

Q3 2014 Earnings Call

Company Participants

- Marcello Guidotti, Chief Financial Officer
- Raquel Turano de Souza, Investor Relations

Other Participants

- Alexandre Falcao, Analyst
- Kevin Kaznica, Analyst

Presentation

Operator

Good morning, and welcome to EcoRodovias' Third Quarter and First Nine Months of 2014 Earnings Conference Call. With us here today are Marcelino Seras, the company's CEO; Marcello Guidotti, CFO and IRO and Raquel Turano, Investor Relations. 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, and when further instructions will be provided. (Operator Instructions)

The audio and the slides of this conference call are being broadcast simultaneously at www.ecorodovias.com.br/ir, 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 are made -- that maybe made during the conference call relating to EcoRodovias' business prospect, 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 Mrs. Raquel Turano, who will discuss the third quarter and first nine months of 2014 results. Mrs. Raquel, you may proceed.

Raquel Turano de Souza {BIO 21085763 <GO>}

Good morning, and welcome to EcoRodovias' results conference call for the third quarter 2014 and first nine months of the year. Thank you for your interest and for attending this conference call.

We would like to begin by highlighting Ecovias dos Imigrantes completion in early October of an important contract amendment project signed in the end of 2012. The new Beltway connects three different highways and eliminates one of the main bottlenecks of the (inaudible). During in 22 months reaching the deadline it once again reinforces EcoRodovias' commitment to the restricted fulfillment of its contracts.

Meanwhile, Ecocataratas one of our toll road highways in Parana state signed an agreement with the government to carry out a major project in the Western region of the state more than five kilometers of duplication of BR-277 highway. This highway stretch corresponds with the (inaudible) part of Matelandia, which will continue their roadway that has already been duplicated between Matelandia and Medianeira completed in 2013. These are then will be balanced through triggers in the concessioners toll tariff in 2015 and 2016.

As you know, Rota Metropolitana Norte consortium made up of EcoRodovias' Odebrecht Transport and Barbosa Mello recently added this proposal for the PPP for the exploration of the Belo Horizonte Metropolitan Region North Beltway approved and awarded. We are waiting to proceed with the signing of the concession contract in order to provide more information about the project.

Important recognitions were awarded to EcoRodovias during this period. The

E Dinheiro award elected the company one of the five best in Brazil in the corporate governance category and the Isto E Dinheiro magazine sustainability guide recognized the EcoRodovias as one of the most sustainable companies in the infrastructure sector. In additions, EcoRodovias is ranked among the 10 most transparent companies of Brazil according to CBC Latin America, which created the list of 10 companies basing [ph] on our global scoring methodology applied to the 2014 edition [ph] of the Climate Change Questionnaire. CDP is an international organization that works with companies, investors and governments to combat climate change.

Moving on to the clarification of the quarter results on slide two, you can see that consolidated traffic return

in terms of equivalent paying

vehicles increased 24% in the quarter and 17% in the first nine months. Excluding the traffic on ECO101, there was a 1% reduction in the quarter and a 4.6% increase in the first nine months. The variation is mainly the results of decreased soybeans and corn export and the decline in industrial production during the quarter partially offset by the growth in passenger traffic due to the favorable weather.

As we have disclosed last week, accumulated traffic, you can see October increased 18%. Excluding ECO101, there was a 4.1% accumulated increase in traffic and up 0.2% upturn in October of which an increase of 7.2% for passenger vehicles and a reduction of 6.2% for commercial vehicles. We expect this trend to continue in November, December in light vehicles. For commercial vehicles, we expect a slightly recover due to the export of part of the inventories as agricultural progress.

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Average tariffs were due to the highway concessions due to the consolidation of ECO101. However if compared to the quarterly evolution excluding ECO101 growth was only 1.9% chiefly due to the tariff reductions at Ecosul and the increase of traffic in Port of Santos that charge lower tariff at Ecovias dos Imigrantes.

Slide four shows the operating performance of Ecoporto Santos, whose container handling operations fell by 22% in the third quarter and 26% in the nine months due to the entry of two new terminals in the Port of Santos in 2013. Meanwhile, warehousing operations grew by 3% in the quarter and declined 6.1% in the nine months.

(technical difficulty) 2014 with the second quarter 2013, we can see a 13.3% increase in the container handling and 12.6% increase in warehousing.

On slide five, you can see that the average tariff for port operations declined by 20% in the quarter and 8.7% in the nine months, while the average warehousing tariff declined by 14% in the quarter and 5.5% in the nine months.

In terms of the Group's consolidated financial performance on slide six, pro forma net revenue, excluding construction revenues including the proportional consolidation of Elog and excluding the effect of STP, which is a discontinued operation within the Group, net revenue totaled BRL632 million in the quarter, up 2.8% and BRL1.8 billion in the nine months up 1.7%. The variations in the third quarter and the first nine months were mainly impacted by Ecoporto revenues.

Comparable pro forma EBITDA totaled 328 million in the quarter with a margin of 52 and 960 million in the nine months with an EBITDA margin of 53%, as you can see on slide seven.

