

Q1 2017 Earnings Call

Company Participants

- Andrea Fernandes, Investor Relations Manager
- Marcelino Rafart de Seras, Chief Executive Officer
- Unidentified Speaker

Other Participants

- Bruno Amorim, Analyst
- Renata Stuhlberger, Analyst
- Stephen Trent, Analyst
- Victor Mizusaki, Analyst

Presentation

Operator

Good afternoon and welcome to EcoRodovias First Quarter 2017 Earnings Conference Call. With us here today are, Mr. Marcelino Seras, the company's CEO; Mr. Marcello Guidotti, CFO and Investor Relations Officer; Mrs. Andrea Fernandes, Investor Relations Manager; and the Investor Relations team.

We inform that the presentation is being recorded and all participants will be in listen-only mode during the presentation. After that, we will begin the Q&A session for analysts and investors only, when 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. In this address you will find the presentation for download on 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, and based on information currently available. 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.

Now, I would like to pass the floor to, Mrs. Andrea Fernandes, Investor Relations, who will discuss the first quarter results of 2017. Mrs. Andrea, you may proceed.

Andrea Fernandes {BIO 21294199 <GO>}

Good morning. Welcome to another teleconference of EcoRodovias Group report relating to the earnings of Q1 '17. We thank you for the interest and participation.

In this quarter we continue focus on operational management and cost discipline, which resulted in the growth of 3.1% in -- of our cash costs below the inflation of 4.6 in the period. In parallel, we began in a concrete way studies of the opportunities for growth, which brought an increase in expenses related to this work, these studies, excluding non-recurring costs with consultancy services to study new auctions and concessions -- rate concessions and also the optimization of cost and CapEx.

Total cash totaled BRL175 million, a reduction of 1.8%. The combination of an improvement in highway traffic and tariff increases, also cost control led to a growth of 10.7% in pro forma EBITDA. In Q1'17, we can see on slide number two that the consolidated traffic of equivalent paying vehicles increased -- had an increase of 0.6%.

This is considering ECO101, which suffered the impact of a strike of the military police in the State of Espírito Santo. And adjusting the month of February 2016 to 28 days, there was a growth of 2.8% in the quarter.

This increase comes mainly from a greater traffic volume of commercial vehicles in Ecovias dos Imigrantes, Ecovia Caminho do Mar and Ecosul, influenced by an increase or rise in grain exports and in Ecopistas due to more work days when compared to the same period last year, and also greater passenger vehicle traffic in Ecovia Caminho do Mar due to good weather climate, favorable climate, and in Ecocataratas due to the increase of the flow of tourism for purchases in Paraguay and Ecoponte as a result of a great -- greater number of tourists in the Lake region with favorable climate and also carnival.

Concerning the consolidate performance of the Group on slide three in a pro forma way, net revenue reached BRL663 million in Q1 '17, a growth of 10.7%, and net revenue of the road concessions grew 10%. They had positive impact due to tariff -- a contractual tariff increases and an improvement in traffic.

Going on now to slide number four, cash cost for the quarter present -- had an increase of 3.1% when compared to Q1 '16, excluding non-recurring costs, with consultancy services for studies, for the auctions of (inaudible) roadway and with the optimization of CapEx cost, total cost totaled BRL175 million, a reduction of 1.8%, even with an inflation of 4.6% in the period, with the highlights through road concession as a result of a cost reduction program implemented, showing the discipline of our Group. In Q1 '16 on comparable basis, cash cost presented a reduction of 12.2%.

The pro forma EBITDA in the quarter was BRL443 million, a growth of 10.7% and a margin of 67% as demonstrated on slide five. Pro forma EBITDA of the road concessions was

BRL447 million, an increase of 14.8% and a margin of 74%. The improvement in traffic volume together with tariff increases and cost reductions led to the expansion of our margins in all our road concessions.

As we can see on slides number six and seven, with a highlight for Ecoponte, which had an EBITDA growth in Q1 '17 of 41%, and EBITDA margin of 64%, an increase of 10 percentage points when compared to Q1'16.

On slide eight, we present the evolution of net profit -- comparable net profit from 98 million in Q1 '17, with an increase of 42.7% in relation to the same period of the previous year. With the positive impact due to the growth in EBITDA of BRL43 million and the reduction in financial expenses totaling BRL28 million.

Concerning investments on slide nine, we maintain the commitment to invest in accordance with the contracts and the needs of the business. We'd like to highlight the initial work on ECO101 and Ecoponte, and also the extra stretch in Ecopistas, the CapEx this quarter was BRL117 million and the CapEx proportional to EcoRodovias estimated for 2017 is approximately BRL834 million.

