

Q3 2021 Earnings Call

Company Participants

- Flavia Godoy, IR Superintendent
- Waldo Edwin Perez Leskovar, Chief Financial Officer and Investor Relations Officer

Other Participants

- Andressa Varotto, Analyst
- Regis Cardoso, Analyst
- Unidentified Participant
- Victor Mizusaki, Analyst

Presentation

Operator

Good afternoon, ladies and gentlemen. Thanks for standing by. Welcome to the conference call of CCR to discuss the results relating to Q3 2021. We inform you that all participants will be connected in listen-only mode during the Company's presentation. And later, we will begin the Q&A session when further instructions will be given. (Operator Instructions)

Before proceeding, we would like to clarify that any forward-looking statements that may be made during this conference call relating to the business outlook's financial and operating targets are based on the assumptions of the Company's management and on information currently available to the Company. Forward-looking statements are no guarantee of the performance as they involve risks, uncertainties and assumptions and have to do with future events which 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 results of the Company in the future, thus conducting to results which differ materially from those expressed in such forward-looking statements.

I would now like to turn the floor over to Mr. Waldo Perez, CFO and IRO.

Waldo Edwin Perez Leskovar {BIO 21427688 <GO>}

Good afternoon. I would like to inform that today are in the conference with me Ms. Flavia Godoy; Douglas Ribeiro; and Caique Moraes from our IR team. Before speaking about Q3 2021, we are going to talk about the results later on. I would like to make some considerations about this year of 2021, which was a very intense year, very challenging,

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but with lot -- with many positive points for CCR. I would like to recap our most relevant achievements.

We started the year by signing two important amendment to ViaQuatro contract, which had a relevant impact for 2021 and have created new opportunities for investments in the remaining concessions. In the second semester, we were winners of round of airports, and this will allow us to have a larger scale. We have also won lines eight and nine which have synergies with our operations as they connect with lines four and five that we operate and we are going to also achieve gains of scale.

In June, we signed a preliminary agreement with the State of Sao Paulo, and this was a major step in our strategy, because it gives us legal certainty to continue to invest in the state. More recently, we won the airport of Sao Paulo and we also won the concession of Dutra, that is an asset which is very relevant to us and will become the benchmark for technology, innovation, sustainability and safety for the whole of Brazil. I'm sure that all of these and those, our strategy to grow by winning new business and by tapping opportunities that we identify in our current portfolio.

I would like to talk a little bit more about the auction of Dutra. CCR made an offer which was consistent with our capital discipline and we allowed for ample space to create more value. The extension of the term of NovaDutra allows us to test in the field the series of innovations that we are going to implement in this new concession contract.

CCR has analyzed the potential competitors and focused on differentials based on our knowledge of the road, of the highway and we have also implemented specific partnerships to meet the demands of the project, thus mitigating the risks in its execution. The economic and financial analysis shows that we will have a good financial return, which means our financial discipline, especially when we consider our risk matrix, a matrix that we know well, which we're comfortable with and is appropriate for our strategy.

We have also signed contracts with the Central Block and South Block on October the 18th and the 20th and this is yet another important stage in implementing our strategic planning. We have a robust platform and a sustainable one in the airport business, so that we can capture scale and efficiency to operate a complete network of airports, and this will also make us more competitive to grow even more in the same area.

I would also highlight our pipeline going forward. We will have opportunities for all the segments where we operate. In highways alone, there will be tenders of over 30,000 kilometers in length at the federal and state level. These projects account for BRL115 billion investments for Brazil according to BNDES. There are different projects ahead of us and this year, we are going to have the auction of BR-381 for the 20th of December. Next year, we should have the (inaudible) highway, some packages of highways in the State of Parana and the Belo Horizonte ring road, amongst other projects.

Additionally, in the airport sector we await for the seventh-round, which is scheduled for next year. In terms of urban mobility, we are waiting for the auctions for the TPA Eixo Norte in Campinas including Line 7 and Lines 11,12 and 13. We will continue to monitor

possibilities of auctions for the underground. All of these opportunities endorse our optimism relative to the outlook ahead of us. 2021 is still affected by the pandemic, but in the third quarter, there was a significant improvement in the performance of our concessions, especially in the highway business because of the relaxation of social distancing measures.

