

Q2 2014 Earnings Call

Company Participants

- Marcelino Rafart de Seras, Chief Executive Officer and Highway and Logistics Officer
- Raquel Turano de Souza, Investor Relations

Other Participants

- Bruno Amorim, Analyst
- Eduardo Couto, Analyst
- Ravi Jain, Analyst
- Rogerio Araujo, Analyst
- Sami Karlik, Analyst

Presentation

Operator

Good morning, and welcome to EcoRodovias' Second Quarter of 2013 Earnings Conference Call and the First Half of 2014. With us today we have Mr. Marcelino Seras, CEO; Mrs. Raquel Turano, Investor Relations.

We would like to inform you that this event is being recorded and all participants will be in listen-only mode during the company's presentation. Afterwards, we will have a question-and-answer session for analysts and investors only, and when further instructions will be given. (Operator Instructions)

The audio and the slides of this conference call are being broadcast simultaneously at www.ecorodovias.com.br/ir where you will find the presentation for download from the webcast platform in the Investor Relations section.

Before proceeding, we would like to clarify that forward-looking statements that might be made during this call are related to EcoRodovias' business prospect, projections and the operating 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 therefore 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.

Now we would like to turn the floor over to Mrs. Raquel Turano, Investor Relations, who will make the opening remarks about the results of the second quarter of 2014 and the first half of the same year. Thank you very much.

Raquel Turano de Souza {BIO 21085763 <GO>}

Good morning, and welcome to EcoRodovias' results conference call for the second quarter and first half for 2014. Thank you for your interest and for attending this call. We will be pleased to answer any questions that you might have about the company.

I would like to begin with a very important fact for the Group. After the completion of the initial works required by contract, ECO101, our sixth highway concessions began collecting toll in May at the seventh largest on the Espírito Santo by a stretch of the BR-101, the full traffic volume and toll revenue figures are included in the figures for this quarter.

On Wednesday, we disclosed traffic volume figures for our highway concessions in the first seven months of the year with year-to-date consolidated growth excluding ECO101 of 6.7% over the same period last year with a strong upturn in commercial traffic in July.

We would also like to talk about the important recognition that Group has received underlining our commitment to and concerned with sustainability. Through the acquisition and voluntary cancellation of carbon credits, the EcoRodovias Group was able to offset 100% of its direct greenhouse gas emissions in 2013. So we can say that we have the first carbon-neutral concession areas in Brazil.

Another important highlight in the first six months was EcoRodovias' election as the best company in good corporate governance practices in ranking by Epoca Negócios 360 Degree yearbook, in association with Fundacao Dom Cabral. The company also came sixth in a similar corporate governance ranking by Delta Economics & Finance for AmericaEconomia Brasil magazine.

Before moving on to figures, we would like to stress that in late September our concessionary, Ecovias dos Imigrantes will be delivery important works pursuant to the amendment to the concession agreement signed in November 2012. It is the Cubatao beltway which connects the initiative Conego Domenico Rangoni and Padre Manoel da Nobrega highways plus eight kilometers of third lanes.

After these works are completed access to Port of Santos, the Cubatao industrial and other coastal cities will be significantly easier. It is also important to bear in mind that in July, the Sao Paulo state transport agent, ARTESP, introduced the average toll traffic increases of 4.58% for Ecovias dos Imigrantes and 6.97% for Ecopistas, which were applied by EcoRodovias. The matters related to tariff increase in Sao Paulo and suspended truck axles are being discussed by EcoRodovias in the administrative and judicial fears.

Moving on to 2014 results on slide two. You can see that consolidated traffic in terms of equivalent paying vehicles increased by 16.4% in the quarter and 13.7% in the first half,

excluding ECO101 traffic the growth would have been 4.1% in 2Q '14 and 7.5% in one-half of '14, the upturn was mainly fueled by higher export volumes in the first quarter and increased passenger vehicle traffic due to the favorable weather and long holidays, as well as the impacts of the World Cup between June 12 and July 13, 2014.

Slide three shows the operating performance of Ecoporto Santos whose container handling operations fell by 30.8% in Q2 '14 and 27.6% in the first half due to the entry of two new terminals in the Port of Santos in 2013.

Meanwhile, warehousing operations declined by 10.2% in Q2 '14 and 10.8% in the first half. However, when we compare the second quarter of '14 to the first quarter of '14, we see that container handling increased by 9.6%, while warehousing moved up by 8.3%.