Going down to slide number 10, we would like to highlight the debt by type of instrument. 84% debentures. Also we can see that our debt by index 90% with IPCA and CDI indexes. We'd like to stress that the average cost of the debt was 11.6% in March '17 and the company will continue to benefit from the drop in (inaudible) in interest rates. The -- the debt -- the pro forma debt indicators, net debt EBITDA was 2.7 times an improvement in relation to 2016.

Continuing on slide 11, we closed the quarter with BRL871 million in cash and our long debt profile reinforcing our financial robustness of the all the commitments we have for the next nine months of '17. We already have 758 million to be paid. All these debts with good quality of credit and BRL173 million in Ecoporto. This is the debt that will be paid by our -- with our own win [ph] sources.

Two, on the lines, we'd like to say that our strategy based on the divestments of assets, the sale of assets, cost reduction and the search for operational efficiency and the management of contractual CapEx really allows us to reduce leverage and guarantees a financial robustness. We are preparing to take advantage of opportunities of investments in new projects, merging acquisitions and contract amendments focused on road concessions, with the aim of extending the duration of our portfolio of concessions and creating value for the shareholders.

We'd like to say that we understand very well the innovations in the contracts for the concession adopted by (inaudible) the regulating agency and we made revised proposal with a good -- with the return that will guarantee value generation for our shareholders. We will continue to look to new opportunities of auctions for road concessions in the secondary market, maintaining always the capital discipline, considering our financial capacity and the return on investment of each project.

With this we would like to conclude our presentation, and now we will begin the Q&A session. Operator, we are ready for the questions from analysts and investors. Thank you.

Questions And Answers

Operator

Thank you. We'd like to begin now the Q&A session for investors and analysts. (Operator Instructions) The first question comes from Mr. Victor Mizusaki from Bradesco BBl. Sir, you may proceed.

Q - Victor Mizusaki {BIO 4087162 <GO>}

Good morning. First of all, congratulations for the results. I have two questions. First, the CapEx consultancy services. In parallel with the OpEx, we see a significant reduction. Could you talk more about the scope of these consultancy services, how much we can expect in terms of reduction in CapEx in the next quarters? Second question, the refinancing of the debt. We saw that most of the debt is already refinanced. Could you give us more details, what is the strategy, can we see a change in the index?

A - Unidentified Speaker

Victor, good morning. The consultancy for CapEx concluded now, basically ended -- which basically ended has really brought savings in many contracts were around 10%, 15%. And basically also other works and also other points that allowed us to improve in relation to the markets. At the end of the quarter, we will inform the new estimates for the company. It's also worthwhile highlighting that at the end of last year we had the part on supplies in order to use everything we learned from these consultancy services and we continue in our search for savings.

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

Good morning. Concerning the debts, the part that is equalized, has to do with roads concessions. We extended these -- the terms of these debts. And we are working to change the index, 50% CDI. And the cost of the debt is dropping. We're going back to previous levels, with a drop in the debt, drop in interest rates.

Q - Victor Mizusaki {BIO 4087162 <GO>}

In terms of the cost reduction, could you talk about the credit spreads and can we consider a 10% reduction in CapEx, is that what we can consider?

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

The spread of the debt goes to up to 209 [ph] road concessions. CapEx, most of this was given to you. The consultancy has been with us since May last year and most of the savings have already been recorded. It's possible that from now on we can imagine that also we have also relevant parts to be captured.

Operator

Our next question comes from Mrs. Renata Stuhlberger from Goldman Sachs Bank. Mrs. Renata, you may proceed.

Q - Renata Stuhlberger {BIO 18678532 <GO>}

Thank you. Congratulations for the results. My question has to do with your long-term plans concerning leverage. So we're seeing once again an increase in traffic and improvement, which is very good, or an improvement in the debt. I'd like to know the next steps, sale of assets, Ecoporto, how are you in relation to these other processes for leverage?

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

Renata, Marcelino. We'd like to highlight that the cost reduction obtained is based on efforts to have permanent savings, possibly that captured in a positive way. We still have -- we have the previous position that we estimate that there will be a drop in the next few months. And with the exchange variation that these -- we also have the next harvest coming. Last year the corn harvest, this year we have news that the corn harvest will be very good this year.

We have investments. In the next few months, we will be able to announce these investments. In Ecoporto, we have many initiatives that are having good progress. There we know that we have a decree that is being signed for new reductions. We continue with the speed of [ph] maintaining the cost, improve our efficiency and CapEx and to be more and more competitive participating in new auctions. At least there will be four -- there will be at least four auctions, two in Sao Paulo, two in the federal government. We have been studying these auctions and we're preparing ourselves for these auctions.

Q - Renata Stuhlberger {BIO 18678532 <GO>}

Okay. Just one more question, if you allow me, concerning the harvest. Eco has high exposure due to grain harvest that is being very good this year. Do you have an idea of how much the harvest should represent or rather represented in your traffic in terms of growth. And what is the estimates of growth of expenses for 2017?

