

Q3 2016 Earnings Call

Company Participants

- Daniel Kuratomi, IR Analyst
- Flavia Godoy, IR Coordinator

Other Participants

- Gabriel Francisco, Analyst
- Josh Neilberg, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. And thank you for waiting. We would like to welcome everyone to the Third Quarter 2016 earnings conference call of CCR SA.
(Operator Instructions)

Before proceeding, let me mention that forward-looking statements about CCR's business prospects and financial and operating goals are based on the beliefs and assumptions of CCR's management and on information currently available to the Company.

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

Now, I'll turn the conference over to Mr. Daniel Kuratomi, CCR's IR Analyst. Please, Mr. Kuratomi, you may begin.

Daniel Kuratomi

Thank you, Operator. Good morning, everyone. And thank you for attending our earnings conference call for the Third Quarter of 2016. With us here today are Arthur Piotto, our Chief Financial and Investor Relations Officer; Marcus Macedo, Flavia Godoy and Marcela Dias, members of the IR team.

The earnings release is available on the Company's website at www.ccr.com.br/ir. Before commenting on the highlights, let's take a quick look at some of the macroeconomic indicators we consider important for the performance of our business.

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We would like to begin by highlighting that in third-Q 2016, the unemployment rate came to 11.8%, 290 bps up on third-Q 2015. And 50 bps up on second-Q 2016. IBGE's latest data on industrial production show a 0.5% decline in September 2016 overall. And a 5% drop over September 2015.

According to the latest credit details released by the Central Bank, credit ranking in this financial system reduced 0.2% in September 2016 and 2% in the last 12 months. In the same comparison period, free credit declined by 0.2% and 4% while earned market credit declined 0.2% and increased by 0.6% respectively.

Credit to financed vehicles fell 7% in third-Q 2016 over 2015. It is worth emphasizing that the automotive sector is closely linked with traffic growth and has a huge influence on industrial GDP.

The number of licensed vehicles fell by 20% year on year in September 2016 and 13% compared to August 2016, while vehicle production declined by 2% and 4% in the same comparisons according to recent data from Anfavea, the Brazilian Auto Manufacturers' Association.

It is worth emphasizing that the sale of STP was completed in August 31 this year, which affected the quarter's results. There was an impact of BRL1.3 billion on EBITDA and BRL863 million on net profit.

On to our operation -- operating numbers for the quarter, we will highlight traffic. While the beginning of collection of MSVia started in September 2015 and ViaRio this August, traffic was adjusted for comparison purposes, that is excluding these assets in third-Q 2016 and 2015. And thus leading to a 5.5% reduction in the Company's consolidated traffic.

On the same comparison basis, commercial vehicle traffic declined by 7.4%, while light vehicle traffic fell by 2.3%, slightly more than the 3.8% drop between Q -- Second Quarter 2016 and 2015. In our press release, you'll find more information on traffic trends for each concessionaire.

We now show the key pro forma numbers for third Q of 2016, that is considering all businesses which we do not control or hold share control, consolidated according to CCR's shares in each line.

We also adjusted the comparison bases, that is excluding from calculations those businesses that were not in the Company's portfolio in at least one of the comparison periods. That is the case of MSVia, TAS. And STP. And businesses which are still in implementation or operational ramp-up phase.

In accordance with this criteria, same-basis cash cost fell 7% over third-Q 2015, while the IPCA inflation index rose more than 8% in the last 12 months. Same-basis adjusted EBITDA

totalled BRL1.2 billion, 3% up on third-Q 2015, with a margin of 67.2%, 100 bps higher year on year.

Same-basis net income totalled BRL268 million in third-Q 2016, 2% less than in third-Q 2015, influenced mainly by the tariff adjustment in most of the Company's portfolio. On the other hand, there was a BRL2 billion increase in the pro forma debt balance and the upturn in the main indicators and the average cost of debt.

The sale of STP offset these assets reducing the Company's pro forma leverage measured by the net debt to EBITDA ratio to 2.2 times in third-Q 2016. This level reflects the Company's current scenario, that is the implementation of several projects which were not yet generating cash during the entire quarter or are in ramp-up phase.

