

Q2 2021 Earnings Call

Company Participants

- Flavia Godoy, Investor Relations Superintendent
- Waldo Edwin Perez Leskovar, Chief Financial Officer

Other Participants

- Analyst
- Guilherme Mendez, Analyst
- Murilo Freiburger, Analyst
- Regis Cardoso, Analyst
- Stephen Trent, Analyst
- Victor Mizusaki, Analyst

Presentation

Operator

Good afternoon, ladies and gentlemen, and thank you for standing by. Welcome to the Conference Call of CCR SA to discuss the Results relating to the Second Quarter of 2021. We inform that all participants will be connected in listen-only mode during the Company's presentation. Later, we will begin the Q&A session, when further instructions will be given. (Operator Instructions)

Before proceeding, we would like to clarify that any forward-looking statements that may be made during this conference call relating to the Company's business outlook, financial and operational projections and targets are based on beliefs and assumptions on the part of CCR's management and on information currently available to the Company. Forward-looking statements are not guarantees of performance as they involve risks, uncertainties, and assumptions and have to do with future events, which depend on circumstances that may or may not materialize. Investors should understand that general economic conditions, industry conditions, and other operating factors may affect the future results of the Company, thus conducting to results which differ materially from those expressed in such forward-looking statements.

I would now like to turn the floor over to Mr. Waldo Perez, CFO and IR Officer.

Waldo Edwin Perez Leskovar {BIO 21427688 <GO>}

Good afternoon to all. I would like to inform you that today with me are Flavia Godoy our IR Superintendent, Douglas Ribeiro, and Caique Moraes from our IR team.

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I would like to start by sharing the very important achievements of the second quarter of 2021. These have added significant value and place the Company on a very privileged position so that we can continue to implement our growth strategy, be it by adding new businesses, or by leveraging opportunities in the current portfolio.

In April, CCR won the Central and South groups airports with 15 airports in total. This further strengthens our national position and places us very well to tap new opportunities. With now 16 airports under our management, we are the largest airport operator in the country and we handle nearly 23 million passengers in 2019. We are the second in number of passengers. This victory was essential for us as it justifies our strategy to create a sustainable and robust platform in airport so that we can tap scale gains and efficiency and operate a network of airports. It also allows us to be more competitive to grow in the segment.

In April, the auction for Lines 8 -Diamond and 9-Emerald of CPTM took place. We were awarded the concession contract and signed it on June 30. Our concessionaires four Lines 4 and 5 gave us a competitive advantage, which was unique because they allow us to create synergy and creation of value, which is not allowed to -- which was not allowed for other operators competing in the sector. There are also different points of integration between Lines 4, 5, 8, and 9, which will allow us to operate in a more reliable manner. We are eager to start the operation of these new lines in the first quarter of 2022.

And finally, it is with great pleasure I say that we ended the quarter by signing an agreement between CCR and the Government of Sao Paulo. Under the agreement, we will establish measures to ARTESP and the granting power to drop lawsuits and it allows the recognition by the parties in an irrevocable manner of the events having to do with the rebalancing of the contract in favor of the concessionaires and the granting power. It reestablishes the rebalancing of the contract with AutoBAn and extends the contract to January 2037. This term will allow ARTESP to validate the calculations and thus to validate the final agreement. Additionally, in addition to the expressive value generated for the Company, this negotiation has put an end to a dispute that had been going on for over seven years and it has also allowed us to increase the duration of the Company in terms of EBITDA and has rebalanced former claims.

This agreement ratifies the long-term partnership between the Company and the State of Sao Paulo, and its commitment towards the development of infrastructure in the state. This allows us to have legal certainty and will allow us to tap future opportunities of investment for the future.

All of these achievements have made us very happy. These achievements are based on the soundness of the regulatory framework, on capital discipline, on our fundamentals, and on value generation. We are well-positioned to tap new opportunities of growth that will come in the future.

