Q1 2013 Earnings Call

Company Participants

- Eduardo Pelleissone, CEO
- Rodrigo Campos, CFO, IRO

Other Participants

- Antonio Barreto, Analyst
- 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, First Quarter of 2013 Earnings Conference Call. Today with us we have Eduardo Pelleissone, CEO; Rodrigo Campos, CFO and IRO; and (Felipe Marin), IR Superintendent 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 a simultaneous webcast that may be accessed through ALL's IR website at www.all-logistica.com/IR. The slide 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 the beliefs and assumptions of ALL 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 the 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 excepted 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 figures are presented in them. Mr. Eduardo Pelleissone, CEO, will start the presentation. Mr. Campos, you may begin the conference, sir.

Rodrigo Campos {BIO 16203706 <GO>}

Thank you, everyone, for participating on the ALL conference. First of all, I would like to make some brief comments about the numbers we will release along with respect to presentation, and particularly about adjusted EBITDA numbers, which we are already reporting according with the CVM Instruction 527/12. And this CVM Instruction aims to standardize EBITDA reporting along whole companies in Brazil.

So our adjusted EBITDA is exactly the operational results plus amortization and depreciation, and less the equity earnings in order to represent the operational results. So these reported numbers are comparable in 2013 with the same methodology for 2012. So the numbers of 2012 may be for from the numbers released last year.

With that I would like to turn the presentation over to Eduardo.

Eduardo Pelleissone {BIO 7120426 <GO>}

Thank you, Rodrigo. Good morning, you all. I will start with the First Quarter of 2013 highlights. Our consolidated EBITDA grew 13.3% in a better market scenario, especially in agriculture business and the quarters from Mato Grosso to the Port of Santos, and from Parana to the ports of Parangua and Sao Francisco, pushed by higher inventory levels of corn and sugar, and by the soybean crop, which harvest began in the end of January in the State of Mato Grosso, and in the March in the Parana in Mato Grosso do Sul.

In the State of Rio Grande do Sul, the soybean harvest happens only in April. It is important to mention that we lost almost five days of operation in the quarter from Mato Grosso to Santos, caused by the truckers strike in the Port of Santos, and a three day interruption in the -- in this rail stretch from Mato Grosso to Santos as the permanently was damaged as a result of excessive rainfall in the region.

In the industrial business the market environment was challenging, as these two projects demand decreased between Corumba and the State of Sao Paolo, and in wood products. We had the stoppage of an important client's plant, which (firings) it ends in October. And the interruption of five day in the quarter from Mato Grosso to Santos interrupted the flow of (fibre) for the same period.

The Company had its first positive net income in our First Quarter and a substantial improvement in its free cash flow, almost BRL216 million better than the First Quarter of 2012 in our rail business. And the rail volumes increased 7.3% in Brazil, pushed by a 13.3% growth in agricultural segment. Our average yield grew 8.2%, reflecting the inflation and diesel pass through in our take on pay contracts, and a better thrift price in spot market.

Process EBITDA increases 18.5% to BRL10.3 million, and it's more already that increases 13.4% to BRL8.4 million, pushed by good growth intermodal volumes. We changed it from two to 4.5 million driven kilometers in the First Quarter of 2013.

As we conclude the investment on the extension of our large gauge rail network to Rondonopolis in the end of 2012, we expect to get the operational license from the government and start the operation in Rondonopolis in June, an important step to a ALL rail operation become free cash positive.

Going to slide five, talking about our consolidated results, our EBITDA increased 13.3% in the First Quarter of 2013 to almost BRL391 million, as has been said, for the first time in the First Quarter of the year our net income was positively reached BRL33.9 million in the First Quarter of 2013 against the loss of BRL2.4 million in the First Quarter of 2012.

One sees slide number six talking about Brazil rail operation, as I mentioned we had a good agricultural market in the states of Mato Grosso, Mato Grosso do Sul and Parana. The volumes increased 7.3% in the First Quarter, pushed by 13.3% growth in commodities, driven by purchase improvements and partially offset by the interruption of the rail line, which connects the State of Mato Grosso to the Port of Santos and the trucker strikes in the Port of Santos.