As regards airports also, we saw an improvement in performance, especially because of the vaccination rate and the flexibilization of social distancing measures. Our financial position is sound. There is plenty of space to capture new opportunities within our strategy. We closed the quarter with a very robust cash position and our leverage net debt over EBITDA is 2.4 times which is below 2.7 which we saw in Q3 2020 and practically flat relative to Q2 2021. This is a very appropriate level in our opinion, to maintain the sustainable growth of the Company.

According to our financial policy, we have space to surpass 3.5 as our leverage ratio as long as we come back to appropriate levels within 24 months. I think -- we think this is enough if we should have to surpass the leverage ratio, CCR (inaudible) credit in the banking market and also nationally and internationally. We will continue to pursue our capital discipline in a diligent way and expanding the portfolio of the Company in a sustainable manner so as to create value for our shareholders and stakeholders. The robust results of this quarter and though as the recovery of the Company, which we have seen since the beginning of the year.

Flavia is going to make comments about Q3 and you will see that there was an expansion in margin and a substantial increase in net income, because of the recovery of the performance of our business, as we have been presenting in our weekly reports and our discipline in terms of cost.

And finally, I would like to remind you all that we make available on our IR site a panel with ESG indicators. ESG is a fundamental pillar for us and is embedded in our growth strategy, which has to be sustainable. So we are always looking at improvements in the ESG area. Very shortly, we expect we will be able to achieve the targets of our ESG strategy.

I'll now turn the floor over to Ms. Godoy who is going to present in greater detail the excellent results achieved in Q3 '21.

Flavia Godoy

Thank you, Waldo. Good afternoon to all. I would like to highlight the main numbers IFRS of Q3 '21. Remember that for the same basis numbers, we have excluded new projects and non-recurring effects, as you can see in our release. I'll begin with the highlights of the quarter. And the traffic of vehicles increased by 14.5% relative to Q3 2020. If we exclude traffic on ViaCosteira, the growth was of 6.8% in the period. This performance of the traffic has to do with a growth of 14% in light vehicles and 2% in heavy vehicles relative to the same period of last year. At the end of our results release, you can see a graph where you can see, that despite the impact of the pandemic, we are clearly recovering traffic levels in highways and also in the other business lines where we operate.

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The net revenue was BRL2.6 billion in Q3 2021. This was an increase by 15.4% relative to the same period last year. Adjusted EBITDA grew by 21% and reached BRL1.6 billion. The EBITDA margin adjusted was 62.6%, a 2.9 percentage point increase relative to Q2 2020. Although this was a quarter where we saw the impacts of the pandemic, the robust results attest to the effort that CCR has been making to control costs and maintain operating efficiency. As you know, our costs are mostly fixed and we also suffered with the pandemic.

Giving you a little bit more detail about the costs. We see that the total costs increased by 12.4% in Q3, 2021 relative to the same period last year and achieved BRL2 billion. This increase had to do with the greater cost of construction for the ViaOeste, RodoAnel Oeste, ViaQuatro and ViaSul. The cash costs same basis increased by 4.4%. Considering the Brazilian companies, the reduction was by 8.7%. This again attests to our efforts to contain costs. For more detail, please look for the section on costs on our release.

Net income same basis was a BRL180.9 million, a 53.4% growth relative to the same period last year. As regards net debt, this was BRL16 billion in Q3 2021, a 12% increase and 15% relative to Q2 2021 and Q3 2020 respectively. In terms of leverage, measured as net debt over adjusted EBITDA, this was 2.4 times in Q3. And as Waldo has said, this reflects a comfortable situation that will allow us to pursue our growth strategy, whilst maintaining financial discipline. And I end by saying that, despite the impact of the pandemic on this period, which directly affects our businesses, the Company has been able to deliver very sound operating results, as you can see when you analyze the release.

We will now open for the Q&A session.

Questions And Answers

Operator

Thank you. Ladies and gentlemen, we will now begin the Q&A session. (Operator Instructions) Our first question comes from Regis Cardoso from Credit Suisse.