The highway concessions and the service segment reported growth of 6.5% in EBITDA in the quarter, while Ecoporto Santos and Elog reported a decline in absolute terms.

Also, the (inaudible) increase in the cost of advisors and paid [ph] service in the concessioner, this in fact is excluded upon consolidation because it is provided by shared service company of Ecoporto (inaudible) holding, we had an increase in personnel cost due to the accounting of the long-term incentive for executives, an outsourcing program for service of new business in the road and for concessions. This in fact can be considered nonrecurring, therefore costs there primarily affected by the start-up operations of ECO101.

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I would like to highlight the performance of ECO101 in the third quarter, which drive the Group's net revenue of BRL42 million at an EBITDA of BRL17 million reaching a margin of 40.5%, as you can see on slide eight.

The traffic on ECO101 and till [ph] the moment is in accordance with the company outlook considering the low performance of economic activity in the country and the seasonality of the region. Therefore, the concession lines [ph] amended are strictly operating cost control programs, which guarantees the achievement of expected results for the next two years. The investment projects for the coming years are still in planning phase and the company does not expect significant changes in the amount already deposited [ph] to the market.

On slide nine, you can see that net income came to BRL77 million in the quarter and 418 million in nine months. Excluding STP effects comparable net income nine months totaled BRL207 million impacted by the increase in depreciation and amortization. The increase in net financial expenses due to adjustments to debt restated by inflation and higher interest in the period in addition to a higher provision for maintenance.

With regard to investments, as you can see on slide 10, we maintain the company's commitment to invest in accordance with the agreement and business needs. The main third quarter highlights further initial progress at ECO101, projects related to the amendment to the concession agreement at Ecovias dos Imigrantes and projects on the inside lanes of Rodovia Ayrton Senna highway.

Moving on now to the slide 11. Here you can see that EcoRodovias' net debt EBITDA ratio stood at 2.1 times and also BNDES disburse of BRL36.4 million related to loans to ECO101 and Ecopistas this quarter.

Finally, I would like to talk briefly about our expectation for this last month of 2014 and for 2015. We are always making up possible contracts to our amendments to our concessions in order to find the infrastructure of our highways, for our users and maximize the shareholder returns in an efficient and sustainable manner. We are also starting five federal government PMI projects including the (inaudible) which we will open these in the coming months, federal and state highway project and opportunities in the port area awaiting the bid documents.

This concludes our presentation. We would now like to open the Q&A session.

Questions And Answers

Operator

We will now begin the question-and-answer session for investors and analysts. (Operator Instructions) And our first question will come from Alexandre Falcao of HSBC. Please go ahead.

Q - Alexandre Falcao {BIO 5515455 <GO>}

Good morning everyone. Thanks for the question. My question is regarding traffic. We saw more or less weak numbers in the commercial plants [ph] in the first two quarters of the year mainly because of World Cup and some other effects. I just -- just wanted to pick a range and if you could shed a little bit more light on what are the effects for such a weak result in commercial in the third quarter, is that permanent. Do you expect this to be a one-off or we should continue to see this as weaker economic activity in Brazil? Thank you.

A - Marcello Guidotti {BIO 16618352 <GO>}

Good morning Alexandre, it's Marcello. Regarding the traffic numbers just to on the commercial vehicle in particular just to point that in that -- for the whole year, the first 10 months the commercial vehicle is still a positive number. We have said a strong initial quarter. And as we say the decline in prices started during the month of May, July -- June, July and August.

Now, we are still -- in October it was going to still declining numbers. We understand that for the whole year maybe until the end of the year we can see some -- some -- some slow recovers in the commercial vehicle mainly due to some -- due to some stocks that we know that are still on the -- in the ground so we know that the next harvest will be -- is coming (inaudible) harvest. This will -- will require room to be -- to be stored. So, we see that the corn -- the corn stock should be exported.

The dollar is -- a strong dollar is gearing up the expectation that this will happen. So, we are waiting for this. As you say for sure the numbers of the last -- in the last six months in commercial they were not surprising. But this was -- if we -- if you considered the whole year, the first 12 months the commercial vehicle was very, very strong. So overall, the whole year it is not a great year in terms of commercial vehicle, but it's not so -- it's not like we -- we've seen in the last month.

For the 2015, we understand that it's going to be a -- it's going to be -- I would say in terms of commercial vehicle maybe a flat year, okay. We are expecting a stronger performance of the light vehicle for 2015 and maybe a flat year for the commercial vehicle not only due to the harvest maybe in 2015, the harvest is not expected to be a best harvest maybe we noted that from -- some -- in other countries that produce grains, the production is going to be strong for this affected price. But also because the industrial production that use the commercial vehicle is not so strong in 2015. So, we expect a flat year in 2015 compared on with 2014 for the commercial vehicle. And we hope that the light vehicle will continue to perform in 2015, as it is performing now this last month. So, this is more or less our view. We are still waiting for a recovery in -- this last three months October we didn't saw yet this, but we expect November and December to have some movement recovering [ph] the commercial vehicle again because of the grains -- of the corn grains should be exported until 2015, we expect a flat year.