Our average yield increased 8.2% and our EBITDA grew 15.9% to BRL382.4 million in the First Quarter, which is slide number seven talking about our agricultural business. We faced in the First Quarter of 2013 a good market in the corridors of Mato Grosso to Santos and Parana to Parangua in a very tough market in the State of Rio Grande do Sul.

In that scenario our volumes grew 13.3% in the First Quarter of 2013. And our market share decreased from 76% to 7% as exports increased 39% in the First Quarter at the ports we serve.

Going to slide number eight, our net revenues grew 23.3% in the First Quarter, driven by a 13.3% volume growth and an 8.8% increase in yield. Our EBITDA grew 23.8% into BRL320.4 million, and our EBITDA margin increased from 56.4% to 56.7%.

Going to slide number nine talking about the industrial segment, and in the industrial segment our volumes decreased 8.6% in the First Quarter of 2013, and intermodal flows both volumes were down 16.9%, impacted by lower steel products volumes as the demand decreased between Corumba and the State of Sao Paolo, and by the problems in wood products that I mentioned before. In pure rail flows our volumes are pretty much the same as we had in the First Quarter of last year, decreased 1.4%, driven by weak volumes in construction segment.

Going to slide number 10, our net revenues went down 4.9% in the First Quarter, driven by the decrease in volumes and partially offset by a 4% increase in yields. Our EBITDA decreased 13.1% to BRL62 million when we compare to the First Quarter 2012. I think it is important to mention that when we compare to the Fourth Quarter of 2012 our EBITDA increased from BRL60 million to BRL62 million in the industrial segments.

Going to slide number 11 and talk about the Argentina rail operations, in Argentina, as we've been explaining, we still are facing a very tough market. The 2012 slight in production in ALL coverage area decreased 15% when we compare to 2011. And 2013 so it has been hard in Argentina. As happened in Rio Grande do Sul, it happens only in acre.

Our volumes decreased 14.2% in the First Quarter of 2013. And our yield increased almost 32.5%, reflecting our rail cost pass through. That being said, I will pass the word to Rodrigo to talk about our other business and our financial numbers.

Rodrigo Campos {BIO 16203706 <GO>}

Thank you, Eduardo. Going to the slide 12, when we show the Brado Logistica, we see that Brado's volume increased more than 25% in the first Q 2013, as compared to the same period of last year, basically two market share gains from the trucking business.

When we look into details in this volume increase we see that we grew volumes in three of the four main corridors of Brado. We increased more than 60% on wide gauge corridor. We increased almost 16% in Parana corridor and we increased almost 40% in Rio Grande do Sul corridor, so big, very and material increases in all those corridors, which are the corridors we adding rolling stock, locomotives and rail cars for 2013, preparing the Company for the growth we expect for 2013.

The only exception was the Mercosur corridor where volume dropped like 9.2%, affected by the customs restrictions in Argentina. Remember that in this Mercosur corridor it's a corridor between Sao Paolo and Buenos Aires basically.

So in page 13 we see Brado results. Our net revenue grew 23.4% to BRL67 million in first Q 2013. And Brado's adjusted EBITDA reached BRL10.3 million, increasing 18.5% as compared to first Q 2012.

In slide 14 we start to talk about Ritmo, and volumes increased 2.5% in this in the first Q. When we open that we see that there is a material increase in volumes in intermodal units, and a drop in volumes in automotive business unit basically.

When we look the intermodal business unit where volumes increased more than 120%, remember when we started Ritmo that the major opportunity that we see in this company was all this volume which were around the railroad and which were served by trucking connections, and then used to go to the railroad through trucking connections. So Ritmo saw a big opportunity in this market.

We started last year with small volumes intermodal business units. We created all the fixed structure, the people to run these business units. And now we more than doubled the volumes. We start to gain scale and we start to make these business units more profitable. So it's an important step and this is the main trend we see in Ritmo for next quarters and for next years.

In the automotive volume, by the other hand, our automotive operations normally also are between Brazil and Argentina. And all these customs restrictions reduced the transported volumes among the two countries, which this calibrated the economic conditions of our agreement we had with our client. So for some clients we were able to pass through to the processes the fact of such volume reductions. For other clients we were not able, so we leave these operations. So at the end of the day volumes were reduced, but profitability were improved.