On slide four you can see that the average tariff for port operations fell by 4.9% in Q2 '14 and 1.7% in the first half of '14, while the average warehousing tariff declined by 7.7% in the quarter and 0.5% in the half year.

In terms of the Group's consolidated financial performance on slide five, you can see that the comparable pro forma net revenue, excluding construction revenue of ECO101 and including the proportional consolidation of Elog totaled R\$554.4 million in Q2, 5.1% down and R\$1,148.7 million in the first half with a 0.5% down. The variation in the second quarter and the first half were mainly impacted by Ecoporto Santos and Elog.

Comparable pro forma EBITDA totaled 301.7 million in Q2 with an EBITDA margin of 54.4% and 651.8 million in the first half with an EBITDA margin of 56.7%.

As you can see on slide six, we can see that despite a 0.5% reduction in net revenue in the first half, comparable pro forma EBITDA grew by 1.3% in the same period.

Net income came to 52.3 million in the second quarter and R\$340.7 million in the half year.

Excluding STP sales and equity income and ECO101 results, net income totaled R\$146.2 million in the first half impacted by the increase in depreciation and amortization of R\$17.2 million. The increase in net financial expenses of R\$9.4 million due to adjustments to debt restated by inflation and higher interest rate in the period in addition to a higher provision for maintenance.

In regard to investments, as you can see in slide eight, we maintain the company's commitment to investing in accordance with agreements and business needs. The main second quarter highlights the initial works of the ECO101 works related to the amendment to the concession agreement for Ecovias dos Imigrantes and works on the inside lanes of Rodovia Ayrtton Senna highway.

Slide number nine. Here you can see that EcoRodovias pro forma -- net debt pro forma EBITDA ratio stood at 2 times BNDES disburse of R\$135 million related to the bridge loans to ECO101 this quarter.

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Finally, I would like to say a few words about our expectations for the second half of 2014 and for the beginning of 2015. As you can see, we have recently made a bid for the concession of the Tamoios highway in Sao Paulo state and there are public-private partnership whose results will be disclosed still in the second half of this year.

Besides, we are also starting five federal government PMI projects, federal and state highway project, as well as opportunities in the port area awaiting the bid notice. The company is obviously starting their automobility sector. It is worth reiterating that participation in this sector will be submitted for approval by the Board of Directors in the Shareholders' Meeting.

This concludes our presentation. Now, we would like to open for questions. Operator, we are ready to start the Q&A session with analysts and investors. Thank you very much.

Questions And Answers

Operator

Thank you very much. And now we will start the Q&A session for investors and analysts. (Operator Instructions) Mr. Sami Karlik from Banco Votorantim would like to ask the first question.

Q - Sami Karlik {BIO 16221284 <GO>}

Good morning. My question has to do with the terminal. What about the special cargo?

A - Raquel Turano de Souza {BIO 21085763 <GO>}

In the second quarter, we saw some competitors growing this kind of cargo.

Q - Sami Karlik {BIO 16221284 <GO>}

How do you feel competition for the port, as a whole? Did you see a higher appetite on the part of competitors for this niche cargo or is it the same?

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

Hey, this is Marcelino. I would like to take the opportunity to say a few words. We already have some indications from July and also from the first week of August. And the good news is that we expect to what happened does not repeat itself. I'm talking about the sports event that during the second half of June and the first half of July affected the economic activity of the country. And the good news is that, the second half of July and first week of August already shows an improvement both in the handling of vehicles, especially heavy vehicles, in the movement of heavy vehicles.

And you can see that July and August are following this -- and also the handling of containers and also in our Ecoporto, as well as the increase in Elog. We can see that July 2014 and now in the first week of August we already see an improvement in these sectors.

Now going back to your question. Today, we see the Port of Santos having a handling of containers and the terminals and especially transshipment containers occupying the available areas, (inaudible) not only the primary zone but also in the secondary zone.

The Ecoporto Elog by means of the customs area in the region of Santos are being able to maintain their production and this high range. Well, I'm talking about July and the beginning of August. And Elog [ph], it's not something easy to handle and to be processed.

And the Ecoporto specialized in this activity. So this means, that it has a comparative advantage, of course, in the region of the Port of Santos. We still have some degree of, I would say, accommodation regarding prices, especially when you consider that the economic activity is not that stronger today and we expect this to bounce back to the levels that are projected by the company.

