

Q2 2021 Earnings Call

Company Participants

- Andrea Fernandes, Investor Relation Director
- Marcello Guidotti, Executive Director of Finance, Investor Relations & People Management and Member of Executive Board
- Unidentified Speaker

Other Participants

- Analyst
- Andressa Varotto
- Henrique Simoes
- Lucas Barbosa
- Stephen Trent
- Victor Mizusaki

Presentation

Operator

Good morning, and welcome to EcoRodovias Second Quarter of 2021 Earnings Conference Call. With us here today are Marcelo Guidotti, CFO and IRO; Andrea Fernandes, IR Director. 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 when further instructions will be provided.

(Operator Instructions)

The audio and the slides of this conference call are being broadcast simultaneously at ri.ecorodovias.com.br 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 the forward-looking statements that maybe made during this conference call relating to Ecorodovias's 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 2021's results. Ms.Andrea you may proceed.

Andrea Fernandes {BIO 21294199 <GO>}

Good morning. Welcome to Grupo EcoRodovias's conference call today discussing the earnings of the second quarter of 2021. We thank you all for your interest and participation. The second quarter was marked by some important achievements. We won the bid for the federal concession BR-153 Tocantins Goiás to operate it for 35 years in line with the company's growth strategy. The concession agreement and Ecorodovias guidelines comply with the best ESG practices. The primary public offering of shares in the amount of BRL1.7 billion that will be allocated to the new investments, maintenance and our extension of its subsidiaries and to strengthen its cash positions.

Signing the agreements of Ecovias dos Imigrantes which established the assumptions that guide the extension of the concession agreement from June 2026 to March 2033 considering our tests traffic projections and the methodology of marginal cash flows. These achievements confirm the de-risking path adopted by the group and the extension of its portfolio. In May, Ecovias dos Imigrantes issued BRL 600 million in debentures for a period of one year at the cost of CDI plus 1.05% per year to fulfill the obligations within the scope of the economic financial rebalancing agreement and the extension of the concession agreement. In June, Ecosul issued BRL370 million in debentures for a period of three years, at the cost of CDI plus 1.65% per year.

In the second quarter of 2021, the company made progress in its ESG agenda with the following highlights. The company joined the Brazilian Business Council for sustainable development, which brings companies together to promote sustainable development in partnership with governments and the society, enhancing the goals for the company's leaders including the mitigation of carbon intensity and the improvement of diversity indices. The implementation of safety -- occupational safety committees at all business units. More details are available on Page 2 of the earnings release.

Moving on to the operations performance on Slide 2, we can see the evolution of mostly consolidated traffic and comparable traffic during the first quarter of 2021 compared to the same periods in 2020 and 2019. It's important to note that during the months of May and June 2021 comparable traffic presented an increase of 3.6% and 2.7% respectively compared to those months in 2019. As regards to the second quarter, we showed on Slide 3, the variation and consolidated traffic with an increase of 41.4% excluding the start of operations at Ecovias do Cerrado comparable traffic presented 29.1% increase in the quarter due to the flexiblezation of social distancing measures adopted by states and cities to fight COVID-19.

The highlight is light vehicles with an increase of nearly 50%. As for the group's consolidated financial performance, we present on Slide 4 net revenue, excluding construction revenue which was up 32.3% this quarter and net revenue of highway concessions up 32.4% in the period.

Moving on to Slide 5 adjusted cash costs amounted to BRL270.8 million, this increase is mostly due to the increase in personnel expenses due to the salary adjustment in March, 2021, and the compliance with the law that enabled a reduction in salaries and work hours in the second quarter of 2020. Conservation and maintenance expenses due to the rescheduling in the second quarter of 2020, which have been normalized this current quarter among others.

Pro forma EBITDA amounted to BRL570.5 million in the second quarter, 32.6% higher than in the second quarter of 2020 with margin of 66.6%. The EBITDA of the first half of 2021 amounted to BRL 1.1 billion.

On Slide 6. We see the evolution in net income in the second quarter of 2021, up BRL92 million, vis-a-vis the second quarter of 2020. Net income was impacted mainly by the increase in EBITDA in the quarter.

As for investments on Slide 7. CapEx in the second quarter of 2021, reached BRL352 million, mainly for investments in road widening at Eco050 and Eco101.

On Slide 8, we closed the quarter with net debt of BRL5.9 billion, a reduction of BRL1 billion from the previous quarter. This is mainly due to the BRL1.7 billion in proceeds, from the follow-on carried out at the end of June 2021. Leverage measured by the net debt over pro-forma EBITDA indicator was 2.6x compared to 3.3x in the first quarter of 2021.

Moving on to Slide 9. We closed the quarter with cash balance of BRL3.4 billion which represents 1x the short-term debt.