When we go to slide 15, we see that net revenues of Ritmo grew 6.1% to almost BRL60 million in the first Q. And EBITDA increased 13.4%, much more than that revenues. And it reflects this increase in profitability. I am talking about in the automotive segment and also in the intermodal business segment with the increase of scale. So our margins increased from 9.5% to 10.2% EBITDA margin in Ritmo.

When we go to slide 16, 16, we see that our consolidated revenues increased 16% in first Q consolidated net revenues. In slide 17 we see that our EBITDA increased 13%. Our margin decreased for 45% to 44% EBITDA margin, but it reflects mainly the mix between the businesses. And remember that the rail business is a business with a high margin. The Brado business, which is our container business, has an inter rated margin naturally. And the trucking business has a margin more in line with the 10%. So this change in mix impact the margins at the end of the day.

In page 18 we see that we revert our loss to a positive net income in the first Q 2013. This is the first material positive net income in the first Q. Remember that normally first Q is an off season period. In the rail business we have an important base of fixed costs. So in an off season period our net income suffers, but this year we were able for the first time to have a material net income even in an off season quarter.

And turn to page 19. We see our capital structure. We see that our net debt and adjusted EBITDA it stayed flat as compared to the end of 2012 in 2.3 times net debt-to-EBITDA in terms of our balance sheet.

With that I turn the presentation over Eduardo to the fact to some additional comments.

Eduardo Pelleissone {BIO 7120426 <GO>}

Thank you, Rodrigo. For additional comments, our CapEx is forecast expected to the line with our guidance for this year of BRL700 million. Overall it is well underway to start operations in the end of the Second Quarter. It's still dependent on obtaining the operational license from the government, which should happen by June.

In addition, the initial projections for 2013 are also optimistic as the first estimates from CONAB points to a 22% total crop increase in ALL coverage area when compared to 2012. And industrial volumes we will benefit from the ramp up of Eldorado projects.

In Vetria we said in our last call we conclude the first evaluation of mineral reserves, which is estimated 20 billion tons of inferred mineral reserves, versus an initial estimate of (technical difficulty) tons. And (technical difficulty) iron grade in the mining (technical difficulty) 46%.

Now that being said, (technical difficulty) on the Q&A.

Questions And Answers

Operator

Thank you. This line is open for questions. (Operator Instructions)

Mr. Antonio Barreto from Itau BBA would like to make a question.

Q - Antonio Barreto {BIO 17449798 <GO>}

Hi. Good morning, Eduardo. Good morning, Rodrigo. My first question is about the industrial side and specifically on the volume reduction that the guys experienced. How much of that do you expect is a one-off, especially on the steel segment? And excluding the ramp up of the Eldorado project, should we expect a recovery over the coming quarters?

A - Rodrigo Campos {BIO 16203706 <GO>}

Antonio, this is Rodrigo speaking. What I think we have some one thing, one example as you mentioned. We have the programs in (silo logic) plants that in one of our main clients, which is a one-time event. Also Port of Santos which also affects it largely is also one event. And we don't expect the so a shift in Brazil. So we have been less here. So it seems to be improving now and we expect a recovery even without a good attitude.

A - Eduardo Pelleissone {BIO 7120426 <GO>}

When might --

Q - Antonio Barreto {BIO 17449798 <GO>}

Go ahead, Eduardo.

A - Eduardo Pelleissone {BIO 7120426 <GO>}

I'm sorry. No I think that the only point about the next two projects' demand we are not expecting these to positive meant to recover in the Second Quarter, but probably recover along the year.

Q - Antonio Barreto {BIO 17449798 <GO>}

Okay. Thank you, perfect. My second question is about the CapEx, so your guidance for BRL700 million for 2013 is just for the railways, right, but looking at Brado we can see that the CapEx for the First Quarter was around BRL50 million. How much do you expect to end up the year with the Brado, the CapEx for Brado?

