

Q3 2019 Earnings Call

Company Participants

- Andrea Fernandes, Investor Relation Director
- Marcello Guidotti, Chief Financial, IR Officer and HR Management and Member of Executive Board

Other Participants

- Josh Milberg, Analyst
- Pedro Bruno, Analyst
- Rogerio Araujo, Analyst
- Stephen Trent, Analyst
- Victor Mizusaki, Analyst

Presentation

Operator

Good morning, and welcome to Ecorodovias' Third Quarter of 2019 Earnings Conference Call. With us here today are Mr. Marcello Guidotti CFO and IRO; and Andrea Fernandes, IR Director; 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 question-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 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 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 depends 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.

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I will now turn the floor over to Ms. Andrea Fernandes who will discuss the third quarter of 2019's results. Ms. Andrea. You may proceed.

Andrea Fernandes {BIO 21294199 <GO>}

Good morning, welcome to another conference call Ecorodovias, today, concerning the results of the third quarter of 2019. We thank you for your interest and participation. We would like to mention some important events. On September 27th, the Company won the concession auction to manage and operate highway BR364/365 for 30 years. The concession spans for 437 kilometers between the cities of Jatai in Goiás and Uberlândia in Minas Gerais.

The highway is one of the main corridors connecting the Midwest region to the State of São Paulo. In line with the Group's strategy, this extends the duration of our portfolio to 17 years and seven months, whereby EBITDA for 12 years and three months.

In the third quarter of 2019, the pro forma EBITDA of the new concessions, Eco135 and Eco050 amounted to BRL74 million, representing approximately 14% of the consolidated pro forma EBITDA. We can see on Slide 2 that consolidated traffic of equivalent paying vehicles in the third quarter of 2019 posted an increase of 27.3%. Excluding the startup of operations of Eco135 and Eco050, consolidated traffic presented a reduction of 0.5% in the third quarter.

Heavy vehicle traffic was affected at Eco101 for the cycle of the paper and pulp industry in the region and at Ecosul due to the lower soybean flow. Ecovias dos Imigrantes and Ecovia Caminho do Mar posted an increase due to the increase in the flow of the corn crops. And the improvement of Ecopistas is due to the induction of traffic after the toll exemption to suspended axles.

In addition, light vehicle traffic at Ecovia Caminho do Mar, Ecovias dos Imigrantes and Ecoponte presented a reduction in the flow of vehicles due to the unfavorable weather for tourism and to the long weekend on September 7th, 2018.

Eco101 presented a reduction due to unfavorable economic conditions in the State of Espírito Santo. Ecosul when Ecopistas presented an increase due to favorable weather conditions for tourism in the regions. And at Ecocataratas, it is due to the exchange devaluation of the real compared to the dollar in July 2019.

As for the Group's consolidated results on Slide 3, and pro forma, excluding construction revenues, net revenues this quarter amounted to BRL777 million and net revenue of highway concessions presented an increase of 23% due mainly to the startup of operations at Eco135 and the consolidation of Eco050.

Moving on to Slide 4; comparable cash costs in the quarter amounted to BRL194 million, excluding non-recurring expenses referring to attorney fees, specialized consulting services dedicated to support investigations, severance pay, and the beginning of operations of new concessions. The increase in this quarter of 6.5% mainly due to the

increase in maintenance costs and the concessions and an increase in third party service expenses at Ecoporto due to an increase in handling activities. It is important to note that the company has already started the process to adjust the holding corporate structure to support future growth opportunities and the new assets recently acquired by the Group.

Pro forma EBITDA amounted to BRL545 million in the third quarter, with an increase of 21% and margin of 70%. It's worth noting that toll exemption for suspended axles reduced toll revenues and BRL34 million in the third quarter of 2019 and BRL97 million in the first nine months of 2019, year-to-date. This exemption will be subjected to rebalancing of the contracts.

The majority of concessions presented in EBITDA increase as we can see on Slides 5 and 6, due mainly to tariff adjustments. Highlights are the new concessions Eco135 and Eco050 where the pro-forma EBITDA amounted to BRL74 million.

On Slide 7, we present the evolution of recurring net profits in the third quarter of 2019. Profit had a positive impact due to the higher EBITDA, but a negative impact to financial results due to the beginning of the accounting for monetary variation on the concession rights of Eco135, provision costs for maintenance, and higher depreciation and amortization resulting on net profits of BRL58 million.

As for investments, on Slide 8, capex, year-to-date were of BRL897 million, estimated capex for 2019 is of approximately BRL1.4 billion. You should note the application works at Eco101, the connection works at Ponte Rio-Niteroi to the Linha Vermelha and the Port Avenue at Ecoponte, that have already BNDES funding. The amendment related works at Ecovias dos Imigrantes and startup works at Eco135, which long-term financing is in the phase of contracting.

