

Q2 2019 Earnings Call

Company Participants

- Arthur Piotto Filho, Chief Financial Officer and Investor Relations Officer
- CCROS3
- Eduardo de Toledo, Vice President of Corporate Management
- Unidentified Speaker

Other Participants

- Analyst
- Rogerio Araujo
- Victor Mizusaki

Presentation

Operator

Good morning, ladies and gentlemen, and thank you for waiting. Welcome to the CCR S.A. Conference Call to discuss the Results for Second Quarter of 2019. This event is being recorded and all participants will be on listen-only mode during the Company's presentation. Soon after, we will start a Q&A session, when further instructions will be provided. (Operator Instructions).

Before proceeding, we would like to clarify that forward-looking statements made during this conference call, pertaining the Company's business prospects, projections, operational and financial goals are beliefs and assumptions of the CCR Management as well as information currently available to the company. These forward-looking statements are not a guarantee of performance and involve risks, uncertainties and assumptions as they refer to future events and therefore depend on circumstances that may or may not occur.

Investors should understand that general conditions, industry conditions and other operating factors may affect the Company's future results and will result in outcomes that differ materially from those expressed in such future conditions.

I would like to give the floor to Mr.Eduardo de Toledo, Corporate Management VP, who will begin the presentation. Mr.Eduardo, you may proceed.

Eduardo de Toledo {BIO 2067933 <GO>}

FINAL

Good morning to everyone. It's a pleasure to be with you in our earnings results of the second quarter of 2019. We have Arthur Piotto, Marcus Macedo and Flavia that you know from our Investor Relations team.

I would like to start this call showing how consistent our results were during the second quarter of 2019, aligned with the company's behavior we have had a good evolution in our key indicators. Our operating adjusted EBITDA had a 27% increase in the quarter, when we compare it to 2019. And net debt EBITDA had a positive evolution reducing 2.6 to 2.5, therefore the company is prepared from the financial point of view for this new cycle accorss.

So we continue working. We are honing our corporate governance and we have carried out a number of actions. I would like to highlight two of them. One would be the review of our metrics and our provisional growth. We are working with this very carefully in such a way that we have the best governmence regarding our decisions in the company.

In addition to this, you may have observed with the election of the Board. We rearranged our committees and we also created a risk committee that didn't exist in the past. This is a clear demonstration of how we are concerned with the organization of our committees and our governance, and in addition another fact that is important to highlight is that all our committees have at least one independent board member. So, these are very important facts that demonstrate how we're improving our governance.

During this quarter, we also initiated projects that target to provide CCR instruments to be successful in this new investment cycle. The first point that I would like to share with you is the operational excellency project. We have good experience with and other experiences. And Falconi is going to allow us to systematize this pursuit of opportunities to improve our operation. Of course CCR already has strong competency, nonetheless Falconi can help us to institutionalize these initiatives, so that these competencies become more organic and become more systematic.

In addition to this, we have also initiated a project with culture and purpose. And this initiative is to deep dive the connection between CCR and the employees. This is very positive, because CCR should continue being a company that is admired and that people wish to work for the company. And this is very important from the competitiveness point of view to attract talents. I wanted to highlight these main points.

And I will give the floor to Arthur that will talk about the quarterly results.

Arthur Piotto Filho {BIO 4777038 <GO>}

Good morning to everyone. First and foremost, I would like to thank you for your participation and your interest on the company. Before talking about the results, I would like to tell you that the release of the company is in our site.

Now speaking about the main highlights of this quarter, we would like to highlight traffic that presented an increase of 7.2% vis-a-vis the same period last year, excluding the

effects of the suspended axle exemption that we have told we increased was 4.8%.

We would like to highlight the main pro forma figures of this year, considering business that we do not have control or consolidated proportionally and each one of the line. We excluded non-recurring effect and asset that the company -- where the company increased its participation, and here we can see the base of comparison, as you can see what was announced yesterday after --. And now the cash costs reduced, a 3.2% drop. This is a reduction of costs with personnel and there was lower variable remuneration. The operating adjusted EBITDA was BRL1.5 million this quarter.