A - Rodrigo Campos {BIO 16203706 <GO>}

That's true, Antonio. The BRL700 million is for railroads. Brado we -- when we started Brado we were talking about BRL1 billion CapEx in the five years, so I mean this BRL50 million is in the region of BRL200 million per year. So that's --

Q - Antonio Barreto {BIO 17449798 <GO>}

Okay yes.

A - Rodrigo Campos {BIO 16203706 <GO>}

That's the region. This year it's probably should be a little bit less than 200.

Q - Antonio Barreto {BIO 17449798 <GO>}

Okay. Thank you. And are there any new thoughts about any news about the capitalization of Brado?

A - Rodrigo Campos {BIO 16203706 <GO>}

Nothing that we can talk about yet. It's true that we are looking for an investor in Brado, which we will be an important discuss in our other Brado start to average investments and growth. So this is something we are looking at carefully.

Q - Antonio Barreto {BIO 17449798 <GO>}

Thank you.

Operator

Mr. Mark Suarez from Euro Pacific Capital would like to make a question.

Q - Mark Suarez {BIO 16366613 <GO>}

Yes. Good morning, guys. Just you mentioned the agriculture volumes increased 13.2%. We have seen that and it's actually an accelerator from recent trends. Can you talk a little bit about the sort of productivity gains and improvements that you've seen throughout your network in the quarter? And what sort of specific investments have you made to accommodate for that growth?

A - Rodrigo Campos {BIO 16203706 <GO>}

Mark, remember that when we look to volume growth in order to -- we are always looking to try to expand our capacity 10% per year. And the major part of that it's two positive to gains. If you take this year we didn't buy any rail cars, the same for last year. And in terms of locomotive we should -- we increased our fleet by 2%, 3% each year, so much less than the volume growth we want to achieve.

When you take last year, for example, our volume growth and that we go to, given that the very difficult market that the market remember that the cost went down like 18%, the first drop in our region, our volume grew like 5.5% agricultural. And we always said that is easiest to gain productivity when you have a good market because you can focus on the main -- on the biggest clients, on the most productive terminal.

So when you have a good market like that it's easiest to gain positively, but every year with that on the tracks building rail, crossing yards, building maneuvering yards, improving the tracks, removing restrictions on the existing tracks in order to have adjust in terms of positively so.

There will be years like last year that we were a little less than our expectations, years like that that we grow more than our normal average. So it varies a lot. We prepare to grow the major parts, do positively gains, but of course in a good market like that it's easiest to gain positive.

Q - Mark Suarez {BIO 16366613 <GO>}

And with that when you talk about productivity, are you looking to maybe increase train length and train speed? I'm just wondering what sort of things you can do given your network restrictions at this point? Can you maybe have longer trains run from Mato Grosso to the Port of Santos? Can you increase speed? Can you maybe -- would that need signaling improvements? I'm just wondering what sort of specifics are we talking about.

A - Eduardo Pelleissone {BIO 7120426 <GO>}

Let me help Rodrigo here, Mark. All the investment that we made in our rail network is to increase the speed of our rail cars. So when Rodrigo talk about improved productivity through more productivity terminals, when Rodrigo talk about investment in our tracks, what we are looking is to increase the speed of our rail cars.

When you invest in the -- in our tracks and to have a speed for the rail cars in a part of our tracks is around 40 kilometers per hour. We try to increase to 50 kilometers per hour, always thinking about points of our rail network that could be a heavily for the number of trains that we want to move to our tracks.

So it's very specific things. Last one we talk about for a different for a long period, but our focus is in investment in place of our rail network that we could here increase the speed of our rail cars. Increase the size of the train is one way to increase the speed of the cars if you have a lot of connections or if your bottleneck is the number of trains that you have to run through your tracks.

So depend the situation, depend the part of the network that we are talking about. You have specific investment, but all those investments are focused on increasing the speed of the rail cars.

A - Rodrigo Campos {BIO 16203706 <GO>}

Yes. Just to give some examples, Mark, of that, if you take the wide gauge corridor along the time where since 2006 when we bought this rail line from Brazil Ferrovias, the trending time from (Uruguaiana) to Port of Santos were reduced from 220 hours both ways to 120 hours. So this is reflects the -- our reduction in higher speed, also improvements in terms of crossing, and so all types of improvement.

