

Q1 2012 Earnings Call

Company Participants

- Marcelino Seras, CEO
- Roberto Nakagome, IR Officer

Other Participants

- Alexandre Amson, Analyst
- Augusto Ensiki, Analyst
- Unidentified Participant, Analyst

Presentation

Operator

Good morning. Welcome to Ecorodovias First Quarter of 2012 earnings conference call. Today with us we have Mr. Marcelino Seras, CEO; Marcello Guidotti, CFO; and Roberto Nakagome, Investor Relations Officer.

We would like to inform you that this event is being recorded and that 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. And then further instructions will be provided. (Operator Instructions).

The audio and the slides of this 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 clarify that forward-looking statements that might be made during this call relating to the business prospects of Ecorodovias and projections operating and financial targets constitutes the company's management's beliefs and assumptions as well as information currently available. They involve risks, uncertainties and assumptions as they refer to future events and therefore they depend on circumstances that may or may not occur. Investors should understand that general economic conditions, sector conditions and other operating factors may affect the future performance of Ecorodovias so that results may materially differ from those contained in these forward-looking statements.

Now I would like to turn the floor over to Mr. Roberto Nakagome, IRO and he will be talking about the results of Q1 2012. Mr. Nakagome, please go ahead.

Roberto Nakagome {BIO 16618355 <GO>}

Thank you, operator. Good morning, everyone. Welcome to Ecorodovias First Quarter of 2012 earnings conference call. We will start our call by updating you about year 21 [ph]. As you know since January 2012, the Rodovia da Vitoria Consorcio composed by EcoRodovias and SBS Engenharia was the winner of the auction for the concession of BR-101 in Espirito Santo.

According to relevant communique published in the Official Gazette on May 8, the Board of ANTT judged invalid. And May 11, 2012 the Court of Accounts revoked the injunction that suspended the next stages of this bidding process.

And during the next meeting of the ANTT Board on May 1,6 there will be the reclassification [ph] of the results and publication of the new time schedule for the date for the signing of the contract.

The business plan presented by the consortium meets all the requirements of the process. And the proposal submitted by this consortium is the best for the public interests and for users. We are absolutely sure that we may become an important partner of the state of Espirito Santo in the development of the State and the region. And our target is to replicate in the State the business model adopted by the Group, such as we do in Sao Paulo and Parana and Rio Grande de Sul.

In relation to the other new businesses, we continue to be focused on the opportunities for acquisitions in logistics, mainly in the port, airport areas and others, looking for opportunities that may add value and synergies to the current business. We are also paying attention to the new opportunities in the highway sector, waiting for the new auctions announced by the Federal government. And evaluating partnership projects or PPPs with the State governments.

Talking about the results for Q1 we can see [ph] too the 5.9% growth in traffic of highway concessions. And as published to the market on the 6th the accumulated traffic up to April, grew 4.7% or 69 million vehicles equivalent. Although the lower consolidated growth in April vis-a-vis 2010/11 we continue with our outlook for the growth of 1.5 times the GDP.

The operating performance of logistics, considering seasonality of the sector and optimization of the mix of services with handling of 20,000 containers in the primary zone, lower than the 22,000 containers in Q1 of 2011. And due to the increase of 43% in handling of import containers.

Regarding the financial performance, the consolidated net revenue in the quarter, net of the effect of construction revenues, was BRL433 million (sic -- see presentation) 11.6% growth year on year, as you can see on slide four, which also shows the growth revenue per business with 80% for toll and 14.5% logistics.

EBITDA IFRS consolidated in Q1 was BRL261m, 54.9% margin. Adjusting the calculation net of the IFRS effect, we had 63.8% margin in the consolidated figure, in line with Q1 2011.

On slide six, the EBITDA margin of Highway Concessions net of the IFRS effect reached 75.1% (sic -- see presentation). In Logistics, EBITDA margin reached 14.2% in Q1, higher than 13.3% in the same period in 2011.

In Logistics, beside the effect of logistics in the sector and Q1 has the lower impact, EBITDA was impacted by the review in the business plan and processes in the transportation sector, reorganization of portfolios in the distribution centers for the improvement of margins in these services as well as the expenses in development and the acquisition of new businesses.

Net debt, slide seven, 1 time net debt EBITDA ratio, comfortable for the new investments of EcoRodovias investments made in the quarter were BRL72m, highlighting the beginning of the duplication of 14.4 kilometers of BR-277 at Ecocataratas, as indeed application was the object of an adjustment for the concession contract with the highway department of Parana, BRL50.6 million overall value, besides investments in paving and conservation of highways.

