

Q2 2010 Earnings Call

Company Participants

- Roberto Nakagome, IRO
- Unidentified Speaker, Analyst

Other Participants

- Eduardo Couto, Analyst

Presentation

Unidentified Speaker

Good morning. Welcome to the conference call of Ecorodovias relating to the results of the Second Quarter 2010 and first half of 2010. We have with us Messrs Marcelino Rafart de Seras, the CEO; Roberto Nakagome, the Investor Relations Officer; Luis Augusto Opice, Logistics Officer; Raquel Turano and Camilo Gomes from 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 exclusively for analysts and investors from the sector, when further instructions will be provided.

(Operator Instructions) The audio and slides of this conference call are simultaneously available online at www.ecorodovias.com.br/ir. Here you can also download the presentation from the webcast platform of the investor relations section.

Before proceeding, we would like to clarify that forward-looking statements that may be made during this conference call relating the business prospects of Ecorodovias, projections, operational and financial targets, constitute the Company management's beliefs and assumptions, as well as information currently available. These 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 and sector conditions, as well as other operating factors, may affect the future performance of Ecorodovias so that results may materially differ from those contained in the forward-looking statements.

We will now turn the floor over to Roberto Nakagome, the Investor Relations Officer, who will comment on the results of the Second Quarter of 2010. Mr. Roberto, you may continue.

Roberto Nakagome {BIO 16618355 <GO>}

Thank you, operator. Good morning, everyone. Thank you for participating in the conference call to present Ecorodovias' results for the Second Quarter and the first half of 2010.

Slide two shows our operating and financial highlights for the Second Quarter of 2010. Net revenue totaled BRL295.3m, 30.3% higher than the same period in 2009, thanks to the 73.6% increase in consolidated traffic in terms of equivalent paying vehicles led by Ecopistas, the concessionaire that manages the Ayrton Senna-Carvalho Pinto corridor.

EBITDA came to BRL205.8 million in the 2Q '10, with a 69.7% margin, underlining our commitment to continuously improving and maintaining the best operating margins in the segment. And the net income stood at BRL61.9 million in the Second Quarter and BRL181.7 million in the first half, with a net margin of 30.4%.

But before discussing our operating and financial performance in more detail I would like to briefly describe the latest material facts and notices published by the Company.

On May 28, 2010 Ecorodovias announced that it had entered into a purchase agreement with Armazens Gerais Columbia and EADI Sul Terminal de Cargas. Columbia and EADI have a strong strategic presence in the import and export corridors in the south and the southeast regions of the country, represented by their bonded warehousing, distribution and transport units, being two of the leading and the most experienced operators in the integrated Logistics segment.

Our five highway concessions and two Logistic terminals will be integrated with Columbia's and EADI's assets forming logistic systems that are strategically located in the southeast and the south regions, as you can see on slide three of our presentation.

These two regions are jointly responsible for 47% of Brazil's GDP and provide direct access to the port of Santos, the largest port in Latin America, Sao Sebastiao, Paranagua and Porto Alegre [ph], as well as to the Mercosul market via the borders with Argentina, Paraguay and Uruguay. Columbia and EADI Sul will add 14 logistic units to our business, represented by four distribution centers and 10 dry port customs terminals and industrial custom centers, as per slide four.

We also announced that the authorization process linked to the transfers of Columbia's and EADI Sul's shares filed with the Federal Revenue Services and the Brazilian Antitrust Authority, CADE are currently being analyzed and we are confident of their final approval.

While awaiting the outcome of the pending legal procedures, Ecorodovias is monitoring and participating in Columbia's operations and results through a specialized team dedicated to studying and evaluating the process of the integrate -- to be integrated. A team that is fully committed to maintaining the exemplary standard of operation and service provided to these companies' clients while at the same time reducing costs and improving margins.

Gross revenue from Columbia and EADI consolidated Logistics operation totaled BRL113.6 million in the first six months of the year, in line with our 2010 annual guidance of BRL225m. Note that, once approval has been obtained from the authorities, Columbia EADI results as of May 1, 2010 will be consolidated into Ecorodovias' financial statements.