Q - Alexandre Falcao {BIO 5515455 <GO>}

Okay. Thank you so much.

Operator

The next question will come from Kevin Kaznica of Citigroup. Please go ahead.

Q - Kevin Kaznica {BIO 17875244 <GO>}

Hi, Raquel and Marcello. I am just kind of guessing at something (inaudible) I just, I guess on the port side, you've seen continuing weakness you already touched on the traffic on the highway side. Are you see anything new with respect to the fate of the port concessions at Tecondi? And maybe a little bit more color on what you're seeing, I guess operationalize maybe quay volumes and warehousing on the port side like to expect a recovery there as well?

A - Marcello Guidotti {BIO 16618352 <GO>}

Kevin, good morning it's Marcello. Kevin, we -- the movement of containers and also for search operational auto -- storing has declined along the whole year. We are now in a -- more or less in 20%, 24% less in search [ph] operation and 5.5 -- 5.5% in storing.

We understand that this we are reaching what will be the equilibrium from all the other terminal has, who still has [ph] all the capacity and in that sense, we don't expect any strong movement in terms of loss of some services from other segment.

So, we are now -- we understand in the -- in the bottom of the trend that we have seen in the last 15 months. We expect again also for the -- for the fast [ph] movement of 2015, a flat year in comparison to 2014. So, normal decrease of a flat year, not yet recovering. This is what -- this is also difficult the production in Brazil, the GDP of Brazil is not expected to be a strong GDP. We know that Santos grows typically two times -- two times from five the GDP, but with the GDP is still low [ph] so we will not expect a strong movement recovery for the Port of Santos for the next year.

We have seen -- we have seen growing Port of Santos of some type of containers and to containers, transshipment and the water, where transport has increased a lot in Port of Santos but unfortunate and not unfortunate because of our assets in Santos, we are not focused on that kind of containers, but focused on the full containers of import and export. And this container has suffered a lot because of the (inaudible) but of the slowdown of the economy. So, given that, we don't expect a strong economy for the next year. We will not see a recovery in this operation of import and export. But again, we are not expecting to continue to decrease out. We have decreased this year in comparison with 2013. Again, we would see a flat year.

Ecoporto has shown a capacity to decrease and to reduce the cost -- operational costs. They have been doing this for the whole year and they are planning to continue do this reduction of operational cost along 2015 even because in 2015, we will receive our finally our (inaudible). We had Ecoporto to operate on a very low level of operational cost. So, again it will -- we will not see a recover in the movement for sure. We will continue to see a seek for efficiency in the operational side waiting for a good news from the container, from the import and the export side.

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Q - Kevin Kaznica {BIO 17875244 <GO>}

Very (inaudible). Thank you. Just now -- I just kind of wanted to know, do you know anything about or have any feel for the fate of the concession at Tecondi like the renewal or anything like that?

A - Marcello Guidotti {BIO 16618352 <GO>}

No, we don't see -- we're basically not aware -- confidently say (inaudible) matter, we don't see any problem of the renewal of the concession. This is contradictory specifically. Renewables, just thought that this time that is maybe now the right time to work for the renewal, but we don't see any problem with this at all.

Q - Kevin Kaznica {BIO 17875244 <GO>}

Okay. Great. And then just one question on the highways. Now, regarding the assumption of the federal toll, road auctions how quickly can you see this happening and what you think -- do you think the terms will be as favorable as they were in the past round? And do you see the TJLP funding rates maintained at the previous levels or could you see them going up?

A - Marcello Guidotti {BIO 16618352 <GO>}

We -- in terms of project as the government, we have been saying (inaudible) we have some change in the state government, but the federal government is the same. We will expect a continuity in the program. So, I would say not in January, but starting from January, we would see news of days and expectation when the new beach, the new opportunity will be released. We don't expect -- we expect not later than the first half. So, in the first half of 2015 maybe we will have completely we will have these opportunities.

In terms of -- as you say TJLP long-term taxes, we expect that yes the TJLP will be -- will increase not dramatic and not in just one shot but it will be along the next two, three years, but the TJLP for sure will be rise up from the government. So, this will affect for sure their interest rate of return of the project. So, in our agreement that this new closure will reflect certainly in all this change in the Santos economic assumption (inaudible) in the IRS. So, we will have project with higher IRS.

Q - Kevin Kaznica {BIO 17875244 <GO>}

Okay. And thank you very much for taking my questions.

Operator

And ladies and gentlemen, this will conclude our question-and-answer session. I would like to turn the conference back over to Mrs. Raquel Turano for closing remarks.

A - Raquel Turano de Souza {BIO 21085763 <GO>}

If you still have any questions or wish to contact us, please feel free to get in touch with our Investor Relations Department or visit our IR website. Thank you very much and have a

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nice day.

Operator

Ladies and gentlemen, the conference has now concluded. We thank you for attending today's presentation. You may now disconnect your lines.

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