

Q1 2018 Earnings Call

Company Participants

- Daniel Kuratomi, Investor Relations Contact

Other Participants

- Stephen Trent, Analyst
- Victor Mizusaki, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good morning, ladies and gentlemen, and thank you for waiting. We would like to welcome everyone to the First Quarter 2018 Earnings Conference Call of CCR S.A.

We would like to inform you that all participants will be in listen-only mode during the company's presentation. After the company's remarks are completed, there will be a question-and-answer session. At that time, further instructions will be given.

Before proceeding, let me mention that forward-looking statements about CCR's business prospects and financial and operating goals are based on the beliefs and assumptions of CCR's management and on information currently available to the company. Forward-looking statements are not a guarantee of performance. They involve risks, uncertainties, and assumptions, because they relate to future events, and therefore, depend on circumstance that may or may not occur. Investors should understand that general economic conditions, industry conditions, and other operating factors could also affect the future results of CCR and could cause those results to differ materially from those expressed in such forward-looking statements.

Now, I'll turn the conference over to Mr. Daniel Kuratomi, a member of CCR's IR Team. Please, Mr. Kuratomi, you may proceed.

Daniel Kuratomi

Thank you, operator. Good morning, everyone, and thank you for attending our earnings conference call for the first quarter of 2018. With us here today are Arthur Piotto, our CFO and IRO; Marcus Macedo, Flávia Godoy, and Marcela Dias, member of the IR team. The earnings release is available on the company's website at www.ccr.com.br/ir.

Let us first take a look at some of the macroeconomic indicators we consider important for the performance of our business. We would like to begin by highlighting that

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unemployment rate came to 13.3% in first Q 2018, 40 bps down year-on-year; and 130 bps up in 4Q 2017. Real per capita income reached BRL 2,169 in first Q 2018, in line with the same period last year. IBGE's latest data on industrial production show a year-on-year increase of 1.3% in March 2018. In the last 12 months, industrial production grew by 2.9%.

According to the latest credit details released by the Central Bank, credit granting the financial system remained stable year-on-year in March. The balance of individual credit grew by 6%, while corporate credit fell by 6%. The credit to GDP ratio fell to 46.6% versus 49.6% at the end of 2017.

Credit to finance vehicles grew by 28% year-on-year in first Q 2018. It is worth emphasizing that the automotive sector is closely linked to traffic growth and has a huge influence on industrial GDP. The number of licensed vehicles increased by 16% year-on-year in first Q 2018, while vehicle production grew 15% in the same comparison, according to recent data from Anfavea, the Brazilian auto manufacturers association.

Moving on to our operating numbers for the quarter, we highlight pro forma traffic, which grew by 3.1% over first Q 2017. In the same comparison, commercial vehicle traffic moved up by 3.5%, while light vehicle traffic grew by 1.9%. In our press release, you'll find more information on traffic trends for each concessionaire.

We now show the key pro forma figures for our first Q 2018, that is considering all businesses, which we do not control or hold shared control, consolidated according to CCR's share in each line. We also adjusted the comparison basis by excluding from calculations ViaQuatro and ViaRio, in which we increased our stake in April 2017.

Same-basis adjusted EBITDA totaled BRL 1.2 billion, 9% higher than in first Q 2017, with an increase in the margin of 90 bps to 62.5%. This increase was due to a recovery in the company's operational results and its disciplined cost control. Same-basis net income totaled BRL 440 million in first Q 2018, 32% more than in first Q 2017, mainly due to the improved operating performance we previously mentioned and the financial results, which was positively impacted by the lower SELIC interest rate.

The company's pro forma leverage measured by the net-debt-to-EBITDA ratio came to 2.2 times in first Q 2017. Excluding the non-recurring effect of the acquisition of stakes in ViaQuatro and ViaRio second quarter 2017, totaling BRL 548 million, this indicator would have come to 2.4 times.

We end our comments on the quarter's result by highlighting that the traffic showed signs of recovery, increasing 3.1% in line with the 2.7% GDP growth expected by the Focus Bulletin. Same-basis EBITDA, EBITDA margin, and net income increased in this period, highlighting our business' resilience and strength.

We will now open to question-and-answer session. Operator, please go ahead.

Q&A

Operator

Our first question comes from Stephen Trent from Citi.

Q - Stephen Trent {BIO 5581382 <GO>}

Good morning, Daniel; and good morning, everybody. And thanks for taking my question. I just wanted to get a sense as to how you guys are thinking about potential capital deployment opportunities. There seems to be perhaps a good window of potential auctions into next year perhaps, or maybe more focused around next year versus this year. Just kind of wanted to get your sense as to what opportunities you're seeing maybe for federal auctions versus state auctions or opportunities in the secondary market?

A - Daniel Kuratomi

Hi, Stephen. Thank you for your interest and your question. Yes, we are very optimistic about opportunities either this year or next year and onwards. As you know, we raised our equity one year ago. The idea was to pursue opportunities in the secondary market or in the primary markets. Obviously, the focus was secondary market. But this market, it takes a little bit longer. But we are still pursuing opportunities there.

Regarding opportunities in the primary market, we do expect some highways this year. Those would be a couple of federal highways that we have the expectation of having an auction to the end of this year. We have a couple of more highways in the state level, in Goiás and in Minas Gerais State. And we are also analyzing opportunities in the urban mobility area, namely the Line 15 in São Paulo City. So, as I said, we do expect all these projects this year.