On Slide 10. We see EcoRodovias's growth drivers. The capitalization of the company, the amount of BRL 1.7 billion as well as partnerships for future bids. Target projects that generate cash already on Day 0[ph], the extension of the contract for Ecovias dos Imigrantes -- dividend distribution in line with the growth cycle and future cash generation make us comfortable with the company's financial and competitive capacity and will allow us to seek investment opportunities in the Brazilian highway market.

On Slide 11 through 16 we present the main ESG indicators, in particular the enhancement and the inclusion of new ESG goals for the leadership. The company is currently studying federal concession BR-116 or 101 Dutra, the Sao Paulo coast batch by the state of Sao Paulo's government, the federal concessions in Parana and the Triangulo Mineiro batch in the state of Minas Gerais.

Before we close, we would like to inform that we continue to take preventive and mitigative measures to minimize as much as possible the impacts of the pandemic on the safety of our employees, our users, and service providers, and to the continuity of the company's business.

This concludes our presentation, we would like to move on to the question-and-answer session. Operator, we are ready for the questions from our analysts and investors. Thank

you.

Questions And Answers

Operator

(Question And Answer)

Thank you. We will now begin the question-and-answer session for investors and analysts. (Operator Instructions) Our first question Fernando Hecka[ph] BTG Pactual.

Q - Analyst

Good morning. Thank you. I have two questions. First I'd like to explore a little bit more about this change in the share structure after the follow one and the group consolidating as the only controller. I'd like to understand what you see there in the long run in terms of management?

You've been going through collegiate decisions is the idea to have a precedent of what's going to be like looking forward. You also had is on leaving the Board of Directors, I'd like to know, how this process to replace his name is. In the second to talk a little bit about the auctions that Andrea mentioned in our introduction speech about the assets you have interested, the Dutra, Triangulo Mineiro, Parana. I'd like to understand, how you see the competition for these assets, and what your strategy is? Is it the idea to join as a consortium or for a 100% of the asset, just give more color to it. Thank you.

A - Marcello Guidotti {BIO 16618352 <GO>}

Good morning, Fernando. About the shareholder structure, there will be replacements of course, with Board members leaving and there's no General Meeting called yet. We will call a meeting to have this definition but there's nothing defined yet about management. We continue as we are. It's a situation that's developing well. And I don't have any other information. We understand that the company has been well directed and as soon as we have any updates on the change to the structure, everyone will be informed. About the auctions in general, the program in Minas Gerais the federal programs are of our interest as Andrea mentioned, there's also in Sao Paulo, there's Dutra, Triangulo Mineiro and the programs in Minas Gerais and federal concessions interest us, competition will exist definitely there will always be competition.

These contracts have been enhancing and they're safe with adequate returns so there will be competition. We participated on 153 with a partner and we will see if we remain with this partner and there are also other alternatives as well. Thank you.

Q - Analyst

Great. Thank you.

Operator

Our next question Henrique Simoes, Credit Suisse.

Q - Henrique Simoes

Good morning, Marcello and Andrea. I'd like to ask you to talk about this job of margin quarter on quarter in the level you expect for the end of the -- for the remaining of the year. And if you could confirm, when you have to pay the concession for BR-153?

A - Unidentified Speaker

Hello Henrique, about margin -- the margin has been quite stable in this quarter, but it will depend on the costs now are also returning to normalcy but it will depend on traffic. Traffic is behaving well and this -- compared to last year and even 2019. But in July, it remained positive compared to 2019 and the expectation is that the margins will continue to expand. We have very reasonable levels, there won't be any huge increase, but with the normalization of everything, we expect the recovery of margins.

The second question about the concession grant. Is it 153 or 135?

Q - Henrique Simoes

153.

A - Unidentified Speaker

The concession fee will be paid by us to be -- parts will go to the treasury. And 4x the value is the reserve accounts that will be used to the balancing project. A quarter of it goes to the treasury paid by the partner, and they'll have resources from the equity of shareholders and funding from STB as well. It's a normal structure.

Q - Henrique Simoes

Understood, thank you.

Operator

Our next question, Lucas Barbosa, Santander. Please Lucas, go ahead.

Q - Lucas Barbosa {BIO 20835372 <GO>}

Good morning Guidotti and Andrea, my question is about the impact and the increase of price of raw materials, the investments to be made in the concessions. If we look, there's very low variation in this quarter. If you couldn't comment more, if you think there's any risk of a seeing an impact of inflation on the company's expected CapEx? If you can give us any details, it would be helpful. Thank you.

