

Q2 2011 Earnings Call

Company Participants

- Paulo Basilio, CEO
- Rodrigo Campos, CFO, IR Director

Other Participants

- Marina Braga, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. At this time we would like to welcome everyone to America Latina Logistica Second Quarter and First Half of 2011 Earnings Conference Call. Today with us we have Paulo Basilio, CEO, and Rodrigo Campos, CFO and IRO for ALL.

We would like to inform you that this event is being recorded and all participants will be listen-only mode during the Company's presentation. After all ALL's remarks are completed there will be a question-and-answer section. At that time further instructions will be given. (Operator Instructions)

We have a simultaneous webcast that may be accessed through ALL's IR website, www.all-logistica.com/ir. The slide presentation may be downloaded from this website. Please feel free to flip through the slides during the conference call. There will be a replay facility for this call for one week.

Before proceeding, let me mention that forward-looking statements are based on the beliefs and assumptions of ALL's management and on information currently available to the Company. They involve risks, uncertainties, and assumptions because they relate to future events, and therefore depend on circumstances that may or may not occur in the future.

Investors should understand that general economic conditions, industry conditions, and other operating factors could also affect the future results of ALL and could cause results to differ materially from those expressed in such forward-looking statements. Now, I will turn the conference over to Mr. Paulo Basilio, who will start the presentation. Mr. Basilio, you may begin.

Paulo Basilio {BIO 15046605 <GO>}

Thank you very much. Good morning, ladies and gentlemen. We are here to present the first Q, the Second Quarter results of ALL. And as usual I'm going to start giving the main highlights of the quarter in the first slide, and then and then go over to the business of the perspectives of the business in the quarter. I'm going to pass to Rodrigo that will discuss the figures if I mention figures and make some additional comments. Then we are going to open to the Q&A section.

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So in the slide two we have the consolidated EBITDA. Our consolidated EBITDA increased 12% in the quarter, 11.8% in Brazil, 7.2% in Argentina and as we start to report Brado's results, 42% in Brado's, that's the breakdown of the increase of EBITDA. The average yields increased 4% in Brazil, 3.4% in Argentina and yield roughly reflecting a mix of inflation pass through and stable diesel prices that we had in the quarter, actually that we had, we are having all this year. The EBITDA in the first half grew 8%, achieving BRL790 million.

The second bullet of volume the volumes in Brazil grew 9.6% the second Q, 13% in agriculture commodities and 1.5% -- 1.4% in industrial products. And here we are talking about the market share gains and the hence of the productivity of our assets that total value which also grew 9.6% volumes in Brazil.

And the third bullet here we are talking about our net income increased 20% and here is part of 28% increase in local interest rates that we had from look 9% to 12%. And our free cash flow improved a lot, reflecting gains that we had in working capital and the increase in EBITDA that we had in the quarter.

The last bullet here is we would to talk a little bit about Brado. This is the First Quarter that we are going to report Brado results. Brado, just to remember, Brado is the company that we created to explore the opportunities that we see in the container segment.

Brado is fully operational during this quarter. It is complete and the management is discussing new projects with a lot of players, clients, suppliers in the container markets. And we are very optimistic with this project with the future perspectives that we have with this business doing the conversations that the management have made during this quarter.

It is important to say that Brado already ordered 150 rail cars. They are 82 rail cars, which is a rail car that you can put two containers in line on the rail car. So with that we don't need to deal with adaptations of bridge and tunnels. And the Brado's EBITDA grew 42% in the Second Quarter.

So these are the main highlights of the quarter, the growth of 12% in EBITDA, volume growth in Brazil, increase of 20% of net income, and the improvement that we had in free cash flow and Brado starting to be operational company, reporting 42% increase in EBITDA. And more important with team complete, ordering the rail cars for next half of the year and the perspectives that we have in this business are very, very, very, very good.

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Going to the next slide that's a little bit agricultural commodities business. The volume was up 13% the second Q. Here I'd like to highlight the increased volume is up for fertilizer and sugar. The market share increased from 63% to 68%. Just to mention, the agricultural export was in line with 2010 volumes.

The south ports grew two digits year-over-year and the Port of Santos decreased 5% year-over-year when you compare 2010. So as we grew in both ports we increased our market share in Port of Santos and lose market share in the south ports in Brazil. This is the main highlight that we had in the first slide.

