

Q2 2017 Earnings Call

Company Participants

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

Other Participants

- Bruno Amorim, Analyst
- Lucas Barbosa, Analyst
- Victor Mizusaki, Analyst

Presentation

Operator

Good morning and welcome to EcoRodovias Second Quarter of 2017 Earnings Conference Call. With us here today are Marcelino Seras, the Company's CEO; Mr. Marcello Guidotti, CFO and IRO; Andrea Fernandes, IR Manager; and the IR team.

This presentation is being recorded and all participants will be in listen-only mode during the presentation. After that, we will begin the question-and-answer session for analysts and investors only. And further instructions will be provided then.

(Operator Instructions). The audio and the slides of this conference call are being broadcast simultaneously on the Internet at www.ecorodovias.com.br/ir. There you will find the presentation for download from the webcast platform in the Investor Relation section.

Before proceeding, we would like to clarify that the forward-looking statements that may be made during this 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 second quarter of 2017 results. Ms. Andrea, please you may proceed.

Andrea Fernandes {BIO 21294199 <GO>}

Good morning, welcome to Grupo EcoRodovias conference call. Today regarding the results of the second quarter of 2017. We thank you all for your interest and participation.

With the objective of extending the duration of our highway concession portfolio and to add value for our shareholders, the company remains dedicated to studying new opportunities in the highway sector in state and federal bids.

The result of our operational management and cost discipline, continue to provide leverage reduction making room for growth in our balance sheet.

In this quarter, we recorded a 2% reduction in cash cost, below the inflation of 3% in the period. The combination of traffic improvement, tariff adjustment and cost reductions led to 16.4% increase in the comparable performance EBITDA.

As you can see on slide 2, the consolidated traffic of equivalent paying vehicles in the second quarter of 2017 had a 2.9% increase and the average tariff increased 8.8%, due to the tariff adjustments and triggers registered in the last 12 months.

The traffic increase is mostly a result of greater traffic of commercial vehicle in the Ecovias dos Imigrantes and Ecovia Caminho do Mar concessions, influenced by the increase in grain exports and there [ph] Ecopistas due to the recovery of industrial production in the region.

As well as higher traffic of passenger vehicles in Ecocataratas due to an increase in the flow of shopping tourism to Paraguay and Ecosul, Ecoponte and Ecovia Caminho Mar due to favorable weather and long weekend.

As for the Group's consolidated performance on slide three, the proforma net revenue amounted to BRL626 million in the second quarter of 2017, a 10.1% increase and the net revenue of highway concessions increased 12%, showing the positive impact of the contractual adjustments to toll tariff and to traffic improvement.

Moving on to slide four, cash cost in the quarter presented a 2% decrease, when compared to the same quarter of 2016. Excluding non-recurring costs with consulting services to study highway bids in Sao Paulo and consulting for the optimization of OpEx and CapEx, cash costs amounted to BRL177 million, a 4.7% reduction, even with an inflation rate of 3% in the period.

The special highlight is Ecoponte due of the cost reduction program in place to face [ph] the job of handling volumes at the terminal. It should be noted, that in the second quarter of 2016, cash cost posted a reduction of 7.8%, the comparable proforma EBITDA in the quarter amounted to BRL412 million, a 16.4% increase and margin of 66% as shown on slide number five.

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The proforma EBITDA of highway concessions amounted to BRL415 million, a 16.5% increase and margin of 73%. The improvement in traffic, combined with the tariff adjustment and cost discipline, led to a margin increase in all our highway concessions, as you can see on slide six and seven, highlighting Ecoponte with an EBITDA increase in the second quarter of 2017 of 26%.

And EBITDA margin of 62%, that's a 6.2 percentage points increase, compared to the second quarter of 2016.

On slide eight, we present the evolution of the comparable net income of BRL80 million in the second quarter of 2017, a 77% increase vis-a-vis the same period of the previous year, positively impacted by the BRL68 million increase in comparable EBITDA and the reduction of financial expense of 25 million.

As for the investments on slide nine, we maintain the Company's commitment to investing according to the contracts and the business needs. Highlighting the construction works at ECO101 and Ecoponto and the extension of Ecopistas.

CapEx in this quarter amounted to BRL194 million and the proportion of Ecorodovias share estimated for 2017 is of approximately BRL791 million. We highlight that BNDES approved a long-term financing to Ecoponte in the total amount of BRL417 million at a cost of long-term interest rates TJLP plus 3.48% and a term of 15 years.

Moving on to slide ten, the debt per type is comprised of debentures with 88% and by index, 49% in IPCA and 41% in CDI. It should be noted that the average cost of debt is 10.1% in June, 2017 and the company will continue to benefit from the drop on inflation and on the SELIC rate and the increased share of TJLP as a debt index.