Q - Regis Cardoso {BIO 20098524 <GO>}

Good afternoon, Waldo, Flavio. Thank you for taking my question. There are two topics that I'm interested in. Thinking in strategic terms, what do you think will be the ideal size of the Company, the ideal size of CCR? You have one a very important project for the growth of the Company, but that also requires a significant allocation of capital. So it will consume a lot of your firepower and when we look ahead, we still have a huge pipeline, it's BRL40 billion of CapEx in Parana in the next round of airports, which are the Jewels of the crown. So I would like to understand how you see that, what is the size of your firepower? Are you going to be more selective?

There wasn't a lot of competition in the -- from auctions. It was yourselves and EcoRodovias, not many foreign players came, unlike other auctions. So, do you believe this is a good environment for you to continue to allocate capital? Are you going to raise equity to continue to grow? So can you give me more color about this?

I had two other topics. One about the cost pressure. So what you have seen in terms of costs? And I'm very concerned about asphalt, about tarmac and those cost relative to the original CapEx that you have budgeted for.

And if you allow me a third question, what implications do you see if IG4 gives up getting into the controlling block?

A - Waldo Edwin Perez Leskovar {BIO 21427688 <GO>}

Thank you, Regis. So let me take your questions one by one. So in regard to your first question that has to do with the Company's strategy, I think we are very happy because we had defined our strategic plan for the mid-term. We have identified all the opportunities that we could in the primary and secondary markets. And it was very clear to us which would be the strategic and essential assets for us to seek and how we should prioritize them and what impact they would have in our capital structure. We won projects this year which were in our priorities. We made it very clear that we were looking to invest in the segments where we operate. And as I said at the start of this call, we won Lines 8 and 4 of Mobility the sixth round of airports and Dutra as you very well said, which is a very important project for us.

At the end of Q3, the leverage ratio is very appropriate. As I said, it allows us to look for relevant growth as the opportunities arise. We have been studying these opportunities. We have our priorities and we will continue to analyze any opportunities that might come up. We are going to do a due diligence, and then we will define whether we should present a proposal or not. We think about the level of return and the proposal will also be analyzed vis-a-vis the risk matrix, our leverage and the moment and our circumstances.

The benefit of Dutra for us, is that, it will add cash generation EBITDA in the first three years. So most of the investment will be made as of the end of the third year and that's when we are going to see the leverage grow. This gives us the certainty that, next year we will have a positive performance. Additionally next year, the airports will come on stream in February and March. There is going to be a growth in EBITDA and Lines 8 and 9 as well. The operation will come on stream probably in the beginning of the second quarter and that will give us another tranche of EBITDA. We are confident that we can tap more opportunities. We will continue to analyze everything that comes up in the pipeline and we have a lot of clarity about how we should prioritize these opportunities. We will analyze each one on a case-by-case basis.

The second point had to do with costs. And we as a Group, we always monitor the market. The pandemic has broken up supply chains worldwide. It has brought in inflationary pressures, which are temporary and we were ready for everything that hit us. As regards for example tarmac, we had strategies in place to mitigate against costs increases. We have diversified our suppliers. We had contracts for importing tarmac and all of this allowed us to keep the costs more or less in check.

And for our new projects, the assumptions already take into account the forecast increase. It's -- the recent increases are no news. The recent increase in commodities and -- and inflation are no news to us. This had been included in our business plan and we feel

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very confident that we can deal with that. When we won Lines 8 and 9 and won Dutra, we had the right strategy in place to mitigate our CapEx by having partnerships in Lines 8 and 9. We partnered with Alstom to prepare the proposal. We defined the CapEx together and we hedged against the exchange rate risk and we made sure that we could mitigate this risk in a very substantial manner.

As regards to Dutra, we partnered with three construction companies. None of them is a shareholder of CCR and in all cases, the proposals were discussed in great detail. The pricing and the CapEx, all of these were established jointly so as to mitigate the risk relating to the Dutra risk matrix. We are very confident regarding this project as well.