We end our comments on the quarter's results by highlighting that despite the weak economic scenario with the focus (inaudible) forecasting a GDP reduction by approximately 3%, same-basis pro forma adjusted EBITDA grew by 3% with a margin expansion of 100 bps. We also managed to reduce cash cost by 7% in a scenario of last 12 months inflation of more than 8% as previously mentioned.

We will now open the question-and-answer session. Operator, please go ahead.

Questions And Answers

Operator

(Operator Instructions) (Josh Neilberg), Morgan Stanley.

Q - Josh Neilberg

You guys covered a lot of ground on the Portuguese call. I was just hoping that you could give us update both on the potential NovaDutra amendment and also on the dispute with ARTESP. And just regarding NovaDutra, you guys have expressed some confidence in the recent past that it would go ahead just given the government's interest in getting the investment done. If you could just comment on what your thinking is today and if resistance in the TCU is the principle obstacle or if there are other constraints?

Also if maybe there is a possibility of the amendment going ahead with a smaller amount of investment than you had previously contemplated. And I'm not sure how much you can really say.

A - Flavia Godoy

Well regarding the negotiation, I mean, NovaDutra amendment, which are -- we're still negotiating with the government the possibility to add close to BRL3 billion to BRL3.5 billion in terms of investment. It's important to mention that it's our proposal to the government. So we would like to include those investments in our current concession.

Another important information is that the government already did a (public reviewing) by the beginning of this year and the public reviewing ended in April. So it was the fourth process that the government did, the public reviewing for the amendment. It is still on the negotiation to share. We'll continue to propose these additional investments to the government.

But again, this decision belongs to the government and we need it for -- we need to be ready for that. One thing that may be missing is the provisional measure. According to the government, the provisional measure should be launched in the next week. So in the next couple of weeks. And we do believe that with this provisional measure, CCR can reach an agreement with the government. But again, CCR is still working for that. But this decision belongs to the government.

Q - Josh Neilberg

Okay. Very helpful. Then if you could also give us a little update on the dispute with ARTESP, have there been any developments there?

A - Flavia Godoy

Well we didn't have any evolution on that front. CCR appealed the decision in AutoBAN by the end of the last year. So when CCR appealed the decision, we reached (inaudible), this 500 (inaudible) here in state of Sao Paulo. And we are waiting for the decision. The evolution that we had was related to the other concession that they have, a similar discussion. In our case, in our portfolio we had the favorable appraisal phase in Renovias and ViaOeste. But to meeting the decision from the first instance. But we had the appraisal phase that was concluded. Those appraisal phases were concluded recently and they were favorable to the concessionary.

In the case of AutoBAN, it's important to highlight that the appraisal phase was denied by the judge from the first instance. But as I mentioned before, CCR appealed this decision, the negative decision that we had during the last year. But we are waiting for the decision related to our appeal.

Q - Josh Neilberg

Okay. Really appreciate it. Thanks very much.

A - Flavia Godoy

Thank you.

Operator

(Operator Instructions) Gabriel Francisco, Goldman Sachs.

Q - Gabriel Francisco {BIO 20569389 <GO>}

Thank you for taking my question. It's a very simple one. But on your cash flow statement, it shows that you have capitalized interest on a higher level than you used to be on the

previous year. Is there any explanation for that? I'll leave it for now. If I have any other, I'll wait.

A - Flavia Godoy

Well this increase in our capitalization cost was due to the projects that are under implementation. As CCR is in our investment cycle phase, we have some (city) work to do and we are implement those city works. We've got five new projects recently and some of them are still under implementation. So as we have a lot of city works or implementation phase from those projects, we have more capitalization cost.

Q - Gabriel Francisco {BIO 20569389 <GO>}

Okay, that was helpful. Thank you.

A - Flavia Godoy

Thank you.

Operator

We now end the question-and-answer session. I would like to turn the conference over to Mr. Daniel Kuratomi for his closing remarks. Please, Mr. Kuratomi, you may proceed.

A - Daniel Kuratomi

On behalf of CCR, I'd like to thank you for your time and interest. Please do not hesitate to contact us if you have any further questions. Our contact information is available in our press release and on our IR website.

Operator

That does conclude the CCR audio conference for today. Thank you very much for your participation and have a good day.

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