Conference Call Transcript — 3Q13 Results — November 6th, 2013

Operator:

Good morning, ladies and gentlemen. At this time, we would like to welcome everyone to América Latina Logística ALL's 3Q13 earnings conference call. Today with us, we have Alexandre Santoro, CEO, Rodrigo Campos, CFO and IRO, and Vinícius Meirelles, IR Manager for ALL.

We would like to inform you that this event is being recorded, and all participants will be in listen-only mode during the Company's presentation. After ALL's remarks are completed, there will be a question and answer session. At that time, further instructions will be given. Should any participant need assistance during this call, please press *0 to reach the operator.

We have simultaneous webcast that maybe accessed through ALL's IR website, www.all-logistica.com/ir. The slide presentation maybe 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 beliefs and assumptions of ALL management 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. Rodrigo Campos, CFO and IRO for the Company, for a brief explanation of how ALL's figures are presented. And then Mr. Alexandre Santoro, CEO, will start the presentation. Mr. Campos, you may begin the conference.

Rodrigo Campos:

Thank you, everyone, for participating in our results conference. First, I would like to make some comments on the numbers we will release along the presentation. The first comment is that the adjusted EBITDA that we present along this presentation is in accordance with the CVM instruction that was released at the end of 2012. So, the numbers previously released in 2012 may differ from the numbers we are using now. So, adjusted EBITDA is constituted by the operational profit before financial expenses added to depreciation, amortization, and equity earnings and loss on interest.

The second comment I would like to make is that in June, the Argentina government rescinded our concession in Argentina, and as a result all the results coming from Argentina are presented as a result of discontinued operations. So, this happened in 2013 and also half are treated that way for 2012. So, also the numbers of 2012 are restated considering Argentina as a result of discontinued operations.

And just a final comment, when we talk about railroad operations, we are talking now only about the Brazilian rail operations, and unless otherwise stated it does not include numbers from Argentina.

With that, I would like to pass to Alexandre Santoro to start the presentation.

Alexandre Santoro:

Thank you, Rodrigo. Let me start with the summary of how our 3Q was, we can say that we had a consolidated EBITDA growth of 3% due to higher margins in our rail operations and a contribution of our new businesses Brado and Ritmo. In the first nine months of the year the consolidated EBITDA increased 10% to R$1.5 billion. We did not do well in terms of volumes, which declined 5.7% compared to the same period of last year. This is a result of a 9.2% drop in the agricultural commodities, but with an 8.1% increase in the industrial products.

Our volume was strongly impacted by restrictions at the ports we serve, which reduced the capacity of the logistic system, directly affecting the productivity of our assets. We had a good quarter in terms of pricing, with a growth of about 9% in the rail operation and we were able to pass through inflation in diesel cost increase.

Brado concluded its capitalization of R$400 million in August and now ALL holds 62.22% of Brado's capital, and the company is now valuated at R$1.8 billion. Also, in August we inaugurated our intermodal complex of Rondonópolis and *[audio break]* kilometers closer to Brazil's agricultural frontier. This is an important step to our business and a strong bet in the Country's growth in the agricultural production. It is important to highlight that the ramp up occurred as planned, and now our canal is ready to fully operate in the 4Q.

When we move to the next slide, number five, talking now about the consolidated results of ALL, the revenues reached R$943 million in this quarter, and the accumulated year-to-date is R$2.8 billion, the EBITDA increased 3.3% in the 3Q, surpassing more than R$500 million, and 10% in the year, reaching the significant milestone of R$1.4 billion, reflecting positive results from rail operations from Brado, our container business, and from Ritmo, our highway service business. Our net income in the quarter stood at R$60.3 million, excluding the assets write off in the results from our Argentina operation, our year-to-date net income would have increased 4% compared to the same period of 2012, to R$300 million.

Talking now about the rail operations, we had another favorable crop scenario in the quarter. However, it suffered operationally with the capacity restrictions of the port, which I will detail later in this presentation. We were not able to convert this good crop scenario into volume growth. Despite the port restrictions, it is important to highlight that we grew

our volume by 6.6% when compared to the last quarter, confirming the resilience of our business and our capacity to adapt to adverse situations. When talking about the tariffs, we were able to pass through cost increase, being approximately 9% above last year in the quarter and 10% year-to-date. Rail operations EBITDA improved 3.2% to R$480 million in this quarter and year-to-date EBITDA grew 10%, reaching R$1.4 billion.