Also there's the size of the train in that corridor almost doubled since we bought it from Brazil for the whole year. So this is a step by step movement, but we have been improving every year.

Q - Mark Suarez {BIO 16366613 <GO>}

Got you. And just to be clear, just going back on Eldorado, I know you mentioned it during the presentation, your volume expectations remained the same. Is that correct for the forecasted area and in terms of for 2013? Do you now have a better sense of the volume ramp up as we move through Q2 all the way to Q4?

A - Rodrigo Campos {BIO 16203706 <GO>}

No. It's help up -- it's helping up, so every quarter it's improving. We should reach the maximum volume in fourth Q. So but it's ramping up. When we have a full year at the maximum volume, Eldorado represents a million tons of open paper, which means that alone this agreement would represent a 7% growth in do Sul business.

Q - Mark Suarez {BIO 16366613 <GO>}

Great. Okay that's all I had for now. Thank you, guys.

A - Rodrigo Campos {BIO 16203706 <GO>}

Okay. Thank you, Mark.

Operator

(Operator Instructions) Mr. Stephen Trent from Citi would like to make a question.

Q - Stephen Trent {BIO 5581382 <GO>}

Hi. Good morning, everybody. It's Steve Trent from Citi, and thanks for taking my questions, two for you. And the first one is you mentioned some difficulty in March with the trucker strike and some damage on some of the permanent way because of the rainfall. And would it be possible to quantify what sort of impact that had on the quarter's EBITDA, if it was material or if it was pretty small?

And two, with respect to the damage on the permanent way, to what extent is the CapEx for the repair as something material?

A - Rodrigo Campos {BIO 16203706 <GO>}

Stephen, this is Rodrigo. Stephen, we are talking about a total effect of five days in our wide gauge corridor, five days in the quarter in the wide gauge corridor, which answers for 50% our agricultural EBITDA and volume, now just to have a size of the impact.

And the CapEx it's not material. It will not change our CapEx guidance for the year. The main impact at the end of the day is the interruption on our operation.

Q - Stephen Trent {BIO 5581382 <GO>}

Oh okay. Thanks, Rodrigo, very helpful. And if I may just one quick third follow-up and I'll let somebody else ask a question, the ANTT's tariff cap proposals last year went into effect. It seems that you guys challenged the tariff caps on a legal basis, arguing that the caps themselves lacked a technical basis. And it looks like you guys did win the first round in the courts. And I'm just curious as to where this process stands now.

A - Rodrigo Campos {BIO 16203706 <GO>}

Stephen, the -- just to go and step by step, after the announcement of the new ceiling we got an injunction in September. The injunction was confirmed by a second grade (instance) of the justice in Brazil, so in a very high instance. So it confirmed the injunction for -- it was in January for a three votes to zero, so unanimous decision. And so the decision was very clear and strong on that sense.

Now here we start to discuss the marriage of the tariff revision itself. And as we said, we are very confident. I believe we have a very strong case. And but it should take some time until to have a final decisions on the marriage of this decision.

So so far everything is coming as expected. And I don't know. It can take two years, three years. It's hard to tell right now. What we believe, we have a very strong case given all the discussions and the points we already talked about.

And we are right now trying to discuss with ANTT some changes in the ceilings, in the methodology in order we could reach an agreement with the ANTT. So today we are on the table discussing. We are having very good talks with ANTT. I cannot guarantee that we will reach an agreement or not, but we always prefer a negotiated solution in these kind of matters, but the discussions are going well, but I cannot anticipate any outcome from that.

Q - Stephen Trent {BIO 5581382 <GO>}

Okay, very helpful there. I'll leave it at that. Thanks, Rodrigo.

A - Rodrigo Campos {BIO 16203706 <GO>}

Thank you.

Operator

(Operator Instructions) I will turn over to Mr. Eduardo Pelleissone for final considerations. Mr. Eduardo, you may give your final considerations now, sir.

A - Eduardo Pelleissone {BIO 7120426 <GO>}

Well thank you all for participating in our call. If you have any additional thoughts please get in touch with our IR team. Thank you, all.

Operator

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