On August 2 we announced the execution of a concession agreement for the occupation and development of 1.84 million square meters area in the metropolitan region of Campinas. As you can see on slide five, this area has a privileged and strategic location eight kilometers from Viracopos Airport, one of the country's main cargo airports. And is intercepted by a mixed-gauge rail network permitting access to all Brazil's and the Mercosul railway concessions.

In this area, Elog, our logistics subsidiary, plans to install an intermodal Logistics terminal, the Ecopatio Campinas, which will include bonded warehouses, distribution centers, container yards and the road and the railway transport facilities. The project will absorb investments of around BRL170 million over the next five years, after which we expect annual revenue of around BRL200m.

These acquisitions are part of Ecorodovias' strategic plan, whereby it's expected, through its subsidiary, Elog, to become the leading multimodal logistics operator dealing in foreign trade with large-scale infrastructure and integrated and sustainable solutions, adding value through quality, technology and efficiency in the services it provides.

We also continue to focus on the Highway Concessions segment, analyzing existing opportunities in the secondary market as well as in the new federal and state concession programs, such as the southern and eastern stretches of the Sao Paulo ring road, whose bid notice was published this Wednesday and the BR101 in Espirito Santo State currently undergoing public hearings.

Within the next 18 months, we also expect to enter into new investment agreements to the benefit of our current concessions, in order to maintain and improve flows along this important development and tourism corridors.

The proposal for our IPO was precisely to provide financial support for our growth strategy. The proceeds will be invested in a conscientious and focused manner in projects that are designed to maintain the Group's profitability and, above all, that are within our area of operations.

Talk about the Company's operational and financial performance and the key indicators, on slide six we can see the evolution in the Ecotrafic in our concessions, which grew by 73.6% in the Second Quarter of 2010 over the same period last year, primarily thanks to Ecopistas which began operations in June 2009. And the continued growth of cargo transport and the export/import and conception corridors. Excluding Ecopistas, our traffic moved up by 8.7% in the quarter. And by 10.1% in the first six months in terms of equivalent paying vehicles numbers.

As disclosed this morning. And shown in slide seven, July's traffic on our highway concessions, also in terms of numbers of equivalent paying vehicles, grew by 49.8% over July 2009, led by the 72.3% increase in the flow of passenger vehicles in our concessions, indicating our [ph] assumptions in the growth curve of this category which was badly affected in the First Quarter of 2010, especially by the heavy rainfall that hit the coastal region of Sao Paulo and Parana State.

Traffic on the Ecovias dos Imigrantes and the Ecovias Caminho do Mar increased by 19.6% and 23.8% respectively in terms of passenger vehicles. We must also mention the excellent performance of Ecopistas whose traffic, already including two-way toll charging for passenger vehicles as of February this year, jumped by 171.7% in terms of numbers of equivalent paying passenger vehicles. And 76.8% in terms of commercial equivalent vehicles over July 2009, when the concession was already in its second month of operations.

The total number of equivalent vehicles in the first seven months of 2010 increased by 67.6% over the same period last year. On July 1, 2010 toll tariffs in the Sao Paulo state concessions, Ecovias and Ecopistas, underwent contractual adjustment of 4.2% and 5.2% respectively.

In the Logistics area, as shown in slide eight, the number of trucks handled by Ecopatio Cubatao increased by 6.8% in the quarter and by 8.9% in the first six months over the same periods in 2009. As for the other services offered by this facility, the Depot handled 12,086 containers in the quarter, while REDEX, the export customs service, which was operating under restricted conditions due to the need to conclude the constructions of its bonded warehouses, handled 561 containers. The STP closed June 2010 with 2.168 million installed tags, 41.7% up on the figure at the close of June 2009.

As a result, as you can see in slide nine, consolidated gross revenue reached BRL242.8 million sic; see presentation [ph] in 2Q '10, 31.3% up in 2009. And BRL645.7 million in the first half, 32.3% up year on year. For yet another quarter we fulfilled our commitment to deliver strong results and financial and operating margins, despite the investments in our logistics area.

This is underlined by the upturn in the net revenue and EBITDA, thanks to the operating performances of our concessions. EBITDA increased by 33.9% sic; see presentation [ph] year on year in the quarter and 30.8% in the first half. The EBITDA margin widened more, 68.2% to 69.7% in the quarter and remained flat in the 1H '10, at 69.8% sic; see presentation [ph], as shown in slide 10.

