

Q1 2019 Earnings Call

Company Participants

- Andrea Fernandes, Investor Relation Director
- Marcello Guidotti, Chief Financial, Investor Relations Officer & Human Resource Management

Other Participants

- Lucas Laghi, Analyst
- Lucas Marquiori, Analyst

Presentation

Operator

Good morning. Welcome to EcoRodovias' First Quarter of 2019 Earnings Conference Call. With us here today are Mr. Marcello Guidotti, CFO and IRO; Ms. Andrea Fernandes, the IR Officer of the company, as well as executives of the company. This presentation is being recorded, and all participants will be in listen-only mode during the presentation. After that, we will begin the questions-and-answer session for analysts and investors only, 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. There 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 may be made during this conference call relating to EcoRodovias' business prospects, 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 Ms. Andrea Fernandes, who will discuss the first quarter of 2019's results. Ms. Andrea, you may proceed.

Andrea Fernandes {BIO 21294199 <GO>}

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Good morning. Welcome to Grupo EcoRodovias conference call today regarding the results of the first quarter of 2019. We thank you for all your interest and participation. We would like to mention some important events. Concessionaire ECO135 has began toll collection at the concession six toll plazas early April with very positive perspectives.

During a shareholders' meeting held on April 16, our shareholders have unanimously approved the formation of capital reserves in the amount of BRL196.8 million, with the goal to strengthen the company's capital structure. The company plans to adjust its dividends' policy as of 2019 to up to 50% of the net income. The results of the first quarter of 2019 were affected by the exemption of tolls for suspended axles at Ecovia Caminho do Mar, Ecocataratas, Ecovias dos Imigrantes and Ecopistas. The toll exemptions for suspended axles will be subjected to contractual rebalancing.

We can see on Slide 2 that consolidated traffic of equivalent paying vehicles decreased 1.9% in the first quarter of 2019. Excluding the exemption of tolls for suspended axles, comparable consolidated traffic posted an increase of 0.6% in the quarter. In the first quarter, comparable traffic of heavy vehicles increased at Ecopistas, driven by toll exemptions for suspended axles and at ECO101 due to the region's pulp industry cycle. On the other hand, concessionaires Ecovias dos Imigrantes, Ecovias Caminho do Mar and Ecosul presented a decrease in traffic due to lower harvest shipments.

In addition, light vehicle traffic was positively affected by the increase in tourist flow due to favorable weather conditions at Ecopistas, Ecovias Caminho do Mar and ECO101.

As for the group's consolidated performance on Slide 3, the pro forma net revenue amounted to BRL657 million in the quarter. And net revenue of highway concessions went down 2.1%, with a negative impact of toll exemption for suspended axles, which, in the quarter, amounted to BRL38 million and since May of 2018 has accumulated to BRL107.7 million.

Moving on to Slide 4. Comparable cash costs in the quarter amounted to BRL191 million, excluding non-comparable expenses. The increase in the quarter of 8.5% was mainly due to variable costs at Ecoporto due to an increase in handling activities and higher personnel expenses. Note that comparable cash costs in highway concessions, the most relevant segment in the group's consolidated results, decreased 1% compared to the first quarter of 2018, even with an inflation rate of 4.6% in the period, as a result of our continued efforts for operational efficiency over the last few years.

Pro forma comparable EBITDA was BRL466 million in the first quarter with a margin of 71%, excluding costs with the operational startup of ECO135 and the specialized consulting services to support the committees. Pro forma EBITDA amounted to BRL448 million in the first quarter. Despite the impact of exemption for suspended axles, three concessions posted increases on EBITDA this quarter as we can see on Slides 5 and 6, in particular, Ecopistas, Ecocataratas and Ecosul.

On Slide 7, we see the evolution of net income in the first quarter of 2019 negatively affected by the comparable pro forma EBITDA, as a result of traffic decrease with the non

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-- the tax exemption -- toll exemption for suspended axles, non-comparable costs, the maintenance provision cost due to the increase in asphalt cement and a higher depreciation and amortization leading to net income of BRL84 million.

Regarding investments on Slide 8. CapEx in the first quarter of 2019 was BRL273 million. The estimated CapEx for 2019 is of approximately BRL1.4 billion. We highlight the road widening work at ECO101 and the construction of access from Ponte Rio-Niteroi to the Red Line and the Port Avenue at Ecoponte, which already have BNDES funding, construction works of the contractual amendment of Ecovias dos Imigrantes and the initial works at ECO135 with advanced negotiations for BNDES funding.

