

Q3 2020 Earnings Call

Company Participants

- Andrea Fernandes, Investor Relation Director
- Marcello Guidotti, Chief Financial, Investor Relations Officer and Human Resources Management

Other Participants

- Murilo Freiburger
- Victor Mizusaki

Presentation

Operator

(Starts abruptly) They involve risks, uncertainties and assumptions, as well as on current available information. They involve (inaudible) 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 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 third quarter of 2020 results. Ms.Andrea, you may proceed.

Andrea Fernandes {BIO 21294199 <GO>}

Good morning and welcome to Grupo EcoRodovias conference call today addressing the earnings of the third quarter of 2020. We thank you all for your interest and participation. In July, EcoRodovias Concessionaires e Servicos issued debentures in the amount of BRL1 billion for a period of three years. With the conclusion of this operation, EcoRodovias Concessionaires e Servicos understands that with the resources available and the generation of resources from existing operations, the acquisition of new debt will not be necessary until the second half of 2021.

As per material fact released on July 31, indirect co-controlling shareholders, Primav Construcoes e Comercio and Igli subsidiary of ASTM/Gruppo Gavio signed the Dissociation Agreement to strengthen the financial structure and competitiveness of Ecorodovias, enabling the search for new investment opportunities in the Brazilian highway market on future privatizations, both from the federal government and from state governments.

In November, ANTT authorized the start of toll collection at the P1 and P2 toll plazas of the stretch awarded to Ecovias do Cerrado from November 14, 2020. These plazas account for around 60% of total traffic at the concessionary.

Moving on to operational performance on Slide 2, we can see the monthly traffic performance and comparable toll revenue until October 31. Note that even with the social distancing measures adopted to fight COVID-19, comparable traffic already shows a gradual recovery since May with a 3% increase in the month of September. Comparably, the month of October showed a decrease of 2.1%. Although comparable traffic posted a 9.6% reduction year-to-date, toll revenue decreased only 3.4%, due to good traffic performance resulting from the exports of agricultural commodities in the concessions with highest tariffs, demonstrating the quality and resilience of our highway portfolio even during the pandemic.

When we consider concessions, Eco135 and Eco050, we can see a 0.9% increase in traffic and 3.1% increase in toll revenue.

As regards the numbers of the third quarter on Slide 3, consolidated traffic of equivalent paying vehicles posted a 2.4% decrease. Excluding the start-up operations at Eco135 and Eco050, consolidated traffic was down 4.8%, due mainly to the social distancing measures adopted to combat COVID-19.

On Slide 4, we note a fast recovery of consolidated traffic, especially of light vehicles, which, as indicated on the chart, posted a 23.3% decrease in July, 9.9%, in August, and in September, a 1.1% increase due to the recent flexibilization of social distancing rules. Note that consolidated traffic of heavy vehicles was up 5% in the quarter.

As for the group's consolidated financial performance on Slide 5, net revenue excluding construction revenue in this quarter amounted to BRL771.2 million, and the net revenue of highway concessions posted a 0.9% decrease.

Moving on to Slide 6, adjusted cash cost in the quarter amounted to BRL203.8 million, a 2.4% increase. Pro-forma EBITDA amounted to BRL527.7 million in the third quarter with a 2.4% increase and margin of 68.4%.

Despite the social distance measuring -- measures, concessions Ecovias dos Imigrantes, Ecovia Caminho do Mar, Eco101, Eco135 and Eco050 showed an increase in EBITDA due to the growth in agricultural commodities exports and the pulp cycle in the Eco101 region. The EBITDA of the other concessions suffered the impact of traffic reduction due to the restriction measures adopted to combat COVID-19.

On Slide 7, we see the evolution of recurring net income in the third quarter of 2020 with a 53.2% increase. The income had a positive impact from the increase in pro-forma EBITDA, a decrease in depreciation and amortization, and a decrease in the provision for maintenance. On the other hand, there was a negative impact due to the financial results in the period.

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As for investments on Slide 8, CapEx in the first nine months of 2020 reached BRL938 million. Due to the social distancing measures adopted by state and municipal governments to combat COVID-19, measures have been taken to prioritize safety services to highway users, employees and service providers.

On Slide 9, we ended the quarter with a net debt of BRL6.8 billion, remaining stable vis-a-vis the previous quarter, and the net debt over pro-forma EBITDA indicator was 3.3x.

Moving on to Slide 10, we closed the quarter with a cash balance of approximately BRL2.3 billion, which together with future cash generation, makes us comfortable with the group's financial capacity.

Regarding debt maturing in the fourth quarter, in July, we issued debentures in the amount of BRL1 billion for a period of three years, which has contributed to extend the group's debt amortization schedule, reaffirming the quality of credit even during a period of high market volatility. The company remains alert to growth opportunities and is currently studying federal concessions BR-153, Tocantins, Goiás; BR-163, Mato Grosso, Para and BR-116/101 Dutra, as well as face concession RSC-287 with bidding expected for December.