Going to the slide four we have the gross revenue was up 17%, achieving BRL718 million. The average yield was up 3.5%. And in the first half the gross revenues grew 13%, achieving BRL1.2 billion and the yield grew 3%. The EBITDA was up 15%, achieving BRL362 million the second Q. And in the first half the EBITDA grew almost 10%, achieving BRL580 million.

Going to the next slide to discuss the industrial products, the industrial segment, the volumes of the industrial products increased 1.5%, 1.4%, actually. We then break it down in 9% in intermodal flows and a decrease of 4%, 3.9% in pure rail products. Here it is important to highlight the increase in wood pulp and paper products, containers still and food, and the decrease in volumes that we had in vegetable oil and the construction segments.

The industrial products revenues, gross revenues increased, up 4.5%, achieving BRL214 million, with an increased in average yield of 3%. In the first half the revenues grew almost 5% to BRL430 million and EBITDA increased 2.5% in the Second Quarter to BRL106 million. The first half the EBITDA increased 2%, achieving BRL183 million in the first semester of the year.

Going to the next slide and the highway segment and operations, the highway business was pretty much stable in the Second Quarter and in the year the EBITDA is increasing 12%, Argentina pretty much same, political situations that we had -- we are having in the last period this is the gross revenue in pesos grew 22% is the balance of basically because of an increase in yield. And our EBITDA in pesos grew 26%. In reals the gross revenue grew 4% and EBITDA increased 7% in the period. In the first half the EBITDA in reals in Argentina is growing 8.5%, achieving BRL10 million.

Going to the Brado to the next slide, slide seven just to mention some points about Brado Logistica, the company that dedicated to the container services that we created and the merger with Standard. Brado's EBITDA increased 42% to BRL8.5 million in the first -- in the second Q. When you compare to a pro forma EBITDA of BRL6 million -- BRL5.9 million in the Second Quarter 2010 it was a growth of 42%.

This is we did carve out of the ALL so we have all the margins of the ALL container segment in 2010 considering these numbers. The growth was mainly driven by the increase in volumes of intermodal volumes transportation and all the services that Brado

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has to provide to the clients in the warehouse that they have that we have in the Company.

The EBITDA margin closed first Q 2011 almost 18%. The Company has already ordered 150, is buying 82 rail cars, as I said, and two locomotives. And these assets should be delivered in the last quarter of this year, in the First Quarter of 2012. And this is going to support the Company's growth plan.

And Brado has signed a credit line of BRL165 million in order to meet their financial -- the financing requirements related to this CapEx plan that actually all these rail cars will be supported by the BNDES lines. Then you need a commercial bank to give the guarantee to the operation. So the Brado is, has already ordered all the assets that we are going to need for the next period.

And we get it through working in the Brado's capitalization plan. As we always said, Brado has a bigger investment plan that they have in buying volume shifts so we need to capitalize the company in order to provide all the funds to support the new assets that we need to put in Brado. That being said, I'm going to ask Rodrigo to present some financial figures in the period.

Rodrigo Campos {BIO 16203706 <GO>}

Thank you, Paulo. Good morning, everyone. Going to page eight and starting here the financial figures, our historical average -- yearly average growth rate of revenues was 24%. This is basically a 12% to 13% volume growth, yield to growing with inflation in the balance accounts for the acquisitions we had in the period. In the first half of 2011 we grew revenues 10%, around 7% related to volume growth, a little bit more than 3% related with yields increases as Paulo explained.

In page nine we see our EBITDA growth historical average of 47% and in first half of 2011 8% EBITDA growth with margins marginally decreasing from 51% to 50%. When we go to page 10, our net income is basically flat as compared with last year with operating results increasing, offsetting the increasing interest rate in Brazil, which was more than 25% when we compare first half 2011 and first half 2012 interbank rates in Brazil.

When we go to page 11 we see a balance sheet and net debt-to-EBITDA ratio. And we ended first half '11 with 2.3 times EBITDA, net debt EBITDA, as compared to 2.1 times in 2010. And as we said, here we are in the path of our CapEx plan. We have here the construction of Rondonopolis and after the conclusion of the Rondonopolis project, which will happen in August 2012, we start to be cash flow positive.

When we go to page 12 we see some additional comments I would like to make. The first one is that the market opportunity that we will have in the second half '11. When we look to first half '11 we see basically a stable agricultural exports as compared to last year. And the agriculture production increased 8.6%.

