

Y 2016 Earnings Call

Company Participants

- Andrea Fernandes, Investor Relations
- Marcelino Seras, Chief Executive Officer
- Marcello Guidotti, Chief Financial Officer
- Unidentified Speaker

Other Participants

- Lucas Marquiori, Analyst
- Marcio Prado, Analyst
- Stephen Trent, Analyst
- Victor Mizusaki, Analyst

Presentation

Operator

Good morning -- good afternoon actually. Welcome to EcoRodovias Q4 2016 Earnings Conference Call. With us here today, we have Mr. Marcelino Seras, the company's CEO; Marcello Guidotti, CFO and Investor Relations Officer; and Ms. Andrea Fernandes, Investor Relations Manager; and the Investor Relations team.

We would like to inform that the presentation is being recorded and all participants will be in the listen-only mode during the presentation.

After that, we will begin with question-and-answer 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, where you will find the presentation for download and the webcast platform in the Investor Relations section.

Before proceeding, we would like to clarify that the 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 as well as on currently available information. 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.

I will now turn the floor over to Ms. Andrea Fernandes, who will discuss the Q4 2016 results. Ms. Andrea, you may proceed.

Andrea Fernandes {BIO 21294199 <GO>}

Good morning. Welcome to the teleconference of Group EcoRodovias. Today, we will be covering the earnings in Q4 2016. We thank you all for your interest and participation. In 2016, the vehicle -- the consolidated vehicle traffic for equivalent paying vehicles had a drop of 2.1%. And beside [ph] the impact of the exemption of tolls for trucks with suspended axles, we had a reduction of 6.2%. To compensate we -- to compensate the reduction, we focused on -- we focused on operational management and cost discipline, which resulted in a reduction of 5.3% in cash costs even with the inflation of 6.3% in the period.

The Group also had a growth of 9.4% in EBITDA -- in comparable proforma EBITDA. In Q4 of 2016, we can see on slide two, the consolidated comparable traffic of equivalent paying vehicles had a drop of 4.5%. This reduction is mainly due to lower traffic of vehicles -- passenger vehicles on Ecovias dos Imigrantes, Ecovia Caminho do Ma, Ecosul and ECO101 influenced by bad weather and non-existence of long holidays at the end of the year, which inhibited the flow of tourists going to the coasts in the states Sao Paulo, Parana, Rio Grande do Sul and Espirito Santo, and also due to the recession of the economy. Ecopistas had a reduction in traffic due -- also due to lower industrial activity and lower income of the families in the region. Ecocataratas had a growth in traffic, due to the increase in the flow of tourism for tax repurchases in Paraguay.

Ecoponte had a growth due to the number of tourists in the region of the Lakes influenced by favorable climate conditions. We'd like to stress that in Q4 '16, 85% of the traffic -- this concession is composed by passenger vehicles.

The traffic of commercial vehicles on Ecovias dos Imigrantes, Ecopistas, Ecovia Caminho do Mar, Ecocataratas, Ecosul, ECO101 experienced a reduction, especially due to the softening of the economy, also reduction in industrial production -- a drop in industrial production and the lower volume of grain exports. In relation to the performance -- consolidated performance of the Group on slide three, we had a net revenue of BRL617 million in Q4 2016, a growth of 5.4%. The revenue suffered a positive impact due to contractual increases in CapEx in the concessions, but had a negative impact due to the performance of traffic. The pro forma, net revenue -- comparable pro forma net revenue of the road concessions grew 3.5% during 2016 Q4.

During 2016, the pro forma net revenue reached BRL2.4 billion, with a growth of 3.7%, and the pro forma net revenue of the road concession -- highway concessions reached BRL2.1 billion in 2016, with a growth of 7.1%.

Now going on to slide four, cash costs in the quarter was in line with Q4 2015, even with an inflation of 6.3% in the period, with the highlights to highway concessions, due to the

cost reduction program that we implemented, we can see the cost discipline of the Group.

The cash costs in 2016 reached BRL860 million, with the reduction of 5.3% in relation to the previous year. We continued our efforts in the search for -- for operational efficiency gains. The comparable pro forma EBITDA excluding the results of the Elog in the quarter was BRL390 billion, with the growth of 7.6%, and a margin of 63% as demonstrated on slide number five.

In 2016, the comparable pro forma EBITDA totaled BRL1.5 billion, an increase of 9.4%, and the pro forma EBITDA of the highway concessions was 1.5 billion, an increase of 12.6%. In spite of the adverse market conditions, the increase in tariffs and cost reduction is resulted in an increase in the margin of all our highway concessions.

