

Q3 2012 Earnings Call

Company Participants

- Eduardo Pelleissone, CEO
- Rodrigo Campos, CFO & Director of IR

Other Participants

- Mark Suarez, Analyst
- Raian Santos, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. At this time, we would like to welcome everyone to America Latina Logistica, ALL, Third Quarter 2012 earnings conference call.

Today with us we have Eduardo Pelleissone, CEO; Rodrigo Campos, CFO and IRO; and Carlos Eduardo Baron, IR Manager for ALL.

We would like to inform you that this event is being recorded, and all participants will be in a listen-only mode during the Company's presentation. After ALL's remarks are completed, there will be a question and answer section. At that time, further instructions will be given. (Operator Instructions)

We have a simultaneous webcast that may be accessed through ALL's IR website, www.all-logistica.com/IR. Full slide presentation may be downloaded from this website. Please feel free to refer to the slides during the conference call. There will be a replay facility for this call for one week.

Before proceeding, let me mention that forward-looking statements are based on beliefs and assumptions of ALL management, and on information currently available to the Company. They involve risk, uncertainties and assumptions because they relate to future events and, therefore, depend on circumstances that may or may not occur in the future.

Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of ALL, and could cause the results to differ materially from those expressed in such forward-looking statements.

Now I'll turn the conference over to Mr. Rodrigo Campos, CFO and IRO for the Company for a brief explanation on ALL's figures are presented, and then Mr. Eduardo Pelleissone,

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CEO, who will start the presentation. Mr. Campos, you may begin your conference.

Rodrigo Campos {BIO 16203706 <GO>}

Thank you. Thank you, all for (holding) ALL third Q results conference. First, I would like just to make some comments about the figures we'll be presenting here. When we talk about consolidated results, we will be comparing the results released in 2012 with the results released in 2011. But when we talk about business units as we created Brado in April 1, last year, and as we created Ritmo in July 1, last year, we will be presenting pro forma results of 2011 as if Brado and Ritmo were created in January 1.

Okay, with that I would like to pass to Eduardo to start the presentation.

Eduardo Pelleissone {BIO 7120426 <GO>}

Thank you, Rodrigo. I will start with the highlights of the third Q. Our EBITDA grew 7.6% in a better market scenario than we faced in the first half of the year, especially in agricultural business, where the second corn crop increased almost 88% against 2011.

Important to mention that the second corn crop was representative in the State of Mato Grosso, Mato Grosso do Sul, and Parana, but not in Santa Catarina and Rio Grande do Sul, where the first of the half year crop shortfall was pronounced. As a result, the total crop in 2012 increased only 3.8% in our coverage area, compared to 2011.

In Industrial business, the market environment was challenging as industrial production fell 3% in the Third Quarter of 2012, compared to 2011. Our Rail volumes increased 4.4% in Brazil, pushed by an 8% growth in agricultural segment. Our average yield increased 3.6%, reflecting the inflation and diesel pass through in our take-or-pay contracts, and a stable freight price in spot market. Our Rail operations EBITDA margin increased (1%), reflecting a good cost control as we had in the first half of the year.

Brado's EBITDA increased 16.5% in this quarter, and in Ritmo our EBITDA reached BRL7.2 million.

Going to slide 5, our EBITDA increased 7.6% in the Third Quarter, reaching almost BRL462 million, and went up in the nine months of the year to BRL1,282 million. Our net income grew 16.3% in the Third Quarter to BRL106.2 million, and went down 7.1% in the nine months of the year to almost BRL258 million.

Important to mention that, excluding Brado's creation non-cash gain of BRL34 million in the Second Quarter of 2011, our net income increased 5.9% in the nine months of 2012.

Going to slide 6, talking about Brazil; as I mentioned, we had a better agricultural market in the States of Mato Grosso, Mato Grosso do Sul and Parana. The Rail volumes increased 4.4% in the Third Quarter, pushed by an 8% growth in commodities driven by market share gains and productivity improvements.

Our EBITDA grew 10.1% to BRL440 million in the Third Quarter, and our EBITDA margin increased 1.2%, reflecting our good cost control.

Going to slide 7; as we mentioned in our last call, the first crop decreased 15.6% in ALL regions. The second corn crop, which harvest begun in the end of July, increased almost 88%. As a result, as I mentioned, the total crop in our ALL coverage area grew 3.8% in 2012.

