

Q2 2020 Earnings Call

Company Participants

- Andrea Fernandes, Investor Relation Director
- Marcello Guidotti, Chief Financial Officer and Investor Relations Officer

Other Participants

- Guillermo Hernandez, Analyst
- Regis Cardoso, Analyst
- Victor Mizusaki, Analyst

Presentation

Operator

Good morning, and welcome to EcoRodovias Second Quarter of 2020 Earnings Conference Call. With us here today are Marcello Guidotti, CFO and IRO; Andrea Fernandes, IR Director and 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 answers session for analysts and investors only and when further instructions will be provided.

(Operator Instructions)

The audio and slides of this conference call are being broadcast simultaneously at ri.ecorodovias.com.br, 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, 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 second quarter of 2020's results. Ms. Andrea, you may proceed.

Andrea Fernandes {BIO 21294199 <GO>}

Good morning. Welcome to Grupo EcoRodovias conference call, today discussing the earnings of the second quarter of 2020. We thank you all for your interest and participation.

We would like to address some important events occurred from April to July 2020. Advancing borrowings in order to strengthen the Group's cash position and mitigate uncertainties regarding its capacity to roll over debt maturing in 2020.

In April, EcoRodovias issued promissory notes in the amount of BRL1.2 billion for two years. And in June, Ecosul issued bank credit notes for BRL250 million for one year. Eco135 received the disbursement of sub credits of BNDES' loan in the amount of BRL106 million. In July, EcoRodovias Concessões e Serviços issued debentures in the amount of BRL1 billion for a period of three years.

With the conclusion of this operation, EcoRodovias Concessões e Serviços understands that with the resources available and the generation of resources from existing operations, the acquisition of new debt will not be necessary until the second half of 2021.

Another important point during the second quarter was Ecovias dos Imigrantes signing the Civil Non-Prosecution Agreement with the Public Prosecutor's Office of the State of São Paulo on April 6. In this agreement, Ecovias dos Imigrantes committed to invest BRL450 million in construction works, allocate BRL150 million towards a 10% discount in tolls tariffs and BRL50 million in fines and other obligations.

In the second quarter of 2020, the net present value of BRL46.8 million was recorded under other expenses referring to the fines and other obligations. The amount of BRL25.8 million was recorded under current assets and BRL21 million under non-current assets. More information about the accounting of this agreement is detailed in our earnings release.

On Slide 2, we can see the monthly traffic performance and comparable toll revenue until July 28. Note that even with the social distancing measures adopted to fight COVID-19 comparable traffic already shows a gradual recovery in the months of May and June when compared to April.

Although comparable traffic posted a reduction of 13.4% year-to-date, toll revenue decreased only 6.1% due to the good traffic performance that resulted from the export of agriculture commodities in the concessions with highest tariffs, demonstrating the quality and the resilience of our highway portfolio, even during the pandemic. When we consider concessions, Eco135 and Eco050, we can see a 1% increase in traffic and a 2.9% increase in toll revenue.

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As regards to the numbers of the second quarter on Slide 3, consolidated traffic of equivalent paying vehicles posted a 13% decrease. Excluding the start-up operations at Eco135 and Eco050, consolidated traffic was down 23%, due mainly to the social distancing measures adopted to combat COVID-19. It is important to highlight that the performance in July indicates a significant recovery vis-a-vis the performance of the quarter with a reduction of approximately 15% compared to the 23% reduction of the quarter.

As for the Group's consolidated financial performance on Slide 4, net revenue, excluding construction revenue in this quarter amounted BRL647 million and the net revenue of highway concessions posted a decrease of 7.5%.

Moving on to Slide 5, comparable cash costs or adjusted cash costs in the quarter amounted to BRL184.7 million, a 7.2% reduction. This reduction is mostly due to a decrease in expenses with personnel, third-party services and leases. Pro forma EBITDA amounted to BRL430.4 million in the second quarter, with a 9.5% decrease and margin of 66.5%.

Despite the social distancing measures, concessions, Ecovia Caminho do Mar and Ecosul showed an increase in EBITDA due to the growth in soybean exports that had a positive impact in traffic. And the EBITDA of the other concessions so for the impact of traffic reduction on the EBITDA due to the restriction measures adopted to combat COVID-19.

On Slide 6, we see the evolution of recurring net income in the second quarter of 2020 with a 47% increase. Fee income had a positive impact from the financial results due mainly to revenues from monetary variation on debentures and financial effects over the concession fee, resulting from an IPCA deflation and the lower provision for maintenance. On the other hand, there was a negative impact due to the lower EBITDA that resulted from traffic reduction.

As for investments, on Slide 7, CapEx in the second quarter of 2020 reached BRL326 million, due to the social distancing measures adopted by state and municipal governments to combat COVID-19 and to protect the health of service providers and employees. Measures are being taken to prioritize safety services to highway users and the possible postponement of investment.

On Slide 8, we ended the quarter with a net debt of BRL6.7 billion, remaining stable as regards to the previous quarter, and the net debt over pro forma EBITDA indicator was 3.3 times.

Moving on to Slide 9. We closed the quarter with a cash balance of approximately BRL1.6 billion, which, together with future cash generation, makes us comfortable with the Group's financial capacity.

Regarding debt maturing in the second half, in July, we issued debentures in the amount of BRL1 billion for a period of three years, which has contributed to extend the Group's debt amortization schedule, reaffirming the quality of credit even during a period of high market volatility.

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The Company remains alert to growth opportunities and is currently studying federal concessions BR-153, Tocantins, Goiás and BR-116/101 Dutra. Regarding the São Paulo state government's agenda, in addition to the new privatizations, we are making progress in the discussion of new contractual amendments for Ecovias dos Imigrantes and in the solution for the pending unbalanced contracts.

