

Q3 2015 Earnings Call

Company Participants

- Daniel Kuratomi, Investor Relations
- Flavia Godoy, Investor Relations

Other Participants

- Stephen Trent, Analyst
- Victor Mizusaki, Analyst

Presentation

Operator

Good morning, ladies and gentlemen, and thank you for waiting. We would like to welcome everyone to the Third Quarter 2015 Earnings Conference Call of CCR SA. We would like to inform you that all participants will be in a 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. (Operator Instructions) Before proceeding, let me mention that forward-looking statements about CCR's business prospects and financial and operating goals are based on the belief and assumptions of CCR's management and on information currently available to the company.

Forward-looking statements are not guarantee of performance. They involve risks, uncertainties and assumptions, because they are related to future events. 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 would turn the conference over to Mr. Daniel Kuratomi, CCR IR Analyst. Please, Mr. Kuratomi, you may begin the conference.

Daniel Kuratomi

Thank you, operator. Good morning, everyone, and thank you for attending our earnings conference call for the third quarter of '15. With us here today are Arthur Piotto, our Chief Financial and Investor Relations Officer; Marcus Macedo, Flavia Godoy and Leandro Mathias, Members of the IR team. The earnings release is available on the company's website at www.ccr.com.br/ir.

Before commenting on the highlights, let's take a quick look at some of the macroeconomic indicators we consider important for the performance of our business. We would like to draw your attention to the fact that the unemployment rate stood at 7.6% in August '15, 260 [ph] bps higher than in August '14, and 10 bps up from July '15. The real average normal income of quarter was BRL2,185 in August '15, 3.6% lower than in the same months last year.

IBGE's data on industrial production show an accumulated decline by 6.9% in the first eight months of '15 and by 9% in August '15, compared to the same months of previous year. According to the latest credit details released by Central Bank, in August '15, credit ranking in the financial system grew by 9.6% in the last 12 months. Free and earned market credit increased by 5% and 15% [ph] in the same period, while consumer credit grew 0.8% in the month.

Credit to finance vehicles fell 11% between January and August '15, and by 11% in the same period in '14. 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 fell 25% year-on-year in third quarter '15 and reduced by 31% in September '15, while vehicle production declined by 25% and 42% in the same period according to recent data from ANFAVEA, the Brazilian Auto Manufacturers Association.

On to our operational number for the quarter, we will highlight traffic. With the end of Ponte concession agreement in May and the beginning of MSVia's collection in September '15, traffic was adjusted for comparison purposes. That is excluding these assets in the third quarter '15 and '14 and thus leading to a 1.9% reduction in the company's consolidated results.

On the same comparison basis, commercial vehicle traffic declined by 4.3%, while light vehicle traffic moved up by 1.4%. In our press release, you'll find more information on traffic trends for each concessionaires. We now show the key pro forma numbers for third quarter '15, that is considering all businesses reach, we do not control or hold shared control consolidated according to CCR's share in each line. We also adjusted the comparison basis that is excluding some calculations those businesses that were not in the company's portfolio in the third quarter '14 or '15 as a whole, as is the case of Ponte and MSVia and businesses which are still implementing and are not generating revenues.

In accordance with this criteria same basis cash cost increased by 6.3% over third quarter '14. Same basis adjusted EBITDA totaled BRL1.2 billion, 9% up from third quarter '14 with a margin of 67.8%, up by 50 bps. Net income totaled BRL\$247 million in third quarter '15, 29% down from third quarter '14. This result was mainly impacted by the new businesses that had not yet reached the maturity or are still pre-operational and therefore do not generate revenue.

On the same basis, net income stood at BRL252 million, down by only 0.7%. Despite the reduction in traffic volumes and higher interest rate, which impacted the company's financial results, CCR showed resilience in its cost control as previously mentioned. Regarding our debt leverage measured by the net debt to EBITDA ratio, it stood at 2.7

times in third quarter '15. We believe that this level is comfortable for the company to meet its investment commitments assumed in the recently acquired businesses.

Lastly, we would like to mention that on October 2, CCR's Board of Directors approved the distribution of interim dividends of approximately BRL0.49 per share, to be paid as of October 30.

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

Questions And Answers

Operator

Ladies and gentlemen, we'll now begin with the question-and-answer session. (Operator Instructions) Our first question comes from Victor Mizusaki, Bradesco BBI.

Q - Victor Mizusaki {BIO 4087162 <GO>}

Good morning. The question is a follow-up from the Portuguese call, you have around BRL6.7 billion of short-term debt, which should basically considered 32%, 35% of original loans in BNDES. My question is, if you can give us and call around BRL1 billion, so I could start should disburse the long-term financing and what we expect cost of these debt? And the second one, which considering you have a strategy your conference call and the earnings and calculations here and apparently, you're basically -- the average cost of debt by long-term percentage points, so that's probably your likely savings -- I mean, the strategy that will increase your earnings by almost BRL100 million per year, is this calculation correct?