Slide nine, according to our dividend policy, at the end of March we paid interim dividend related to 2011 amounting to BRL51.4m. Net income in the quarter was BRL107m, 17.2% increase year on year.

Now that we have concluded our brief presentation we would like to start our Q&A session. We are ready to start, operator, for investors and analysts alone. Thank you, very much.

Questions And Answers

Operator

Thank you, very much. Now we would like to start this Q&A session for investors and analysts. (Operator Instructions). Our first question comes from Mrs. Tiez Gohay [ph] from Goldman Sachs. You may proceed.

Q - Unidentified Participant

Good morning, everyone. I would like to ask two questions. The first one has to do with Logistics. What is your view for the next quarters in each one of the divisions?

In Logistics, could you give us more details and an idea about the EBITDA margins when they will be converging to 20%, 25%? So maybe you could give us an update and more information? And what about the transfer of licenses of (inaudible) and about -- also about the warehousing part of your business?

A - Roberto Nakagome {BIO 16618355 <GO>}

Good morning, Tiez, this is Roberto. Thank you for your question. In relation to logistics, Columbia [ph] ELOG will be working the next few quarters.

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In the First Quarter we have seasonality in the First Quarter, as you know. And ELOG decided to review its client portfolio, aiming at improving the performance and also in distribution centers. And the will Imigrantes and Cubatao warehouses are already finished. We have already completed our investments in these warehouses. So this means that from now on the margins that we use as guidance should be reached in two stages.

With the transfer of the license our goal is 25% to 30% by the end of this year. And in case there is a delay in the license the impact on logistics would be the maintenance of 20% margin. This is our target vis-a-vis our operations with the distribution centers and the imports with the current structure.

In terms of licenses we continue to work on that with the regulators so that we may obtain the transfer of this license. And what is the scenario that we see? We will be waiting for the conclusion of the first half of the year to see the situation or whether this will be extended for some months into the second half.

So the mix of products will be different. And with the licenses we will have a bigger area we will be able to have bigger demand. Therefore, the average tariff per container would be going up. And as a consequence the margin would be going up.

In case the license is not obtained in this framework then we would be reviewing our EBITDA margins due to the composition of the product mix. So this is the situation that we have in terms of logistics. At the end of the first half we will give you a new review for the guidance for logistics

Q - Unidentified Participant

Thank you, very much, Roberto.

Operator

Our next question comes from Mr. (inaudible) from (inaudible) Brokers.

Q - Unidentified Participant

Roberto. Good morning. My question has to do with traffic. We saw this change in April. And I would like to know your view about traffic for the Second Quarter. What do you expect in terms of traffic?

A - Marcelino Seras {BIO 16618338 <GO>}

Good morning, everyone, this is Marcelino. About traffic, as always the highway is managed by us. We are responsible for the growth of the traffic in the country. And it is in line with the performance of the industrial activity and exports activity and imports activity as well. And we believe that all the macro measures that are being taken by the government will make it possible undoubtedly to achieve a stronger growth for the second half of the year.

And our highways are the ones that respond first to these stimuli and this curve or this growth curve. The -- and we are working with the 3.5% GDP growth for the year.

Operator

(Operator Instructions). Our next question comes from Alexandre Amson from Santander. You may proceed.

Q - Alexandre Amson {BIO 4119036 <GO>}

Good morning, everyone. Just a follow up of the first question about logistics, I would like to understand in terms of seasonality in the Q1 I understand that the margins are lower than the other quarters. And I would like to understand what you feel about, or how you feel about volume.

In volume terms we see a deceleration in general in all logistics segments. And I would like to know if it is still in line with your expectations or whether it is weaker, if there is any change in this regard, regarding volumes?

A - Marcelino Seras {BIO 16618338 <GO>}

Alexandre, this is Marcelino. Volumes are as expected. The customs areas are full, because the activity is continuing. And we see a slight delay in customs clearing the imports due to government policy. And the mix that you see in logistics is a positive mix.

The company starts to clean out its facilities in order to have only products with the higher added value and more comfortable ones. So this is a very important job that we are carrying out. And it will be very positive in its outcome for the next results that we will be presenting.

And as Roberto said in the current business the margin will reach 20% EBITDA. And with the transfers of the licenses regarding the total performance these margins will be getting to 25% and 30%, between 25% and 30% as the transfers are approved.

Q - Alexandre Amson {BIO 4119036 <GO>}

Thank you, very much, Marcelino.

Operator

(Operator Instructions). Mr. Felipe Finachi [ph] from Barclays.

