productivity improvements and also efficiency gains. The comparable pro forma EBITDA net of the Elog result in the quarter was BRL377 million, growing by 4.9% and with a 63.5% margin, as shown on slide number 5. In spite of the adverse market conditions, our highway concessions showed the effect of our management of our costs in our results and had an increase of BRL18 million in EBITDA and 70.6% margin.

On slide 6, you can see the evolution of our net income. The comparable net income was BRL67 million in the third quarter of '16, 164.1% increase on a year-on-year basis, impacted -- positively impacted by the lower financial expense of BRL44 million and also the increase in the EBITDA, that is to say, BRL18 million increase in relation to investments.

On slide 7, we maintained our commitment to invest according to our contracts and according to the needs of our businesses. The estimated CapEx for 2016 of ECO101 [ph] was revised due to delays in obtaining licenses and authorizations and also savings based on project efficiencies and technical solutions, reinforcing our financial discipline. The CapEx proportional to the participation of Ecorodovias is approximately BRL620 million in 2016.

Now going to slide number eight, we show our debt per instrument, 81% debentures. We can also see our debt shown by indexator [ph], IPCA and CDI are the main indexing factors, and the net debt-EBITDA indicator in a comparable pro forma fashion was 2.7 times at the end of the quarter.

Continuing on slide 9, we closed the quarter with BRL835 million cash, and a longer debt profile, reinforcing our financial strength. Of that total commitments for 2016, we had BRL215 million in Ecorodovias Concessões, already covered by debentures issuance at the cost of 114% of the CDI and with duration of 15 months to be settled in November, and BRL230 million to be amortized with our own funds in November.

The company continues to follow the highway concession program, both from the federal government as well as the state government and is focused on the contract amendments

in the company's highways, maintaining capital discipline, considering our financial capacity and also the return of each project.

With this, we conclude our presentation. Now, we would like to open for your questions. Operator, we are ready to answer questions from investors and analysts.

Questions And Answers

Operator

Thank you very much. And now we would like to start our question-and-answer session for investors and analysts. (Operator Instructions) Our first question comes from Mr. Victor Mizusaki from Bradesco BBI.

Q - Victor Mizusaki {BIO 4087162 <GO>}

Good morning. About cost reduction, looking ahead, I would like to know if you will be able to reduce your operating costs from your highway portfolio? And also looking at your balance sheet and the leverage level, are you working with a target for 2017 in terms of leverage that would allow Eco to participate in the highway auction, that is estimated for the second half?

A - Marcello Guidotti {BIO 16618352 <GO>}

Good morning. This is Marcello. About cost reduction, as you know, we are always seeking efficiencies in the Group and of course, we have been rather successful in this regard, and we have been showing important achievements there and we continue with this challenge. And today, we are concentrating more on our CapEx.

We have an important volume of CapEx for the next three to four years. So we are focusing more on the CapEx, but anyway, now the challenge is to make this structure or the cost structure sustainable, that is to say, maintaining it consistently so that we may have -- may be able to capture traffic increases and volume increases.

In terms of CapEx, we are deleveraging, we are at 2.7% net debt to EBITDA. Our target depends on the type of debt and where the debt is, whether it's in the project or at the holding company level. And we try to reduce our debt at the holding company level. This is the most important thing and this is what really guides our investment capacity.

Q - Victor Mizusaki {BIO 4087162 <GO>}

And now talking about CapEx, what percentage comes from the process review and centralized purchases? How much is an effective reduction? And how much is really postponed to 2017 because of environmental licenses, et cetera, in the numbers that were published?

A - Marcello Guidotti {BIO 16618352 <GO>}

A major project has to do with postponements, but we have already captured some significant savings there, especially in the Ecoponte project. As the projects are starting now, that's the gains from the project we have good expectations to tap into efficiency savings and improvement of project and centralization of our procurement. We already have some important achievements in this regard. Thank you.

Operator

Sami Karlik from Bank of Votorantim.

Q - Sami Karlik {BIO 16221284 <GO>}

Good afternoon. I would like to learn about the CapEx for Ecoponte, because it's not yet included in the releases. So, when will you be publishing this? And of course, this should already contemplate these efficiency gains that you referred to. And for Ecoporto, the negative results continue, so do you have an update regarding what do you think about this asset will be? Will there be an M&A scenario for that? I know that this is a difficult scenario, but what do you expect for Ecoporto?

We will -- we believe that in 2016, it would reach breakeven, zero, but in fact, it's still negative. And I would like to know what you intend to do with this asset for the next few years?

A - Marcello Guidotti {BIO 16618352 <GO>}

Regarding Ecoponte, we are concluding as we speak the definition of the CapEx or quantifying the CapEx for the project and we will be making them public in the fourth quarter, then you will be able to see the total volume and have this information for Ecoporto, I would like Marcelino to answer.

