

Q2 2014 Earnings Call

Company Participants

- Flavia Godoy, Investor Relations Coordinator

Other Participants

- Alexandre Falcao, Analyst
- Stephen Trent, Analyst

Presentation

Operator

Good morning, ladies and gentlemen, and thank you for waiting. We would like to welcome everyone to the Second Quarter 2014 Earnings Conference Call of CCR SA. We would like to inform you that all participants will be in a listen-only mode during the company's presentation. After the company's remarks are completed, there will be a question-and-answer session. At that time, further instructions will be given. (Operator Instructions)

Before proceeding, let me mention that forward-looking statements about CCR's business prospects and financial and operating goals are being made based on the beliefs and assumptions of CCR management and on information currently available to the company. Future considerations are not guarantees of performance.

They involve risks, uncertainties and assumptions because they relate to future events, and therefore depends on circumstance that may or may not occur in the future. Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of CCR and could cause results to differ materially from those expressed in such forward-looking statements.

Now, I'll turn the conference over to Ms. Flavia Godoy, CCR's IR Coordinator. Ms. Flavia, you may begin your conference.

Flavia Godoy

Thank you, operator. Good morning, everyone, and thank for joining us on our earnings conference call for the second quarter of '14.

With me today are Arthur Filho, our CFO and IR Officer; Marcus Macedo; Daniel Kuratomi and Leandro Mathias from the IR team. The earnings release for the second quarter '14 is available on our website at www.ccr.com.br/investidores.

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Before we get into some highlights, I wanted to quickly go over some macroeconomic indicators that we believe that are important for our performance. Among the economic and the production indicators that have been announced, we want to still highlight the unemployment rate. In April '14, the last data that published by the IBGE, unemployment was 4.9%. The lowest for the month of April since 2002, a continuous improvement over the 5.8% rate in April '13.

We also wanted to point out that average real income in April was 2,028, up to 2.6% over April '13. The most recent IBGE data on industrial productions saw a decline of 6.9% in June compared to the same month '13 as compared to May the decline was 9.4% [ph].

Comparing second Q '14 with second Q '13, industrial production fell 5.4%, while last 12 months production fell 0.6%. Credit [ph] data from the Central Bank showed that prices grew in June '14, (inaudible) was 8.9% with the consumer (inaudible).

Credit to commercial vehicles, however, fell 4.3% over June of '13. Remember that the automotive industry is closely related to the rising traffic [ph] and it is very important to their national industrial GDP.

In this path, the number of vehicles license fell 12.2% in the quarter as compared to the semi-period of the previous year, while vehicle production also fell 25.1% [ph] in the quarter.

On (Technical Difficulty) we have consolidated traffic at our concessionaires, which grew 3.9% in second Q of '13 considering Renovias compared to the semi-period of the previous year. We remind that on June 25, '13, according to the Diario Oficial of the state of Sao Paulo, the tariff adjustment there was -- expected for Sao Paulo highways was not applied.

On the other hand, the beginning of July 28, '13, suspended axles on commercial vehicles can be charged. This traffic in second Q '13 was impacted by this measure for the financial balance of the concession contracts. Furthermore, the offset levers and the eventual balance in the difference have not been calculated for the concessionaires (inaudible).

That said, commercial vehicle traffic grew 2.9% year-on-year, light vehicles were up 5.5% in first half '13, (inaudible).

In our earnings release, you can find more information about traffic growth at our concessionaires. We also highlight the key performance numbers for second Q '13, that is considering all the business consolidated according to CCR's (inaudible). We also adjusted a comparison base that is exclusive for calculation of those businesses in three operational phases that were not in the company's portfolio in the second Q '13 and Controlar which is not operational since January '14. Therefore, their businesses excluded from this comparison were MSVia, Metro Bahia, VLT, ViaRio, BH Airport International, Curacao and Controlar.

According to these criteria, adjusted EBITDA was 950 million, up 5% over second Q of '13. Adjusted EBITDA margin reached at 63.9%, stable over the same period of the previous year.

The company posted a net income of 276 million in the second Q '13, down 9% over second Q '13. This result was impacted by businesses that have not yet mature or still in preparational phase. And therefore, they not generate the revenue. Excluding this effect, net income on a comparable basis would have been 293 million, down 3.8% mainly due to the financial results.

With regards to our last year's company leverage as measured by net debt to EBITDA performance, reached 2.0 times in second Q '13, slightly above the leverage of the previous quarter of 1.9 times. We believe that this leverage is comfortable for the company to meet its investment commitment as permitted in the business that we recently achieved.

