

Q1 2020 Earnings Call

Company Participants

- Andrea Fernandes, Investor Relation Director
- Marcello Guidotti, Chief Financial, Investor Relations Officer and Human Resources Management

Other Participants

- Regis Cardoso
- Stephen Trent
- Victor Mizusaki

Presentation

Operator

Good morning and welcome to EcoRodovias First Quarter of 2020 Earnings Conference Call. With us here today are Marcello Guidotti, CFO and IRO; Andrea Fernandes, IR Director; and executives of the company. 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 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 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 first quarter of 2020's results. Ms.Andrea, you may proceed.

Andrea Fernandes {BIO 21294199 <GO>}

Good morning. Welcome to Grupo EcoRodovias conference call today discussing the earnings of the first quarter of 2020. We thank you all for your interest and participation. We would like to address some important events occurred from January until June 2020.

Advancing borrowings in order to strength the Group's cash position and mitigate uncertainties regarding its capacity to roll over debts maturing in 2020. In April, EcoRodovias issued promissory notes in the amount of BRL1.2 billion for two years. In June, Ecosul issued bank credit notes for BRL250 million for one year. In addition, we are working towards equating the maturities due in the fourth quarter.

Regarding the developments related to the dissemination of COVID-19 in Brazil, the company has been taking prevention and mitigation measures in line with the guidelines set forth by health authorities in order to minimize as much as possible the impacts of the pandemic on the safety of people and the continuity of its business.

Many measures implemented by both the government and the private sector as a response to the pandemic have had significant impact on EcoRodovias' business. The company has been acting proactively to minimize these impacts in coordination with government and regulatory agencies, adopting important measures that are detailed on Page 2 of our results release.

The company reaffirms its understanding that from the regulatory viewpoint, its concession contracts are protected by clauses against force majeure events and/or unforeseen circumstances and therefore believes that its concessions will be entitled to economic and financial rebalancing due to the impacts of the COVID-19 pandemic, considered a force majeure event.

On Slide 2, we can see the monthly traffic performance and comparable toll revenue until June 23. Note, that even with a social distancing measures adopted to fight COVID-19, comparable traffic already shows a gradual recovery in the month of May and June, when compared to April.

Although comparable traffic shows a 14% reduction year-to-date, toll revenue decreased only 5% due to the good traffic performance resulting from the export of agriculture commodities in the concession with highest tariffs, demonstrating the quality and resilience of our highway portfolio even during a pandemic. When we consider concessions Eco135 and Eco050, we can see a 3% increase in traffic and 6% in toll revenue.

As regards the numbers of the first quarter on Slide 3, consolidated equivalent paying vehicle traffic posted a 21% increase, excluding the start-up operations at Eco135 and Eco050, consolidated traffic was down 3.8% due mainly to the social distancing measures adopted to combat COVID-19 as of the second half of March.

FINAL

As for the Group's consolidated financial performance on Slide 4, net revenue excluding construction revenue this quarter amounted to BRL768 million and net revenue of highway concessions increased 18%, mainly due to the start-up operations at Eco135 and the results consolidation of Eco050.

Moving on to Slide 5. Comparable cash cost in the quarter amounted to BRL203 million, an increase of 2.3%, which is below the inflation of 3.3% in the period. This growth is mainly due to the increase in third-party services, conservation and maintenance. It is important to note that the company has been adopting cost containment measures.

Pro-forma EBITDA amounted to BRL530.4 million in the first quarter with an 18% increase and margin of 69%. Most concessions posted a slight reduction on EBITDA, as we can see on Slide 6 and 7, due mostly to the decrease in traffic.

The highlights of the concessions located in the Southern region, which posted significant increase in pro-forma EBITDA. And the new concessions Eco135 and Eco050 with a pro-forma EBITDA of BRL68 million, representing approximately 13% of the consolidated pro-forma EBITDA.

On Slide 8, we see the evolution of recurring net income in the first quarter of 2020. Income had a positive impact of the higher EBITDA, but on the other hand a negative impact of the financial results due to the beginning of accounting of monetary variation under the concession rights of Eco135.

As for investments on Slide 9, CapEx in the first quarter of 2020 reached BRL263 million. Due to the social distancing measures adopted by state and municipal governments to combat COVID-19 and to protect the health of service providers and employees, measures are being taken to prioritize safety services to highway users and the possible postponement of investments.

On Slide 10. The net debt pro-forma EBITDA indicator remained stable compared to the end of 2019 at 3.2x.

Moving on to Slide 11. We closed the quarter with cash balance of approximately BRL2.1 billion, which together with future cash generation makes us comfortable with a Group's financial capacity.

Regarding debt, maturing in 2020, from April to June there were important funding operations totaling more than BRL1.5 billion that had contributed to extending the debt -- the Group's debt amortization schedule, reaffirming the quality of credit even during a period of high market volatility. The company is already in the advanced stages of negotiations to refinance the debt of the second half of 2020.

The company remains alert to growth opportunities and is currently studying federal concessions BR-153 Tocantins, Goias and BR-116/101 Dutra. We are optimistic with the Sao Paulo State government's agenda, which in addition to new privatizations is making

progress in the discussion of new contractual amendments for Ecovias dos Imigrantes and to solve the pending unbalanced contracts.

This concludes the presentation. We would like to move to the questions-and-answer session. Operator, we are ready to take 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, Victor Mizusaki, Bradesco BBI.

Q - Victor Mizusaki {BIO 4087162 <GO>}

Good morning. I have two questions. Andrea, the first one, as you mentioned, the Sao Paulo, the amendments for the pending unbalanced contracts. Can you give us any detail about the negotiations or maybe if you have an idea of when these negotiations will be concluded?