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

Good morning, everybody. This is Marcelino. Undoubtedly, it's our target for 2017 and for this quarter as well to re-establish the operating margin of Ecoporto. We are working very hard on our costs and expenses.

And on the other hand, we announced to you that the divestment in logistics, specifically import should occur in the medium run, that is to say in a time frame of three years. And we still have the same structure, that is to say, this is still our frame of mind, our vision. And in this period, we are trying to tackle all the problems that might affect this divestment in the future. Among them, the extension of the contract for investments that have already been made and that are to be made in Ecoporto. Thank you.

Operator

Next question Bernardo Carneiro from Brazil Plural.

Q - Bernardo Carneiro {BIO 4037872 <GO>}

Good morning, everyone. Going back to a question that has already been asked. I would like to talk about the new round of highway concessions. Could you describe your appetite in this regard? I know that you mentioned that your focus continues to be working on the amendments of the existing concessions, but could you tell us what degree of interest do you have in the forthcoming auctions, the federal and the state auctions?

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

Bernardo, this is Marcelino. Good morning. In fact, today we have only one invitation to bid that was published in Sao Paulo. We are reading it, we are analyzing it in order to learn about it and we still have 100 days in order to analyze and carry out our studies until we reach a final decision.

Of course, we have to understand the risk metrics and to see whether this is adequate as a possibility for us. The Sao Paulo government promised to carry out some additional auctions mainly in the first half of 2017 and we will be proceeding exactly in the same manner as far as the federal government is concerned. The federal government has already announced that two invitations to bid will be published. So we expect this to occur in 2017 and not in 2016.

EcoRodovias, as you know, is interested in highway concession, this is our core business. And of course, we are interested in understanding these auctions, the projects that are coming to the market and be prudent in our attitude vis-a-vis these opportunities. We are interested in the highway concession and we believe that as of the second half of 2017, there could be an even larger round of projects coming to the market, especially coming from the federal government.

Q - Bernardo Carneiro {BIO 4037872 <GO>}

Thank you. My second question is about the cash, your financial expenses in your cash flow, you said that in the nine months, you disbursed BRL314 million, but in the six months, in the previous quarter, it had already been 282 and by deduction in the third quarter you paid interest, a very small amount, only 32 million, only 10% of the whole year. So, could you please specify what happened in this quarter, because interest payment was very low benefiting your cash flow?

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

Well, it depends on the months that you pay your interest, as a cash effect, you have to check that. But probably the most important data is the accumulated or the year-to-date amount over the year.

Q - Bernardo Carneiro {BIO 4037872 <GO>}

Thank you.

Operator

Rogério Araujo from UBS.

Q - Rogério Araujo {BIO 17308156 <GO>}

Good morning, everyone. Thank you for the opportunity. I have two questions, the first one is about costs, when we look at the results for highway and the availability, we see a cost reduction in Ecopistas, was there a non-recurrent item in Ecopistas specifically or why is this highway delivery a relatively better performance in your cost reduction endeavors?

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

All the concessionaries are going through a review, and actions to reduce cost, Ecopistas probably had the impact of the shared services center, and I think that the biggest difference lies there, but in general terms, all the concessions are having the same performance and they are going through the same processes and reviews, probably in Ecopistas, it's the inter-company invoice that in the consolidated numbers disappears.

Q - Rogério Araujo {BIO 17308156 <GO>}

Okay, very clear. But what about your debt rollover? You announced now 114% of CDI. What about the cost of this debt? Could you describe it? I believe that it leads us to believe that there is an improvement already, but what about the overall credit market in Brazil? Is it better now? Do you expect a reduction in cost from now on or was this an one-off opportunity?

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

We continue to see a good appetite and probably the quality of our assets as well. So this is reflected on the cost. As you saw, this 114% of the CDI comes from the credit quality and we're tapping into these gains and the market for Ecorodovias has never closed. As we advance in the future, there will be opportunities in the market, better opportunities and Ecorodovias will be benefiting from that.

Q - Rogério Araujo {BIO 17308156 <GO>}

Thank you.

Operator

(Operator Instructions) Bruno Amorim from Santander.

Q - Bruno Amorim {BIO 17243832 <GO>}

Good morning, everyone. Congratulations for the results. Could you please give us some more color about -- well you talked about a possibility of new projects, new opportunities. Could you give us some more details, what kind of characteristics are you seeking in these new projects so that they may be deemed attractive to Ecorodovias?

And what kind of returns are you seeking, be it on the return of the project or in terms of leverage, already take into account the credit scenario. I believe that from now on, the

BNDES will have a lower participation than in the past. So how will the project be financed? And what about the return that will be earmarked for these projects?

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

Bruno, this is Marcelino. Of course, we are interested in the highway concession sector and our analysis is made on a case-by-case basis. We have to take into account the aspect of that specific project, especially the risk metrics of each one of the project not only regarding traffic, but also costs and investment and the concession itself and its natural requirements.

