

Q2 2019 Earnings Call Portuguese

Company Participants

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

Other Participants

- Felipe Vinagre, Analyst
- Lucas Barbosa, Analyst
- Lucas Laghi, Analyst
- Lucas Marquiori, Analyst
- Pedro Bruno, Analyst
- Victor Mizusaki, Analyst

Presentation

Operator

Good morning and welcome to EcoRodovias' Second Quarter of 2019 Earnings Conference Call. With us here today are Mr. Marcello Guidotti, CFO and IRO; and Andrea Fernandes, IR Director, as well as executives of the Company. This presentation is being recorded and all participants will be in listen-only during the presentation. After that we will begin the question-and-answer session for analysts and investors only, when further instructions will be provided. (Operator Instructions)

The audio and the slides of this conference call are being broadcast simultaneously at www.ecorodovias.com.br/ir. There, you will find the presentation for downloads 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 2019's results. Ms. Andrea, you may proceed.

Andrea Fernandes {BIO 21294199 <GO>}

Good morning. Welcome to another conference call by Grupo EcoRodovias, today addressing the results of the second quarter of 2019. We thank you all for your interest and participation. We would like to mention some important events. Concessionaire Eco135 began toll collection in April, and after nearly four months, we registered a traffic volume 10% above the levels estimated at the time of the auction.

Pro forma EBITDA totaled BRL39.8 million, with a margin of 75.5% this quarter. In May, we concluded the acquisition of Eco050, MGO, in the amount of BRL654.8 million. And as of May 31, the concession was consolidated on the Company's balance sheet. It's important to note that Eco050 has already made 80% of the expansion investments anticipated in the concession contract. On July 6, the decision to suspend the bid process for Rodoanel Norte until December 31, 2019 was published.

The results of the second quarter of 2019, remain affected by the toll exemption for suspended axles at Ecovia Caminho do Mar, Ecocataratas, Ecovias dos Imigrantes and Ecopistas. Toll exemptions for suspended axles will be subject to contracts re-balancing.

We can see on slide two that the consolidated traffic of equivalent paying vehicles in the second quarter of 2019 increased 20.9%. Excluding the exemption of tolls for suspended axles, the truckers strike in 2018 and the operational startup of Eco135 and Eco050, consolidated traffic declined 1.2% in the second quarter, remaining flat in the first half of 2019, when compared to the same period of the previous year.

Comparable traffic of heavy vehicles at Eco101 was affected by the region's pulp industry cycle. Ecovias dos Imigrantes and Ecovia Caminho do Mar, recorded lower traffic due to the reduction of soybean and corn crop shipments through these concessions. Ecopistas registered growth, driven by traffic induction after the exemption of toll for suspended axles. In addition, light vehicle traffic was positively affected by the increase in tourist flow during the Corpus Christi holiday considering that in 2018, this holiday occurred during the truck drivers strike.

As regards, the Group's consolidated results on slide three, pro forma net revenue this quarter amounted to BRL695 million and the net revenue of highway concessions posted an increase of 17%. Even with the negative impact of toll exemption for suspended axles in this quarter amounted to BRL32 million and accumulated since May 2018, was BRL139 million.

Moving on to slide four. Comparable cash cost in the quarter amounted to BRL192 million, excluding non-recurring expenses and the operational startup of new concessions. The increase this quarter was up 7.8%, mainly due to variable costs at Ecoporto, as a result of higher handling volumes, as well as increased personnel expenses at the holding and services companies.

It's worth noting that comparable cash cost of highway concessions, the most relevant segment in the Group's consolidated results, posted a 1.5% decrease year-on-year, even

with an inflation rate of 3.4% in the period. This is a result of the continuous pursuits of operating efficiency over the past few years.

Comparable pro forma EBITDA, excluding non-recurring expenses was BRL 484 million in the second quarter at a margin of 70% and an increase of 19%. Despite the impacts of toll exemption for suspended axles, all concessions posted growth on EBITDA and margin in this quarter as we can see on Slides five and six, with a special highlight to the operational startup of Eco135 and the consolidation of Eco050.

On slide seven, we show the evolution of net income in the second quarter of 2019, positively affected by the higher EBITDA. But on the other hand, negatively by the financial result with the beginning of accounting for the monetary variation of Eco135's concession rates, the increase in provision for maintenance and increase in depreciation and amortization leading to net income of BRL 58 million.

