

Q1 2021 Earnings Call

Company Participants

- Flavia Godoy, IR Manager
- Waldo Edwin Perez Leskovar, CFO and Investor Relations Officer

Other Participants

- Murilo Freiburger
- Regis Cardoso
- Stephen Trent
- Victor Mizusaki

Presentation

Operator

Good morning, ladies and gentlemen. Thank you for standing by. Welcome to the conference call of CCR SA to announce the results of the First Quarter of 2021. All participants will be connected in listen-only mode during the company's presentation, and then we are going to start our questions-and-answers session, when further instructions will be provided. (Operator Instructions).

Before continuing, we would like to explain that forward-looking statements made during this conference call relating to the company's business prospects, operational and financial projections and goals are based on the beliefs and assumptions of CCR's management and are based on information currently available. Forward-looking statements are not a guarantee of performance, because they involve risks, uncertainties and assumptions as they refer to future events and therefore, depend on circumstances that may or may not occur. Investors should understand that general economic conditions, industry conditions and other operational factors may affect the future performance of the company and may lead to results that will be materially from those expressed in such forward-looking statements.

Now I'll like to turn the conference over to Mr.Waldo Perez, CFO and IRO.

Waldo Edwin Perez Leskovar {BIO 21427688 <GO>}

Thank you. Good morning, everyone. I would like to tell you that today here with me at the conference call, I have Flavia Godoy, our Investor Relations Superintendent; Douglas Ribeiro, Natalia and Caique Moraes. They are all a part of our Investor Relations team.

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I would like to take the chance to announce that Marcus Macedo who was heading CCR's Investor Relations for 12 years, has now accepted a new challenge as CFO, which is our operations in Costa Rica. We would like to thank Marcos for the excellent work he did and we wish him great success in his new position.

Before anything, I would like to say that 2021 is the year that we are still suffering the effects of the pandemic, especially with the worsening of the impact that we have witnessed in Brazil. However, we are seeing a recovery in the traffic in our concessions. In a recent press release for the periods between April 23, 2021, and April 29, 2021, there has been a slight drop of 0.7% in roads as compared to the same year of 2019 before the pandemic. We should emphasize that in spite of the impact of the pandemic, the company is still implementing its qualified growth strategy.

Recently, we have had two significant accomplishments in our businesses, in addition to significant advancements in things that are fundamental for us. I will like to talk a little bit about those topics and to make a few considerations on them. As a highlight, we have signed two important amendments, number 7 and 7 on ViaQuatro. In a summarized Number 6 has established the amount of the economic financial balancing of the concession contract amounting to approximately BRL705 million on 4 March, 2020, because of the delay in the completion of the construction work. So Phase 1 of the concession and the sectioning of inter-municipal lines are managed by EMTU and the benefit will be implemented in the ViaQuatro compensation between January 1, 2021, and January 31, 2027 [ph].

Now, the amendment 7 determines the compensation of delays in Phase 2. It's important to mention that in cash, in April, we have received BRL91.6 million regarding some of the amounts already due as a compensation for the delay in Phase 2 for Morumbi and Vila Sonia station.

In addition, I would like to emphasize that this year there have been several state and federal auctions, which we were -- had been analyzing for quite a long time. And as a result of this very well-structured preparation process, we won three of them. Starting next year we are going to see the positive effects in our results.

The first accomplishment was on the sixth round for airports with an auction in April. And as I said, CCA had the best bid in one blocks South and Center, that comprises 15 airports overall. The reason for our interest in those assets are many, and I would like to mention. Number one. With this accomplishment, we've strengthened the national presence of CCR in the airport segment. Now in 16 airports under our management in Brazil, we are the largest airport operator in the country with almost 23 million passengers, considering 2019, the second largest operator in the number of passengers. With this gain, we are gaining critical mass to capture synergies, because now we are going to own a large chain of the airports. And this accomplishment will make it possible to have a better competitive positioning to capture future opportunities in this industry.

