

Q2 2016 Earnings Call

Company Participants

- Flavia Godoy, IR Coordinator

Other Participants

- Ed Kuczma, Analyst
- Robert Crimes, Analyst
- Stephen Trent, Analyst
- Victor Mizusaki, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. And thank you for waiting. We would like to welcome everyone to the Second 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 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. Please, Ms. Godoy, you may begin the conference.

Flavia Godoy

Thank you, operator. Good morning, everyone. And thank you for attending our earnings conference call for the second Q of 2016. With us here today are Arthur Piotto, our Chief Financial and Investor Relations Officer, Marcus Macedo, Daniel Kuratomi. And Marcela Dias, members of the IR team.

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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.

We would like to begin highlighting that in the second Q of 2016, the unemployment rate came to 11.3%, 3percentage points up on the second Q 2015. And 0.4percentage points up on the first Q of 2016. IBGE's data on industrial production show a 6% decline in June 2016 over the same month in 2015. And a 1% increase over May 2016.

According to the latest credit details released by Central Bank, credit granting in the financial system reduced 0.5% in June 2016 and rose by 1% in the last 12 months. In the same comparison periods, free credit declined by 0.7% and 1.7%, while earmarked credit dropped by 0.7% and increased by 3.7%.

Credit to finance vehicles fell 14% in the second Q of 2016 over second Q 2015. It is worth emphasizing that the automotive sector is closely linked to traffic growth. And has a huge influence on the industrial GDP.

The number of licensed vehicles fell by 17% year-on-year in June 2016 and increased by 3% compared to May 2016, while vehicle production declined by 3% and increased by 4% in the same comparisons, according to the recent data from ANFAVEA, the Brazilian auto manufacturers' association.

On to our operation numbers for the quarter. We will highlight traffic. With the end of Ponte's concession agreement in May and the beginning of MSVia's collection in September 2015, traffic was adjusted for comparison purpose; that is, excluding these assets in second Q of 2016 and second Q of 2015. And thus leading to a 3.8% reduction in the Company's consolidated results.

On the same comparison basis, commercial vehicle traffic declined by 3.2%, while light traffic fell by 4.3%. In our press release, you'll find more information on traffic trends for each concessionaire.

We now show the key pro forma numbers for second Q of 2016; that is, considering all businesses which were not controlled or hold shared control, consolidated according to CCR's shares in each line.

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

In accordance with these criteria, same-basis cash costs by 4% over second Q of 2015, while the IPCA inflation index rose nearly 9% in the last 12 months. Same-basis adjusted EBITDA totaled BRL1.1 billion, 6% up on second Q of 2015, with a margin of 63.3%, 193 bps higher year on year.

Net income totaled BRL146 million in second Q of 2016, 21% less than in second Q 2015, impacted mainly by the increase in the pro forma debt balance by BRL2.7 billion and the upturn in the main indicators and the average cost of debt.

Due to this increase, the Company's pro forma leverage, measured by the net debt EBITDA ratio, stood at 3.1 times in the second Q of 2016. This level reflects the Company's current scenario; that is, the implementation of several projects which were not yet generating cash or were at operational ramp-up phase in the second Q of 2016.

We end our comments on the Second Quarter results by highlighting that, despite the weak economic scenario, with the Focus forecasting a GDP reduction by approximately 3%, same-basis pro forma adjusted EBITDA grew by 6%, with a margin expansion of 193 bps. We also managed to reduce cash costs by 4% in a scenario of accumulated inflation of almost 9%, as previously mentioned. The Company also extended its debt profile that mature in 2016, reduced from BRL4.8 billion in March to BRL1.3 billion in June.

We will now open the questions-and-answers section. Operator, please go ahead.

Questions And Answers

Operator

(Operator Instructions) Stephen Trent, Citigroup.

Q - Stephen Trent {BIO 5581382 <GO>}

Thanks very much for taking my questions. Just two at this point. I was looking at your airports -- the ones in Quito, Curacao and San Jose, against Belo Horizonte -- and I noticed that the airport in Belo Horizonte has a really high percentage of commercial revenue versus the others. And I'm wondering if there's a particular strategy that you guys are implementing in Belo Horizonte versus the other airports. Just trying to think through why commercial's so strong at Belo.

