

Q1 2019 Earnings Call

Company Participants

- Arthur Piotto Filho, Chief Financial and Investor Relations Officer
- Eduardo De Toledo, Vice President of Corporate Management
- Unidentified Speaker

Other Participants

- Alexandre Falcao, Analyst
- Lucas Laghi, Analyst
- Lucas Marquiori, Analyst
- Pedro Bruno, Analyst
- Samuel Alves, Analyst
- Victor Mizusaki, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. Thank you for waiting. Welcome to CCR teleconference to discuss Q1 2019 results. All participants will be in a listen-only mode during the conference presentation. (Technical Difficulty)

Statements made about business prospectives, projections, financial goals, are made up by beliefs of the Company's management, based on current information available to the Company. Future considerations are not guarantee of performance. They are related to future events, so they are dependent upon circumstances that may or may not occur. Investors should understand that general conditions and industry conditions, among other operational factors, may impact future results of the Company, and they, of course, result in different consequences than those stated here.

I would like to turn it over to Mr. Eduardo De Toledo, Corporate Management VP of the Company. You may proceed now, sir.

Eduardo De Toledo {BIO 2067933 <GO>}

Good afternoon, everyone. It's my pleasure to be here with you today for this quarter's results. Arthur Piotto, the RI, Financial Director; and Flavia Godoy, he's from the RI team.

I would like to start by pointing out the good performance of our Company in Q1. Very positive numbers. Finance [ph] indicators make that very clear. The operational adjusted

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EBITDA showed us a 15.8% increase when compared to Q1 '18. The other one is the net debt-EBITDA ratio, 2.8x to 2.6x this quarter, Q1, from 2.8x to 2.6x reduction, from Q4 to Q1 this year. These are positive indicators that show our good performance. I would like to point out that we may see this type of evolution throughout the year, because we do have businesses that are in the ramp-up phase. The subway system in Bahia, for example, has shown a 28.9% increase when compared to the number of passengers, when comparing quarter -- year-on-year. In this quarter, we had over 500,000 passengers per working day. When compared to ViaSul, traffic in Q1 2019 surpassed 5 million vehicles. So these are ramp-up businesses and they will have this performance throughout the year.

As to the ViaSul, in particular, let me point out that the Company has shown its capacity when we managed to start the operations of this operations February 15, only three and a half months after we were awarded the auction, despite all the bureaucracy, the hiring of personnel. Three and a half months later, in other words, we were able to make that happen. We had to hire executives, the workers and mobilize assets, rescue vehicles, the entire -- the entire systems, a concession that has been deactivated for over a year. So that's clear evidence that the Company can properly run its operations.

Before I turn it over to Arthur, he'll be giving you further detail about Q1 results, let me just say that we are pleased to hear the proposal be approved on the 22nd. This is an important step to CCR, so that we can overcome the issues we faced last year.

I turn over to Arthur now.

Arthur Piotto Filho {BIO 4777038 <GO>}

Thank you. Good afternoon. Well, let me thank you for attending this call. Let me just make some comments about the results. The release is available at www.ccr.com.br/ri.

Let me now talk about the highlights of the quarter. Pro forma traffic is down 1% year-on-year, that's first quarter 2018. But recent effect of the exemptions of suspended axles and also ViaSul, the latest highway added to the Company's portfolio earlier this year, there was a 1% increase. Let me point out the pro forma numbers of Q1 considers that we do not have total control or shared control. That's consolidated as to our stake at each line, excluding non-recurring expenses, new projects and assets in which we have a higher stake and in comparable basis, as we stated in our results release.

Cash is down 1.8% as a result of the concession course [ph]. Adjusted EBITDA is BRL1.5 billion, up 14.2% when compared year-on-year, with 63.8% margin that accounts for -- and a margin expansion of 11.2 percentage points. Net income is BRL337 million in the first quarter, it's down 23.2% when compared to first quarter last year. This result is impacted by operational performance, as we've stated before, and greater depreciation and amortization in that period. These two components, depreciation/amortization, are a result of the conclusion of Dutra, RodoNorte and Metro Bahia construction projects that were ended. Another important component that contributes to that decrease of 23.2%, is that end of the interest capitalization period for the construction that were not used in two

projects, Metro Bahia and the Confins Airport. So in Q1 this year, investments, including financial assets and maintenance, amounted to BRL331 million [ph].

The Company's RodoNorte, NovaDutra and San Jose airports -- International Airport in Costa Rica had better results. As to the net (inaudible) BRL13.2 million, an expansion of 11.2% when compared to -- and 4.1% down when compared to Q4 last year. With the reduction from Q4, the Company's leverage measured by net debt to EBITDA. Operational adjusted is 2.6 times.