Moving on to Slide 9; the net debt-to-EBITDA indicator maintain -- remained stable at 3.3 times in the quarter. The longer debt amortization profile with cash balance of about BRL3 billion, and the future cash generation makes us comfortable as to the Group's financial capacities. The Company remains attentive to opportunities for growth, in particular, the auction of the Piracicaba Panorama Lote at the end of November and BR-101 in Santa Catarina.

We are optimistic with the Federal government's agenda regarding highway privatizations as well as with the State of Sao Paulo's agenda that in addition to new privatization, is progressing in the discussion of new contract amendments for Ecovias dos Imigrantes and Ecopistas. And as well as in the solution for the balancing should be defined.

It's worth highlighting the programs in Minas Gerais, Mato Grosso do Sul and Rio Grande do Sul as well. This concludes our presentation. We would like to move on to the questions-and-answers 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 question-and-answer session for investors and analysts. (Operator Instructions). Our first question Josh Milberg, Morgan Stanley. Please you may proceed.

Q - Josh Milberg {BIO 19336060 <GO>}

Good morning Guidotti, Andrea. Thank you for the call. My question is, if you could talk a little bit more about how you see the possibility of having an agreement with the state of Sao Paulo regarding the rebalancing and the amendments, as well as, if you can, to talk about the specific case of the Santos-Guaruja Bridge, if there is anything new and how this discussions have been evolving in recent weeks. Thank you.

A - Marcello Guidotti {BIO 16618352 <GO>}

Bom-dia Josh. This is Marcello. Thank you for your question. The discussions with the state of Sao Paulo about the unbalancing are moving along very well, continuing with different situations, but I would say that it's going well. It trends to have more progress and try to get to a conclusion as soon as possible.

About the bridge, the connection with the margins, that's one of the amendments that has been in discussions here in the state of Sao Paulo. Ecovias and Ecorodovias have to support the state of Sao Paulo to resolve all the technical issues and doubts and change the project design to meets the needs that could be impacted and all the solutions are been analyzed.

We are following the discussions at the state government level with the federal government as well. It's an important work and things are going well and we will be able to successfully have supports for all this technical discussions.

Q - Josh Milberg {BIO 19336060 <GO>}

Thank you.

Operator

Our next question, Victor Mizusaki, Bradesco BBl.

Q - Victor Mizusaki {BIO 4087162 <GO>}

I have two questions. First is a follow-up with the amendments of the -- and the imbalances in Sao Paulo, I don't know if you could give us a timeline expectation if maybe we can have at least agreements announced this year. and then the signature of new contracts next year. Does it make sense for us to expect this timeline?

And the second question about the leverage of 3.3 times. This number, we also have to include the flow that probably will come from 364 and the Rodoanel discussions. How can we expect this leverage to evolve in your modeling, Ecorodovias leverage can get to how many times of the EBITDA? Thank you.

A - Andrea Fernandes {BIO 21294199 <GO>}

Victor, thank you for your question about Sao Paulo. As we said, the discussions are moving along well. I would say that the rebalancing of those unbalances are being discussed. As I said, the discussions are moving it throughout the lifetime of the contract. But it seems to be defined and now we are trying to close this. It's not defined, but we could talk about a few months' timeline.

About the difference in the bridge and the new amendment the discussions are a little longer, and there'll be an amendment term. But as I said, the discussions are also going well. About the leverage. I would say that 3.3 in this quarter, it's a stable level. The traffic is in -- October is very positive. And the more mature concessions gets to the double-digit growth in October.

So it should start to improve from the fourth quarter and for 2020. So I would say the 3.3 tends to decrease. 364 is more for 2021, the capex is realized and we believe that in 2020 we'll already see this. And the Rodoanel, I think the beginning of Rodoanel goes beyond 2020, this new -- 2021, 2022. So the 3.3 tends to be, as I know that may even decrease. Thank you.

Operator

Next question, Pedro Bruno, Santander.

Q - Pedro Bruno {BIO 19082978 <GO>}

Good morning. My question is about the line of suppliers, if you could give us more color what was that reduction, apparently atypical of BRL90 million that kind of held back the operating cash generation in the quarter, we don't usually see big variations in the working capital sector so that caught our eye and we wanted to know if you could give us more detail on this line. Thank you.

A - Andrea Fernandes {BIO 21294199 <GO>}

We included MGO, so there may be some variation in the consolidation, but we need to look into it. In this quarter, we have the consolidation of the balance and maybe a variation relating to that.

Q - Pedro Bruno {BIO 19082978 <GO>}

Excellent, thank you. If I can just one more question, if you can talk about the expectation of participating in the Centrovias auction. How it would be done, if you will, and if it makes sense to you. And if you can help put this into context. The news that came out today about some suspension of the auction. If you're following this closely and if that would

make any sense, if there will be a delay or not or what your expectation is for the Centrovias auction.

