

Q2 2015 Earnings Call

Company Participants

- Daniel Kuratomi, IR Analyst
- Flavia Godoy, IR Team

Other Participants

- Stephen Trent, Analyst
- Victor Mizusaki, Analyst

Presentation

Operator

Good morning, ladies and gentlemen, and thank you for waiting. We would like to welcome everyone to the Second Quarter 2015 Earnings Conference Call of CCR SA. We would like to inform you that all participants will be in the 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 prospects and financial and operating goals are based on the belief and assumptions of CCR's management and on information currently available to the company.

Forward-looking statements are not guarantee of performance. They involve risks, uncertainties and assumptions because they are related 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 operating factors could also affect the future results of CCR and could cause those results to differ materially from those expressed in such forward-looking statements.

Now, I'll turn the conference over to Mr. Daniel Kuratomi, CCR IR Analyst. Please, Mr. Kuratomi, you may begin the conference.

Daniel Kuratomi

Thank you, operator. Good morning everyone, and thank you for attending our earnings conference call for the second quarter of '15. With us here today are Arthur Piotto, our Chief Financial and Investor Relations Officer; Marcus Macedo, Flavia Godoy and Leandro Mathias, Members of the IR team. The earnings release is available on the company's website www.ccr.com.br/ir.

Before commenting on the highlights, let's take a quick look at some of the macroeconomic indicators we consider important for the performance of our business. We would like to draw your attention to the fact that the unemployment rate stood at 6.9% in June '15, 210 [ph] bps higher than in June '14, and 20 bps up in May '15. The real average normal income of the quarter was BRL2,149 [ph] in June '15, 2.9% lower than in June '14.

IBGE's data on industrial production show a decline by 6.3% in the first half of '15 and by 6.7% in second quarter of '15, compared to the same period of the previous year. According to the latest credit details released by the Central Bank in June '15, credit ranking in the financial system grew by 8.9% in the last 12 months.

Free and earned market credit increased by 4.9% and 15.6% [ph] in the same period, while consumer credit grew 0.7% in the month and increased 6.7% in the last 12 months.

Credit to finance vehicles fell 4.9% between June '14 and '15, and by 12.8% in second quarter '15 compared to second quarter '14. It is worth emphasizing that the automotive sectors is closely linked to traffic growth and has a huge influence on industrial GDP. The number of licensed vehicles fell 22% year-on-year in second quarter '15 and reduced 17% in June '15, while vehicle production declined by 21% and 15% in the same period according to recent data from ANFAVEA, the Brazilian Auto Manufacturers Association.

On to our operation number, for the quarter we will highlight traffic. With the end of Ponte concession contract in May this year, traffic was exerted for comparison purpose. This is excluding these assets in both quarters and thus leading to a 2% reduction in the company's consolidated results. On the same comparison basis, commercial vehicle traffic declined 5.5% year-on-year, while light vehicle traffic moved up by 2%.

In our press release, you'll find more information on traffic trends for our concessionaires. We now show the key pro forma numbers for second quarter '15, that is considering businesses reach. We do not control or hold share control consolidated according to CCR's share outreach [ph]. We also adjusted the comparison basis that is excluding some calculations those businesses that were not in the company's portfolio in the second quarter '14 or second quarter '15 as a whole, as is the case of Ponte [ph] and businesses which are still in implementation phase and are not generating revenue.

In accordance with this criteria same basis, cash cost increased 5.6% over second quarter '14. Same basis adjusted EBITDA totaled BRL984 million, 5% up from second quarter '14 with the margin of 62.6%. Net income totaled BRL\$184 million in second quarter '15, 33% down over second quarter '14. This result was impacted by the new businesses that had not reached maturity or are still pre-operational and therefore do not generate revenue. On the same basis, net income stood at BRL285 million, down by 0.5%. Despite the reduction in traffic, volumes and higher interest rate, which impacted the company's financial results, CCR has shown resilience in its cost control as previously mentioned.

Regarding our debt leverage measured by the net debt to EBITDA ratio, which stood at 2.6 times in June '15.

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We believe that this level is comfortable for the company to meet its investment commitments assumed in the recently acquired businesses. CCR's Board of Executive Officers proposed the distribution of interim dividends to the Board of Directors, of approximately BRL0.76 of cash per share, and this distribution is still pending approval.

We will now open the question-and-answer session. Operator, please go ahead.