And this is an increase of 25.5% when compared to the same period last year with a margin of 62%, and this totaled an expansion of 3.9 percentage points. Net income was BRL347.4 million during this quarter, presented an increase of 25.1% vis-a-vis the same period last year, and was driven by new businesses. The net income on the same basis was BRL330 million with a growth of 8.2% when we compare to the same period last year. This is a result of the operational performance of the company.

Now during the second quarter this year, the investments including financial assets and maintenance totaled BRL395.3 million. The concession is that more -- that invested the San Jose International Airport and ViaSul.

Now regarding net indebtedness in IFRS, this was BRL30.4 million in this quarter with an increase of 3.7% or 1.7% when compared to the quarter of the last year and the past quarter over the first quarter of 2019 respectively. Now the company's leverage, net debt over operating adjusted EBITDA was 2.5 times during this quarter. We are confident with the new opportunities and we are pursuing new businesses the national and in the international markets, primary, secondary market, airport and related business.

According our objectives, we expect a number of growth opportunities. We have over 8,000 kilometers of highways between 2019 and 2021, and 5,000 as of 2022. So these are the BR364 and 365 Highway, Goias and Minas Gerais has already been published and the tender and the auction will be hold on September 18th. In addition to this opportunity, other federal highway will -- are in the process: Santa Catarina 381, between Minas Gerais and the State of Espirito Santo; and 153 rehabilitation highways between Tocantins and Goias, very recently in the Sao Paulo Transportation has also announced, there is an auction for November 28.

Now, the Airport sector, the federal government announced that they will -- there will be a private concession of an addition of six groups of airport, and there are two routes that totaled 37 assets for the year 2022. Now in will initiate their bids this year.

Now, we will hold the Q&A session. Operator, may you proceed.

Questions And Answers

Operator

Question And Answer

Ladies and gentlemen, we will initiate the Q&A session. (Operator Instructions) Our question from Victor Mizusaki, Bradesco BBI.

Q - Victor Mizusaki {BIO 4087162 <GO>}

Good morning, I have a question. I was analyzing the results of the second quarter, and you have a long-recurrent expense of \$11 million with legal costs. When we discussed the independent communitiee, if I am not wrong, the legal loss was ended in December last year. I wanted to understand if this, is connected to a new negotiation with the prosecutor's office? Or can we consider that there is nothing material that was discussed during the first quarter?

A - Unidentified Speaker

Okay, Victor. Thank you for your question. The expenses with legal services support of the actions in Sao Paulo and Parana. What we did once again was, there, we reviewed the matters that we were aware of and we wanted to continue cooperating, and this is what happens. So we have -- we need legal advice, because of one. There are always matters that we have to deal with.

Q - Victor Mizusaki {BIO 4087162 <GO>}

Okay, thank you very much. But at this point, is there something that you could disclose, any novelty regarding plea bargain [ph], and you believe that it is necessary to have legal counseling.

A - Unidentified Speaker

Now regarding this point once again, our positions regarding this subject is to cooperate continuously and answer all questions that are made. Every time a matter emerges we deal with the competent authorities to help them with their investigation.

Now in terms of details, we have limitations regarding this subject. I would like to highlight this matter. Sometimes, it's not very clear but we -- but any information that we provide to them, they use this information to deep dive in their investigation. Because we have third party involved, and because of this the information that we provide is very confidential until the authorities believe that it is no longer necessary for them to remain confidential, and they are the only ones that can disclose this type of information.

Q - Victor Mizusaki {BIO 4087162 <GO>}

Thank you very much.

Operator

Our next question from Pedro Pascal, JPMorgan.

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Q - Analyst

Good morning, and thank you for your question. I have two questions, one would be Victor's follow up. You have. I would like to know, if the pre-agreement was already contemplated or was it something new has emerged? And that's my question.

A - Unidentified Speaker

Thank you for your question. Well basically, they pick. The executives that were in the company until November - December last year participated in the pick. We announced this pick and we did it. No executive can be part of the pick after this period, so we have no -- there is no executive that remained in the company, and that led the pick.

Now regarding the exit of the executive. These changes had already been contemplated when years ago, when we analyzed the company's leadership and we would analyze the age group, and we realized that the company was going to go through a reorganization throughout the upcoming years. And this is exactly what is happening, each one of the four divisions of the company are led by executives that started working for the company this year. But this matter had already been contemplated and outlined some time ago.

