

Q3 2013 Earnings Call

Company Participants

- Daniel Kuratomi, Director, IR
- Unidentified Speaker

Other Participants

- Unidentified Participant

Presentation

Operator

Good morning, ladies and gentlemen, and thank you for waiting. We would like to welcome everyone to third quarter 2013 earnings conference call of CCR SA. We would like to inform you that all participants will be in a listen-only mode during the company's presentation. After the company's remarks are completed, there will be a question-and-answer session. At that time further instructions will be given. (Operator Instructions) Before proceeding, let me mention that forward-looking statements about CCR's business prospect and financial and operating goals are based on the beliefs and assumptions of CCR management and on information currently available to the company.

Future considerations are not guarantee of performance. They involve risks, uncertainties and assumptions because they relate to future events, and therefore depend on circumstance 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.

I will now give the floor to Mr. Daniel Kuratomi, CCR's IR analyst. Mr. Kuratomi, you may begin the conference.

Daniel Kuratomi

Thank you, operator. Good morning, everyone, and thank you for attending our third quarter '13 earnings conference call. With us today are Arthur Piotto, our CFO and Investor Relations Officer; Marcus Macedo; Flavia Godoy and Leandro Mathias, Members of the IR team. The third quarter's earnings release is available in the company site at www.grupoccr.com.br/investidores. Before commenting on the highlights, we'll take a quick look at some of the market dynamics indicators we consider important for the performance of our business.

Among the most important economic and production indicators is workers' real average income measured in September '13, which amounted to (technical difficulty) 2% up on September '12. Also in September unemployment remained the stable over the same periods last year at 5.4% [ph]. Industrial production fell by 1.2% year-on-year in August, remained flat over July '13 increased 1.6% in the first eight months of the year and climbed by 0.7% in the last 12 months.

According to the latest credit details released by the Central Bank, earmarked and non-earmarked loans increased by 16.1 expense in the 12 month throughout, but in the reserve loans increasing by 1.9% and vehicle finance closing out by 1.6%. It is worth emphasizing that the automotive sector is closely linked to traffic growth and has a huge influence in industrial GDP. The number of licensed vehicles fell by 8.5% year-on-year. In third quarter '13 with at 6.8% increase in vehicle production.

We are maintaining our positive outlook regarding the Brazilian economy and remain constant over the future. We traffic will continue to grow at around 1.5 times GDP as indicated by the figures in recent years. Before discussing the third quarter '13 figures, we would like to remind you that as of the third quarter '13 disclosure, CCR began to disclose its results in accordance with IFRS 10 and 11. Therefore, the results from companies not controlled by CCR and companies with joint control are presented in accordance with the equity accounted method and no longer on a proportional basis in each line.

The change did not affect CCR consolidated net results. Also, as of the third quarter '13 disclosure, our releases have included income statement, balance sheet and cash flow statement consolidated on a proportional basis and presented a pro forma statement.

Before moving on to third quarter '13 results, we would like to call your attention to some important events that occurred in October. The financial conclusion of the share purchase that we have made and other covenants took place on October 30, with the effective transfer of 10% of STP's capital stock to Sampras Participacoes Ltda, an affiliated company of Raizen Combustiveis S.A. CCR now holds 34.2% of STP's capital stock.

On October 15, CCR signed a concession agreement contract for the execution, under the sponsored concession type of public-private partnership, of construction works and systems, the supply of rolling stock and operation, maintenance and expansion of the Salvador and Lauro de Freitas Subway System. Now, concerning the traffic, consolidated figures from all of our concessionaires grew by 7.4% in third quarter '13 over the same period of last year. On June 25th, as published in Diario Oficial do Estado de Sao Paulo, the Sao Paulo state government cancelled the expected tariff adjustment for the state highway. On the other hand, on July 28, a resolution authorized our collections of the suspended debt of commercial vehicle. As a result, third quarter '13 traffic was affected by these measures to restore the economic and financial balance of the company. However, it should be noted that the precise amount are still being analyzed -- by involving.

Commercial vehicle traffic benefited from this effect, increasing by 10% in third quarter '13 over third quarter '12. While light vehicle traffic moved up by 4.4%. In our press release, you will find more information and a detailed breakdown of this traffic of each of our

cessionaires. We also highlight third quarter adjusted EBITDA which totaled BRL928.5 million, 19% higher than in third quarter '12, with an adjusted EBITDA margin of 87.4%, up by 460 basis points.