Before we conclude, we would like to inform that we continue taking preventive and mitigating measures to minimize as much as possible, the impacts resulting from the pandemic as regards to the safety of people and the continuity of business.

Many measures set forth by the governments and by the private sector for the pandemic have generated relevant impact in EcoRodovias' business. To minimize this impact, the Company has been working proactively in coordination with governments and regulatory agencies, adopting important measures that are detailed in our earnings release.

The Company reaffirms its understanding that from the regulatory viewpoint, its concession contracts are protected by clauses against force majeure events, and therefore, believes that its concessions will be entitled to economic and financial rebalancing due to the impact of the COVID pandemic.

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

Operator, we are ready to take questions from our analysts and investors. Thank you.

Questions And Answers

Operator

(Operator Instructions) Our first question, Regis Cardoso, Credit Suisse.

Q - Regis Cardoso {BIO 20098524 <GO>}

Good morning, Andrea. Thank you. If you could update us on the conversations with the State of São Paulo, during the quarter, we had that deferral of a favorable decision in your benefit, and the point would be the depreciation that was canceled by our past in a broader discussion with the other regulatory discussions level.

So if you could clarify this, what this cancellation was? And what's the current status? If it's making advances or not?

And my second question related to this one is, whether the contractual amendments, I imagine that the bridge Santos-Guarujá would be the main one. But the other ones that you're negotiating, whether these amendments are making progress? And if they are contingent with that decision with the State of São Paulo?

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A - Marcello Guidotti {BIO 16618352 <GO>}

Thank you, Regis. Good morning, everyone. Correct, on July 4, our tests published. The recognition of that unbalance, referring to the depreciation in the 23rd July. They revoked that decision and they published the formation of a commission to learn of all the unbalanced points to seek balancing. I believe the situation is moving well.

The discussion of the unbalanced contracts, the ones that are pending are well based both to the benefit of the grantor and the concessionaire. And we are now at the stage of discussing how to balance this. In this publication, this cancellation, there's an affected the negotiations of the unbalanced contracts. I think everything is moving well.

About the contractual amendments, we already had amendments Ecovias dos Imigrantes, two big ones that are important. These are discussions of amendments for new works that can grant simultaneously. Of course, there's no final agreement. Maybe, we need to solve the unbalanced points based on what has already been discussed, but higher value amendments, I believe, have already been discussed and can be negotiated at the same time simultaneously. Thank you.

Q - Regis Cardoso {BIO 20098524 <GO>}

Very clear, Guidotti. Thank you.

Operator

Next question Victor Mizusaki, Bradesco BBI.

Q - Victor Mizusaki {BIO 4087162 <GO>}

Two questions. First on the traffic recovery that we start to see with the numbers getting better than yesterday, when we look at the numbers of the past week, we see a significant improvement. Could you tell us a little bit about the driver for this improvement, if it's the -- what's this recovery?

And the second question, on the second quarter results, we see an interesting part in the cost side, if you can tell us, if you can quantify how much these savings can be maintained in the upcoming quarters? Thank you.

A - Marcello Guidotti {BIO 16618352 <GO>}

Good morning, Victor. About the traffic recovery, you're right. Yesterday, it was -- we released the numbers of the past week, showing the best results last week since the beginning of the crisis, with a 9% of decrease in comparable terms and 7% consolidated. And what we're seeing is that it's compared to last year's worth, but the light vehicles are finally coming back.

So we see concessions where the impact was greater. In some of the highways, we have much higher traffic volume than we had in the previous weeks. We see a recovery of light vehicle traffic.

And now about the costs. Of course that the results of these efforts that we have is due to this beginning of the crisis, including with provisional measures for salary reductions, demand reductions and these measures. I could say that overall during the crisis and reorganization, I believe most of these reductions and others that are being studied may be implemented and be maintained.

I think it's -- the cost reduction is a good sign, and our idea is that they remain permanent. Thank you.

Operator

(Operator Instructions) Guillermo Hernandez, J.P. Morgan.

Q - Guillermo Hernandez {BIO 15323089 <GO>}

Good morning. I have Two questions on our side. First, at the end of the bids, you mentioned your interest in some of the projects. I'd like to hear about the competition team. We know that the pipeline is long, but I believe most players will end up looking at these projects that are bigger and more relevant. So what do you expect in terms of competition in this project? And the second point, you mentioned the rebalancing due to force majeure events. Could you give us more details about what you expect about the format of this balancing? Thank you.

A - Marcello Guidotti {BIO 16618352 <GO>}

Thank you, Guillermo. About the competition, we haven't seen expressive number of players in the last highway bids. Maybe in other sectors, the situation is different. But really, now we're getting into a stage where there are large projects involved.

So it's difficult to interpret how the dynamic of this competition will be with these projects, first with Dutra. So maybe with the volume and the returns that are expected, the adjusted returns to increase it, we may have the entrance of new players in the sector here in Brazil. It's important to remain focused in the opportunities and study them well, study the traffic projections and try to make the best proposal.

It's not -- the number of competitors is not what counts to win. That's always the best proposal. About the other question, about the rebalancing. We installed the process to understand the methodology for the COVID rebalancing.

There's a period of six months to conclude this, and as a sector, we are making progress and concluding the survey and we're raising the data information to measure the volume that was affected by this crisis. So I believe six months will be the time line required to finalize the methodologies in the studies to enter this question of the rebalancing. Thank you.

Operator

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There are no further question. We now close the questions and answer session. I would like to turn over to Ms. Andrea Fernandes for her final remarks.

A - Andrea Fernandes {BIO 21294199 <GO>}

I'd like to thank you for your participation. And we remain available for any doubts. Have a good week.

Operator

EcoRodovias conference call is concluded. We thank you all for your participation. Have a good day.

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