On March 11, the Company made up of CCR with an 80% stake, presented the best proposal in the onerous transfer for 115 [ph] sewers in the subway system in the city of Sao Paulo. Analysis is further pending and the official announcement of the company awarded that bid. This achievement is evidence of the qualified service the Company provides. We're still -- we remain optimistic and we are interested in new businesses, both domestically and internationally, both at the primary and secondary level, for highways, urban mobility, airports and ports and related businesses, and this is of course in alignment with our dialogues. There are several opportunities to grow. Two federal highways are now currently being prepared for the invitation to bid in Santa Catarina 101 and 364, 365 between Goias and Minas Gerais.

Additionally, still in 2019, a re-bidding process will take place in Goias [ph] by the Transportation Agency and stretches 370 and 325 [ph] highways currently in the hands of (inaudible). This process is going to be run by the State Secretary of Transportation.

In terms of airports and ports, the federal government has just announced it is going to include the private initiative in six airports' concession. 36 different assets will be auctioned in the period between 2019 and 2022. In terms of urban mobility, lines 8 and 9 of the metropolitan train system in Sao Paulo are going to start bidding in the first semester of this year. Internationally, we are now pre-qualifying phase in the Bogota subway system

Let's move on to the Q&A session. You can move forward.

Questions And Answers

Operator

(Operator Instructions) Alexandre Falcao from HSBC is going to ask the first question.

Q - Alexandre Falcao {BIO 5515455 <GO>}

Thank you. My question is about that note you paid over the PIC. You paid out BRL15 million in fines. Was this voted in the General Meeting? When we calculate the PIC, the remainder -- I think the total was BRL7-odd million of 4 ViaQuatro of the Generals Assembly. Am I right in those calculations? Thank you.

A - Eduardo De Toledo {BIO 2067933 <GO>}

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Hi. This is Eduardo. Thank you for your question. Those BRL15 million were included in the contract, these are individual fines. CCR is accountable for those fines, they have been fined as individuals. That's what they are -- these BRL15 million are. This has been announced only now. It's a provision. To the best of our knowledge, this is the global amount, the total amount. As to the amounts paid and the current remainder, these were all approved by the PIC, and there were some advances before. If that was not approved that will be returned, of course.

Q - Alexandre Falcao {BIO 5515455 <GO>}

Have you hired someone in corporate governance? Couldn't you have access to those BRL15 million before the vote, why wasn't this included?

A - Eduardo De Toledo {BIO 2067933 <GO>}

Well, actually, we do not have direct access to that piece of information. As to the agreement, the pre-buy-ins, this is in secrecy. We have recently asked to get information about it, what would those individual fines be, so that we could provision them. We knew they were below -- under the PIC number that wouldn't be so substantial. The issue was a matter of information flow, because we do not have direct access to those pre-bargaining agreements directly.

Q - Alexandre Falcao {BIO 5515455 <GO>}

I have a final question, if I may. We talked about materiality, because these are not material values actually. These are just small amounts. You said that there is nothing that is material in other states. Well, I just try to understand it. In the same non-materiality scale, would there be any amounts that would be at this level and this neighborhood? Would you be liable to any type of contingency of that sort?

A - Unidentified Speaker

Once again Falcao, we can announce is what we have in our statements. Everything that was found that is material, and again, materiality is the accounting sense in the auditing point of view. Everything that is material is contemplated in the agreements that were signed, everything that was found in the investigation. But what we can say now, I cannot divulge any further detail on the matter.

Q - Alexandre Falcao {BIO 5515455 <GO>}

All right, thank you.

Q - Pedro Bruno {BIO 19082978 <GO>}

Pedro Bruno, Santander, asks the following question. Good morning. Thank you for taking my call. Actually, most of it has been answered, let me just follow up on Falcao's question. As to those BRL15 million, my question is, maybe you don't even -- you don't know yet. Is there anything else that might come up in the near future? Could there be anything else, something that was not in the voting? And I know you may not know how much it is. How much it is may be not the most important thing. But my intention is to find out whether there is anything else that was not included in the PIC? That's it. Thank you.

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A - Unidentified Speaker

Hi, Pedro, thank you for your question. As to the amount, this is what we asked the lawyers, we wanted them to give us the numbers that are already known. This is the number they gave us. We're not expecting any significant numbers. Of course, we do not have full control of the situation. But we don't see any significant amount coming up.

Q - Pedro Bruno {BIO 19082978 <GO>}

Alright, Thank you.

Operator

Lucas Laghi from Citibank is asking the next question.