I would like to highlight the long pipeline we have ahead of us and we will have opportunities for the different segments where we operate. In highways, there are

auctions or new auctions of assets for 30,000 kilometers at the federal and state level. These projects represent BRL140 billion in investments for Brazil according to the BNDS.

There are different projects that may take place this year. I highlight the (inaudible) which action is going to happen in September, BR381 and other projects, such as the package of highways in Parana and the ring road in (inaudible).

For airports, we expect the seventh round next year and in the segment of urban mobility, we are awaiting for the auctions for (inaudible) and Campinas including lines 7 and lines 11,12 and 13. We are also looking at opportunities for auctions in the underground and in Brasilia. All of these opportunities speak to our positive vision and the positive outlook for CCR.

In 2021, we will still see the impact of the pandemic. However, in the second quarter, there was an improvement in the performance of our concessions, especially in the highways. There were social measures which were less intense and less strict as regards to the same period last year.

Also, in May 2021, we started charging tolls in the tolls plazas of ViaCosteira. In a communique released to the market between January 1 and July 29, 2021, we presented a growth of 5.8% in traffic in our highways as compared with the same period last in 2019. That is relative to the pre-pandemic period. If we exclude ViaSul and Costeira, there was a drop by 1.1%.

However, our financial position is sound and there is plenty of room to tap new opportunities, which is at the core of our strategy. We closed the quarter with a very robust cash position and our leverage, measured as net debt over EBITDA of 2.3 times, which is below 2.7 times, which we saw in the second quarter of 2020 and below 2.4 times, which we saw in Q1 2021. This level is very appropriate to allow us to maintain a sustainable growth within the Company.

Our indebtedness is very healthy even with the addition of new projects. According to our financial policy, we have plenty of room to surpass our leverage rate of 3.5 as long as we can bring it back to the usual leverage within 24 months.

I would like to also to highlight that CCR can tap credit in the banking system or can use national and international capital. We will continue to act in a diligent way focus on capital discipline and to promote the sustainable improvement of the Company's portfolio so as to generate value to our shareholders and stakeholders.

Before we speak about the results of this quarter, I would like to highlight that you can find in our IR site a panel with indicators, which include the environment, social responsibility, and governance. For over 10 years CCR is one of the highlights of B3 which attests to our active position in terms of promoting sustainability. As a result of our many actions in 2021, the rating has been elevated from BB to A by MSCI. ESG is one of our fundamental pillars and is included in our sustainable growth strategy. We will always strive to improve however.

And finally, I would like to invite you all to our 15th CCR Day, which will take place on August 31, at 9 o'clock. It will be 100% virtual and in the next few days, we will make the agenda available from our IR site.

I now turn the floor over to Flavia Godoy, who is going to walk you through the results of the second quarter.

Flavia Godoy

Thank you very much. Waldo. Good afternoon to all. I want to highlight the main figures, IFRS, for Q2 2021. For all the numbers on the same basis, we have excluded new projects and non-recurring effects as detailed in the release.

We start with the highlights for the quarter and I would like to talk about the traffic of vehicles, which grew by 33.7% relative to Q2 2020. This performance was the result of the growth by 46% in light vehicles relative to the same period last year, and 18% growth in the traffic of heavy vehicles.

At the end of our release, you can see a graph where you can see that despite the impact of the pandemic, we are on recovery relative to the beginning of the pandemic and this is in highways business or in the Company's other businesses.

The net revenue was BRL2.3 billion in Q2 2021, a 31.7% increase relative to the same period last year. Adjusted EBITDA increased by 65.4% and reached BRL1.4 billion. The EBITDA margin was 63.7%, a 12.4 percentage point increase relative to Q2 of 2020. Although this was a quarter that was impacted by the effects of the pandemic, we had very robust results, which attests to our efforts towards controlling costs and maintaining operational efficiency.

As you know, our costs are mostly fixed and all of these happened during the pandemic, which impacted lots of our business units. In terms of costs, we see that total costs increased by 24.7% in the second quarter of 2021 relative to the second quarter of 2020 and reached BRL2.2 billion. This increase had to do with the recognition of the disbursement relating to the preliminary agreement with the Government of the State of Sao Paulo. This is a non-recurring effect, which we have excluded from the same basis comparison.