Moving on to Slide 9. We ended March with BRL2.6 billion cash and a longer debt profile, boosting our financial robustness. The net debt comparable pro forma EBITDA was of 2.9 times. The debt by index breakdown was 55% in CDI and 37% in IPCA, and the average cost of debt was 8% in March 2019. We are optimistic with the federal government's agenda as regards the privatization of highways and with the agenda of the state of Sao Paulo's government, which in addition to new privatizations is making advances in the discussion of new contractual amendments at Ecovias dos Imigrantes and Ecopistas as well as in the solution for the unbalances that are pending. It's also worth mentioning, the programs in Rio Grande do Sul with the launch of two highway lots and in the programs in Minas Gerais and Rio de Janeiro.

This concludes our presentation. We would like to now move on to the questions-and-answer session.

Operator, we're ready for the questions from our analysts and investors. Thank you.

Questions And Answers

Operator

Thank you. We will now begin the questions-and-answer session for investors and analysts. (Operator Instructions) The first question is from Lucas Marquiori, Banco Safra.

Q - Lucas Marquiori {BIO 17907247 <GO>}

Good morning. Two questions on my side. Andrea, you mentioned at the end of your presentation, negotiations with the government, the state government, for contractual amendments. I'd like to ask you for an update on the negotiations of amendment for the Santos-Guaruja Bridge? It is relevant CapEx for the company, so I would like to understand how the negotiations are developing. If there have been -- if there has been progress in this topic? And, second, about leverage, the company went to 2, almost 3 times net debt-to-EBITDA ratio. We'll have a relevant cycle of assets coming to the market. So I want to see how you consider the space and the balance sheet of EcoRodovias to participate in the new auctions? Thank you.

A - Marcello Guidotti {BIO 16618352 <GO>}

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Lucas, good morning. It's Marcello. The first question about the Ecovias bridge. The company has already filed -- formally filed the basic project, which is what is used to base the amendment of the contract. This is developing. We're steady in this project. So that's where we're at in that case. At the same time, of course, we are making advances and progressing with the environmental licenses and permits, so that we can have throughout the -- in 2019, the possibility of signing this amendment.

As for leverage, as Andrea mentioned, it's true, it's 2.9 times. The company is now actually starting to adjust its dividends' policy; that's very important. Maybe it's not so relevant in one year alone, but in a sequence of years, it brings an added capacity to the business. We're also accessing the financial market. It's -- the liquidity is very good with longer lines, even for holdings. So we are taking advantage of this phase to be able to continue with the stamina for new projects. I would say that they are more planned for the second half of the year towards the end of 2019 to start -- to become more relevant, starting in 2020.

Q - Lucas Marquiori {BIO 17907247 <GO>}

Thank you, Guidotti.

Operator

Our next question, Lucas Laghi, Citibank.

Q - Lucas Laghi {BIO 20757425 <GO>}

Good morning. Do you have any updates in the Infinita Highway process on ECO101? You're already working on internal investigations for this concession. I'd like to hear that. Thank you.

A - Marcello Guidotti {BIO 16618352 <GO>}

Lucas, good morning. Thank you for your question. About the Infinita Highway operation, we have informed that we would proceed with an internal audit with an independent committee. And it's important to note that this operation comes from a report from a supplier that had a report in 2014 about ECO101 of discontinued factors. So we're verifying the scope of this report, and that's why there was that surge in seizure, but it's important to say that this type of activity of providing reports is precisely the activity that is performed at the concessionaire level. So there is a strong centralization movement at Ecovias, because engineering would be automated and the concessions maintain that focus of managing, operating -- operations and managing users that day-to-day activities of a concession contract. So we do have that type of risk today. Of course, we're performing an audit and make corrections in case there have been failures in the concessionaire's level. Thank you.

Q - Lucas Laghi {BIO 20757425 <GO>}

Excellent. Thank you for your answer.

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Operator

(Operator Instructions) The questions-and-answer session is now closed. I'll turn over to Andrea Fernandes for her final remarks.

A - Andrea Fernandes {BIO 21294199 <GO>}

I would like to thank you. And if there are any doubts, my team and I are available. Have a great day.

Operator

EcoRodovias conference call is now closed. Thank you very much for your participation, and we wish you all a very good day.

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