As regards to investments on slide eight, CapEx in the first half of 2019 was BRL568 million. Estimated CapEx, for 2019 is of approximately BRL1.4 billion. The highlights are the duplication works at Eco101, the works to connect the Rio-Niteroi Bridge to the Red Line and the Port Avenue at Ecoponte, which already has the BNDES financing facility in place. The initial works at Eco135 and Eco's financing facility from BNDES is in advanced stage.

Moving on to slide nine. We see that with the conclusion of MGO's acquisition, the net debt pro forma EBITDA indicator this quarter achieved as expected, the peak of 3.3 times. The long-debt amortization profile, along with a cash balance of BRL3.2 billion and the future cash generation, make us comfortable regarding the Group's financial capacity.

Therefore, the Company maintains its attention on growth opportunities, in particular the auction of BR-364/365 in September and Centrovias at the end of November. We are optimistic with the federal government's agenda for highway privatizations and with the state of Sao Paulo's agenda, which in addition to new privatizations is making progress in the discussion of new contractual amendments for Ecovias dos Imigrantes and Ecopistas, as well as in finding a solution for the pending unbalances. It is also worth noting, the programs in Minas Gerais, Rio Grande do Sul and Rio de Janeiro.

This concludes our presentation. We would like to continue to the questions-and-answers session. Operator, we are ready. Thank you.

Questions And Answers

Operator

Thank you. We will now begin the question-and-answer session for investors and analysts. (Operator Instructions) First question, Pedro Bruno, Santander.

Q - Pedro Bruno {BIO 19082978 <GO>}

FINAL

Good morning, Andrea, Guidotti. My question is, Andrea mentioned in the beginning of her remarks about the evolution of traffic in the new concessions compared to what was expected at the time of the auction. We're seeing a higher level than expected. Can you give a little bit more detail about BR-135 and MGO in terms of traffic and other metrics when compared to the auction's expectations from what you can already tell? And what this means in terms of additional returns compared to what was expected and what you can imagine now, if we assume the recurrence of operating levels above what was expected? Thank you.

A - Marcello Guidotti {BIO 16618352 <GO>}

Good morning, Bruno, this is Marcello. As Andrea said, the traffic is performing well at both. The MGO result is probably due to the fact that it's a very important corridor in economic terms and Andrea mentioned on her speech that the duplication works are 80% concluded. The effect of this duplication works is already occurring, the ramp up is clear. Probably, all our initial data that we've captured, I would say, this is -- this effect is more a result of the conclusion of these sections of the roads in important regions that started at the end of 2018, early 2019. So I think, that was -- it was expected to see a ramp-up of traffic, but it has been above expectations.

At 135 as well, I think that what we put on our business plan was probably a ramp-up in the -- at the beginning of collection that did not occur. Normally, there is an initial traffic level and then there's -- with the toll plazas, there is a ramp-up 10%, 15%, up to 20% of the initial traffic. This didn't occur and we are repeating the initial numbers. At 135, of course, the result is at the present value. If the volume of data is confirmed, there is no event that leads us to believe this is punctual, then this is a very favorable data. So the return -- rate of return is above 15%, ideal to leverage at 135, so we're updating the plan. We've changed the financing structure. We are now contracting with BNDES, not really the traffic point was a surprise.

Again, in general terms, traffic, as Andrea said, we expect the behavior over the year in line with the GDP. Of course, July was surprisingly good, good for trucks. The corn crop is performing well. So except for Ecopistas and IOI, these two new ones are generating more, and if the GDP is consolidated at a more robust level, I think, we will have a recovery at our concessions, Ecovias and Caminho do Mar.

Q - Pedro Bruno {BIO 19082978 <GO>}

Okay, excellent. Thank you, Guidotti.

Operator

Felipe Vinagre, Credit Suisse.

Q - Felipe Vinagre {BIO 19282922 <GO>}

Good morning. I have two questions. First, about leverage and your firepower there for the -- taking new projects. How do you see this considering Brazilian interest rates? Has it changed your maximum level for leverage? It's 3.3 times, maybe it will decrease in

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upcoming quarters, but this is an above level -- above average. So how much more leverage can you increase?

And the second question would be about the investigations. If there is a status or more specific information you can give us, if there is an agreement or a fine or any time line expectation, any additional information that you can give us on the status of investigations? Thank you.

A - Marcello Guidotti {BIO 16618352 <GO>}

Good morning, Felipe, about the leverage, we expected this peak as we mentioned, as Andrea mentioned in the speech, because there is MGO, there's all the debt of MGO as well, we're starting to spend money in the works at 135 on to the bridge on 101. The bridge is already crossing the middle level of its investment plan, getting to the end of the investment plan for the bridge, and that's five year. Eco101 is also accelerating and some of the investments in the duplication work to have the contract up-to-date, all this was expected. So, of course, we have the suspended axles that are affecting our results. So it was expected, but I think -- and I think in the next quarters, this tends to become stable and will start to decrease again.