As we can see on slide number six and seven, with the highway for Ecoponte, which had a growth in its EBITDA in Q4 '16 of 28%, and EBITDA margin of 62%, an increase of 10 percentage points when compared to Q4 2015.

On slide eight, we present the evolution of net profit. The comparable net profit was BRL89 million for Q4 2016, an increase of a 157.5% in comparison to the same period of the previous year, with the positive impact due to financial -- reduction in financial expenses of BRL45 million, and the increase in EBITDA of BRL27 million.

The net -- comparable net profit in 2016 reached BRL270 million, with the growth of 116%. Concerning the investments on slide nine, we maintained the company's commitment to invest in accordance with the contracts and the needs of the business. We'd like to highlight the projects beginning on Ecopistas, ECO101 and Ecoponte. The proportion of CapEx to the participation of EcoRodovias was 577 million in 2016, and the estimate for 2017 is approximately 835 million.

On slide 10, we see the debts by type of instrument, 83% are in debentures. We can also see the debt by index. For example, IPCA Index and CDI. We can see here the net debt indicator, EBITDA -- pro forma indicator, sorry is comparable to 2.8 times at the -- the one at the end of the quarter.

I'm continuing on slide 11, we closed 2016 with BRL659 million in cash. And our debt is now with a longer profile reinforcing our robust financial situation. Of this total for 2017, we have with (inaudible) of BRL750 million in highway concessions with a good quality of credit, and we don't see any problem in refinancing. BRL169 million of Ecoporto and 100 million in the Services and holdings company. We'd like to say that we are looking at opportunities and auctions for highway concessions by the government of Sao Paulo, maintaining our capital discipline, considering our financial capacity and return of each project.

Now we'd like to conclude the presentation. Now we'd like to go on to the Q&A session.

Operator, we are ready for the Q&A session with analysts and investors. Thank you.

Questions And Answers

Operator

Thank you. We will now begin the Q&A session for investors and analysts. (Operator Instructions) The first question is from Mr. Victor Mizusaki from Bradesco BBI. Sir, you have the floor.

Q - Victor Mizusaki {BIO 4087162 <GO>}

Good morning. I have two questions, the first concerning revenue in the holding, we have the shared services and the allocation of costs in highway concessions. I'd like to understand the costs of the holding companies and the reduction in costs in the holding company, which allows you to reduce expenses in the business units. And also the second question concerning CapEx, you mentioned Ecopistas and Ecocataratas, could you tell us when you expect to solve the issue with identity [ph] and also the CapEx for Ecocataratas?

A - Marcelino Seras {BIO 16618338 <GO>}

Marcelino. Good morning. Concerning CapEx, in the case of Ecopistas, we almost made an agreement with the company in Sao Paulo that due to semantic [ph] issues, we decided, both of us, both parties to solve these issues in court. I believe that according to us, we believe it's still possible to change this, and we believe that this may happen this year, during this year, in the case of Ecocataratas, due to planning and strategy of the company.

In the case of Parana, we have our concessions and the objective is to discuss this year investments that will be necessary in our concessions, vis-a-vis we need to -- renew the contract, we made an agreement with the authorities. And during this period, we had more than nine price increases, and we had some problems on one side. On the other end, we agreed to make a relevant investment in Ecocataratas region. And we were discussing this since the year 2000, and we are prepared to discuss now other relevant Investments, vis-a-vis, the contracts provisions, and we will have more discussions.

Q - Victor Mizusaki {BIO 4087162 <GO>}

Just a question with potential of Ecocataratas and maybe a longer term, could you comment the investments that you plan to do, this will depend on the willingness of the authorities in Parana. These are highways that belong to the states and the federal government, there are agreements, it will depend on the investment that can be made during the longer period or shorter period.

A - Unidentified Speaker

It's still very early to discuss this, I believe we may have a decision this year.

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A - Marcello Guidotti {BIO 16618352 <GO>}

Marcello. Concerning the first question, impact, during the year, we have our cost reduction program, and all of these cost reductions were posted to the concessions, and thus the margin went up to 72%. In reductions, we had reorganization, we also began using new processes, and also, we used consultancy companies. So basically is this.

Q - Victor Mizusaki {BIO 4087162 <GO>}

Okay. Just a last question. Could you comment on your perspectives for the auction in Sao Paulo.

A - Unidentified Speaker

Gentleman, the company has the strategy to study all opportunities, and we don't have the habit of anticipating or making projections about decisions.

We have to respect the norms and the rules as for its shareholders and the market in general. The company will continue to keep the market informed and the decisions will be based on the interest of the company and the shareholders. This is what we have to say about decisions that maybe taken.