A - Unidentified Speaker

Concerning the harvest, it represents a high percentage in Rio Grande and Paranagua, and as a consequence for Ecosul. In Sao Paulo, we have also a relevant contribution with industrial activity and also the activity on the coast in Santos.

The second question, could you repeat?

Q - Renata Stuhlberger {BIO 18678532 <GO>}

The question was, how much traffic are you estimating for this year? Do you have an estimate?

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A - Unidentified Speaker

What we have seen up to April, we have the numbers for the first quarter. Let's hope we can maintain a positive balance in relation to the previous year.

Q - Renata Stuhlberger {BIO 18678532 <GO>}

Okay. Thank you.

Operator

(Operator Instructions) Our next question comes from Mr. Bruno Amorim from Santander Bank.

Q - Bruno Amorim {BIO 17243832 <GO>}

Good morning. I have two questions. Could you talk about the return you had from the auctions that you bid on, also an estimate of what you see in terms of your bids for projects and your vision from now on whether we will have this competition for new assets? We saw two bids that were very aggressive and what the company decides to do? Will you accept a lower return on projects or distribute dividends to shareholders if the scenario continues.

And also financial expenses, you have two large remissions made in the past with IPCA plus 4%, 5% which is a low cost and these are long-term debts. So, your average cost is below the CDI Index and should continue this way, because they will mature only in 2020, 2024. Do you agree with this that your cost should continue below the CDI Index for some time?

A - Unidentified Speaker

So yes, your assumptions are correct. At least, the cost of debt will be below the SELIC. We're also working on Ecoponte with BNDES, the National Development Bank, with their loans. We understand that your assumptions are correct. The cost of the debt will be below the CDI Index. Concerning these events in the future, we have our proposals for the auctions and these were with reasonable return rates, good return rates for our shareholders.

Concerning the future, we have the competition and we have -- we're always participating in the auctions and we see that the market is more restricted and we see opportunities for EcoRodovias to be the winner, maintaining its capital discipline and low expenses, working in a technical way.

Operator

Thank you. (Operator Instructions) Your next question comes from Mr. Stephen Trent of Citi. Mr. Stephen you may proceed.

Q - Stephen Trent {BIO 5581382 <GO>}

Thank you very much and good morning, everybody. Just a quick follow-up question from me on new projects. I know that you discussed strictly looking now at the toll road sector as opposed to airports or other pieces of transport. But I'm wondering if you would consider toll road projects outside of Brazil, have projects in South America, for example, if you felt there was a good opportunity?

A - Unidentified Speaker

Stephen asked about the possibility of EcoRodovias in participating in other projects outside Brazil. We believe we are concentrated in Brazil. (Technical Difficulty)

Q - Stephen Trent {BIO 5581382 <GO>}

Okay. I didn't hear the whole response but I at least heard parts of the answers. Thank you.

A - Unidentified Speaker

Thank you.

Operator

Our next question comes from Mr. Ricardo Alves from Morgan Stanley. Mr. Ricardo, you may proceed.

Thank you. The growth concerning traffic, excluding ECO101 and considering the number of days in February, we see the traffic increased by 2.8%. Is this the type of growth you expect in the next few months? Could you talk about April and traffic in the short term, growth -- one digit growth, low growth in the next few months, or flat as we saw in Q1. All the tourism, very flat. So it seems that the tourist traffic is more resilient at least trends in the short-term. And the second follow-up concerning CapEx. You mentioned the gains due to efficiency as a result of consultancy services, which you hired. Concerning the BRL300 million for ECO101 and Ecofonte, could you talk more about these two projects. Do you see potential due to gains resulting from efficiency or renegotiation of the investments. And when will you finish the duplication of road 101?

A - Unidentified Speaker

Concerning traffic, our vision in the short term based on the data, initial data from May and for the next two, three months, we believe we will maintain the same traffic we had in Q1. We -- for the next month, it's more difficult to forecast. It will depend on how the country will behave after the decisions that the government will make.

So, in the second semester, if the GDP grows, do you have a positive GDP in 2018?

A - Unidentified Speaker

We may have where growth can be captured. Concerning CapEx 101, Ecofonte, these are two projects. Now, after the consultancy services, these may bring us better results. So, we have the engineering part and the execution.

Thank you.

Operator

(Operator Instructions) Since there are no more questions, we'd like to pass the floor to Mrs. Andrea Fernandes for her final comments. There is one more question. We have one more question, Lucas from Safra Bank. Lucas removed his name from the queue.

A - Andrea Fernandes {BIO 21294199 <GO>}

Okay, we'd like to thank you all and we are available to clarify any points. Thank you.

Operator

The teleconference of EcoRodovias is concluded. We thank you for your participation, and we wish you a good afternoon.

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