A - Unidentified Speaker

Lucas, thank you for the question. We are reviewing now our budget. We're anticipating this review and CapEx as well definitely during this year there is an impact but our

contracts overall are all corrected by the IPCA index. So the increase we saw now will have an impact but not in this broader segment that is already inflated and since its long-term flows in two, three years inflation ends up being offset with this increases -- of these -- the value -- the amount of these raw materials. So -- inflation in our CapEx for the long term is normalized but we are updating it and it's virtually nominal and we'll decide this but we don't expect before we see any major impact.

Q - Lucas Barbosa {BIO 20835372 <GO>}

Very clear. Thank you.

Operator

Next question, Andressa Varotto, UBS Bank.

Q - Andressa Varotto {BIO 20092249 <GO>}

Good morning, Andrea, Guidotti. I just like to explore a little bit more about the review of the methodology to account for the concession fee for 135 there -- if there's been any impact in the financial results of this quarter and if you can expect any impact due to this change?

A - Unidentified Speaker

Andressa, thank you. It was a review of the discount grades for the concession fee. It stays close to the concession so there was an impact in the positive financial results of this quarter and also reflected in the balance sheet and the concession fee and the obligations with a concession authority from now on it changes a little bit. The economic aspects of this concession. But at the end of the day what matters is the cash to be paid at the conditions are the same. It's the contractual cash, it was a change of representation in the accounting applying this discount rates to the concession fee, there was an impact, but it was an adjustment for the balance sheet. The cash that we have to pay is exactly the same and it will remain the same. Thank you.

Operator

Next question Victor Mizusaki, Bradesco BBI.

Q - Victor Mizusaki {BIO 4087162 <GO>}

Good morning. Two questions. First about new projects. You mentioned Dutra, but had the studies approved by the TCU but you also had the 381, 262 approval. So I'd like to know since we are considering a project that includes the state of Minas Gerais and the state of Espírito Santo if this project makes sense in Ecorodovias' portfolio.

And the second question about the fair flow that will be implemented at Dutra. If you have the opportunity to also implement this in the other highway concessions of the groups?

A - Unidentified Speaker

Hello, Victor. The federal program in general interest us. So every auction in the federal level, will be followed by as closely 381 will happen. it's been approved. We already had study date. So, we'll go back to it and see whether it makes sense. It's a project in regions supported in our portfolio, but it's a large complex product with a very relevant contract. If you can, please repeat your second question, we had an audio issue.

Q - Victor Mizusaki {BIO 4087162 <GO>}

The second is about the free flow, that the Federal Government is implementing on Dutra. But if you see it as an opportunity for the group to try and bring this technology to the other highways on EcoRodovias' portfolio.

A - Unidentified Speaker

Dutra has this free flow and this and there's Sao Paulo Coast as well. We have two pilot projects of free flow in the group authorized that Ecopistas and Ecoponte and I believe it's a technology that's here to stay.

So I would say yes, how, when to what extent, where it will be defined, but I believe it's a technology that exists around the world and can be used here in Brazil now. So I think yes, there is a possibility. We have a number of internal studies and I believe so yes. It's a good opportunity for everyone.

Q - Victor Mizusaki {BIO 4087162 <GO>}

Thank you.

Operator

Next question will be in English. Stephen Trent, from Citi. Please Stephen, you may go ahead.

Q - Stephen Trent {BIO 5581382 <GO>}

Thank you very much, and good morning Guidotti and Andrea. A question from me on leverage. So, as you think about investing in these other concession assets, what's your long-term view on what could be a reasonable target leverage for the company. And do you see opportunities to obtain longer tenor debt at a fixed interest rate considering what's happening with celebrates[ph] in Brazil. Thank you.

A - Unidentified Speaker

Thank you, Steven. He was asking the company the company has a target leverage that is considered optimum, and whether we consider to capture longer tenured debt at fixed interest rates. About the leverage targets, the company definitely monitors the financial situation in a reasonable debt target for the long-term of course that during growth phases increasing investments in some specific points, the target may increase a little bit but we considered that a normalized long-term target of 3.54 net debt to EBITDA is normal.

About the second question. Definitely, considering we negotiated and selected the liabilities at Ecovias helped us be able to tap into longer tenure debt lines. And about the fixed interest rate we need to see if it's a possibility in the market. It's an opportunity. But the company continues to watch the debt link to the inflation and considering its assets affected by inflation. Thank you, Steven.

Q - Stephen Trent {BIO 5581382 <GO>}

Thank you very much.

Operator

(Operator Instructions) If there are no further questions, we now close the questions-and-answer session.

I'd like to turn the floor over to Ms.Andrea Fernandes and Marcello Guidotti for their final remarks.

A - Unidentified Speaker

We thank you very much for your participation myself and my team are available for any doubts that you may have. Thank you.

Operator

EcoRodovias' conference call is now closed. Thank you very much for your participation and we wish you a very good day.

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