Q - Lucas Laghi {BIO 20757425 <GO>}

Good morning. Shifting gears, you talked about government projects in the pipeline. What's the competition like for these new projects, especially considering foreign players that were not involved in previous processes?

A - Arthur Piotto Filho {BIO 4777038 <GO>}

Lucas, let me just give you an overview. We've seen important foreign players in airports. This is an industry in which foreign players play an important role. In other areas, highways and urban mobility, we haven't seen that many foreign players. There was a wave last year, a stronger wave of foreign players last year, but we haven't seen that important presence more recently. Let me just follow upon what Eduardo said. In our industry, especially in highways, which is older, so to speak, and it's an industry that has always been open to foreign play. There isn't any preference on for domestic players, especially during the auction phase. It's only natural that they will come. This is a result of the economic scenario abroad. They are not only strategic players that we need no introduction, but we've seen other players, such as financial players pension funds -- pension funds coming to Brazil and being part -- an important part of some projects. More than being concerned about the competition, I think we should look at the number of opportunities. We should be optimistic, be it in new projects or re-bidding process of concessions that are expiring between 2019 and 2020, 2021, there are several projects out there. So that's what we are aiming for. We're not only trying to maintain our portfolio of those projects that will be expiring in the same time frame, but at the same time, we're trying to expand even our portfolio. In that sense, in the past 12 months, the Company has done great work. We added a new project or increased our stake in one concession per quarter. So I believe it's good rhythm, it has to do with CCR. That's our desire, to benefit from this new macroeconomic scenario. It is a competitive one, of course, but the country as a whole has the necessary conditions, so that the market can actually take off finally.

Q - Lucas Laghi {BIO 20757425 <GO>}

I understand. I was more concerned about highway construction. There was some time with no foreign players and now we had in this latest auction somewhat aggressive players in the auction. What's your take in the next auctions? Do you think foreign players

will play a more important role? Can you share your take on the balance sheet? Do you believe you have a great leverage ratio, even to take part in these new auctions [ph]?

A - Unidentified Speaker

Well, in terms of highway, it's a local issue, everything's local. The revenue, it's based on domestic currency, local inflation. Airports is somewhat different. You talk to major airlines, major brands, it's more of a global issue. But highways is very local in nature. Foreign players will be competing within the same condition and we at CCR have a competitive advantage because of its know-how. And I think Arthur is right. Foreigners are welcome, because there's a lot of supply, there will be opportunities for everyone. The pipeline looks very positive. As to the leverage, the number that we use as a benchmark is 3.5x net debt/EBITDA ratio when we are more leveraged. That's the standard, that's the benchmark we aim for.

Q - Lucas Laghi {BIO 20757425 <GO>}

Perfect, thank you.

Operator

Lucas Marquiori from Safra is asking the next question.

Q - Lucas Marquiori {BIO 17907247 <GO>}

Good morning. Thank you for the call. I have two questions. First one is, in CCR Day, in the presentation of the Governor Doria's administration, he was very optimistic about the renewal of contracts. And are you [ph] considering about changes, I would like to hear a take on the update. And I would like to know whether the government is demanding anything to extend concession, something as tariff reductions, are they demanding there to extend the time frame?

And the second question is about the latest two Mobilidade and ViaSul, most recent assets. Could you compare the financial performances and traffic of the two assets compared to what was budgeted, especially ViaSul, a very sought after asset, I would like to better understand the traffic, whether they are performing according to the forecast.

A - Unidentified Speaker

Thank you. Thank you for questions. Okay, let me address the first question about the extensions from the government of Sao Paulo. I think the outlook is very positive. We've been publicly discussing these issues. The focus is in new projects, projects that can improve highways overall, and again, including extensions, that's the main focus of conversations. These negotiations are currently underway, they're moving forward. And we can clearly see that desire on the part of the government, Doria's administration, to move forward in that direction, and that's very positive. There is nothing new, nothing that hasn't been discussed in the media.

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As to the ramp-up projects, okay, ViaSul, we started two months before what we predicted. So we are going to have traffic, there will be above expectations. So things are looking great. ViaSul is a project that has very positive outlook. As to the other project, everything is according to plan. Over 500,000 passengers per working day, completely in line with what we expected. However, traffic was down. But again, it's a country that was expected to grow 4% a year in the next four or five years. But rather it was -- had 3% -- GDP was down by 3% for two years in a row. It's a combination of factors. A lot of expectation at the time. And a major recession that the country had to go through. Projections today for ViaSul are now way more optimistic. So it's very possible to overcome those difficulties. Projections were conducted when the country was more cautious, if I may.

Q - Lucas Marquiori {BIO 17907247 <GO>}

All right, thank you.

Operator

Victor Mizusaki from Bradesco asks the following question.