Q - Unidentified Participant

Good morning, everyone. Still talking about logistics, separating by segment the primary zone and the customers I understand that if we look at transportation and distribution center we see a major impact on that transport 10% and distribution centers also changing the occupancy rate. So, could you please tell us if this is a trend or whether this is only related to seasonality or what in terms of this deceleration that we are seeing?

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A - Roberto Nakagome {BIO 16618355 <GO>}

Good morning. This is Roberto. Very good question. Both in DCs and transportation I have already talked about that, we are reviewing our business plan in transportation so this is a second stage in logistics in the portfolio of clients. And also the infrastructure that we acquired in Columbia.

We are reviewing this aiming at better margins. So in Q1 we had a reduction in operation so that we could carry out the necessary changes. And by the end of the first half we intend to start this new business plan in transportation and distribution centers.

Besides seasonality and what we mentioned in the Federal government policy, chemicals for instance, we are reviewing the client portfolio. And the kind of product that is being used in our DCs and that we believe the margins could be better. So we are working with our clients also in infrastructure. And mainly in infrastructure I would say. So that we can have a better infrastructure, which will make it possible to improve our margins to boot.

So these were the measures that we carried out in Q1. And we believe that by the end of June we will have a new portfolio and a new structure both in DCs. And clients and transportation.

Q - Unidentified Participant

Thank you.

Operator

Mr. Augusto Ensiki from Morgan Stanley, you may proceed.

Q - Augusto Ensiki {BIO 15988025 <GO>}

Good morning, everyone. I apologize for the question but looking ahead and considering what you think are the best products for the markets. And which ones you are more interested in that in others. I apologize if you have already answered this question.

A - Marcelino Seras {BIO 16618338 <GO>}

Augusto, this is Marcelino. The company's performance is still based on seeking good opportunities in many different sectors in the highway area. We are working very strongly and specifically in the Anchieta/Imigrantes complex in the (inaudible) and the negotiations are underway and are very positive.

And we are starting also to talk with the government of Parana and the Federal government of Eco Sul [ph]. So these are new investments in the new in our existing highway concessions. And aiming at improving the tariffs or the extension of the concession terms. And we are analyzing and -- but this is not yet -- the new highway concessions more towards the end of the year. And it will depend on, especially on the Federal government.

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In Logistics we continue to make our best endeavors in the analysis of opportunities in the sector. And here we are talking about ports terminals and more specifically in the regions where we already have assets in logistics and in highways Parana, Rio Grande, centers. And we continue our partners with Cenco [ph] analyzing the possibility for a new airport that will be auctioned by Infraero by the Federal government, possibly by the end of this year or beginning of 2013.

Q - Augusto Ensiki {BIO 15988025 <GO>}

Thank you.

Operator

(Operator Instructions). Mr. (inaudible) from Merrill Lynch. You may proceed.

Q - Unidentified Participant

Good morning, Marcelino, Roberto. And I apologize if you have already answered this question at the beginning of the call, I was not connected. But we have been talking about a long-term margin for Logistics, something around 30%. I would like to know if this continues to be the estimate. And what about the time schedule for the eco-patches [ph] and the integration of the dry port and Colombia air -- centers?

A - Marcelino Seras {BIO 16618338 <GO>}

Gulino [ph], this is Marcelino. An integration has already been concluded. It has already been fully integrated and concluded. And we continue with all our studies. And when the transfers occur of the current clients to the eco-patches then we will be achieving a 25% to 30% margin as was already announced last year.

And today we are making our best endeavors in terms of reaching 20% margin, with the current facilities of Columbia ELOG that we have. And the transfer of the licensees are being studied by the regulators and by the oversight agencies and the Brazilian IRS and the Ministry of Finance. And in the short term we expect to have positive news to impart to you about the transfers. And once again telling you that there is no rule against that, the transfers are not submitted to any rule against it by the Brazilian IRS. So we are just following the necessary bureaucratic path in order to be able to achieve these licenses.

Q - Unidentified Participant

Thank you, very much, Marcelino.

Operator

As there are no more questions we would like to give the floor to Mr. Roberto Nakagome for his closing remarks. Mr. Nakagome, you have the floor.

A - Roberto Nakagome {BIO 16618355 <GO>}

Once again we would like to thank you all for participating in our conference call. And in case you still have doubts please contact our Investor Relations department. And it will be a pleasure for us to help you. Thank you, very much and have a very good day.

Operator

Thank you. Ecorodovias conference call is closed. We thank you very much for your participation and wish you all a very good day.

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