A - Flavia Godoy

This is Flavia. Thank you for -- it's important to mention that BH Airport is still under implementation. We got this concession recently. And now we are building the second terminal. As you already mentioned, in the -- in our release of the second Q of 2016, our commercial revenue reached 41% of the total revenue. With the second terminal that should be concluded by the end of the year, we are going to double the capacity of this airport.

So the -- our strategy is to explore more the commercial revenue from this airport. So I would say that, going forward, you are going to see an improvement. Not many, due to the construction of the second terminal; and also because of, this airport is, I mean, under implementation. It's a new project for us. So we are in the beginning.

Q - Stephen Trent {BIO 5581382 <GO>}

Okay. Very helpful, Flavia. And just my second question -- just thinking about what opportunities you might be seeing in the secondary market at the moment. And whether or not these could be near-term opportunities; and, if so, how you guys might be thinking of potentially funding?

A - Flavia Godoy

Well thank you again for your question. According to the local press, we do believe that we have some opportunities (on sale) in Brazil -- I mean, opportunities on the secondary market. So we do believe -- I mean, as our strategy since the beginning, CCR has been pursuing some opportunities. We are -- I mean, we don't have any information to share with you at the moment. It's some of our way to have our -- to add value to our shareholder, are the opportunities on the secondary market. But we needed to wait for those opportunities.

We know that, nowadays, our leveraging in terms of net debt EBITDA ratio is running close to 3 times. We are analyzing some opportunities, not only from the secondary market but also from the primary market. And if you will have big opportunities from the secondary market, we have some flexibility to handle those opportunities in Brazil.

Q - Stephen Trent {BIO 5581382 <GO>}

Okay. Very helpful, Flavia. I'll let someone else ask a question. Thank you.

Operator

Robert Crimes, Insight.

Q - Robert Crimes {BIO 1957204 <GO>}

Just wondering why the average tolls on some of the assets haven't been increasing with inflation. Looking at AutoBAn, 2.8%; ViaLagos, 3.9%. That's the first question.

Then, second question -- could we have a bit of color on the minorities charged? Just remind us again why it's positive. And why it's been increasingly positive. Which assets is that?

And maybe just a final one, actually -- a third one, on STP. I thought that you'd agreed to sell your 34% stake. But it seems still to be contributing. So maybe a bit of confirmation there. Thanks.

A - Flavia Godoy

Thank you for your questions. This is Flavia. Well according -- regarding your first question, the average toll paid in AutoBAn increased 2.8%. And in ViaOeste it was 3.9%. And in ViaLagos it was 5.2%. I mean, we have those information in our press release.

As you probably know, we have the right to adjust our tariffs once a year by inflation. But the inflation is not the same. I mean, the index is not the same for all of them. Each one has appropriate inflation. And we also needed to follow the rules to rounded the tariff paid by users. So we needed to follow all the rules according to our concession contract. Because of that, you can see some small difference when we are mention about the average toll paid.

Could you repeat your second question, please?

Q - Robert Crimes {BIO 1957204 <GO>}

Yes. So just on that -- so, the average toll paid in the first half -- is that a good indication? Should we have 2% -- 3%, say, for AutoBAAn for the year, or are you expecting to increase a bit more additionally in the second half?

A - Flavia Godoy

Actually, recently we got an adjustment of a big portion of our portfolio. I mean, all the concessions, that belongs to the (tariff Sao Paolo), the adjustment was close to (90)%. And the -- recently, we also had the adjustment in NovaDutra. So in the third Q, you are going to see an increase.

Q - Robert Crimes {BIO 1957204 <GO>}

Do you have details of exactly the increases for which assets, or --

A - Flavia Godoy

Yes. I mean, all the concessions in (tariff San Paolo) -- that is, AutoBAAn, ViaOeste, RodoAnel, SPVias and Renovias -- that toll was increased by close to (90)%. And --

Q - Robert Crimes {BIO 1957204 <GO>}

9%?