Agricultural commodities is the next slide, page number seven. Our agriculture commodities volume decreased 9% in the quarter. Ports have become an important bottleneck mainly in this segment, which is depending on the ports' unloading capacity to drain the crop. The main bottleneck was the Port of Santos, which drains approximately half of our volume. At this port, the volume was affected by rail unloading restrictions of the main sugar terminals, which reduced in almost 5% the existing capacity when compared to the same period of last year, and by the two accidents occurred in June, at the two main rail unloading terminals, TGG and Terminal XXXIX, which reduced our capacity during the whole quarter. Additionally the excessive rainfalls in July also restricted terminals' unloading capacity at the ports of Santos and Paranaguá. Compensating the volume reduction in the quarter, we were able to improve the average price in 10%, leading our net revenues to increase 11%, reaching almost R$2 billion. Adjusted EBITDA increased 12% this year, to R$1.2 billion.

Moving to the next slide, number nine, talking about the other business that we have, the industrial product. There is a change here; in the last quarters, we reported a decrease in volumes, but on this quarter this segment recovered and grew 8.1%. We had a good performance, both in intermodal and pure rail flows. Intermodal products volume increased almost 10% in the 3Q, mainly reflecting the Eldorado project and Brado ramp up. Pure rail volumes grew almost 7% in the quarter, due to a good performance of few products. Due to a strong growth in volumes, our additional net revenue improved 13% in this quarter when compared to the same period of last year. As a result, EBITDA grew 12% and reached R$241 million year to date. This year we also did several changes in loading and unloading capacity of the terminals, in partnership with our clients, in order to improve productivity and profitability of these businesses. For example, increase the area of loading and unloading of the terminals and a consequent increase in the size of the trains.

Now to finalize, talking about Brado and later about Ritmo, on slide number 11 talking about Brado, we had another good quarter with volume growth of 21% in the period. The wide-gauge corridor improved 24% and the Paraná corridor impressive 51%. The net revenue increased 15% in the quarter, to R$70 million, and 20% year-to-date to R$200 million. Adjusted EBITDA reached R$50 million in the quarter and R$37 million year to date, 16% above last year.

Moving to slide number 12, our other business Ritmo. Ritmo continued to report a significant growth in its intermodal unit, leading to volume increase of 13% in the quarter and 10% in the accumulated nine months of the year. Ritmo's EBITDA increased 15% in the nine months of the year, contributing to an adjusted EBITDA of R$20 million reported by the ALL Group.

Now, Rodrigo will talk about our financial highlights, and then I will come back to make the final comments. Thank you.

Rodrigo Campos:

Thank you, Santoro. Going to slide 13, we see that consolidated net revenues is 10.4%, with stable volumes in our rail business, and with an increase that Santoro explained, passing through inflation and diesel cost adjustments and also with revenue growth on Brado and Ritmo.

EBITDA, going to slide 14, increased 10% in the nine months of 2013 as compared to nine months of 2012, from R$1.345 billion to R$1.481 billion. And margins were stable along 53% EBITDA margin.

Going to page 15, we see that our net income dropped a lot this year, but mainly driven by the impact of the discontinuation of our operations in Argentina. And if we disconsider the impact of the discontinuation of Argentina operations, our net income would grow like 3.8% as compared to nine months of 2012.

And, going to slide 16, where we show our capital structure, we see that the financial net debt/EBITDA was stable as compared to 2012; it went from 2.3x net debt/EBITDA to 2.2x net debt/EBITDA in nine months 2013.

With that, I would like to turn the call to Alexandre Santoro in order for him to make some additional comments.

Alexandre Santoro:

Thank you, Rodrigo. I would like to make some final comments. First is our rail operations should improve in the 4Q; agricultural commodities volume should keep benefiting from the good second corn crop and from operations at the Rondonópolis terminal, which should be operating at full capacity during the quarter, after ramping up in the 3Q. The other one is, additionally, a major part of the restrictions we faced at the main grain unloading terminals at the Port of Santos should be resolved. The 4Q is an off-season period, in which ports are less pressured and consequently our operations should be less impacted by such restrictions.

October, for example, was our best month, which is unusual given the normal seasonality of the business. On our industrial products, the expectations are also positive, with Eldorado and Brado ramp up. When we talk about our new business, Brado completed the capitalization and grew between 20% and 30% volume quarter over quarter, Ritmo, the intermodal, continues with a strong growth according to the original plan.

When we talk about Vetria mining, our iron ore project, the project follows very well and we start the final steps for the certification of our reserves in the engineering project and we

obtained the ratification of our environmental license for the operation of iron ore last week.