A - Andrea Fernandes {BIO 21294199 <GO>}

Pedro, about the deeper auction, it's a big auction complex, many kilometers and we are studying it deeply, doing our due diligence and it's very important and it is of our interest, but I would say we don't have a conclusion -- conclusive position. But we are studying it. About the news of today, we already knew. There seems to be an issue that may be clarified by a test. It doesn't seem to us that there has been any serious issue, but we are following it. But it seems to us that things are being worked out. Thank you.

Q - Pedro Bruno {BIO 19082978 <GO>}

Excellent. Thank you.

Operator

Next question, Rogerio Araujo, UBS.

Q - Rogerio Araujo {BIO 17308156 <GO>}

Good morning. Two questions. One about the Factor D applied to EcoPonte, if this tariff reduction is reversed for the company to make the investments that are delayed and what is the timeline expected. Also about 101, if you would accept an agreement with the government to return, on what parameters, because there were news this week that the government would be willing to negotiate. So what's the parameters, what are the terms, including the non-amortized investment? If you would accept this return. That's my first question. Thank you.

A - Andrea Fernandes {BIO 21294199 <GO>}

This factor D is calculated based on the capex, contractual capex delays. So it tends to become balanced with the development of the concession. So it maintains the project stable, if the capex is concluded in the period that Factor D are reposed, but it's part of the dynamics of this contract. It's nothing out of the reason.

About 101, it is being discussed at Eco101. We're trying to close the rest of the duplication and the improvements to the assessments. The application works depend greatly on environmental licenses and we haven't received the license yet. So, that of course leads to a delay, but Ecorodovias is committed to work on it and at the same time we are moving forwards in the negotiations to adjust the investments the best way possible.

We know it's very delayed, there are bottlenecks. About this evolution [ph], the return, of course, we're following the discussions and at the right time, we could. The idea is to continue and renegotiate and succeed.

Q - Rogerio Araujo {BIO 17308156 <GO>}

Just a follow-up about the Factor D at Eco101 can we interpret this tariff reduction as a resolution of that old operation about the expert reports.

A - Andrea Fernandes {BIO 21294199 <GO>}

No, it's not related.

Q - Rogerio Araujo {BIO 17308156 <GO>}

Excellent, in conclusion, when will there be the cash disbursement for that fine -- on that penalty on the leniency agreement. Thank you Guidotti.

A - Marcello Guidotti {BIO 16618352 <GO>}

The finance is done in October, it was done, but the traffic application, it will be at least 12 months. We're discussing it to see where it will be applied in the backup. We don't have a defined timeline yet.

Q - Rogerio Araujo {BIO 17308156 <GO>}

Thank you.

Operator

(Operator Instructions) Next question, in English, from Stephen Trent from Citi.

Q - Stephen Trent {BIO 5581382 <GO>}

Hi Guidotti, Andrea, Camilo. Thanks very much for taking my question. Just, actually two from me. And the first actually pertains to your relationship with Gruppo Gavio? You know, to what extent are they still engaged with you in terms of looking for any strategic solutions in Santos Port? And are they also doing any analysis with you on new concessions.

And then my second question, when you think about potential acquisitions or participation in auctions, any thoughts with respect to how you might plan to fund such projects? Thank you.

A - Andrea Fernandes {BIO 21294199 <GO>}

Thank you for your question. The third -- first question about the Gruppo Gavio, we confirmed that our controllers are engaged and believe on in Ecorodovias and the growth of this industry in Brazil.

About Santos, I didn't really understand.

Q - Stephen Trent {BIO 5581382 <GO>}

Yes, I was wondering...

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A - Andrea Fernandes {BIO 21294199 <GO>}

The terminals in Santos are being operated? And we are discussing about the concession about the Santos bridge. They're engaged, giving us support about the technical studies for the bridge between the margins. About auctions and future acquisitions, the lots are very relevant. It's important to have the support and participation of BNDES. It has been a very liquid market and very involved, participating. Although there are turbulences occasionally, I think it's a very strong position. We also tend to show mechanisms to protect against exchange variations to raise funds in dollars. But in general, Ecorodovias has a good record [ph] position in the mid-term. Our equity strategy is also a good point at Ecorodovias. Thank you Stephen.

Q - Stephen Trent {BIO 5581382 <GO>}

(Foreign Language)

A - Andrea Fernandes {BIO 21294199 <GO>}

Stephen, on your question about suppliers, the movement in June to September is for the payment of suppliers at Eco050, for the previous question about suppliers.

Operator

We now close the questions-and-answers session. I will turn the floor to Ms. Andrea Fernandes for her final comments.

A - Andrea Fernandes {BIO 21294199 <GO>}

I would like to thank you all for attending this call. And in October the term of our concessions already show recovery, especially concessions in Sao Paulo Parana are showing double-digit performance in some cases and I remain available for any doubts you may have. Thank you.

Operator

Ecorodovias conference call is now closed. Thank you very much for your participation. We wish you a very good day.

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