A - Flavia Godoy

Yes, 9%.

Q - Robert Crimes {BIO 1957204 <GO>}

Okay. 9%.

A - Flavia Godoy

And NovaDutra -- that is our federal highway -- the adjusted was close to 8.6%.

Q - Robert Crimes {BIO 1957204 <GO>}

Okay. Thanks. Should I repeat the second question?

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A - Flavia Godoy

Yes, please.

Q - Robert Crimes {BIO 1957204 <GO>}

Okay, yes. Just a little bit of color in terms of the minorities charge. If you could remind us why the minorities charge is positive. And it's just been drawn to our attention because it's becoming increasingly positive. So just wondering what's going on there. And which assets are driving it. And what we should think about in terms of a forecast for the full year for the minorities charge.

A - Flavia Godoy

As we have five new projects that are still under implementation on our results, we have this minority interest as -- I mean, this negative effect. And we -- when we return this effect to our minority shareholders, the -- it's increase our net income.

But as soon as we have those projects fully operational, you should expect a better figures from that. Some projects -- I mean, VLT, ViaRio, we just launched the operation, which was in July. And Metro Bahia's still under implementation. Recently we concluded the first line. And the second line is still under implementation. MSVia is also a new project for us. So going further, we expect to have a positive number.

Q - Robert Crimes {BIO 1957204 <GO>}

Okay. And sorry, the last question was just in terms of STP. I thought that you put out a press release, I think it was in March or April, to say that you were going to sell your 34% stake in STP. But it still seems to be contributing in Q2. What's going on there?

A - Flavia Godoy

Well actually, we did this announcement in the past. We are still awaiting for the (precedent) condition to have the financial closing of the sale. We do expect to have this soon. But I cannot give you a timing for that, because we -- depends on some approvals.

Q - Robert Crimes {BIO 1957204 <GO>}

Okay. Thanks.

Operator

Victor Mizusaki, Bradesco BBI.

Q - Victor Mizusaki {BIO 4087162 <GO>}

I have two questions here. Just -- the first one is just a followup from -- on STP. When do you expect to have a decision about the -- let's say, a kind of a special dividend? Can we expect something for the year, or for the next two years?

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And the second question -- think about your cost of debt, we can see that, quarter over quarter, your exposure to TJLP is picking up. So can we assume that, given all the investments that you need to make, probably TJLP will become more representative. And then your average cost of debt can decline a little bit?

A - Flavia Godoy

This is Flavia. Thank you for your question. Well regarding the first question, I mean, the STP sale -- I mean, we still don't have that information. We needed to have the financial closing, just to see what we are going to do with this procedure. But secondly, it should increase our liquidity. I mean, our leverage debt is now 3.1 times. It should be reduced. But we needed to wait for the financial closing.

Regarding your second question, related to our exposure to TJLP -- yes, you are right, our exposure to TJLP has increased. As soon as we start to invest, or we continue to invest more in those projects that are under implementation, we are going to see more exposure to BNDES debt; that is, TJLP.

So going forward, I mean, maybe in two years, our exposure should reach maybe something around 25% to 30%, as we needed to invest more according to our CapEx plan related to those projects that we got recently. And it is important to mention that BNDES (disburses) -- the procedures are according to the CapEx curve. So as soon as we invest more, we are going to have more funding from BNDES.

Q - Victor Mizusaki {BIO 4087162 <GO>}

Okay. Thank you.

Operator

Ed Kuczma, BlackRock.

Q - Ed Kuczma {BIO 6691195 <GO>}

All my questions have been answered. Congratulations on the results. Thank you.

Operator

(Operator Instructions) We now end the Q&A session. I would like to turn the conference over to Ms. Flavia Godoy, to her closing remarks. Please, Ms. Godoy, you may begin.

A - Flavia Godoy

On behalf of CCR, I would 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 investor relations website. Thank you.

Operator

This concludes CCR conference call for today. Thank you for your participation. Have a great day.

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