What you pointed at is at the core of our concerns, but we feel very comfortable in the years ahead of us and with the projects that we brought to the portfolio of CCR. These projects also increase the duration of CCR in a very substantial manner and are landmarks in the history of the Company.

And as regards your third question, it has to do with IG4 and implications. This is an issue between shareholders. CCR management has a very clear strategy and we are pursuing that in a consistent and persistent manner. We will continue to do so. What I can say today is that there is no impact on our strategy and on what we pursue in terms of growth and generation of value for the stakeholders.

Q - Regis Cardoso {BIO 20098524 <GO>}

Very clear, Waldo. Thank you very much. Congratulations for the good results.

Operator

Our next question comes from Felipe (inaudible).

Q - Unidentified Participant

Good afternoon. Thank you for taking my question. You have a portfolio, you have an idea to expand and have new concessions within Brazil. Do you have any ideas to expand outside Brazil? Are there any studies? I'm speaking of Latin America, Caribbean, maybe airports in other countries, any ideas in that regard?

And also, what is the Company's strategy relative to the increase in the interest rate? In the Interbank development certificate, a lot of your debt is linked to the CDI. We see the CDI's rates going up very quickly, do you see an impact in your capital structure, in financial costs? And I'm thinking in terms of an increasing risk, do you foresee a premium charged by the markets to issue new debt?

A - Waldo Edwin Perez Leskovar {BIO 21427688 <GO>}

Thank you, Felipe. Our strategy is very clear. The CCR Group focuses on growth in the models where we operate in Brazil. As of now, there is a huge number of opportunities. The level of competition is moderate, so this is where we are focusing our energies. This

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is a market that we know very well. We have a competitive advantage. And this is what makes sense for us for the time being.

As for your second question. Yes, Selic has been going up. We expect that it's going to go up even more depending on inflation. We actively manage our debt stock. We are looking for opportunities to do liability management by restructuring debt or by doing swaps that made -- makes sense at a certain point in time. So generally speaking, the financial cost of the debt is going to go up because Selic is hike -- is going up, and this is true for all companies in Brazil. But what I can say is that we feel very comfortable with our leverage, with our financial position and with the outlook of growth, and this makes us confident to continue to analyze these new opportunities.

And finally, we see many opportunities in the capital market, in banks, there are different sources of funding. And we haven't seen any change in terms of pricing for our fund raising. The rating agencies have maintained our rating levels.

Q - Unidentified Participant

Thank you. Thank you very much.

Operator

The next question is from Victor Mizusaki from Bradesco BBI.

Q - Victor Mizusaki {BIO 4087162 <GO>}

Good afternoon. Congratulations for the results. I have two questions. First, Waldo you talked about leverage, given the new projects, Dutra, (inaudible), the two Blocks, you will have to disburse a substantial amount now. When will the leverage reach peak? What would be the peak and how do you deal in your models with the recovery of traffic in airports and in urban mobility?

The second question has to do with rebalancing. Very recently, the Secretary of Civil Aviation gave an interview and he talked about the federal airports, the older concessions and he was talking about the potential for rebalancing of the contract. So what is the discussion of Belo Horizonte going on and do you see any opportunities of airports abroad?

A - Waldo Edwin Perez Leskovar {BIO 21427688 <GO>}

In terms of leverage, Victor, as I said, whenever we study a project and we think about presenting a proposal, we have a lot of clarity about the results, about our capital structure for the next x years based on the projections of our current assets and new deals. We don't give any guidance about where we are going to be. What I can say is that, up to now, with all of our achievements, we are not envisaging having a leverage ratio of 3.5 of net debt over adjusted EBITDA. So we have a lot of room for growth. And then additionally, as I have always said, 3.5 is an indicator. We might go over 3.5 as long as we have a leverage strategy for 24 years to go back to a certain level. We always look for

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alternatives in terms of Capital and at some point, this might make sense. So we are always looking at our capital structure.

As regards the recovery of traffic in urban mobility and airports, we have been quite surprised, pleasantly surprised with the airports. Our performance in the airports is way above what we had in our budget, especially in terms of revenue, but also in terms of costs. We took very strict measures in 2020 to optimize our operations in airports and this has been very positive. If the trend should hold as it is, we believe that 2022 should be a very good year for airports.