Note that we define an adjusted EBITDA as net income plus income taxes, the net financial results, depreciation and amortization as well as other non-cash expenses. They maintain this provision and prepaid concession expenses. Considering all CCR businesses on a proportional basis, adjusted pro forma EBITDA totaled BRL1.57 billion, 23% up on third quarter '12 with an adjusted pro forma margin of 66.3%, up by 460 [ph] basis point.

In relation to our debt, CCR's leverage measured by the net debt EBITDA ratio, including the proportion of that jointly owned subsidiaries stood at 1.8 times in third quarter '13, below the two times recorded in the previous quarter. This is an extremely comfortable ratio which we will allow the company to move ahead with the strategies of qualified growth with capital discipline. Another highlight was the distribution of dividend. Our CCR Board of Directors meeting held on September 26th approved the payment of interim dividend of BRL0.68 [ph] per share as of October 31.

That brings our third quarter '13 presentation to a close. And we are at your disposal to answer any questions you may have. Operator, please go ahead.

Questions And Answers

Operator

Excuse me, ladies and gentlemen. We will now begin the question-and-answer session. (Operator Instructions) And our first question comes from Stephen Trent with Citigroup. Excuse me, Mr. Stephen Trent, your line is open.

Q - Unidentified Participant

I'm sorry about that. Good morning. Hello?

A - Unidentified Speaker

Hello. Hi, Stephen.

Q - Unidentified Participant

Hi, good morning. This is Kevin (inaudible) calling for Stephen Trent. My first question is, what is your thought on other subway and other national projects? How do you think about the opportunities on these projects (technical difficulty) airports bids? And also could we see other situations in which CCR is the sole bidding party on (inaudible)?

A - Daniel Kuratomi

Can you repeat the last part of your question?

Q - Unidentified Participant

Oh, we don't want any of the other situations in which CCR is the sole bidding party and --

A - Daniel Kuratomi

Well, in terms of number of projects and the airports and highways, we are analyzing all these opportunities as we have been selling more, but we are equally diversified from highways to mobility sector and the airports sectors, mainly opportunities arise in the market. We will have subway line auction in Sao Paulo city this week. We are analyzing this projects and I think that there should be more opportunities over the next month. So yes, we are interested in subways lines and I think that there is a chance to get as more projects in the future, either going alone or in a consortium.

Q - Unidentified Participant

Great. I guess another question we have is, to what extent do we see you guys making announcements on amendments as part of your 15 concession contracts like we saw with ViaLagos a couple of years? Thank you.

A - Unidentified Speaker

Would you like to start off the amendments, if I understood you correct -- correctly? Hello?

Q - Unidentified Participant

Yes, I can hear you.

A - Unidentified Speaker

Could you speak up a little bit? We cannot hear you well?

Q - Unidentified Participant

Sorry, but that must be my fault. We're just was wondering what exactly we're seeing as making announcements of our amendments in some of your concession contracts like we saw with ViaLagos a couple of years ago?

A - Unidentified Speaker

Well, the amendment for ViaLagos, we announced that it at the end of 2011 and we extended the life of the concession for 15 years. And the company (inaudible) some opportunities that we have in our current portfolio in terms of amendments. I mean we can add the new investments in our current portfolio, and the one way to rebalance it, we can, for instance, extend the life of the concession.

Actually we have two amendments that are under discussion at the moment with federal government that are -- they are under discussion and I cannot say a little more about the recovery (inaudible). We have a range of return and the total investment should be around BRL1 billion to BRL1.5 billion for both NovaDutra and Ponte. And since the company have more details, we are going to disclose to the market. But at the moment, it's under

discussion and we have a huge expectation and maybe in some months we can't have a -
- we can't announce this amendment.

Q - Unidentified Participant

Okay. Thank you.

Operator

Excuse me. (Operator Instructions) That concludes today's question-and-answer session. I would like to invite Mr. Daniel Kuratomi to proceed with his closing statements. Please go ahead, sir.

A - Daniel Kuratomi

Once again, together with all of the members of CCR, I would like to thank you for your time and interest in the company. Please do not hesitate to contact us should you have any further questions. Our contact information is available in our press releases and on our website, www.grupoccr.com.br/investidores, where you can find more information on our company.

Operator

That does conclude the CCR audio conference for today. Thank you very much for your participation and have a good day.

This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP. © COPYRIGHT 2022, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.