Q - Victor Mizusaki {BIO 4087162 <GO>}

Thank you.

Operator

Our next question comes from Ms. Renata from Goldman Sachs.

Q - Marcio Prado {BIO 15398968 <GO>}

Renata -- sorry Marcio Prado. I'd like to talk a little bit about CapEx, we look at 2016, it began with the guidance of CapEx above 900 million during the year, you decreased the guidance during the quarters. And then in the end, the CapEx close to 600 million. Now we're beginning 2017 with the guidance around 900 million. I like do understand the dynamics of the previous year and the best estimates that you have for this year? During 2016, what led to have a different guidance from those estimates?

A - Unidentified Speaker

Marcio, every year, we released the numbers, this information at the beginning of the year. And we have been following this for more than six years. You see that there is efficiency on the part of EcoRodovias in its CapEx management, especially in its management and the non-capture of efficiencies that could be captured. During 2016, we had some projects that suffered delays, as result of government problems, and that is why we made this adjustment last year.

It doesn't mean that this year, 2017, we won't have any problems, if we have, we will inform you. Apart from this, we have a strong program on CapEx efficiency, since in OpEx,

you have seen in the last few years, we have a task force working on this. We're focused on this to capture, better capture of efficiencies in our processes, in IT and also more scale.

We believe that this year, 2017, during the next quarters, we will show to you we expect to show to you the strong capture based on this CapEx efficiency program. Since the end of last year, it was implemented in the company and it is in progress.

Q - Marcio Prado {BIO 15398968 <GO>}

Now concerning the efficiency program, the reduction in CapEx during 2016,

would it be possible to quantify percentage wise? What was delayed, and an estimate of efficiency gains?

A - Unidentified Speaker

In our release, we have information about this, we will see -- as of 2017, when all the change in programs are implemented, we will see the result.

Operator

Our next question comes from Mr. Lucas Marquiori from Safra Bank.

A - Unidentified Speaker

Good morning.

Q - Lucas Marquiori {BIO 17907247 <GO>}

Good morning, Andrea, Marcello. My question has to do with your assets, and the follow up of the last meeting, you mentioned the interest in Q -- about new assets in the first semester, I'd like to know from new the (inaudible) leverage -- so and the company's strategy -- new assets in the first semester.

A - Marcelino Seras {BIO 16618338 <GO>}

Lucas, it's Marcelino. Still we have a robust cash position with efficiency and costs, and now investments, every quarter we are showing the results to you. Of course, our net debt has a descending curve, descending trend. We have a strategy to capture new business deals that can have an adequate return -- a high return. So based on this, there may be low competition during the next few years, due to circumstances that you and the press have shared constantly. Once again, we don't have any guidance, and we will never go over beyond the limit of 3.5% net debt EBITDA. We're making an effort to search for projects, and if we have a good rate of return, we can take these projects to our council.

Q - Lucas Marquiori {BIO 17907247 <GO>}

Thank you.

Operator

Our next question comes from Stephen Trent from Citibank. Mr. Stephen, you may proceed.

Q - Stephen Trent {BIO 5581382 <GO>}

Thank you very much, and I appreciate you taking my questions. A couple of my questions have already been answered. But two follow ups from me. One, I'm also curious, whether EcoRodovias see anything potentially interesting in the secondary market as opposed to toll road auctions. And as one of your competitors seems to imply there's interesting opportunities in the secondary market. And two, just very quickly, also curious, as we move forward, and I apologize if I heard you respond to this already, but your thoughts regarding longer term, what percentage of your funding could come from BNDES versus debentures, and I'm only considering existing projects?

A - Unidentified Speaker

Good morning Stephen, concerning the secondary markets, as we already mentioned on other occasions, we have studied many opportunities, but there are not many assets that could be interesting. We continue to analyze the opportunities, we continue looking, but we don't have anything in the short-term.

Now, concerning financing from BNDES, the National Development Bank, I have said many times, we're trying -- we are trying to focus, they have given support to some projects in infrastructure through debentures. We have analyzed this in ECO101, Ecopistas and Ecoponte too, we count on the support from BNDES, the National Development Bank, but we should count on the markets.

And we don't see any problems in financing our projects in the long-term.

Q - Stephen Trent {BIO 5581382 <GO>}

Very helpful. Thank you very much.

Operator

Since there are no more questions, I'd like to pass the floor to Ms. Andrea Fernandes for her final comments.

A - Andrea Fernandes {BIO 21294199 <GO>}

If you have more questions, please feel free to contact our Investor Relations Department. Thank you. We wish you all a good day.

Operator

The teleconference of EcoRodovias is concluded. We wish you good afternoon.

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