So as we face the Third Quarter of the year, we should face in the Fourth Quarter of 2012 a good market in the corridors of Mato Grosso (to Santos), then Parana to Paranagua, and a very tough market in the States of Santa Catarina and Rio Grande do Sul.

Going to slide number 8, talking about agricultural commodities; our volume increased 8% in the First Quarter, and 8.1% in the first nine months of the year, pushed by productivity gains in our large (gauge), where volumes increased almost 12% in the Third Quarter of 2012, taking advantage of the good corn crop in the State of Mato Grosso, and market share gains in the ports of Paranagua, Sao Francisco, Rio Grande and Santos, which changed from 67% to 71%.

Going to slide 9, our net revenues grew 11.8% in the Third Quarter, driven by an 8% volume growth and a 3.6% increase in yield. Our EBITDA grew 13.4% to BRL362.5 million, and our margin increased from 57.7% to 58.5%, due to good cost performance.

Going to slide 10, talking about industrial products; in the industrial segment, volumes decreased 6.7% in the quarter, and 4.9% in the nine months of the year. Intermodal volumes were down 10.5%, impacted by lower iron ore and wood product exports in our coverage area.

In the steel business unit, the drop in iron ore price reduced exports from Corumba region in the period, while in wood products exports reduction reflects the strike in the port of Paranagua.

In pure rail (products), volumes decreased 3.2% in Third Quarter, driven by weak volumes in construction segment.

Going to slide 11; our net revenues went down 4.3% in the quarter, driven by decreasing volumes, and partially offset by a 2.6% increase in yields. Our EBITDA decreased 3.2% to BRL77.5 million, and margin grew to 49.7%, reflecting our good cost performance.

Going to slide 12, talking about Argentina. In Argentina, we faced a very tough market as the soy production in ALL coverage areas decreased almost 50% when compared to 2011. Our volume decreased 25.5% in the Third Quarter, and our yield increased almost 71% in the Third Quarter, reflecting the inflation pass through and 9% exchange rate variation.

I will now pass the word to Rodrigo to talk about Brado, Ritmo, and the consolidated revenues.

Rodrigo Campos {BIO 16203706 <GO>}

Thank you, Eduardo. When we move to slide 13, and talk about Brado results, we see that Brado volumes increased 12% in RTKs and 5.9% when we look to volumes of containers. And when we break down that volume, we see that we had material growth in terms of volumes in wide gauge and Rio Grande corridors, which are the corridors that we added rolling stock this year.

So in wide gauge, the volume increased 27.3%, and in Rio Grande the volume increased 46.3%. The volume growth could be even higher if we didn't have a weak performance in Mercosul corridor. In Mercosul, volume went down by 22.6% because of the customs restrictions in Argentina, which have been impacting our operations throughout the year, and that was the case also in the third Q.

The Mercosul corridor is not the major source of growth we see in Brado. We see a big potential growth of Brado in the routes inside Brazil, but Mercosul corridor is still important when you take Brado volumes today.

When we go to slide 14, we see that Brado net revenues increased by 24% in the third Q, 2012, when compared to the same period of last year. And Brado EBITDA increased 16.5%, as compared to the third Q. When we look to nine months, we see Brado's revenues growing around 20%, and Brado's EBITDA growing at a rate of 16%.

When we go to slide 15, we see Ritmo's breakdown -- the volumes breakdown of Ritmo, and we see that our volumes increased almost 22% in the third Q, basically because of the Intermodal business unit. As you know, Ritmo has two business units. Ritmo has a dedicated operation which provide (dedicated) logistic solutions for several industrial segments in Brazil.

And it has also Intermodal business unit, which is the business unit which will provide services on certain connections around ALL rail network. And we know also that the Intermodal business unit is a major source of growth of Ritmo. We have more than 40 million tonnes of cargo around, which are transported to or from ALL rail network, and Ritmo market share is (small).

So when we look to third Q, Ritmo did 5.5 million remunerated kilometers in this Intermodal business unit, compared to zero in last year. So we see that the growth is happening as expected.