In terms of leverage, we don't have much. I would say the limits would be around 3.5. We have new debentures and covenants, consolidated that gets to 4. If you look at the cash, as well and our consolidated, but also at the holding and concessions, we still have stamina to be able to participate, in particular, the two auctions that are planned for this year. But, yes, definitely, we will see that -- it will demand a lot of the projects and it depends on the federal and state levels. We'll continue paying attention to costs. We're already adopting the dividend policy, the market is a good liquidity. It is good and competitive at reasonable rates, but of course, we do have balance to be able to phase the two years, three years of projects in the highway segment. I don't think, this is for right now, but we know that it will be possible in the next quarters.

About the investigations, we don't have anything new to disclose. Our investigations have been concluded, we're now working internally with lawyers and consultants to try to see the best way that we have to take or to follow to be able to solve this, but we don't really have any actual new information.

Q - Felipe Vinagre {BIO 19282922 <GO>}

Thank you. One more question about Sao Paulo. You mentioned quickly at the end that you're in negotiations with the amendments and depending on balancing needs, do you have any expectation of the outcome of these negotiations in duration? Or do you think, it's anything for the second half of the year or will it take longer?

And the second point is, do you think it's going to be a one-off package for all the points or is it going to be focused case-by-case with renegotiations for one thing for suspended axles and other negotiations for the amendments and other, what do you think?

A - Marcello Guidotti {BIO 16618352 <GO>}

FINAL

In the state of Sao Paulo, the contracts have been accumulating for many years with events of unbalancing. Of course, the best solution would be to close a package, but we've been dealing with this for many years with open current accounts. And the more we can close and agree on the better -- of course, if we have a concession contract that may be amended with new investment, it would be fair to get our contracts rebalanced so that we have a solid base to include more investments, but there's no strategy in place. I think, what's good is that the Company has the interest and the granting authority as well to find the agreement and balance -- rebalance everything in time as needed. And discussions are very positive. So I would say, that throughout the rest of the year we will get some outcome. I hope that for all of the points, but definitely something will advance and progress.

Q - Felipe Vinagre {BIO 19282922 <GO>}

Excellent. Thank you.

Operator

Lucas Barbosa from Morgan Stanley.

Q - Lucas Barbosa {BIO 20835372 <GO>}

Good morning, Guidotti, Andrea. Two questions. First is a follow-up on Felipe's question. If you can give more details about the consultancy service that was hired to help you in the investigation of integrations 1 and 2. If you can give us more information what the consultants are doing, if they are carrying on internal investigations or if they're providing legal counseling, any detail that you can give us would be excellent. Second question, have you had any expenses on the studies for the Santos-Guaruja Bridge in the second quarter and if you can give us any detail of these expenses. That would be my question. Thank you.

A - Marcello Guidotti {BIO 16618352 <GO>}

Lucas, about the first question, it's a combination of different points of expenses. Of course, the main ones are -- were the consultancy services to carry-out the investigations and then, of course, there's clear methodologies with forensic, surveys and everything that add up and the costs for internal audits and investigations.

But I would say that now, it's more on the legal side of lawyers and the majority of the investigation's been concluded. So we are spending with the implementation of programs -- or improvements to our programs that also involve the consultants, but also with the lawyers and analysis of risks and sensitivities and so on. The idea is that all of this will get to a conclusion and a reduction until it comes to a stop, but we are still with these costs at the holding.

The other question was at Ecovias, the expenses we are making -- having expenses. They're linked to environmental licensing and the project of the bridge. The executive project and the investments are adding up. It's important expenses that have been done. It started in '18, but now in '19 as well, and it's important. If this amendment is concluded

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and approved, these expenses will be a part of it. I would say, that it's more than expenses, it's an investment. I wouldn't address that as an expense, but it's happening. We need to make progress so that we don't do different than our time line.

Q - Lucas Barbosa {BIO 20835372 <GO>}

Thank you Guidotti.

Operator

Lucas Laghi, Citibank.

Q - Lucas Laghi {BIO 20757425 <GO>}

Good morning. Two questions. The first is also a follow-up on Vinagre's question, but also thinking of new project, as Andrea mentioned, 364. With the organic growth of EBITDA, do you think you can sustain the appetite of this shorter-terms auctions? Or after consolidation of MGO in the balance sheet, do you think that maybe you consider a capital increase?