Today, we are more concerned with the internal rate of return of each one of the project than the investor, because this crisis brought about a situation that is very subject to financing conditions that are offered. And that sometimes are not concluded, so we have to check the cost of these operations in the market. So we seek an internal rate of return - a high internal rate of return for the project. It has to be a long-term project like 30 years. And of course there are natural oscillations that might occur in the Brazilian economy that have to be taken into account.

Q - Bruno Amorim {BIO 17243832 <GO>}

Thank you.

Operator

Marcio Prado from Goldman Sachs.

Q - Marcio Prado {BIO 15398968 <GO>}

Good morning. This is Marcio Prado, two questions. The first one going back to the cost control, Guidotti said that you expect to keep the gains in efficiency that you obtained in the last few quarters and additional gains will be a tougher challenge, so maybe you could talk about some of the lines, where you achieved gains, cash costs, for instance, in others and third-party services.

So could you go a little bit more into detail about these line items and also another non-cash costs, your provision for maintenance that also had an important drop not only in the quarter, but also in the year-to-date results of the last nine months, and also regarding third-party services and others. So does it have to do with the drop in traffic or the cash cost benefits are related to the weaker traffic. Could you give us more details about this aspect of your costs?

And another question talking about traffic. Can you say something about the fourth quarter, because there was an expectation for the whole economy, not only for EcoRodovias, that in the third quarter, we should always see a bottom for the economy, but it doesn't seem to have been reached.

So do you think in the fourth quarter there will be a further reduction, further deterioration in the economy and what is the impact of that in your traffic -- on your traffic dynamics?

A - Marcello Guidotti {BIO 16618352 <GO>}

Talking about costs, this is Marcello. Of course, all the line items were affected, you can see this in all line items. Some of the reductions are related to the organization, because, when you focus on one single sector, you bring higher effectiveness and efficiency, you have less overhead.

So this was a strong target for our endeavors regarding cost reduction and the concessionaries it has to do with processes more than anything, reviving processes and seeking efficiency in their actions linked to procurement, for instance, centralizing procurement and renegotiating almost all the service contracts of our concessionaries, 30% of the cost of our concessionaries.

And those for maintenance have to do with normal maintenance cycles of the concessionaries and this is reflected on the traffic volume. So part of the reduction is because of reduction in traffic. So we're talking here about many different components for all the line items. Today, we are working with the consolidation of everything that we have achieved, trying to get to the best possible cost base that may make us comparable to the best operators in the world, and not only in Brazil.

And now talking about traffic, I would like to ask Marcelino to take the floor. And we have to reap the fruit of the rebound of the Brazilian economy.

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

About traffic, the fourth quarter is not showing improvement. You already have the data about important sectors of the economy. You can see that there was a problem in the second crop [ph], the corn which was lower and that has an impact. And this is being reflected on traffic. Traffic does not show improvement yet. We believe that as from 2017, this improvement may occur, but we do not expect this to occur in the fourth quarter of 2016 yet.

Q - Marcio Prado {BIO 15398968 <GO>}

Thank you. Could I have a follow-up question please, about dividends. In the release, you said that dividend referred to 2015 and 2016 fiscal years, your leverage has decreased vis-a-vis the beginning of the year and beginning of last year as well. So do you expect to have additional sales still related to the fiscal year of 2016?

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

I would like to reiterate that our policy is to payout at least this percentage of our net income and this year, this -- we maximized the amount paid to our shareholders. In principle, we will be continuing with the policy that I have just referred to. We do not expect any big changes for -- up to the end of this year.

Operator

Leandro Fontanesi, Bradesco BBl.

Q - Leandro Fontanesi {BIO 20270610 <GO>}

Good morning and thank you, two questions. What about the Elog sale? When do you expect the sale to be concluded? Then the second point has to be -- to do with Ecoporto, the government has been talking about reaching an agreement to hand back problem concession, and that -- this could be covered by provisional measure to be enacted by the end of this year. Would this include port terminals and would you consider handing back Ecoporto. Thank you.

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

About Elog, we announced the closing of the Elog Sul sale, Elog SA and Ecoporto (inaudible) offered to interested parties and we believe that this could occur in the next few months. But in principle, we do not have a clear date regarding this.

Regarding Ecoporto, the provisional measure that is being announced by the media does not contemplate the port area. And even if it did, I believe that Ecoporto would first seek a new contract maturity due to investments already made and future investments to be made, and that are in our contract. Only after that, we would be analyzing opportunities in the market.

Q - Leandro Fontanesi {BIO 20270610 <GO>}

Thank you.

Operator

The question-and-answer session is closed. We would like to give the floor back to Ms. Andrea Fernandes for her closing remarks.

A - Andrea Fernandes {BIO 21294199 <GO>}

Thank you very much for your presence and our Investor Relations area is available to answer any questions that you might have. Thank you very much.

Operator

EcoRodovias conference call is closed. We thank you for participating and wish you all a very good day. Thank you.

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