The net debt over comparable proforma EBITDA indicator was of 2.6 times at the end of this quarter. Now on slide 11, we closed the quarter with BRL677 million cash and a longer debt profile boosting our financial robustness.

Of the total of commitments for the second half of 2017, the maturities of BRL143 million on highway concessions and BRL127 million at the holdings are already equated.

Finally, we strive that our strategy continues to prioritize this investment of non-strategic assets with the creation of value and reduction of our capital costs. We are prepared to seize opportunities to invest on new projects, mergers and acquisitions and contractual amendments, focused on highway concessions.

Always maintaining capital discipline, considering our financial capacity and the return of each project. This concludes our presentation and we would like to now move on to the questions-and-answers session. Operator, we are ready to take questions from our analysts and investors. Thank you.

Questions And Answers

Operator

Thank you. We will now begin the questions-and-answers session for investors and analysts. (Operator Instructions) Our first question is from Victor Mizusaki from Bradesco BBI. Please Victor, you may go ahead.

Q - Victor Mizusaki {BIO 4087162 <GO>}

Good morning. I have two questions. The first, looking at the CapEx for 2017, we see a reduction of CapEx to ECO101 [ph] if you compare it to the number of the first quarter. I would like to know, if you could talk a little bit about this. If this is a change in the investment?

And the second question more related to cost, we see Ecorodovias reducing cash costs over the last quarters. And recently at Gavio's presentation, you talked about the reduction of 70 million. I would like to know if this number is already incorporated into Ecorodovias results considering this cost reduction that we have been seeing consistently?

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

Good morning, Victor. This is Marcelino. About CapEx of ECO101, the CapEx of the company until the end of the period is expected, what we have today and we're discussing, is the (inaudible) of contract so that the investments of ECO101 of the original [ph] around the control of the cities, the third lane and the duplication of the works in such a way that predictions are made as the traffic capacity justifies the duplications.

It's reconsidering the change in the highway and possibly reaching at the end of the period with and with the entire section duplicated, but doing that by stages interconnecting the outskirts of the cities but mainly municipalities, the implementation of traffic lights in the highway, in the outskirts will increase the fluidity of traffic.

And on the other hand, the third lane mandatory third lanes and later, once the traffic capacity increases or requires it, we would do duplications of that being contemplated with the CapEx that has been already shown to you in this contract.

About the costs now, the amount informed by Gavio are already registered by the company. That does not mean that in order to make corrections or daily activities perform reductions -- or any other increase of productivity, switching [ph] that in each quarters we achieved reduction when compared to aggregate costs.

Q - Victor Mizusaki {BIO 4087162 <GO>}

Excellent, thank you.

Operator

Our next question is from Mr. Bruno Amorim from Banco Santander. Please, you may go ahead.

Q - Bruno Amorim {BIO 17243832 <GO>}

Good morning. I would like you to talk about if possible how you see the pipeline for the second half of the year and the first half of next year, which concessions do you think may come to market and what would make sense considering the investments of Ecorodovias?

And if you could talk about any negotiations going on. Of course, without getting into specific details, but only to give us an idea if the secondary market is active for Ecorodovias as well?

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

Bruno, good morning. (Technical Difficulty) for public hearings, so there are possibilities for concessions. This year or for discussion [ph] beginning of next year. As for the M&A market, this two years analyzing all M&A opportunities, we continue to look at assets that are currently being made available by the current shareholders.

Operator

(Operator Instructions) Our next question is from Mr. Lucas Barbosa from UBS. Please sir, you may go ahead.

Q - Lucas Barbosa {BIO 20412168 <GO>}

Good morning, Marcelino, Andrea. Thank you for this opportunity. I would like to understand your expectation for the traffic increase in the second half of the year, considering that we had a break in the corn crop in the second half of 2016.

I believe you will have a strong growth. I'd like to know your expectation for the second quarter -- second half of the year and what you've already seen in July in this traffic increase? Thank you.

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

Victor [ph] good morning. Traffic increase in July has been good, slightly better than the average of the first half of the year. Our expectation is very good for the second half. The main reason you already disclosed, which is the corn crop, but there is still a lot of soybeans still being exported especially in Rio Grande do Sul, that will probably still be shut in the second half, and the possibilities in the second half for light vehicles and the economy of the second half of the year is expected to give some indication of a warm up in the industrial sector and that will positively impact our concessions.

Q - Lucas Barbosa {BIO 20412168 <GO>}

Excellent. Thank you very much. Have a good day.

Operator

If there are no further questions, I will turn over to Mrs. Andrea Fernandes for her final remarks.

A - Andrea Fernandes {BIO 21294199 <GO>}

I would like to thank you all for your presence. The department and myself are available for any questions you still have. Thank you and have a good day.

Operator

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

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