Still in April, there was the option for lines 8 and 9 of CPTM and once again we won. So CCR's victory in these bids is consistent with the company's strategy. We are selecting

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projects according to strategic positioning and the financial gains. So this is due to our competence and competitive advantage in urban mobility especially in Sao Paulo, where we already have a strong presence and work.

All the points that I had mentioned made us very happy, especially because we obtained it through intense preparation, discipline, and with the support of an extremely competent and engaged team. And this makes us even more confident to make the most of future growth opportunities that are yet to come, about which I will mention.

So we should highlight the extensive pipeline that we see ahead of us, reinforcing that we will have opportunities in all segments where we operate. Just inroads, we are seeing the bids for assets approximately 30,000 kilometers of extensions, federal or state levels. These projects represent about BRL140 billion investments for Brazil, according to BNDES. There are some projects that may come true, still this year as a highlight, we have BR-163, BR-153 [ph], RodoAnel, BH, Sao Paulo coast, Dutra and others.

So, in airports, we expect the seventh round expected for next year. All these opportunities, confirm our optimistic vision of the good prospects that we see in the future of CCR and for Brazil too, as I had mentioned before.

Before moving onto the results of Q1 '21, I would like to briefly address CCR's leverage measured as net debt over EBITDA. In spite of the challenging scenario, we keep a robust cash position, and we have the leverage of 2.4 times in the same level as we saw in the beginning of last year, and below what we had in Q4 2020, which was 2.9 times. We consider this level very appropriate for the maintenance and the strong growth of the company. Even after the attainment when we won new businesses, we still have very healthy debt levels according to our financial policy. We have wide space to overcome our maximum leverage rate of 3.5 times, so long as we have a plan to readapt the rate within 24 months, a period that we consider enough to adapt the group's leverage if necessary. It's important to emphasize that CCR has a broad credit offer, both in the banking market or in the capital's market, both Brazilian and International.

I would like to conclude by saying that we are aware of the challenges of the pandemic and we are aware that they may still continue to impact our businesses until we are more stable in terms of the health scenario. But we're -- in spite of that, we are optimistic and especially with the recent victories that we have had, we will continue working diligently, focusing on capital discipline and promoting sustainable expansion of the company's portfolio, in order to add more and more value to our shareholders and stakeholders. These are the main messages that I would like to share with you before starting talking about the quarter's results.

In Q1 2021, we have seen the traffic in roads, still demonstrate our resilience and a trend of improvement as compared to the same period in 2020, because of the worsening of the pandemic that we had in the beginning of this year, as we have been seen weekly releases that we publish about traffic. So the levels of urban mobility and passenger traffic in airports are presenting a recovery trend, although they were lower than before. This is

because of the more restrictive measures that were imposed by the government because of the pandemic.

Now, I'm going to give the conference over to Flavia Godoy, who's going to share more results of the 2021 performance with you.

Flavia Godoy

Thank you, Waldo, good morning, everyone. I would just like to highlight the main numbers of IFRS in Q1 2021. As a reminder for the same basis numbers, we are excluding new projects and assets for which there was changes in the company's stake, as we detailed in our press release.

So starting with the highlights of the quarter, we highlight that car traffic that has presented a growth of 1.7% as compared to the first quarter of 2020. Excluding ViaSul [ph], it fell by 0.1 % only in a period and this traffic performance was the result of the drop of 9.3% for light vehicles as compared to the same period in the year before, and net growth of 7.6% in heavy vehicles traffic as compared to the same period last year.

At the end of our press release, we have included a chart where you can see that in spite of the impact caused by the pandemic, we are in a clear recovery trajectory as compared to the beginning of the pandemic, whether in roads and also in the other businesses of the company.

In this manner, the net revenue adjusted to the same base without the effect we acquired (inaudible) has reached BRL2.3 billion in Q1, 2021, representing a decrease of 3.7% as compared to the same period in the year before. The adjusted EBITDA on the same basis has presented the reduction of 6.7%. Now the EBITDA margin adjusted to the same base was 59.5%, a decrease of 1.9 percentage points as compared to Q1 2020.