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This is the most recent estimate for the total agricultural crops, so a large portion of the agricultural crops should be exported in the second half 2011. So with all that delay in the beginning of the crop, the harvest season in the first Q that we commented in the first Q conference call, a large portion of the crop of the transportation season should keep in the fourth Q 2011.

The second comment I would make is the creation of the Ritmo Logistica in July. I remember that our trucking business was a small business in ALL. We were talking about 3% of our revenues, 1% of our EBITDA more or less, BRL110 million of revenues and BRL12 million of EBITDA if we take 2010 numbers.

And what we are doing is to split this business and putting this business in a new company called Ritmo that will be 100% focused on highway logistics. And we did a merger with Ouro Verde. So we created a company that's completely focused on highway services, which is different from the normal focus of our main business, which is rail logistics, so a company 100% focused on that with a bigger scale.

Remember that Ouro Verde was even bigger than ALL when we looked at the Ritmo company. And we looked to 2010 results as the pro forma results. Ritmo Logistica starts with revenues of BRL210 million and an EBITDA of BRL30 million when we do the carve out of ALL and Ouro Verde businesses that are being placed in this new company. So at the end of the day we have a structure with more focus, more scale to grow in the existing highway business of ALL and Ouro Verde.

And more than that, we also have an opportunity to grow on the intermodal -- in drayage services in the intermodal transportations surrounding the railroad market that we estimated 40,000 -- in 40 million tons per year. ALL has 65% of this company. Ouro Verde has 35% of this company and we start to release the Ritmo results separated in the third Q, okay?

As a third comment I would like to say that we completed the issuance of a debenture of BRL810 million. This is a five to seven-year term debenture. And we are anticipating here the debt we will move our needs that we would have only in 2013 and '14. So this is very in line with our strategy of having a cushion of cash, having being prepared to grow in good and bad times and do not depend on the credit markets, so at the end of the day Brazil -- did something new in Brazil that you can with two years anticipation to address a debt remover need that you have only two years after.

So now we have a cash position of BRL2.4 billion, very soundly cash position. At the end I would like to comment that we keep very positive about the other strategic projects. Rondonopolis' schedule is very underway. Rumo, in the Rumo project Rumo already delivered all the rail cars and locomotives that was planned on the projects. And we keep working on our projects in terminals and iron ore segments. Saying that, I would like to open for questions.

Questions And Answers

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Operator

Thank you. We'll now begin the question-and-answer session. (Operator Instructions) We have a question in queue from Marina Braga of Raymond James. Please go ahead.

Q - Marina Braga {BIO 19446565 <GO>}

Hi. Good morning, everyone. I only have one question that's related to other costs and then expenses that you had in the Second Quarter. I saw in the (ETR) that you booked about BRL37 million that is related to gains with investments. And apparently it is related to Brado project. So I just wanted to have a better idea of what is this number, and if we should expect something in the next quarters because of Brado or even because of Ritmo and like the other projects. That's it, thank you.

A - Rodrigo Campos {BIO 16203706 <GO>}

Marina, that's a very good point this equity gains is related to the Brado operations because at the end of the day remember that I create Brado. I put no cash into Brado. We merged with Standard, which was a company that already had a balance sheet and infrastructure inside. And I bought a stake, an 80% stake on this company. So at the end of the day this is referring to the gain I had in the stake, I have in the Brado without putting cash.

Q - Marina Braga {BIO 19446565 <GO>}

And for example in Ritmo do you expect to book something like that also, or no?

A - Rodrigo Campos {BIO 16203706 <GO>}

Marina, we still have to see it and see and discuss with the auditors the best way of accounting that. This is every time that you do acquisitions or mergers like that there is now a lot of different accountings difference that they call different. So we should see which different your operations are in order to define the, how you account that. So we still have to work with auditors in order to be sure that if it will be a gain or not.

Q - Marina Braga {BIO 19446565 <GO>}

Okay. That's great. Thank you.

Operator

(Operator Instructions) We have no questions in queue. I will now turn the conference back to ALL for any closing remarks.

A - Rodrigo Campos {BIO 16203706 <GO>}

Thank you, everyone, for participating on the call. I, Rodrigo, and Paulo we are then and all the IR area are available for any further questions that you have on our results and on the Company. Thank you very much.

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Operator

Thank you, ladies and gentlemen. This concludes today's conference. You may now disconnect.

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