Cash costs same-basis were reduced by 0.6%. This considers the Brazilian companies and if we consider the Brazilian companies the increase was 0.2%. Therefore below inflation. These again attests through our efforts and discipline in terms of cost containment. For more details, please refer to the cost section of our release.

Net income same-basis was BRL294 million relative to a loss of BRL142 million in comparison with the same period last year. Relative to net indebtedness, we reached BRL14.3 billion in Q2 2021, a 5.1% increase and a reduction by 0.8% as compared with Q1 2021 and Q2 2020, respectively.

In terms of leverage, measured as net debt over adjusted EBITDA, there was a slight decrease in comparison with the first quarter of 2021, and this was 2.3 times in Q2 2021. As said by Waldo, this reflects our comfortable position to continue with our growth strategy whilst maintaining financial discipline.

And I would like to end by saying that despite the impact of the pandemic in this period, which directly affected our business, the Company has been able to deliver sound operating results as can be seen when you analyze our release.

We will now like to open to the Q&A session.

Questions And Answers

Q - Analyst

Ladies and gentlemen, we will now begin the Q&A session. (Operator Instructions) Our first question comes from Regis Cardoso from Credit Suisse.

Q - Regis Cardoso {BIO 20098524 <GO>}

Good afternoon. Good afternoon Waldo, Flavia. My first question is more of a provocation. The price of shares at the current level that is below BRL12, with this kind of prices, wouldn't it make sense to think that the potential results relative to the price of the shares are very high even if we compare it with the new projects and concessions. Would it make sense to have a repurchase program to allocate some of the cash that you have in your balance sheet to repurchase some shares as opposed to entering into new concession contracts?

And the second question is, what type of change in government is necessary -- change in governance rather is necessary in terms of the controlling block and to account for the entry of IG4? And also, how do you see the pickup in demand going? How are we going to go back to normal?

The highways are operating close to normal levels, but urban mobility and airports are lagging behind. So is there anything you can tell us in terms of expectations of when we are going back to the levels of 2019? Is it going to be in 2023 or what can you tell us about it?

A - Waldo Edwin Perez Leskovar {BIO 21427688 <GO>}

Hello. Regis. Thank you for your questions. We are going to address them now. And the first one has to do with the price of our shares and your provocation about a repurchase program if I'm not mistaken and if I understood correctly. I think you're right in saying that the price of CCR today does not reflect in our opinion the intrinsic value of CCR as a whole. I think CCR has been very successful in new projects and with the agreement with the Sao Paulo State, all of these gives us a net present value, which is substantial and this is not captured in the price of the shares. You can look at the reports of analysts and the perception is that the price should be above the current levels.

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If this creates an opportunity, we are always aware of the opportunities about how best to use our capital. Our balance sheet is extremely robust. The leverage is very appropriate, it's 2.3 times in terms of net debt over adjusted EBITDA, and this makes us think about various alternatives to use this cash, but today, the pipeline of opportunities in the market is huge. There are very good opportunities which will demand -- if we achieve what we are expecting, these new opportunities will demand a substantial capital. So for the time being, we are focusing on growth. And that's how we want to use our cash. The return of the projects will be very good, but yes the repurchase scheme is under our radar.

And as regards, your second question, the Company is not part of the negotiation of IG4 and Andrade G. We know that there are other things involved. We are not part of the negotiation, so I cannot make any comments about that.

And the third question has to do with the recovery of demand. You saw that in Q2 there was a strong recovery in the highways business. There was an improvement in urban mobility and airports as well, but we expect greater recovery to come in the airport sector and in urban mobility. As regards the highways, there is ample room for improvement there. We have been helped by the commercial vehicles, that traffic has helped us. So as the vaccination program improves and accelerates, and this has been happening and as people are completely vaccinated, that's when normality will come back. We should see a strong recovery in the traffic of light vehicles and we expect them to be above the levels of 2019.