Although this has been quarter still impacted by the effects of the pandemic, these results demonstrate the effort of CCR to control its costs and to keep operational efficiency in a business with fixed costs in pandemic environment that has severely impacted many of our business units. Going to a little bit more detail on total costs, you can see that same base cost have recorded an increase of 0.8%. This increase is especially due to the impact of higher costs of depreciation and amortization, because of the proximity of the end of the concession agreements of RodoNorte and NovaDutra. And even though they do not have cash effect, they had an impact on the net income of the period.

As to total cash cost on the same base have presented an increase of only 1%. Brazilian companies have presented an increase of 3.8%, both below inflation of the period. Thereby demonstrating once again our efforts and discipline to contain or to hold costs. For further details, please refer to the cost section in our press release.

So, net income on the same basis was BRL 126 million in Q1 2021 with a drop of 56.5% as compared to the same period in the year before. The net income was BRL 688.9 million in

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the first quarter of 2021, an increase of 137.8% as compared to the same period in the year before, because of the effect of the booking of ViaQuatro's amendment. The drop in net income on the same basis is a reflection of higher depreciation and amortization, because of the proximity of the end of the contract or concession of RodoNorte, which in Q1 2021 was BRL 208 million, as to net debt we have reached BRL 13.3 billion in Q1 2021, which represents a reduction of 1.8% and 0.3%, comparing to Q1 '20 and Q4 '20 respectively.

The leverage of the company as measured by net debt EBITDA, adjusted has presented a reduction in the comparison with Q4 2020, reaching 2.4 times in Q1 2021, reflects of the booking of ViaQuatro's rider and also the efficient financial management of the group. This condition is a reflex of a condition that is favorable for us to continue with our qualified growth strategy and financial discipline as Waldo mentioned before.

I would like to close highlighting that if you analyze the company's performance, you can see that in spite of the major impact caused by the worsening of the pandemic in this period, in addition to the more strict measures of circulation, restriction and social isolation imposed by the government and as a consequence had an impact in our businesses, the company has been able to deliver solid results as you can see in the full analysis of the press release.

Now, we are open for questions-and-answers. Operator, please, you may continue.

Questions And Answers

Operator

(Question And Answer)

Thank you. (Operator Instructions) Our first question comes from Victor Mizusaki from Bradesco BBI.

Q - Victor Mizusaki {BIO 4087162 <GO>}

Hello. Good morning. First of all, congratulations for your work in Investor Relations, and I wish you success on a new challenge. I have two questions. Number one, regards to leverage of the group as Waldo mentioned, you've been able to add two sets of airports. What can we expect in terms of leverage at the end of 2021? And question number -- the second question is about Sao Paulo's balance, you have closed the contract for the rebalance for ViaQuatro and Renovias [ph], can you give us an update about the negotiations on the roads in Sao Paulo?

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

Thank you, Victor for your questions. As to leverage, as I said before, our leverage level of net debt over EBITDA is 2.4 times, which is a quite healthy level. We still need to hire loans for the operations for which we are going to make disbursements when we sign the contracts in EBITDA coming from those operations, will start to be booked as of January,

2022. So this is our -- these are our prospects. So we think our leverage level is very appropriate to capture new opportunities and we do not give guidance or projections about any of that.

Let's do the rebalancing in Sao Paulo, the conversations and negotiations are still very active and the granting power through CCR has a very constructive than negotiation. We are evolving more and more, and we hope that shortly we will be able to close those negotiations successfully. Thank you.

Operator

Our next question in English comes from Stephen Trent from the Citi Group.

Q - Stephen Trent {BIO 5581382 <GO>}

Thank you very much, everybody for taking my questions. And I echo Victor's comments, congrats Flavia and best wishes to my friend Marcos in Costa Rica. I wanted to ask if I may, when you guys think about the opportunities and the airports, I had thought, you previously didn't sound so excited stating foreign competition could be intensified, but you did very well in the recent auctions. Going forward, do you see, perhaps less foreign interest because maybe these are more local assets as opposed to global assets?