And my second question, thinking about the new bids and looking at the balance of EcoRodovias, we're talking about a debt net -- net debt to EBITDA above 3x. What would be the criteria to participate in the new bids?

A - Marcello Guidotti {BIO 16618352 <GO>}

Good morning, Victor. This is Marcello. Thank you for your questions. About Sao Paulo, the amendments, the unbalanced, and the market is really paying attention to this important aspect, I would say, going very well. There's already the new directors analyzing these issues and they're quite advanced on it, I would say, so we have a positive expectation. I think that soon, we will have a total or partial resolution of the main issues on the contractual amendments and the rebalancing in Sao Paulo.

EcoRodovias is negotiating Ecovias dos Imigrantes, but we are optimistic, and I think it will be well resolved. The COVID crisis delayed things, but it's slowly coming back to normalcy.

About the new bids, the federal schedule in the states and maintenance in Sao Paulo, it's all getting back to normal. So, we're already looking at opportunities. The financial capacity, as Andrea mentioned, we're adjusting our balance and there's also a recovery of the market. So, if we succeed in any of the bids, we could also access the equity market as a follow-on.

We'll see what's going to happen. There are many bids in the pipeline. But that's a little bit of EcoRodovias' position. Thank you.

Operator

Next question, Regis Cardoso, Credit Suisse.

Q - Regis Cardoso {BIO 20098524 <GO>}

Good morning, Marcello and Andrea, a new topic and two follow-ups. My new topic is about -- is the base to calculate the impact of COVID-19 in this rebalancing and force majeure. Do you have any clarity as to whether this impact will have an impact or calculated on projections or the traffic? If you have any information about this.

And I have two points to follow up on. One, about the discussions of the pending unbalanced contracts, especially the scope, if you can discuss if there is any part of your conversations that is knowingly out -- left out of this discussion, the current rebalancing of the COVID, of course. But are there other topics included? And also, your timeline expectation, if you can.

My second follow-up point is about the bid pipeline for the concessions. I'd like to understand the -- it's an extensive pipeline. I'd like to understand the features of the projects that may have interest you. Is it only highways or maybe, does it include urban mobility, airport, sanitation? There is so many other projects that are being discussed.

A - Marcello Guidotti {BIO 16618352 <GO>}

Thank you, Regis. About the rebalancing of the coronavirus crisis, no, we're working on it, working on normalizing with a single calculation basis. We're working already on this. The idea is to use the same methodology that we don't have. The work has not been concluded. Of course, the unbalances will be addressed concession by concession, each one with their characteristics and traffic impacts and so on. But it's important that the entire concession issue has the same methodology and we're working on it.

About the scope of the unbalancing of the amendments in Sao Paulo, as you mentioned, it does not include the COVID crisis rebalancing, but all the other points for rebalancing are on the table, both related to the older contracts and depreciation and balancing and others and some from the granters.

But suspended axles, for example, everything is part of a single discussion. That may be solved all at once or, of course, point by point, but of course, we're working on getting a single solution. As for the status I answered to Victor earlier, we're optimistic that things are moving well. The methodology is well defined, so it's a matter of finalizing negotiations and closing this.

As for the pipeline, the characteristics of the projects, we're looking at highway projects, only highways. Of course, as a group, we look at other sectors to see the dynamics that are unfolding. But on the medium term, we're focused on and looking only at the highway pipeline.

FINAL

Bloomberg Transcript

Q - Regis Cardoso {BIO 20098524 <GO>}

Very clear. Thank you for your answer.

Operator

Next question, Stephen Trent, Citibank.

Q - Stephen Trent {BIO 5581382 <GO>}

Good morning, everybody. Marcelo, Andrea and Nicolo, thanks for your time. Two quick questions for me. One pertains to the matter in which EcoRodovias might bid. Do you expect to bid on new projects only solo, or could you enter some consortiums to bid on new assets?

And the second question pertains to the potential equity follow-on. In that regard, how should investors think about Gruppo Gavio's interest in the company under that scenario? Thank you.

A - Marcello Guidotti {BIO 16618352 <GO>}

Thank you, Steve. So, Steve asked about the new bids, if we plan to enter solo as EcoRodovias or in consortiums with someone and he also talked about the follow-on and Gruppo Gavio. About the new bids, we're studying it as EcoRodovias. We're looking at the possibilities of joining consortiums or joining partners, could be financial partners.

And of course, we know the volume of investments required is high. There are many opportunities and they're big projects. So, EcoRodovias understands that if we have the possibility of going in with a partner, it could be an option. So yes, we are also looking at those opportunities.

About the equity follow-on, I believe that Gruppo Gavio has been indicating and manifesting that they have an interest in EcoRodovias, in the growth in Brazil as well. So, I think the follow-on strategy is in line.

Q - Stephen Trent {BIO 5581382 <GO>}

Okay, very helpful. Thank you.

A - Marcello Guidotti {BIO 16618352 <GO>}

And the Grupo Gavio could participate as well. It's in line with their strategy. Thank you, Steve.

Q - Stephen Trent {BIO 5581382 <GO>}

Great. Thank you.

Operator

FINAL

Bloomberg Transcript

I would now like to turn the floor to Ms.Andrea Fernandes for her final remarks. Please, Ms.Andrea you may proceed.

A - Andrea Fernandes {BIO 21294199 <GO>}

I would like to thank you all for your participation. I remain available, myself and my team for any future questions. Thank you very much. Have a good day.

Operator

EcoRodovias' conference call is now closed. We thank you all for your participation. Have a good day.

This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP. © COPYRIGHT 2022, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.

FINAL

Bloomberg Transcript