Q - Sami Karlik {BIO 16221284 <GO>}

Thank you.

Operator

Mr. Rogerio Araujo from Brasil Plural would like to ask a question.

Q - Rogerio Araujo {BIO 17308156 <GO>}

Good morning. Thank you for the opportunity. I have two questions. The first has to do with the cost of third-party services. We saw a major increase from 46 million to 69 million on an annual basis. And maybe you could say what was the reason for this increase and what we could expect from now on?

The second question has to do with ECO101. How much do you expect the EBITDA margin to be in the next quarter when you already have the result of the full quarter and how much do you expect the margin for the medium-term? These are my questions. Thank you.

A - Raquel Turano de Souza {BIO 21085763 <GO>}

Rogerio, third-party question have to do with the beginning of operations like toll services and ambulance services that outsourced in the EcoRodovias Group. We also have some other services and we are churning out studies about other projects and taking advantage of the unique opportunity in which the other companies are still trying to perform.

And we are very much interested in having other projects in the market. So that we may maintain a competitive advantage fees of the -- those who are very aggressive last year. And so we managed to make a lot of investment in the medium and the short run regarding ECO101. It has to do with the effect of -- the beginning of June and the first quarter of July, as I have already mentioned.

So according to what we have already informed during the Eco Day, our annualized traffic volume and I believe you will be able to feel this when we compare August 2014 to July 2015.

And we only have -- we had all the sports events that had a major impact on traffic. So it would be between 62 to 67 million axle equivalent and the EBITDA margin. Two, I was mentioned during the Eco Day and this would be between 30 [ph] for 2013 and 40 for 2015. I'm talking about the EBITDA margin now.

Q - Rogerio Araujo {BIO 17308156 <GO>}

Okay. Very clear. And maybe you could give us a heads up about the Tamoios auction, that would be great? Do you have any news to impart with us? The envelope has been now opened?

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

So I believe that we still have 25 to 30 days ahead of us. So that we may see the outcome and the confirmation. And so, I would say maybe late September, okay, for the opening of the price envelope which is the determinant factor for the outcome.

Q - Rogerio Araujo {BIO 17308156 <GO>}

Okay. Thank you very much.

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

Have a very good day.

Operator

Mr. Bruno Amorim from Santander would like to ask a question.

Q - Bruno Amorim {BIO 17243832 <GO>}

Good morning. I would like to know if you have an idea of the impact of the sports events on June and July results? Traffic was affected by the World Cup. Traffic was flat in June and it grew 2% in the matured concessions in July. So how much of that is a result of this sports event. And what kind of improvement could we expect from now on as we have no more sports events as of August? Thank you.

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

Bruno, thank you. Just to give an idea, May versus April, we have a growth in heavy vehicles of 4.1, including ECO101, June vis-a-vis May a drop of 12.1%. July versus June, an increase in heavy traffic of 10.5% and when we analyze the effect on the passenger vehicle, June versus May, minus 5%; and now July versus June, 10.4%.

We also have the effect of seasonality, the holidays in July, school holidays. And for you to better understand, the process. The research was true about that. Once again, we have

already recovered quite well and we are still on the upward curve.

Q - Bruno Amorim {BIO 17243832 <GO>}

And as the comparison basis changes because of the collection that started in July of last year, could we see a drop in traffic as of now or do you think this is not going to --? Well, especially here in Sao Paulo, the Ecopistas traffic is good, you have been following this. And in the case of Ecovias what we noticed and what is published information that is currently available.

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

We have an explanation about prices versus harvest, the harvest season. Now we have the harvest season. I believe that we will have a good surprise in the second half of this year with a high outflow coming from agricultural areas after the harvest and after November we will probably have an appreciation of the dollar with the depreciation of the reals. So these adjustments are important for the decision to be made by producers regarding their exports and the outflow of the inventory of products.

Q - Bruno Amorim {BIO 17243832 <GO>}

Thank you very much.

Operator

Mr. Eduardo Couto.

Q - Eduardo Couto {BIO 18009973 <GO>}

Thank you, Raquel and Marcelino. Line 18, the auction on the subway line CR Almeida, which is the controlling shareholder of EcoRodovias participated and there are some news and you say instead of that EcoRodovias is starting mobility project and are there any talks going on about Line Number 18 of CR Almeida for EcoRodovias? And what about the process, if CR Almeida would be excluded from the process and if minority shareholders would have to approve that?