Q - Analyst

Perfect, Eduardo. My second question, the government announced a decree to return our assets. Could you have a negotiation with the government now? And speaking about government negotiation, is there an asset in some Sao Paulo? Any light you could shed on us would help us a lot.

A - Unidentified Speaker

Thank you for your question. Regarding the decree that was published this year, this is something positive for us. Because you clearly realize that the federal government wants to find a good solution to these concession, and there are a number that are regarding CCR, and the impact is important that this is an evolution nonetheless. There are still a number of things that we're analyzing, and a few of them will need analyzed from the regulating agencies, so here we believe that we can have an evolution.

Now regarding Sao Paulo. In the state authority's point of view, I believe that they want to resolve these matters, so they're looking for alternatives. And this is very positive and very fruitful, because they want to drive the concessions at the state area, and I believe that interesting opportunities will emerge for CCR.

Q - Analyst

Thank you very much, and have a very good weekend.

Operator

Our next question from Roberta.

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Q - Analyst

Good morning. Just a follow-up regarding the Sao Paulo concession. Any novelties regarding the contract extensions? And the second question, with the interest rates, do you believe that the government will reduce the return rates of the contract?

A - Unidentified Speaker

Thank you for your question, Roberta. Well, your first question regarding the extensions of the contracts from the CCR point of view, we believe that there are a number of interesting projects to improve new access points that will benefit the upcoming highways and concessionaires. Now the negotiations together with the government are ongoing, I believe we have positive prospects regarding this point. There are a number of alternatives with a number of outlines, I believe that we're having very good conversations or negotiations. I believe that the stance of the Federal State Government is very positive right now regarding investments that can benefit the users.

Your second question would be the reduction of interest rate in the company. As an executive of a Brazilian company, and I've been here for over 30 years in the market, we have a situation like we have never seen. The drop of the interest rates in the country in a consistent fashion. And they are not artificial drops this type of news is very positive, and this can only benefit the entire market. And this only provides a drop of the funding cost. So it is natural that the parameter will adapt themselves to this new reality. And everything is very positive, because the structural interest rate in the country can only benefit the investment, and we are a company that needs it.

Q - Analyst

Thank you very much.

Operator

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

Q - Victor Mizusaki {BIO 4087162 <GO>}

Thank you very much for taking our question. A follow-up regarding the prosecutor's office. You mentioned confidentiality, because there are third parties engaged there, are we talking about people or are we -- or can this impact of the CCR concessionaires that weren't part of the ple agreement that you agreed upon within the prosecutor's office? Thank you very much.

A - Unidentified Speaker

Well once again, our cooperation is to disclose all the information that we're aware of. Now this once again, there have been two private agreements, one at the federal level in, one at the state level in Sao Paulo. So we understand that we are encompassing point that engage CCR as a whole and the everything that we know which engages CCR. And our aim towards here, and the pick is that everything that has happened should be

disclosed as fast as possible, so that we can resolve all of these matters, turn the page and to be ready for this new positive scenario that we have ahead of us.

Q - Analyst

Thank you very much.

Operator

Our next question from Rogerio Araujo, UBS.

Q - Rogerio Araujo {BIO 17308156 <GO>}

Good morning to everyone, and thank you for taking my questions. One regarding traffic, I believe that what we see the last year's truck drivers' strike, I believe that the traffic is flat year-on-year. What is your perspective for the recovery of traffic, could you say something about this?

And also regarding the traffic, regarding what you projected and cost CapEx, if it's negative, positive. We could start with this question.

A - Unidentified Speaker

Thank you for your question, Rogerio. As a matter of fact, the figures of the second quarter regarding traffic has evolved positively, because of the truck driver strike last year. It is difficult to withdraw the effect that the strike gave. We withdraw the effect of the suspended axles. Now, what we can say is that, we have observed since the beginning of July, since beginning of this quarter the traffic behavior, that is very positive. It is above what we saw the first quarter this year, so the second quarter is polluted the contaminated by the strike last year. Our vision is that it is flat, it is positive. And now we see a more positive movement than during the first quarter, and there are two quarters that were not contaminated by the strike.