Questions And Answers

Operator

Ladies and gentlemen, we'll now begin with the question-and-answer session. (Operator Instructions) Our first question comes from Stephen Trent with Citibank.

Q - Stephen Trent {BIO 5581382 <GO>}

Hi, yes, good day everybody and thank you for taking my questions. Just two quick ones from me. When we think about the construction work that is associated with CCR's concessions, can you give us an idea as to how often third-parties are doing the construction work as opposed to Camargo Correa or Andrade Gutierrez?

A - Flavia Godoy

Hi, Stephen, this is Flavia. We have actually, the company disclosed those information in its financial statements. As you can see in this report, the civil [ph] work that CCR has with its concerned shareholders are around 10%, basically, its related to the Salvador, Metro Bahia, Salvador subway lines. Just to remind you that in this process, CCR did alliance agreement with them. So now, just for this project, we have them as our contractors.

Q - Stephen Trent {BIO 5581382 <GO>}

Okay. That's very helpful. Thank you. And just one other question, you guys have had good success with some of your overseas airport type projects. To what extent might the company consider further overseas investments, if there is hold-ups with federal toll road auctions in Brazil? Any chance that you guys might consider doing more in the airport side outside of Brazil?

A - Flavia Godoy

Actually, in our by law and according to our by law, CCR can invest in the highway sector, urban mobility, and the airport sector. So the company has been investing some opportunities, some of them is in the airport sector. So, we don't have any restriction. The company could participate in any projects outside of Brazil. So, there are some opportunities under analysis, but still now, I don't have any information that I can provide to you.

Q - Stephen Trent {BIO 5581382 <GO>}

Okay. I appreciate the color. Thanks again, Flavia.

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A - Flavia Godoy

Thank you, Stephen.

Operator

Our next question comes from Victor Mizusaki with Bradesco BBI.

Q - Victor Mizusaki {BIO 4087162 <GO>}

Hi, Flavia. Just a follow-up from the conference call in Portuguese. I mean regarding (inaudible) in the second quarter. Is there any target to increase the exposure to IPCA? And the second question, I mean, if there is a target, I mean (inaudible) in the short-term debt and how much will mature in the next year. What's the strategy in terms of duration?

A - Flavia Godoy

Hi, Victor, actually there isn't any target that CCR is going to issue debt [ph] with investing in IPCA. Certainly, CCR always analyze the demand from the market and I would say it depends on the market demand to see (inaudible) CCR is going to issue the next debt. It's important to mention that CCR has a constant rate in terms of the debt schedule amortization of short periods. But I would say that before some of those debt, the company is going to refinance. If you consider (inaudible) seating, CCR already refinanced more than 50% of the debt amortization that was in 2015. And the company is going to do the same and the company is going to refinance the big portion that is illustrated in 2016.

Okay. So, sometimes CCR prefers to take the credit risk in order to get a higher cost. So it depends on the market and the company always analyzes, what kind of data and what kind of invest the company is going to reach.

Q - Victor Mizusaki {BIO 4087162 <GO>}

Okay. So, are there any, thinking about next year, right, it looks like above the 45% of the project (inaudible) to next year? If you assume that, I mean, that the focus we're looking related to the Brazilian Central Bank, if you assume that market consensus is right and what make sense to expect that next year may be for that we'll do next year would make sense to well over the debt in CDI or IPCA?

A - Flavia Godoy

Indeed we have a compensation in terms of the debt amortization next year 2016, but we still don't know what kind of the debt the company is going to issue, if the debt is going to be invest in CDI or IPCA. It depends on the company and the standards, I mean like what kind of debt the company is going to issue. But to just to given an idea in 2016 [ph] as we just released, the company is going to amortize 5.5 EBITDA, but this 5.5, I would say, almost 80% of the debt the company is going refinance. Most of that belongs to the performance of the project and the debt that belongs to the projects that are in the implementation, the company is negotiating the long-term financial (inaudible) and as long

as we have, as you concluded that the company is going to refinance those big loans that we have related to the projects that are under implementation.

Q - Victor Mizusaki {BIO 4087162 <GO>}

Okay. Thank you.

A - Flavia Godoy

Thank you.

Operator

(Operator Instructions) This 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, I join all the executives of CCR in thanking you for your time and interest in the Company. Please do not hesitate to contact us if you have any further questions. Our contact information is available in our press release and on our website www.ccr.com.br/ir.

Operator

That does concludes CCR Audio Conference for today. Thank you very much for your participation and have a good day.

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