And as for urban mobility, the number of passengers is recovering, but it's linked directly to the vaccination rates in Brazil. Vaccination and the second dose, the double vaccination has been accelerating in the last six months. we think that very likely, we should go back to the levels of before the pandemic very shortly. We are cautious of course, in our projections. We are very conservative in our projections. But we might be surprised again, pleasantly surprised.

And as regard to your last question, in terms of airports. As you know, there was a rebalancing in December of 2020. We are holding talks in Belo Horizonte with the granting power to rebalance for 2021. We believe we will have a positive result very shortly. And we think that every year, there should be -- there will be a discussion on rebalancing, especially in airports. The impact of the pandemic was very significant. And the recovery of global demand is deemed by main specialists, to -- the levels will only go back to pre-pandemic levels in 2023 and 2024. And every year, we will be discussing the rebalancing in airports.

As regards to airports outside Brazil, we have positive news as well. In Quito, there was first measure, so we were granted an automatic extension of six months and additionally, we are discussing with the granting power to have an additional extension in Curacao. Two weeks ago, our tariff was increased as part of the rebalancing to \$63 per passengers and this is extremely important, it rebalances the whole deal. And in Costa Rica, we are talking about the rebalancing. The conversations have been very productive and we should have news very shortly. So positive news for our assets in airports.

And in the operation of TAS, which is not really an airport, but is a provider of services in airports, as you know, we received three packages of the CARES Act, which is extremely important for that line of business.

Q - Victor Mizusaki {BIO 4087162 <GO>}

Thank you very much.

Operator

The next question comes from Andressa Varotto from UBS BB.

Q - Andressa Varotto {BIO 20092249 <GO>}

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Good afternoon, Waldo, Flavio. My question has to do with costs. What has been the impact of the changes in the contract with Dutra after the concession started in the beginning of the year? Does this have a positive impact on the margin? Thank you.

A - Waldo Edwin Perez Leskovar {BIO 21427688 <GO>}

Thank you for your question. I couldn't hear the question, the connection was cutting a little bit.

Q - Andressa Varotto {BIO 20092249 <GO>}

Can you hear me better now?

A - Waldo Edwin Perez Leskovar {BIO 21427688 <GO>}

Yes. Much better. Thank you.

Q - Andressa Varotto {BIO 20092249 <GO>}

This has to do with costs and the impact of the change in contracting NovaDutra in the beginning of the year. Does this explain the improvement in the margin?

A - Waldo Edwin Perez Leskovar {BIO 21427688 <GO>}

There was a change in the model of Dutra when we had the extension in the contract. So they are not comparable. When we were granted an extension in the contracting to February 2021, an extension for 12 months, this extension was in the cost plan model, where a defined margin, defined by the granting power, is the remuneration and this is kind of a bridge until the new auction of Dutra. So these are two different models that cannot be compared. It was just a bridge to a new contract, which will happen in February 2022 when CCR will take on the operations under the traditional concession model.

Q - Andressa Varotto {BIO 20092249 <GO>}

Thank you.

Operator

(Operator Instructions). We now turn the floor over to the Company for their final remarks.

A - Waldo Edwin Perez Leskovar {BIO 21427688 <GO>}

Before ending this conference call, I would like to share with you something else. As you all know, AutoBAN, ViaOeste, SPVias, RodoAnel and CCR had a qualification in the balance sheet since 2019. So, I'm pleased to communicate to all of you that as of this quarter, the qualification has been removed from our financial statements. This further boosts our credibility and attests to our standards of management. It also increases the Company's access to debt markets, including the issuance of debentures, issue of bonds abroad, including sustainability-linked emissions. This event clearly attests to the continuous improvement and the healthy governance of CCR. We are extremely happy with this.

I would like to end by thanking you all for being here today with us and for your interest in our Company. Our IR team is always available to take any questions you might have. Thank you very much.

Operator

CCR's conference call is now ended. Thank you all for participating and have a good afternoon.

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