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

Thank you, Eduardo. This is a very important question. This was a consortium formed by CR Almeida. EcoRodovias is negotiating and not interested in Line 18. What EcoRodovias is interested in is -- studying urban mobility project and the study started in June of last year due to the situation that we had in the country. Many hours have lost and wasted in these displacements. And of course this is a sector that interest us and there are other projects in the market. We are making in depth studies about urban mobility at the national level in the large and the medium size urban centers.

So that by the end of the year or beginning of next year, we may bring to our Board of Directors and have this approved by the Shareholders' Meeting.

Q - Eduardo Couto {BIO 18009973 <GO>}

In order to implement urban mobility projects, when does it occurs?

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

Of course, the controlling shareholder will not be able to fight for market with EcoRodovias. So EcoRodovias if approved will be also fighting to participate in this market with CR Almeida. And I believe there is a major effort being made in these last four years into execute to finance and then afterwards operating.

And when CR Almeida for some reason interfere Trans Almeida on the long run (inaudible) divest EcoRodovias could study the possibility of course complying with all the corporate rules. That is to say, setting up an exclusive and independent committee about the subject, forbidding to vote by the Board and by the Extraordinary General Shareholders' Meeting. This would be the fact adopted by EcoRodovias, but not interfering -- there is not interference in that.

And the transfer of Line 18 before construction, do you think this is probable in three or four years. But anyway EcoRodovias has many other possibilities and opportunities in the logistic Santo Port sectors and then tend to tap into these opportunities.

Q - Eduardo Couto {BIO 18009973 <GO>}

And another point, Marcelino, regarding the adjustments for Sao Paulo network below inflation? And in the specific case of Ecovias you had a significantly lower than inflation adjustment. I think it was 4.5% vis-a-vis almost 7% inflation. So what is the company doing in order to reverse the adjustment that has an impact on your most important highway?

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

4.6 versus 6.2, I would like to correct. As I said at the beginning of my speech, we are already discussing this at the judicial and corporate level.

Q - Eduardo Couto {BIO 18009973 <GO>}

But do you think you will be able to solve this in the short run? Do you have any expectation of having able to reach a decision still before the end of the year?

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

Yes, we have a very good expectation regarding this. Ecovias has already achieved this reversal regarding their tariff and we are following the same path. So we are quite comfortable regarding this. And we are discussing this at the -- and you can refer to the Federal Court in Brasilia. There is a lot of literature -- Jurisprudence about the fact the adjustment is something that must be applied on an annual basis. And this was achieved because during eight years, this has been questioned and this brought about a very ample Jurisprudence at the Superior Court of Justice and here in Sao Paulo. Jurisprudence will be formed at the state level regarding the same decision. If we are not able to obtain this at the state level, we will resort to Brasilia to the Federal level to obtain it.

Operator

(Operator Instructions) A question in English. You may proceed.

Q - Ravi Jain {BIO 16135293 <GO>}

Good morning, can you hear me?

Operator

We have a question in English from Ravi Jain from HSBC would like to ask a question.

Q - Ravi Jain {BIO 16135293 <GO>}

Yeah, hi. My quick question was on the port operations on both the warehousing and the Port, both tariffs and the volumes have been declining. As we look more in the second half of 2014 and into 2015, by when do you expect these declines to reduce and stabilize in terms of volumes and tariffs? Thank you.

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

We expect the Port of Santos still within this year. We expect it to have a certain degree of handling in order to stabilize the activities both at the port -- the port activities and warehousing activities.

We still estimate that in the second half, we will have a lower impact and there are certain stabilization of the activities. If the foreign trade activity of Brazil, if the economy of Brazil goes up, stability will come as soon as possible.

Q - Ravi Jain {BIO 16135293 <GO>}

Thank you.

Operator

As there are no more questions, we would like to give the floor to Mrs. Raquel Turano for the closing remarks.

A - Raquel Turano de Souza {BIO 21085763 <GO>}

In case if you still have doubts, please feel free to contact our Investor Relations Department of EcoRodovias. Thank you very much, and I wish you all a very good day. Thank you.

Operator

EcoRodovias' conference call is closed. We thank you for your participation, and wish you all a very good day.

FINAL

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