

Q2 2015 Earnings Call

Company Participants

- Andrea Fernandes, Investor Relation
- Marcelino Rafart de Seras, Chief Executive Officer
- Marcello Guidotti, Chief Financial and Investor Relations Officer
- Unidentified Speaker

Other Participants

- Marcio Prado, Analyst
- Rodrigo Olivares, Analyst
- Rogerio Araujo, Analyst

Presentation

Operator

Good morning, and welcome to Ecorodovias Second Quarter of 2015 Earnings Conference Call. With us here today are Marcelino Seras, the company's CEO; Marcello Guidotti, CFO and IRO; Andrea Fernandes, IR Manager and 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 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 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 the forward-looking statements that may be made during this conference call relating to Ecorodovias 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 leads to results that differ materially from those expressed in such forward-looking statements.

I will now turn the floor over to Mrs. Andrea Fernandes, who will discuss the second quarter of 2015 results. Mrs. Andrea, you may proceed.

Andrea Fernandes {BIO 21294199 <GO>}

Good morning. Welcome to Grupo Ecorodovias results conference call for the second quarter of 2015. Thank you for your interest and participation.

The second quarter was marked by certain events that were important for the group such as the approval of ECO101's toll tariff adjustment on 18.61%, which considers the rebalancing due to the non-collection for suspended axles.

The distribution of dividends related since fiscal year 2014, totaling BRL235.9 million. The installation of portainers in Ecoporto Santos increasing the terminals efficiency and competitiveness. And the beginning of the operations and management of Ecoporto as of June 1st. In July, Ecovias dos Imigrantes and Ecopistas adjusted the tariff by 4.11% IGP-M and 8.47% IPCA, respectively.

Now, let's move onto our 2Q '15 results. As you can see on slide two, consolidated traffic of equivalent paying vehicles moved up by 12.6% in 2015, excluding traffic from ECO101 and Ecoponte this line fell by 1%. This reduction results primarily from the non-collection for suspended axles in the concessionaires in the state Parana and Rio Grande do Sul. The seasonality of soybean exports and the economic downturn, partially offset by the increase in passenger traffic in the Sao Paulo concessions. In Brazil, the second quarter was marked by the deterioration of the markets and indexes that measure economic activity in the country.

The crisis prove to be much more serious than estimated at the beginning of the year, translating into lower economic activity and imports flow and significantly higher inflation and interest rates.

Slide three shows Ecoporto Santos figures. This container handling in key operations fell by 39.3% in the second quarter while warehousing operations contracted by 23.7% in the same period. Key operations were influenced by the non-recurring effects from the fire on the right side of the port in April 2015, the installation of portainers as of June 2015 and the implementation of the new operating system TOS, which hampered the operation in addition to the discontinuation of two services and the economic downturn. The contraction in warehousing operations was influenced by reduced imported cargo volume and the fire on the right side of the port in April 2015.

Slide four presents the Group's consolidated performance on a pro forma comparable manner. With net revenue of BRL608 million in the second quarter of 2015, up by 6.1%. Revenues were positively impacted by the initial toll collection in ECO101 and ECOPONTE. Contractual toll tariff increases in road concessions and the increase in transport and Interior Dry Port and CLIA revenue. However, this line was negatively impacted by the movement in Ecoporto Santos.

Moving on to slide five, cash cost amounted to BRL290 million in the quarter, up by 1.5% and below the periods inflation. The increase in cash costs reflects the beginning of operations in ECO101 in May 2014 and ECOPONTE in June 2015, which totaled BRL27

million, excluding this effect, we posted a 1.3% reduction on a comparable basis. The company is still working hard to reduce costs and to gain operational efficiency and the negative non-recurring effects indemnifications were partially absorbed in the quarter.

Comparable pro-forma EBITDA came to BRL318 million in the second quarter, up by 6.7% and accompanied by a margin of 52.3% as shown on slide six. Due to our resilience to adverse market conditions, our road concessions posted consistent results and second quarter EBITDA came to BRL312 million, a 17% increase over the same period in 2014.

Slide seven presents the evolution of net income. The main effects from the variation between the quarters were, the increase in net financial expense by BRL46.8 million, those are the variations in the IPCA inflation index in the SELIC basic interest rate and the increase in gross debt and the BRL13.9 million higher depreciation and amortization due to the increased asset base.

In regards to investments, as you can see on slide eight, we maintained our commitment to investing in accordance with contractual requirements and business needs. It is worth mentioning, the initial works at ECO101 and works at Ecopistas. Estimated CapEx for 2015 proportional to Ecorodovias share is approximately BRL650 million.

Moving on to slide nine, we highlight debt by instrument comprising 84% in long-term debentures with a pro-forma net debt, pro-forma EBITDA ratio of 3.3 times in June 2015. This increase in leverage was influenced by the distribution of dividends in the amount of BRL235.9 million and the payments of BRL218.5 million related to the acquisition of a 20% interest on Elog.