And also, we are going back to normality in urban mobility and airports. And in terms of airports, as you know, our portfolio is a domestic -- includes mostly domestic flights, and we believe that the recovery will be accelerated because we do not depend on international travel. For those portfolios where the international component matters, you depend a lot on other countries, that's not our case.

Q - Regis Cardoso {BIO 20098524 <GO>}

That was very clear, Waldo. Thank you very much.

Operator

Our next question comes from Victor Mizusaki from Bradesco BBI.

Q - Victor Mizusaki {BIO 4087162 <GO>}

Good afternoon. I have two questions. Waldo, you talked about looking for alternatives for growth and the robust pipeline of auctions in Q2 including the Pampulha Airport. Can you talk a little bit about your priorities given the schedule for Q3 and Q4? And then if you can tell us a little bit about the processes to rebalance after COVID? There were some events having to do with MSVia, so can you talk a little bit about that as well, please?

A - Waldo Edwin Perez Leskovar {BIO 21427688 <GO>}

Thank you for your question. As regards our priorities, what we have now for the short term are basically the highway auctions. We are analyzing (inaudible) Dutra which is a

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major project, that we also know very well, and BR381. So these are the three projects that are the most relevant for us. And we are now deciding where we should place our efforts and we are also trying to define our strategy for each of these concessions. Pampulha is a smaller asset. Yes, it is under our radar, but our objective today is the seventh round of airports. And I think our portfolio places us very well to tap this opportunity of the seventh round. So all of these opportunities are under our radar. We have our strategy and the most relevant in terms of generating value and returns, are the ones we are going to focus on.

As regards COVID, we have been discussing at ANTT and ARTESP. We had a preliminary discussion last year regarding airports and ANTT and ARTESP, we have placed proposals for rebalancing. These proposals are being analyzed and these two agencies should come back to us very soon. We have been discussing this with them. As regards the airports, we have been discussing an additional rebalancing. It's not actually rebalancing. The BNDS has given us an extension of standstill, which has helped the cash flow of BH and the airport portfolio as a whole. In Ecuador and Costa Rica as well, we have been holding conversations about rebalancing. And we believe we will be able to have a result in the next few months. The issue is for all these cases that the pandemic has not ended yet. So for us to have a number, an agreement that will define what the rebalancing will be and what it look like in terms of values, we need the pandemic to end. So this is something to bear in mind.

And lastly, as in CVS, there is nothing too relevant. We have been working with the granting power for the reauctioning of this asset, which should take place in two years maximum. So we are working towards that and we believe this will come very shortly.

Q - Victor Mizusaki {BIO 4087162 <GO>}

Thank you very much.

Operator

Our next question is from Murilo Freiburger, Bank of America.

Q - Murilo Freiburger {BIO 17385357 <GO>}

Good afternoon. Thank you, Waldo, for your clarifications. We think that you've been doing a wonderful job in terms of costs and when we compare the performance of the revenue and costs, we see margin that kind of surprised us. But in terms of the pandemic, what about these gains in terms of costs and profitability, are they permanent costs, are they going to stay?

And then, as regards the amendments for Sao Paulo, there were some details pending, an extension, some small details that had to be sorted out. What is the negotiation like and what is the timing for us to have the final details of these agreements with Sao Paulo?

A - Waldo Edwin Perez Leskovar {BIO 21427688 <GO>}

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The first one, if I understood correctly, has to do with the costs, and if I remember rightly in some previous calls, we were asked about the costs and we explained that we have been working very hard during the pandemic to contain costs, to improve operational efficiency as a whole. And what you see is the result of the good work that has been done. It started in Q2 last year and we have implemented a series of controls, of improvements in our budgets and controls so that when the recovery happened what you see could take place. So for us this is here to stay. We are not 100% happy with the cost containment. We are now working on the budget, and in this budget process, we are looking to further increase operational efficiency that will allow us to contain all the costs and increase the margins. This is extremely important for us and we will continue to focus on that.