In the opposite direction, dedicated operations volumes went down by 13.2%, and the major cause of that was the reduction in the Automotive segment. In this segment, operations are based between Brazil and Argentina, and here we also suffered with the customs restrictions in Argentina, and also with the weakness in transportation flows of auto parts between both countries.

When we go to slide 16, we see that Ritmo net revenues grew 25% in third Q, and 17% in nine months. The EBITDA decreased 6% in third Q 2012 and here, it is explained,

basically, by the mix. We increased our growth with highly concentrated Intermodal business, which is a business that EBITDA is just too marginal. We created all this fixed cost structure to run this business; it's the first year we are running this business, so EBITDA is still marginal. But as the operational -- as we increase volumes, the operational leverage should take place, and EBITDA will start to grow.

And in dedicated solutions, the EBITDA went down, with the reduction in volumes of the automotive segment. In nine months, the EBITDA reached BRL18.6 million.

When we go to slide 17, the consolidated net revenues, our revenues grew 11% in nine months, with volume growth around 4.5%, increasing marginally, and with the growth in revenues coming from our business, also contributing to this volume -- to this revenue growth.

On slide 18, the consolidated EBITDA, we see that is growing 5%. Our EBITDA margin is decreasing from 50% to 47%. But important to mention here that the decrease reflects, basically, the mix of the new business in the Company, because as you look to the business individually, margins are growing. Margins are growing in Rail operations in Brazil; margins are better in Brado. So at the end of the day, the reduction reflects the needs of the new companies we have created.

In page 19, we see the net income. The net income is a little bit lower than last year, BRL258 million, as compared to BRL277 million. But when we exclude the extraordinary effect we had last year when we created Brado, it is an effect of BRL34 million net income this year, which is higher than in 2011, when adjusted.

In page 20, we see our capital structure; our net debt, EBITDA ratio. And we see that the ratio increased marginally from 2.4 times to 2.5 times. And next year, we expect that, with all of the cash generation we expect to generate, this ratio should start to come down.

With that, I would like to pass to Eduardo, in order he could make some additional comments. Thank you.

Eduardo Pelleissone {BIO 7120426 <GO>}

Thank you, Rodrigo. About some additional comments; first our CapEx plan is progressing as expected, aligned with our long-term guidance of BRL650 million.

Rondonopolis is well underway to be finished by the end of 2012.

The expectations in agriculture commodities for the fourth Q are positive. The strong second corn crop, and the delay in the sugar cane harvest should extend agricultural exports until the end of the year, mainly in the port of Paranagua and Santos.

In addition, the initial projections for 2013 are also optimistic. The first estimates from Conab appoints to a 14% total crop increase in ALL's coverage area, when compared to

2012.

That being said, we will be open for questions.

Questions And Answers

Operator

(Operator Instructions) Raian Santos, Citi.

Q - Raian Santos

I have two questions. My first question is on the Rondonopolis project. You mentioned in the release obtaining an operating license. How long does it usually take to obtain that license? And how soon could the Company apply for that license?

And the second question is, is it still your view that Cosan's potential purchase of a controlled stake in ALL would not alter the operational profile, or the maintenance CapEx strategy? Thank you.

A - Rodrigo Campos {BIO 16203706 <GO>}

Raian, first, the operational license is normally the Ibama has, when you build something, you need three kind of licenses. You need a (builders') license, which normally takes more time, which is the license that permits you to build something. After, you need the implementation license, where Ibama looks the project you have, in order to let you start to construct.

And the operational license is the last license when you are with all the work done, so in that point, you will start -- you ask Ibama, Ibama will go there, see what you did, see if it's the same what the project said, and then review the operation license. So it should take something between --.

A - Eduardo Pelleissone {BIO 7120426 <GO>}

Around three months.

A - Rodrigo Campos {BIO 16203706 <GO>}

Around three months.

A - Eduardo Pelleissone {BIO 7120426 <GO>}

After you apply.

Q - Raian Santos

And you intend to apply in January 2013?

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A - Rodrigo Campos {BIO 16203706 <GO>}

Yes.

Q - Raian Santos

All right, sounds good. And the second question on ALL operational profile, and CapEx strategy, what goes in?

A - Eduardo Pelleissone {BIO 7120426 <GO>}

Yes, I don't believe it will change. Of course, it's not completed yet, because there is discussion with all the shareholders in order to reach an agreement, to reach a new shareholders agreement, so at the end of the day, it's not completed. But I don't see any change in strategy, as long as (we see).