Excluding Ecopistas, our EBITDA margin reached 70.6% in the quarter and 70.9% in the first six months.

Move on now to slide 11, gross debt totaled BRL1.67 billion at close of 2Q '10, 3.8% down on the end of March 2010. It's particularly worth noting the rollover of BRL350 million in promissory notes issued by Ecopistas, whose maturity was extended from June 2010 to December 2010, with a reduction for the CDI rate plus 3.25%, to CDI plus 1.2%.

In terms of CapEx, as you can see on slide 12, we invested BRL77.5 million in the Second Quarter and BRL166.7 million in the first half. Excluding Ecopistas, our total investment fell by 34.2% in 2Q '10, given that most of the funds went to the latest initial works plan, which absorbed BRL69.6 million in the first six months.

Given the revision of our scheduled investments in our concessions in Ecopatio, notably the 11th revision of Ecovias, Ecopatio Campinas investments in Elog and the preventive containment works on the Ecovias embankments, we would like to take this opportunity to present our new investment estimates for 2010 and 2011.

Now that we have concluded our presentation we would like to thank those who are listening to us through the webcast and the conference call. And we will now move on the questions and answers session, during which we will be pleased to answer your requests.

Operator, we are ready for the Q&A session for analysts and investors. Thank you.

Questions And Answers

Operator

Thank you. We will now begin the Q&A session for investors and analysts. (Operator Instructions) And your first question comes from Eduardo Couto of Goldman Sachs.

Q - Eduardo Couto {BIO 15918458 <GO>}

Hi. Good morning, gentlemen. Just a follow-up question from the Portuguese call, you mentioned there that Ecorodovias is studying additional investments of BRL1 billion in the existing concessions. If you could give us more color on how the discussions with the regulators -- how are the discussions with the regulators on that.

Also, what is the timing for an agreement in your view?

And also, based on those preliminary discussions with the authorities, if you think you can get the same internal rate of return of the initial contract for this additional project, or you think the returns will be lower or closer to market rates. I just wanted to get a better color on those potential extensions. That's my questions. Thank you.

Hello?

A - Roberto Nakagome {BIO 16618355 <GO>}

Hi, Eduardo. Sorry.

Q - Eduardo Couto {BIO 15918458 <GO>}

Hi, Roberto.

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A - Roberto Nakagome {BIO 16618355 <GO>}

So about our BRL1 billion in the additional CapEx that we are discussing with the authorities in all the concessionaires, we talked about the Iguacu Cataratas that we are discussing the duplication of the road in Guarapuava [ph] Foz.

Here in Sao Paulo we have to increase the capacity of our roads (inaudible) Imigrantes to the Port of Santos. And all this -- including the port of Paranagua. In this discussion -- in this negotiation we are discussing with the relevant [ph] authorities to keep the same IRR, the original IRR of the contract.

Q - Eduardo Couto {BIO 15918458 <GO>}

But do you think you can get that? So the idea is to get the same IRR?

A - Roberto Nakagome {BIO 16618355 <GO>}

Yes. The idea is to have the same IRR.

Q - Eduardo Couto {BIO 15918458 <GO>}

Okay. And in relation to timing, do you have any timing for announcing something, maybe next year?

A - Roberto Nakagome {BIO 16618355 <GO>}

No. As Marcelino said this morning, we have this 18 months -- the next 18 months to discussing about these issues.

Q - Eduardo Couto {BIO 15918458 <GO>}

Okay. Thank you.

Operator

(Operator Instructions) And at this time there are no further questions. Are there any closing remarks?

A - Roberto Nakagome {BIO 16618355 <GO>}

Finally, I would like to reiterate the Company's commitment to its shareholders and the capital market. 2010 is a year of massive opportunities and achievements and we will remain focused on our goal of ensuring returns of our shareholders.

If you still have any questions or wish to contact us for any reason, please feel free to get in touch with our Investor Relations department or visit our IR website. Thank you very much and have a nice weekend.

Operator

Thank you. This does conclude today's conference call. You may now disconnect.

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