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

Thank you for your question. Airports, Urban Mobility, and Roads [ph] these are the segments where we operate in which we operate and their strategic for our core business. We were preparing ourselves for more than two years for this round. We conducted very hard work. We went in depth even before the pandemic. We visited each one of the airports. So, we have a case study and projections and a vision of the business that is very solid and we are very confident that we will be successful in a future, in airport management. So there will be a seven around, we believe that now that we have a chain of airports in Brazil. We are the second largest operator or rather, we are top, we are number one and we are second in number of passengers, we'll be very positioned for the seventh round of airports, which will add even more scale in synergy to our portfolio. We imagine that the competition will depend very much on the evolution of the pandemic, globally. So -- and we want to see how this is going to evolve.

Q - Stephen Trent {BIO 5581382 <GO>}

Great. Very helpful and just one follow-up, if I may. When you think about airport opportunities outside of Brazil, you have several assets, you just sent Marcos to Costa Rica, could this possibly meaning CCR looks at installations and the Caribbean or elsewhere in the Americas? Thank you.

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

In airports, it's vital to have scale and operational synergy we've been focusing more and more in operating all these units in Brazil and internationally, as a single business to capture synergies, where they are related to airlines or operational or even in terms of CapEx. Our focus as a priority is Brazil because the quantity of opportunity for growth in

Brazil is really significant. So that said, yes, we have an airport operator for Latin America, and if any interesting opportunity comes up we'll analyze it and we are going to move forward depending on the risk-return ratio that we see.

Q - Stephen Trent {BIO 5581382 <GO>}

Okay. Thank you very much.

Operator

Our next question comes from Regis Cardoso from Credit Suisse.

Q - Regis Cardoso {BIO 20098524 <GO>}

Good morning, Flavia, and Waldo. Thank you very much for the call. The first thing that I would like to discuss with you firepower, how much space do you have in your finance in terms of future allocation of capital and also leverage. Considered that you already had future commitments considering and the auctions both in urban mobility and in airports. And then, another thing that I would like to bring into the discussion is San Paulo versus that has been announced for concessionaires. And you would also use part of your financial statements to pay part of it. So in your balance sheet, you already have allocations that are already -- that there's a commitment in terms of those allocations.

So first of all, how do you see this space in your balance sheet and especially for NovaDutra, auction? And do you worry about the aggressiveness of 153 bids for the NovaDutra auction? And if you allow me to ask another question, I would also like to understand in the longer-term, the capital leverage since you have already taken and you're already involved in airport and urban mobility in terms of opportunities, but thinking in the longer term in the future, how do you think CCR is going to allocate its capital between these sectors or would you be interested in entering other sectors, such as sanitation for example. Do you think the opportunities that present in terms of airport and urban mobility? Are they going to provide higher return than the auctions where you have already one? Thank you.

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

Thank you, Regis. As to the firepower, as you mentioned and it's the same as Victor asked. I think that we can say that according to our strategic analysis where we consider all the opportunities and the priorities for each one, obviously, we make projections not just of the asset in itself, but their impact on CCR. And according to our assessment, we still have a quite solid balance in firepower that is quite significant for us to pursue new opportunities. So we are going to continue looking each one by one as they present themselves. We are going to analyzed NovaDutra, the roads in a state of Parana and the airports, as well as other opportunities that we may find interesting. We will look at each opportunity individually. We analyze the risks. We price it and if we think, we have unique know-how to understand the risks of each one of those concessions and to price them and to incorporate them in our value visions, and then they are effectively the same for the three modes that we work on. It's related to our risk perception of a certain concession or project. And we are well, positioned.

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So as to the rebalancing in the state of San Paulo, as I answered to Victor, negotiations are advancing in a very interesting way. We are all engaged in a positive final result for the government of the state and for our customers as a whole, and the details and formats are still under discussion. So we need to wait to understand what will happen. As to the allocation of capital between events, we are trying to identify opportunities and to study the opportunities we identify in it three segments where we operate, we do not have a preference for one or another segment we are focused on the reap [ph] turned at each one of those concessions may provide us and the value that they may add to shareholders and stakeholders of CCR as a whole. And yes, we are still analyzing other sectors and if at any point in time, we think it makes sense. We are going to expand it.