As regards the amendments, there are two aspects. The first one has to do with AutoBAn and what was agreed and is now documented in great detail in the attachment of the agreement. We have the method for calculation that defines the values for the extension of AutoBAn. ARTESP needs to run this calculation and validate the term of the extension. And we believe this is going to be confirmed. And then, relative to ViaOeste, there are some works which are part of the agreement. These projects are being analyzed by ARTESP, and after their analyses these works would be executed. We believe that this should happen within the current year.

Q - Murilo Freiburger {BIO 17385357 <GO>}

Thank you. Waldo. Thank you very much.

Operator

Our next question will be in English from Mr. Stephen Trent from Citi.

Q - Stephen Trent {BIO 5581382 <GO>}

Good afternoon. Waldo and Flavia and thanks for taking my questions. Just a quick one from me. What sort of competition are you seeing in the airport and urban mobility segments? And do you think that higher interest rates maybe deter some competition from entering these events? Thank you.

A - Waldo Edwin Perez Leskovar {BIO 21427688 <GO>}

Thank you, Steve, for your questions. As regards competition in the airport sector, in the sixth round the competition was very limited and some players were not the winners of previous auctions. With the recovery and the pickup in economic activity worldwide after the pandemic, some of these players who were very aggressive in the past may be in a more comfortable position and they may decide to participate in the seventh round. We also think that financial investors may want to participate in infrastructure and take part in the process. So there might be many more competitors or different types of competitors. Funds usually have return rate requirements, which are quite high. So we feel quite comfortable with that.

And the synergy of having a portfolio and of being able to operate a whole network of assets and tap those synergies, and create new routes, and optimize those routes, I think

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this will place us in a very competitive position and this will be very good for our participation in the seventh round. As regards, urban mobility, the competition has been consistently limited. It exists, but in each of these processes, as we have been able to grow and have gains, we have achieved greater operational synergies, something that others in Brazil haven't been able to achieve and we do believe that this will continue to be an advantage for us and allow us to win new projects. So we are very excited. We believe our position is very sound and healthy in these segments, and these segments will be very good once life goes back to normal.

Q - Stephen Trent {BIO 5581382 <GO>}

Okay. Great. Thank you very much.

Operator

(Operator Instructions) Next question comes from Guilherme Mendez from JP Morgan.

Q - Analyst

Hello, Waldo, Flavia. I have two follow-up questions. The first one has to do with competition. You talked about competition in airports. Can we talk about competition in highways? There will be a concentration amongst the large players, which are more capitalized, but do you think other players could come to Brazil and be more aggressive? And then Renovias is out of the agreement, so what is going to happen there?

A - Waldo Edwin Perez Leskovar {BIO 21427688 <GO>}

Hello, Guilherme. Thank you for your questions. In highways, you were very right when you said that competition depends a lot on the profile of the highway and the level of complexity in operating the highway. So those highway concessions that are smaller, that have a smaller impact on the portfolio of CCR, and which are not very relevant, these assets sometimes are faced with greater competition because of the sheer size and smaller capital needs. In RS287, there was a lot of competition. When we look at the assets that really matter to companies like CCR, when we believe that there is a relevant value, then yes the competition will be very limited. So assets like Dutra concessions like BR-381 one the portfolio Parana, these are assets that are very complex in terms of engineering, of investment, of structuring, and we believe there will be less competition, and we, therefore, have a greater chance of being successful.

As regards the amendments, Renovias was negotiated separately. There is another controlling shareholder of that asset and the conversations are very advanced and there should be a final result very soon.

Q - Guilherme Mendez

Thank you very much.

Operator

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We are now closing the Q&A session. I would like to turn the floor over to the Company for their final remarks.

A - Waldo Edwin Perez Leskovar {BIO 21427688 <GO>}

I would like to close this conference call by saying how enthusiastic we are relative to the achievements of this quarter and by expressing my optimism relative to the outlook in the future given the pipeline. We are sure that we will have many good pieces of news in the next few quarters. Thank you very much for your interest and for participating.

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