Q - Raian Santos

Well sounds good. Thank you for your answers; I appreciate it.

Operator

(Operator Instructions) Mark Suarez, Euro Pacific Capital.

Q - Mark Suarez {BIO 16366613 <GO>}

I have a question regarding returning to volumes, just for a second here. I know you've mentioned the delay shows the harvest had a positive impact in the quarter. How much of that is in the Third Quarter, and just to get a sense of how much we should expect to impact the Fourth Quarter, if you will?

A - Eduardo Pelleissone {BIO 7120426 <GO>}

It's hard to say for the Fourth Quarter, how much it's going to increase the volumes, when we compare it with the Third Quarter. What I can say Mark, Eduardo speaking, that we should face a very similar markets in the Fourth Quarter than we faced in the Third Quarter.

So we expect to grow more than we grew in the Third Quarter against, against 2011, because we will have a better market, especially in the corridors between Mato Grosso to Santos and Parana to Paranagua.

Q - Mark Suarez {BIO 16366613 <GO>}

Got it, okay. And now turning to -- I know, steel volumes, specifically iron ore, reflected negative for the quarter, which is in contrast to what we saw at the beginning of the year. I know that iron ore prices have remained on the sidelines.

Do you expect to see more of the same, going forward, as long as the iron ore prices don't markedly improve into the Fourth Quarter? And also, in terms of construction

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volumes, we have seen a trend that continued to be negative, even though it's getting less, but should we expect some sort of a rebound? Do you guys feel that maybe housing (build) will begin to pick up in 2013?

A - Rodrigo Campos {BIO 16203706 <GO>}

Yes. When you look at the fourth Q, even iron ore or civil construction, we didn't see a rebound yet. So for 2013, it's hard to say, because we are talking about macroeconomic (scenes).

But this was a year of weak -- a very weak year, in terms of industrial production as a whole. So at the end of day, we expect a better market in 2013, and also, we have the new project of El Dorado, which we will start to be operational, now, at the end of the year.

And when it's fully operational, it is an additional 1 million tonnes, which alone represents 7% growth in our industrial volumes. So at the end of the day, we have new projects coming.

To forecast an industrial projection for the next year is not an easy task, but I expect something better than this year.

Q - Mark Suarez {BIO 16366613 <GO>}

Got it. And if you look at Brazil margins, they have actually improved. We have seen obviously a trend in fuel consumption improvements. We saw that last quarter; we're seeing it again this quarter. I think the efficiency gain was about 3%.

And I'm wondering if we should take this as a good rate, going forward. And just to get a sense of how much of that was driven by actual productivity gains, versus the drop in volumes that we have seen this quarter, vis-a-vis last year, of course.

A - Rodrigo Campos {BIO 16203706 <GO>}

Yes, I believe first, that I would say that this was a very good year, in terms of user consumption, and we expect it to keep improving. I would not say, at the rate of this year, but we always expect to have improvement between 0.5% or 1%, year over year. But this has been a very good year, in terms of (diesel) consumption. And when we break down diesel, and cost control, in terms of fixed costs, I would say half and half.

Q - Mark Suarez {BIO 16366613 <GO>}

Got it. Okay. And I guess the last question is relating to the Argentinean business. I'm wondering if you have made any progress regarding finding a potential buyer for that business.

A - Rodrigo Campos {BIO 16203706 <GO>}

Mark, I cannot anticipate anything. It's not a secret; we keep looking for someone to sell our business in Argentina. We are still discussing with the guys from Argentina. We know

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that the best thing for us would be to find someone from Argentina to help the business. But we are not at the point to give any news on that yet.

Q - Mark Suarez {BIO 16366613 <GO>}

Okay, got it. That's all I got for now. Thank you.

Operator

(Operator Instructions) And at this time, we have no further questions. I'll turn the call over to Mr. Eduardo Pelleissone, for final considerations. Mr. Eduardo Pelleissone, you may give your final considerations.

A - Eduardo Pelleissone {BIO 7120426 <GO>}

Thank you, all for participating in our third Q results, in our call. See you next quarter. Thank you.

Operator

Thank you. This concludes today's ALL's earnings conference call. You may disconnect your lines at this time.

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