And the second question about Ecoporto, especially now that in February you've resumed operations and there's ships on docks, if you see changes for the operation, and if you think that those factors are better even for maybe a spinoff of Ecoporto?

A - Marcello Guidotti {BIO 16618352 <GO>}

Lucas, about the capacity, we do have the means to participate at 364's auction and Centrovias' auction. These are projects that there is CapEx spread out and it shouldn't be such a high disbursement immediately. I believe we do have the capacity for them, but there's 2 in terms of expectations, having 30, 40 highway projects, that's when we will have difficulty. But for this next two, we are already getting prepared and studying with due diligence and care and we will see.

Your other question about the port. You see the port today is starting to run again of course, not at the levels of when we bought the port, but we're operating, using the assets to pay operating expenses, CapEx -- but that is close to being paid-off. And I think, it's an asset that it's no longer a problem, so to speak, getting to a neutral balance, but it's a strategic asset. It's not a core activity, but strategic. It's an area with the possibilities for expansion. So we don't have -- or I would say that our idea is for the port to be -- to improve the concession being renewed and then we make a decision.

Q - Lucas Laghi {BIO 20757425 <GO>}

Thank you Guidotti.

Operator

Victor Mizusaki from Bradesco BBI.

FINAL

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Q - Victor Mizusaki {BIO 4087162 <GO>}

Good morning. Two questions as well. One, about the Ecoporto. If you can give us an update of the process that's been analyzed by MTAC [ph]? And the second question about capital structure. If you can give us an estimate of how we should see net debt-to-EBITDA of EcoRodovias at the end of 2020, considering the concessions of the current portfolio? Thank you.

A - Marcello Guidotti {BIO 16618352 <GO>}

About Ecoporto, we are waiting for MTAC to get to a conclusion at the instruction. It's going well. I would say, it's moving smoothly. It's moving along. I'd say, it's a good environment as well for this discussion. I don't have a lot to add on that. It's going well. I believe we have good perspectives. About the leverage for 2020 -- end of 2020, I don't have a number. We're mature. The cycle of Eco101, and Ecoporto are starting to decrease. In 2020, I think, those two business that we should maintain at around three, maybe slightly above that, but to start a reduction, of course, it can happen in 2021, at the end of '21. In the year of '21, we'll have the cash generation of current businesses. So I see this trend of net debt-to-EBITDA that has reached the peak, it is reaching a peak and it will starting to decrease at some point, and depending on traffic as well. Of course, if traffic starts to increase at the levels of 10, 15 years ago, 3.54%, which is reasonable, I think, it can accelerate a decreasing curve of the ratio. And cash capacity in terms of our debt profile, that is important. It's a long debt profile and of course, the fact that we have access to the market, and the market is solid.

Operator

(Operator Instructions) Lucas Marquiori, BTG Pactual.

Q - Lucas Marquiori {BIO 17907247 <GO>}

Good morning, Guidotti, Andrea. Quick question about 364/365. The invitation to bid's already out on the street and I'd like to hear from you what you have in mind for the project? Now that you have MGO in the region as well, is it right to assume that you would have a gain of scale or synergy in this specific project? Just to understand, what you're thinking and if you see this is a positive project, the return level to expect, that type of detail.

Q - Victor Mizusaki {BIO 4087162 <GO>}

We're a few -- many weeks away from the auction and we can't give you a lot of details. We will have all the details end of the time, but the project, the rate -- 9.2, the project rate, for the current moment it's reasonable. It's -- but in terms of synergies, I would say there aren't many, they're separate. But there maybe some synergies. It's a federal project. With federal power that we have a lot of contract with already, so the risk is well known and accepted. It's a difficult contract as all newer contracts they have more penalty mechanisms in terms of delay, but the risks are well allocated. They are clear. So it's a contract in line with the last few ones that are well defined, well detailed and that for us in general is positive. We are operators. We are capable of meeting with the contractual obligations and we are used to this type of contract. So that's the overall view. But what

we've been seeing in the projects that I think is that we're going to leave this discussion for later.

Q - Lucas Marquiori {BIO 17907247 <GO>}

Thank you, Guidotti.

Operator

(Operator Instructions) We now close the question-and-answer session. We'll turn over to Andrea Fernandes for her final remarks.

A - Andrea Fernandes {BIO 21294199 <GO>}

I would like to thank you all for your participation. My team and I are available for any doubts you may have. Thank you, have a great weekend.

Operator

EcoRodovias conference call is now closed. Thank you very much for your participation. We wish you a very good day.

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