Q - Regis Cardoso {BIO 20098524 <GO>}

Thank you, Waldo. So you don't see any need of capital increase. And I asked that, thinking of the recent changes in the controlling block and whether this might increase your flexibility in terms of raising funds in a market, for example.

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

Thank you. So this is important, well people ask this to me all the time and I would like to make it very clear, there is no agenda in CRR's management or any intention of having a follow-on right now. This is number one. We don't see that need within that share prices are not appropriate for that. So I need to -- I want to make this very clear. Yes, it is true. As we are listed company, thus provides us flexibility to do that whenever we find it make senses, this is a tool an option available to us, but it's not in our short-term plans.

Operator

The next question comes from Murilo Freiburger from the Bank of America.

Q - Murilo Freiburger {BIO 17385357 <GO>}

Good morning, everyone, Waldo, and Flavia. So first Flavia mentioned on the presentation in terms of cost management, and in terms of cost contention. So in your cost structure does anything make sense in terms of what can be reversed and what can be used? Or is there any cost reduction that is not permanent that is not going to continue, just during the pandemic or is it going to continue after the pandemic?

And the second question, I think that my peers have touched everything related to possible growth opportunities in you assets. I would like to ask you about timing. What do you think obviously, that are major auctions that will happen for Dutra [ph] and for the state of Parana. So the auction schedule is it in line in terms of timing of what is being announced? Do you think there's any risk of delay to us? It looks like that the Parana integration ring, it's kind of slow. It might get late. What do you think of those assets? Do you think you're going to keep that? What should we expect from future auctions?

A - Flavia Godoy

Thank you, Murilo. I think that your question, in terms of our cost containment is very timely and appropriate. Even before the pandemic, we were already focusing on how to

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optimize our cost basis and this is work for which the results come a long time. So I think we have started seeing the beginning of the results of the work that was done. So in my vision, in my opinion, we imagine that we are going to continue with a focus on operational efficiency cost reduction after the pandemic because, this is part of our business and profitability that we seek for CCR as a whole. As to the timing of the auctions, we are in a very good conversations and the schedules that are announced our schedules that the granting power is very committed to and we have been working very diligently focusing on the dates that have been announced by the market as a whole. And for now, we don't see any indication or any reason why this program will not be followed. Thank you.

Operator

We have another question from Victor Mizusaki from Bradesco BDI.

Q - Victor Mizusaki {BIO 4087162 <GO>}

Thank you, Waldo. I have a follow-up question on Regie's question. With the possibility of IG4 getting into CCR's control block. Do you think CCR would be more likely to go into the sanitation industry. Something that you've mentioned last year, and we didn't really evolved with this new investor joining the block. Do you think you could change as little bit your profile?

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

Victor, the company's strategy today is to go after the opportunities that we see in the three segments where we are already operate. I would tell you that the quantity of opportunities, their size and relevance are highly significant, and this is our core, this is where we have the most knowledge. We have always explored other opportunities in other industries. This is -- it's part of our mandate to analyze and understand and as you know, we looked into sanitation in the past. Now I cannot tell you, what IG4 wants to do, as one of the company's shareholder, we can tell you is that today our strategy as a priority is to remain in the three sectors where we already operate.

Operator

(Operator Instructions) If there are no more questions, we now close our questions-and-answer session. Now, I give the floor back to the company for their closing remarks.

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

Thank you very much. As we have discussed before, in spite of the pandemic, we have had quite satisfactory results with a cash position and level of leverage that is absolutely appropriate. We have had victories that were significant in Airports, Urban Mobility and the rebalance in ViaQuatro. And we are very much interested and we are going to pursue sustainable growth with the opportunities that are yet to come. Thank you all very much for your presence today.

Operator

The conference call of CCR has now ended. We thank you all very much for your participation. Have a good day. Thank you.

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