Q - Victor Mizusaki {BIO 4087162 <GO>}

Good afternoon. I have a couple of questions. Let me go back to another issue, but this is something that we -- our customers demand. In terms of the payments in reals, is that for RodoNorte, or would that include concessions in Sao Paulo? My second question is about the accounting materiality. Is that the same concept that the DA's office use to analyze this? And thirdly (technical difficulty)

A - Unidentified Speaker

Thank you for your questions. Let me go back to the BRL15 million. That includes the individual fines, both in Sao Paulo and Parana. So that would include both cases, two claims.

What was your second question again? Well, let me give you an update. There have been some decisions made, but overall, every time we have an analysis or an expert opinion and they can show clearly what we have been doing. This is in line with the recent decision.

Q - Victor Mizusaki {BIO 4087162 <GO>}

And my third question, the comparison between the concept of accounting materiality. Is this the same criteria that the DA's office uses in the investigation process?

A - Unidentified Speaker

I cannot answer the question. I don't know what the criteria they use, the way I see it. I am referring to the accounting issues, I don't know what criteria they use.

Q - Victor Mizusaki {BIO 4087162 <GO>}

All right, thank you.

Operator

Samuel Alves from BTG Pactual asks the next question.

Q - Samuel Alves {BIO 18720076 <GO>}

Thank you. Good afternoon. My question is a follow-up on the comment on MSVia. Could you elaborate on the negotiations of the contract? Are they going to think -- are they thinking about some financial consideration to reshape the investment, or is the conversation moving towards a return of the asset, just like the CRI 153 [ph]?

A - Unidentified Speaker

Thank you for the question. As to MSVia, we filed a suit and we have received legal support. We cannot keep on investing according to the plan -- the initial plan, because of the major imbalance we have in the concession. So within their claim, within that lawsuit that will involve the Grand Tour, so both parties are now submitting their plea. And during that phase, it's desirable to come to some sort of settlement. So these settlements, the way we see it, should protect investments we have made. This is the most important part. But again, we are willing to negotiate, and at the same time, we are taking all legal measurements available to protect the Company's interest. Thank you.

Operator

(Operator Instructions) Alexandre Falcao from HSBC asks the next question.

Q - Alexandre Falcao {BIO 5515455 <GO>}

My question is about commercial traffic. Even excluding suspended axles, traffic is very slow for the quarter. Was it in one specific highway or a specific line in which traffic was much slower than usual, and is it going back to normal in April, or would that be a trend for the year, because this number is very small?

A - Unidentified Speaker

Hi Falcao, thank you for question. As to CCR, I think we were impacted by two nonrecurring events, that's viaduct (inaudible) and again, viaduct in the Dutra highway. There were two major problems, traffic had to be rerouted, there was some restriction that impacted us to a certain extent. Anyway, numbers would have been better if not for those restrictions.

But going back to trends now, we -- earlier this year, January and February we detected some more positive traffic. And now, March, April, things is again going back to normal. I think the economy numbers reflect the same temperature, if I may. It's not picking up as rapidly as we expected earlier this year.

Q - Alexandre Falcao {BIO 5515455 <GO>}

All right, thank you very much.

Operator

Victor Mizusaki from Bradesco asks the next question.

Q - Victor Mizusaki {BIO 4087162 <GO>}

Thank you. Just a final question, Eduardo, if you please. When you talk about the materiality, our accounting materiality, how do you [ph] make that calculation? Is there a fixed calculation based on the number or the size of the company? How can you -- how do you make that calculation, if you please?

A - Eduardo De Toledo {BIO 2067933 <GO>}

I'm not a specialist on the matter. That calculation takes into account several variables. Every accounting company or every auditing company makes their own calculation. That's dependent upon the size of CCR. But I think it has some relation with accounting materiality, but it will change depending on the auditor, sales, assets. Those variables are taken into account, but it's not the same criteria amongst several auditors.

Q - Victor Mizusaki {BIO 4087162 <GO>}

All right, thank you.

Operator

That concludes the Q&A session. I turn over to Mr. Eduardo De Toledo for his final remarks. Mr. Toledo, you may proceed.

A - Eduardo De Toledo {BIO 2067933 <GO>}

I would like to thank you for taking part on this call. At CCR Day, we have the chance to give you more detail in every -- we talk about every business opportunity, just like we did here today, new highway concessions, new airport concession rounds that have been announced by the government, the new concession of railway system mentioned by Arthur. These are my first six months in the Company. And CCR has the necessary conditions to play a significant role in this new cycle. Once again, thank you for taking -- for attending this call. And see you next time. Thank you.

Operator

This concludes CCR teleconference. Thank you for attending and have a good afternoon.

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