To give an idea, this state highway, Minas Gerais 424, the auction date is expected to be in June 6. And the auction of Line 15, the auction date is June 26. So, we are analyzing those opportunities we expect to participate. And for next year onwards, after the government change, our view is that there will be, probably as this government has been doing, an increase in investments in infrastructure as the pent-up demand for this kind of service is pretty huge. So, we are very optimistic about the future.

Q - Stephen Trent {BIO 5581382 <GO>}

Okay. I really appreciate that. I'll let someone else ask a question, but thanks for the color.

A - Daniel Kuratomi

Thank you.

Operator

Our next question comes from Victor Mizusaki from Bradesco BBl.

Q - Victor Mizusaki {BIO 4087162 <GO>}

Hi. Just a question about new opportunities, just a follow-up from this topic. In the CCR Day, the company mentioned a lot about new opportunity in South America, like Argentina, Chile, Colombia. So, I'd like to know if you can comment about these opportunities, and if you can comment about Argentina?

A - Daniel Kuratomi

Yes. If I'm not mistaken, there was the first phase of auctions in Argentina already. We analyzed that markets, we understood that this first phase is kind of more focused on construction. So, our view is that eventually this wouldn't be a good fit for us. But we are still interested in opportunities in South America, as we said, in the CCR Day. Obviously, our focus is on profitability, so whichever is the opportunity outside Brazil, it has to fit our criteria for returns. So, I guess, that as you've heard before, with all these opportunities in Brazil, I think obviously that the focus will be on Brazil.

But we cannot afford to kind of not looking to things that are happening outside our country, which is our obviously region of operation. We already have airports in Latin America. So, to move to hiring in Latin America wouldn't be that much different, but it has to make sense for us. So, I think that, as of now, we are looking opportunities outside, but I guess, that the focus in the very short term will be more in Brazil.

Q - Victor Mizusaki {BIO 4087162 <GO>}

Okay. And just second question. I mean, if you can give any update on the discussions with the City Government of Rio de Janeiro to – or the return of the concessionaire of Barcas (00:12:42).

A - Daniel Kuratomi

This process, we had in public hearing about this, so it's happening, but obviously also it takes time.

Q - Victor Mizusaki {BIO 4087162 <GO>}

Okay. Thank you.

Operator

Our next question's coming from Stephen Trent from Citi.

Q - Stephen Trent {BIO 5581382 <GO>}

Good morning, everybody; and thank you for the follow-up. One or two other things that struck me out that I wanted to ask. I was curious what you guys are generally seeing in terms of potential competition and in terms of the primary market. I mean, when we think back a couple of years ago, you had several bidders for some of these tower (00:13:38) auctions, and it's now, just a handful of (00:13:44). Do you anticipate that we should see a limited competition for the auctions over the next couple of quarters, or do you think we could maybe see more foreign involvement,, for example?

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A - Daniel Kuratomi

Well, I think, as you correctly put, in the past, we had many players, eventually, some of them are overbidding for projects, but I think that this was also a function of the subsidized rates for financing. So, there was, at the time, cheap financing for everyone.

I think, now, the situation is different. There's no artificial interest rates, so any player has to go to market, so I think that it's possible to see more foreigners participating in these markets. But I don't think foreigners will be irrational. I think that eventually, they can benefit from their lower cost of capital or cost of equity, but we cannot forget that they are going for a new market that for them would add some risks. It's a different geography for them. So, I think, local players, they are financially strong. We will be able to be very competitive in those opportunities.

So, the straightforward answer is, we do expect competition for future projects. It's possible to see foreigners coming more than in the past, but considering the amount of investments that the country requires for infrastructure, I think, there will be a market for everybody.

Q - Stephen Trent {BIO 5581382 <GO>}

Okay. Very helpful. Appreciate that. And just one last from me, if I may, and thank you again. For your earlier question, you guys mentioned, toll roads, urban mobility projects, vis-à-vis with Victor's question as well. I didn't hear you guys express that much interest in airport auctions, and there seems to be, in Brazil, maybe some opportunities on the horizon in that space. And just kind of wanted to maybe gauge your early potential interest on the airport side.

A - Daniel Kuratomi

Thank you, Stephen, that is true. We didn't mention that. But I mean, the right message is we are interested in the airport segment. We do want to increase our participation in these segments. But in Brazil, at least, we expect to have some airports being auctioned in the future, but we don't have any information about that. That's why we didn't mention anything. But we are interested in that.

I think that it's more likely eventually the CCR going for opportunities outside in the sense, especially in the airports that we already have a stake, okay, as we did in the past. So, I think the interest is there, but the problem is we don't have anything to share with you right now, okay.

Q - Stephen Trent {BIO 5581382 <GO>}

Fair enough. And once again, really appreciate the color. Let me leave it there. Thank you.

A - Daniel Kuratomi

Thank you, Stephen. Bye.

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Operator

We now end the Q&A session. I would like to turn the conference to Mr. Daniel Kuratomi for his closing remarks. Please, Mr. Kuratomi, you may proceed.

A - Daniel Kuratomi

On behalf of CCR, I would like to thank you for your time and interest. Please do not hesitate to contact us, if you have any further questions. Our contact information is available in our press releases and on our Investor Relations website. Thank you.

Operator

That does conclude CCR audio conference for today. Thank you for your participation, and have a good day.

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