Before we conclude the comments on second Q of '13, we highlight that there has been uptrend on CCR estimated CapEx for '14 from 3.90 billion to 3.2 billion. This led us to pan out [ph] the initial investment as scheduled in Metro Bahia due to delays in the release of areas and the expropriation processes, which delayed the beginning of construction works. This postponement should not significantly affect the achievement of the operational milestone. And increased period of obtaining IBAMA's approval and the beginning construction works in next year, initially scheduled for May but had begun in June. This postponement does not change the project's initial forecast cash position.

We also highlight that the company's management proposed the distribution of the amount of R\$0.65 per share.

We will now open the question-and-answer session for our second Q '13 conference call. Operator, please go ahead?

Questions And Answers

Operator

Ladies and gentlemen, we will now begin the question-and-answer session. (Operator Instructions) Our first question comes from Stephen Trent, Citigroup.

Q - Stephen Trent {BIO 5581382 <GO>}

Yes. Good morning, everybody, and thanks for taking my question. Two quick ones from me. The first is, if you can give us maybe your best senses to your expectations on the timeline, on your dispute with ARTESP 2013 tariffs, kind of timeline wise what do you think we can expect in terms of next steps? Hello?

A - Flavia Godoy

Hi, Stephen, this is Flavia. Well, actually it was our intention [ph], so we do not have a final answer for that, we needed to wait and see the next few steps on the cards.

Q - Stephen Trent {BIO 5581382 <GO>}

Okay.

A - Flavia Godoy

Stephen, could you please state your second question, please?

Q - Stephen Trent {BIO 5581382 <GO>}

I appreciate that. I actually haven't asked the second question yet. Well appreciate that. Yeah and also just wanted to -- at this very early stage to get your senses to what a potential 2015 calendar might look like in terms of Federal auctions, I obviously understand that there's an election coming up and the camps might not be saying the same exact things on infrastructure investment, but if you can maybe give us some thoughts as to what you think is the approximate calendar next year in terms of auctions and investment?

A - Flavia Godoy

Hi, Stephen, at the moment, we just don't have the Federal Highways, that the Federal government announced recently. So they are talking about five Federal Highways, but we do expect to have the bid document by the end of this year and the tender process according to our expectations that happened by the end of this year or at the beginning of the next year.

Q - Stephen Trent {BIO 5581382 <GO>}

Okay. And could you remind me how many concessions you're generally expecting for that period in terms of bidding documents?

A - Flavia Godoy

Five concessions.

Q - Stephen Trent {BIO 5581382 <GO>}

Five? Okay. That's perfect. Thanks very much. I'll let somebody else ask the questions.

A - Flavia Godoy

Thank you.

Operator

Our next question comes from Alexandre Falcao, HSBC.

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Q - Alexandre Falcao {BIO 5515455 <GO>}

Good morning, everyone. Just wanted to touch base on traffic and what you guys see in terms of the trends in terms of activity and the correlation between the slowdown in GDP in Brazil and what was happening to traffic here? If you can give us a little bit more detail on what you guys saw in June, July and how much of the World Cup affected this? And were the numbers (inaudible) in August, if you've seen a pickup at least in the first week of August? You'd saw a pickup back to previous levels. Thank you.

A - Flavia Godoy

Hi, Alexandre Falcao, this is Flavia. In the first quarter of '13, our (inaudible) was around 9% and yesterday we just released our goals that were around 3.7%. Actually, we have some (Technical Difficulty) at the moment to give you any trend, but if you go back on time historically our GDP is around 1.5 times GDP. We have some deceleration mainly in June, we needed to have the numbers from August to -- just to look at the deceleration, we have continued but it's important to mention that in August we are not going to have the (inaudible).

So it's too early to provide you any guidance, but I would say according to our total historical elasticities, our elasticity is 1.5 times the GDP. If you analyze a short period, I mean the last three years, our elasticity was higher. But as (inaudible) in Brazil, we needed to have more amongst this to feel if the deceleration will continue or not.

Q - Alexandre Falcao {BIO 5515455 <GO>}

Okay. Thank you.

A - Flavia Godoy

Thank you.

Operator

(Operator Instructions) This concludes today's question-and-answer session. I would like to invite Ms. Godoy to proceed with her closing statements. Please go ahead, Madam.

A - Flavia Godoy

Once again together with other CCR employees, I would like to thank you for your time and interest in CCR. Please do not hesitate to contact any of us if you have any additional questions. Our contact information is available in our earnings release and our website, www.ccr.com.br/investidores; there you can also find additional information about our company. Thank you.

Operator

That does conclude the CCR's Audio Conference for today. Thank you very much for your participation. Have a good day, and thank you for using Chorus Call.

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