Slide 10, shows our debt by indexing unit, the most important being the IPCA and CDI. We closed the quarter with cash of BRL528 million. Of our total commitments for the second half of 2015, 220 million refer to the bridge loan with the Brazilian Development Bank for ECO101, which will be replaced with a long-term loan. In 2015, we are already implementing a number of initiatives to increase operating efficiency, especially through opportunities for improvement and for cost reductions. In addition to the pursuit of operational excellence and CapEx management.

We reiterate that the company is closely monitoring the government infrastructure program and remains focused on contractual amendments related to its highways. Investment opportunities are always analyzed considering capital discipline and the company's financial capacity as well as the result -- as the return of each project. With this, we conclude our presentation. We would now like to open the Q&A session. Operator, we are ready for the questions from our analysts and investors. Thank you.

Questions And Answers

Operator

Thank you. We will now begin the question-and-answer session for investors and analysts. (Operator Instructions) Our first question is from Rodrigo Olivares from Banco Votorantim.

Q - Rodrigo Olivares {BIO 17393856 <GO>}

Good morning. I have a very specific doubt on the leverage aspect. We see this indicator going up every quarter, since the second quarter of 2014. I'd like to understand, in your mind, when would the peak of leverage be, because this year -- in theory, CapEx this year is decreasing compared to the organic CapEx of 2014? Looking forwards, can we expect this as the peak and the trend now is for this number to come down? Thank you.

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

Good morning. This is Marcelino. The indicator is basically on its limits. Today we don't think that this will grow. The company seeks now to its divestments and cash generation and through the reduction of cost towards the decrease of the gross debt of the company.

Operator

Great, thank you. Our next question is from Mr. Marcio Prado from Goldman Sachs.

Q - Marcio Prado {BIO 15398968 <GO>}

Good morning. Thank you for the call. I have actually two questions, the first is a follow-up about leverage. If you could talk about covenants, the specific debts of the Company, the EBITDA of this covenants if they exist?

And the second question, if you could talk about the expectation of renewing concession of Ecoporto? Is it included in the government's logistic investment too? I just wanted to understand it a little bit more, if you could give us an update about the development of this renewal. Thank you.

A - Marcello Guidotti {BIO 16618352 <GO>}

Marcio [ph], this is Marcello. As for your first question, Ecorodovias consolidated covenants, we don't have covenants at the Ecorodovias. There is no limitations. As Marcelino just mentioned, I believe that the leverage today is at its peak and our strategy for the upcoming month is to reduce it but we don't have covenants at a consolidated level, of course each units have all the programs and they're all monitored and under control.

I'll pass on to Marcelino for the second question.

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

As for the renewal titles for the concession of Ecoporto, this is been an analysis, it's difficult to estimate how long this renovation will take this renewal of the concession. What we can say is that, this is based on the balancing of non-continual activities and the levered investments and the acquisition of containers and so on. Thank you.

Operator

Thank you. Our next question is from Rogerio Araujo, Brasil Plural.

Q - Rogerio Araujo {BIO 17308156 <GO>}

Good morning. Thank you for the opportunity. I have two questions. The first about Ecoporto on the operational side. How do you expect the operations to be in the upcoming quarters, after the departure of two of the main clients at Ecoporto, one in June and another one now in August? And if these new containers may attract new customers, with the discussions are being with the sale of Ecoporto, are there interested parties at this difficult moment at Porto de Santos? That's my first question.

And the second about Ponte. If you could talk a little bit about the costs and revenues compared to the expectations, if there was a positive or negative surprise in the first months of operations. Thank you.

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

About Ecoporto first, if the foreign trade index decreases, there is a possibility of slower services to consolidate with the larger ones already to existing. About prospection of new customers in the key, we have been discussing with some companies that concentrate a greater volume and the possibility of better allocating operations and the competitive edge for these companies and their customers.

As far as storage Ecoporto, had a better impact and the customs of front-loading and operations in the terminal and the continued resilience of unloaded cargo and by our operations. Of the perspective of Ecoporto has been enabling the maintenance of these customers. And there is a range of ancillary services and personalized service. We estimate that now in the second quarter maybe the second half I'm sorry, maybe better due to the end of year operations.

About the Rio-Niteroi Bridge there is only few months of operations to-date. There is a certain uncertainty of the cost relations expected by the company. Investments will start now in the second half and in the next quarters, we will be able to provide a better guidance.

Q - Rogerio Araujo {BIO 17308156 <GO>}

Excellent. Thank you. Have a great day.

Operator

(Operator Instructions)

A - Unidentified Speaker

(Foreign Language)

Operator

There are no further questions. I will turn over to Mrs. Andrea Fernandes. Please go ahead.

A - Andrea Fernandes {BIO 21294199 <GO>}

I would like to thank you all for your participation and if there are any remaining doubts our Investor Relations team is available to help you.

Operator

Ecorodovias conference call is now closed. We thank you all for your participation. Have a great day.

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