A - Flavia Godoy

Hi, Victor, this is Flavia. Thank you for the question. Well, regarding your first question, just to try to address your points. As you mentioned 35% of our debt and our short-term debt belong to the bridge loan. It's worth noting that this has five process that are in implementation, so we have some bridge loans and we are working in order to get the long-term financing. It's important to mention that most of the bridge loans, the company is negotiating with BNDES. So we do expect to have the long-term of BNDES for some of the process, there is a DLC in November, falling the calendar (inaudible) we do expect to have the bridge loan structured going to the end of the year and any (inaudible) in the beginning of the next year.

So I would say in the next four to five months, we are going to see those long-term financing replacing our short-term debt, related to the 35% of the short-term debt. Well, the second question was related to the cost of debt. As you mentioned, and we discussed that in our Portuguese call, we had I mean 100% of the debt that is denominated in dollar and we also had the debt that is -- the industry is going to actually stay in this price. So, regarding that, we have done a reduction around 8% of the current debt, 8% of CDI. So I would say that a year calculation earning is right.

Q - Victor Mizusaki {BIO 4087162 <GO>}

Great. Thank you.

A - Flavia Godoy

Thank you.

Operator

Our next question comes from Stephen Trent from Citi.

Q - Stephen Trent {BIO 5581382 <GO>}

Hi, good morning, everybody, and thanks for taking my questions. The first question is actually just a follow-up on Victor's question. Just curious, I appreciate your color around the bridge loan and what have you. Have you considered alternative financing sources, let's say, in the unlikely event that there is some delay in fund you get from BNDES, let's say, and we need to roll over some of the short-term debt or is the (inaudible) something like this is happening there so given by very high priority stuff, you guys are working on?

A - Flavia Godoy

Hi, Stephen. This is Flavia. Thank you for the question. Actually, we do not see the scenario. I mean, our perception is that the company is going to replace those debt, I mean the bridge loans that we are going to expand on short-term for long-term financing. So arguably, it's on the negotiation, but we already have the bridge loan from the end of that, it's just a matter to negotiate the long-term financing and to replace them. So with regarding to the other debt, there are not in BNDES, we have some other stuffs of financing.

So we know that the current scenario is more difficult in terms of the debt in Brazil. Currently, we do not have a long-term financing, so our -- the debt that we are analyzing from the market -- the term money is around two to three years. So we don't see this kind of a risk in any and we don't see any risk finance with it. The discussion is related to the cost of the debt and also the term. So in terms of BNDES, your question, we don't see -- we don't have this perception here. We are going to have the long-term finance, I would say in the next five or six months.

Q - Stephen Trent {BIO 5581382 <GO>}

Okay, very helpful, Flavia and thank you for that follow up. Appreciate that. And just one other question. I know at this point it's really hard to say when we're going to get a resumption of Federal options with so many moving parts politically otherwise. As we think about maybe in the long-term opportunity and in what we've seen so far kind of a loose plan to losing a few months ago to auction for your questions this year and what is the next. Are you seeing potentially one or two assets that potentially look interesting for CCR?

A - Flavia Godoy

Hi, Stephen. This is Flavia again. So as the Federal government announced the it's bridge plan in June, so they released the (inaudible) I would say around 16 highways and four airports. Actually we do expect those opportunity, but I would say more for the next year 2016. Actually for 2015, they are now for the Federal Highway BR-476, but recently I read a news that the Federal government intends to postpone this tender process for the beginning of the next year.

As far the strong opportunity from the primary market CCR has been analyzing some opportunity from the secular market. So we will expect to have I mean, an exciting year in 2016 in terms of opportunity in Brazil, not only related to the primary market, but also secondary market. So CCR has been analyzing some projects. I mean, it's quite difficult to give you a timing for that in secondary transactions, but CCR has been pursuing some opportunity. Federal opportunities, as I mentioned, this far we do expect most of them just in 2016.

Q - Stephen Trent {BIO 5581382 <GO>}

Okay. Thank you again, Flavia. That's very helpful. I appreciate the time.

Operator

(Operator Instructions) Our next question comes from Victor Mizusaki, Bradesco BBI.

Q - Victor Mizusaki {BIO 4087162 <GO>}

Thank you. Just a question on NASD. The company is moving on the first (inaudible) couple of days ago. So I would like to know if the management took any decision about distribution for these line and when do you expect to see a change in the consideration of (inaudible)?

A - Flavia Godoy

Hi, Victor. This is Flavia. Thank you for the question. Well, actually recently the company announced the transaction actually. We -- our Board approved the CCR to exercise the call option. But it is still under analysis. I would say that in the one month we are going to have some news on that. So I'll say that this is -- the timing that we have to decide that CCR is going to exercise the call or not. So some -- in some way, we are going to have some news on that.

Q - Victor Mizusaki {BIO 4087162 <GO>}

Okay. Thank you.

A - Flavia Godoy

Thank you.

Operator

(Operator Instructions) This concludes today's question-and-answer session. I would like to invite Mr. Kuratomi for his final considerations.

A - Daniel Kuratomi

Once again, I join all the executives of CCR in thanking you for your time and interest in the company. Please do not hesitate to contact us, if you have any further questions. Our contact information is available on our press release and our website www.ccr.com.br/ir.

Operator

That concludes the CCR Audio Conference for today. Thank you very much for your participation and have a good day.

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