Now regarding ViaSul, I believe that it's too early to talk about the performance, if it's better or worse or the same. Because we have had success since the beginning of operation, we delivered ahead of time in two cities, and our plans are aligned with expectation. But perhaps, it's a bit too early to give you an entire outlook, but what we have done has exceeded our expectations.

Q - Rogerio Araujo {BIO 17308156 <GO>}

My second question regarding an update of the new auction. What have you planned? You have 364, 365, you have Centrovias from Sao Paulo. And September and November is there another auction that has already issued a tender now regarding urban mobility, what kind of pipeline are you contemplating just so that we can know what new opportunities you have in terms of projects.?

A - CCROS3

Well precisely, you're right. The scheduled auctions with our -- all the auctions can change as well. We cannot state anything, but the 364, 365 highway in September, and the project in Sao Paulo area, that includes the Centrovias highway from November this year. We do not have other auctions scheduled, we -- our expectation in terms of mobility project would be line eight and nine in Sao Paulo, and there are a list of projects that I'm not going to outline right now. You can see them in our presentations in our slide, and we expect this to happen until 2019 and 2021. Of course, these projects are part of the segments where the company performed. Now, thank you very much.

Operator

Our next question from Banco do Brasil.

Q - Analyst

Good morning, and thank you for taking my question. I have two points, one, your liability management. If you are negotiate your interest in renegotiating contracts the MBS, and if there is an interest from the company. And number two, if there is any interest from the MBS to renegotiate these contracts without charging additional tariff? And the second question with the return of assets specially, Barcas asset in Rio de Janeiro, I would like an update if CCR still interested in returning this asset or this is a balance matter or if you will continue with this concession until the end?

A - Unidentified Speaker

(Inaudible), thank you for your question. Your first question regarding liability management. We are analyzing the market. The market has interesting opportunities, and we are analyzing liability management, but the characteristic here of CCR, our liability is long. So we're talking about Metro Bahia, that is a 20 - 25 year process. And we are still in the beginning of this process. Although, we always observe these points and we try to look for opportunities, I would say that it's not as obvious as other companies that have shorter MBS contracts and are interested in points that are more obvious.

In our case, we have to study the matter and once again, we would have to run -- we would have to run the risk of refinancing 10 years - 12 years. And this is something that is starting to exist [ph] in Brazil. But here, we'd run the risk of refinancing. We're analyzing this matter, but it's not as obvious as it is for other players that have the MBS maturities that are shorter.

Now regarding Barcas Rio de Janeiro. Our interest is to end this concession, to end this -- terminate this contract. We understand that under the current conditions it's not interesting for us, there is the legal lawsuit connected to this point, and we want this to be resolved in the shortest period possible. Of course, things don't happen exactly as we wish, but we're doing everything to resolve this the fastest possible.

Q - Analyst

If you could allow me to make another question regarding the economic balance of suspended axles, how are you negotiating this with the regulating agencies? What do you

expect in terms of response. You would extend the concession period, how do you visualize the rebalancing of the suspended axles?

A - Unidentified Speaker

Well, the good news of suspended axles is that, this is clear. They recognize and their figures match our figures regarding what we have done. This is very clear in the conceding -- with the conceding power conversation.

Q - Analyst

Now, how this rebalance is going to be done, two forms are being studied. There are some concessions, where you have a lower tariff, where we could have a low toll fee and we could rebalance this through toll. And others will be done through a timeline?

A - Unidentified Speaker

Well, we still do not know how this will happen, but as I said, the conversations have been very positive. And our conversation is good, because we want to deal with this matter jointly.

Operator

(Operator Instructions) Our Q&A session has come to an end, I would like to give the floor to Mr. Eduardo de Toledo for his final remarks.

A - Eduardo de Toledo {BIO 2067933 <GO>}

Before closing, I would like to highlight that the initial results of this quarter show us that we will have a good operating performance. Now, we have a very positive feeling, we are reassured and we feel that our businesses are very positive and we are very reassured that the decisions that we are making will prepare CCR for this new growth cycle that we had ahead of us. It was a pleasure to talk with all of you in this call. Thank you for your participation, and we will talk to each other.

Operator

The CCR conference call has come to an end. Thank you very much for your participation, and good morning.

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