Regarding the Sao Paulo state government agenda, in addition to the new privatizations, we are making progress in the discussions of new contractor amendments for Ecovias dos Imigrantes, and in the solution for the pending unbalanced contract, confident in the maintenance of contractual rights.

Before we conclude, we would like to inform you that we continue taking preventive and mitigating measures to minimize as much as possible the impacts resulting from the pandemic as regards to the safety of people and the continuity of business. Many measures set forth by the government and the private sector for the pandemic have generated relevant impact in EcoRodovias' business. To minimize these impacts, the company has been working proactively in coordination with governments and regulatory agencies, adopting important measures that are detailed in our earnings release.

This concludes our presentation. We would like now to move on to the questions-and-answers analysts session. Operator, we're ready to take questions from our analysts and investors. Thank you.

Questions And Answers

Operator

(Question And Answer)

Thank you. We will now begin the question-and-answer session for investors and analysts. (Operator Instructions) We have a question from Murilo Freiburger from Bank of America.

Q - Murilo Freiburger {BIO 17385357 <GO>}

Good morning, Guidotti, Andrea. If you could give us some more detail, it seems very good on the cost side that we're following, which has helped despite this challenging environment and it made the company's EBITDA increase compared to the third quarter of last year. If you could give us more details, the measure -- about the measures that have been taken and which ones we will remain seeing in this quarter after the pandemic?

And my second question, it's more existential question, but you talked recently about the biddings that are coming up and what you're looking at. How's the conversation about the grantor and the scenario in the pandemic? What you see for the pipeline of bids in your perception, do we still see that we're up to-date with the opportunities relatively on the short-term?

A - Marcello Guidotti {BIO 16618352 <GO>}

Good morning, Murilo. Thank you for your question. About the costs, of course that throughout the year and this quarter we had the reduction of costs that are linked to the pandemic itself, but not all of them. We had a good cost performance on Eco050 where we started to implement the EcoRodovias' model, in fact, and that generated a streamlined model and made a difference in the third quarter compared to last year. And I think that we have the initial costs that occurred last year and remain. But overall, the expenses and the provision that we had pre-pandemic are coming back. We're getting back on track. So I'd say that the numbers we see now are sustainable and the cost figures may be maintained from now on. It's not in this particular cost, it's not anymore a direct effect of the pandemic as we had in the past quarters when we implemented the temporary measures that allowed us to bring down our labor costs. But it's becoming normalized and the cost reduction can be considered sustainable for the upcoming years.

As for the pipeline, we see that we understand that after a normal delay, everything should go back on track as of 2021 with the bids that are already scheduled 153, 163, Dutra shall be moving along normally. We don't have any indication to the contrary on the federal government side. We're studying them very -- we're very dedicated to studying them and our expectation is 2021, the bids will come back and everything comes back to normal.

Q - Murilo Freiburger {BIO 17385357 <GO>}

Thank you, Guidotti. Very clear.

Operator

Next question, Victor Mizusaki, Bradesco BBI.

Q - Victor Mizusaki {BIO 4087162 <GO>}

Good morning. Two questions. First about the balancing, unbalanced contracts that you mentioned, you mentioned a positive perspective. If you can tell us a little bit of the status of these conversations with the Sao Paulo government, the discussion of the values, has

this been already overcome? And is it all a decision to sign the new amendments on the government side or can you give us more detail about that?

And the second question about investment, what can we expect for 2020, 2021? Can we consider the part of the discussion about the rebalancing of COVID, what it means? Thank you.

A - Marcello Guidotti {BIO 16618352 <GO>}

Hello, Victor. About the negotiations in Sao Paulo, they're moving on well. The objective of the negotiations is to resolve all of the liabilities that have been created. There are many and they're complex. So it's normal that the discussions take a little longer, but we have it on the table, it's open and we're daily trying to conclude this discussion in full to balance the contract and of course to move on to new investments.

The negotiations are going well. It's normal to take this long. It's not a simple negotiation. Even though it's one single concession, there's a list of pending points. But we are confident that we just need to be a little patient. About the CapEx and the imbalanced points, the coming imbalancing that will be negotiated because of the breakdown of traffic. We're working on it. CapEx was delayed. But it was mostly due to the impossibility of continuing with them, because of the restrictions on mobility and circulation of people. But everything's coming back to normal and we expect that 2021 and 2022, it will be the contractual CapEx with a recovery of any possible delays that we may have had this year.

Q - Victor Mizusaki {BIO 4087162 <GO>}

Thank you.

Operator

(Operator Instructions) If there are no further questions, I would turn on to Andrea Fernandes for her final comments.

A - Andrea Fernandes {BIO 21294199 <GO>}

I would like to thank you all for your participation in this conference call. My team and I are available for any questions or doubts. Thank you and have a great day.

Operator

EcoRodovias conference call is now closed. Thank you very much for your participation. We wish you a very good day.

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