We have a world-class project with high-quality iron ore and low operational costs, besides having the integrated operation with mines, railroads, and ports. And finally, in October we have adopted legal measures related to our partnership with Rumo, aiming to discuss the contracts that rule our partnership. Until a decision is taken by the proper authority, we will continue to render rail transportation services in favor of Rumo, observing, however, the existing restrictions of the rail and port systems.

Thank you. Now we can open for questions.

Mark Suarez, Euro Pacific Capital:

Hi. Good morning, everyone. Just you talked about the rail unloading restrictions and I know that we talked about it last quarter, where do you expect that to be finalized for that capacity to resume at a normal level, if you will?

Rodrigo Campos:

OK. Mark, that is a good point. The ports restrictions had an important impact in the 2Q and 3Q, but we believe that we will have a much better port environment in grains in the 4Q, because the TGG and Terminal XXXIX, which were affected in the 2Q and 3Q, will be restored with almost all the capacity along the quarter, and more than that, the 4Q is also a quarter that is a low season when compared to the 2Q and 3Q. So, the port will not be so pressured in terms of grains exports during the 4Q. So, we have less pressure on the port, we have terminals restoring capacity. So, it is a good combination and, as Santoro mentioned, we had the best month of the year in October, in terms of volumes, which is usual given the seasonality of the business, but which reflects the port performance also.

Mark Suarez:

Got it. And if we just sit back and look at this at a high level, I know Codesp, they are making a lot of infrastructure improvements around the Port of Santos, and that should have some positive long-run impact. I am wondering if you can maybe talk a little bit about that and in terms of how much time do you think that will save the rails in terms of loading the cargo at the port once those improvements are finalized?

Rodrigo Campos:

Mark, I did not understand well. What improvements are you talking about?

Mark Suarez:

In my view, according to the news and such, the whole point is that those improvements should save the rail in the loading of cargo, in other words, you are sort of shortening the track line, and I am wondering how much time do you think that will save ALL once those improvements are finalized around the terminals.

Rodrigo Campos:

Yeah. You should remember, if I understand correctly – there were two important improvements for this year, one of these improvements in terms of rail in the port was the duplication in the rail line in the entrance of the Port of Santos, which was an MRS rail line, which is completed. So, we expected to capture the productivity of this duplication. We were not able, given the problems we had at the Port, but once the capacity of the Port normalized, it is an important investment.

But also there was the segregation in one of the margins of operations of rail and trucks by Codesp, the investment Codesp did to segregate both operations, which is also a good improvement. So, both things should sustain productivity gains for this year that we were not able to capture given the fire in TGG, the accident in the ship hit the shiploader in Terminal XXXIX, all the problems in the productivity impact in sugar terminals. But once all these problems in the grain terminals are solved, we should be able to capture the improvement that we did at the ports for this year. I am not sure if those are the kinds of improvements you are talking about, or if you are talking about something else.

Mark Suarez:

No, I was talking about the Codesp infrastructure improvement you just mentioned. And then, just turning to Brado for a second, I know they had a very good quarter, good volumes, and now with the new capital injection, I am wondering where and how quickly do you see spending that money to support the operations there and how should we think about container volumes as we head into 2014?

Rodrigo Campos:

Mark, when we announced Brado, we announced a five-year plan of R$1 billion in CAPEX. Brado was investing less, which was more or less R$200 million per year on average. If you look at the last two years, Brado has invested less than that, between R$80 million and R$120 million, of course because Brado had to survive with its own balance sheet, so leveraging some cash in its own balance sheet. With all the capitalization we have, Brado can come back to the normal curve of investments, could accelerate investments, also accelerate growth at the rates we are seeing today, which are expressive rates, but remember that Brado has a small market share and has a huge competitive advantage when compared with the alternative logistics in Brazil.

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So, at the end of the day, the investments should accelerate, we expect volume growth should accelerate also, and investments will be very concentrated on terminals on the countryside and capacity improvements on the railroads, in rolling stock, locomotives, and improvements on rail infrastructure.

Stephen Trent, Citi:

Hi, good morning, Rodrigo, and good morning, everybody. I apologize in advance as I had trouble getting into your call. So, you would probably already said this, but just two questions for me. The first is when I look at issues in the ports, there was the fire, there was the other accident, and there is the ongoing expansion. Could you just tell us where we are in terms of how close we are to these three issues being totally straightened out, are we 40% there on one and 80% there on another, but just a general color would be great.

Rodrigo Campos:

Stephen, when we take the grain terminals, all of these problems will be solved in the 4Q, and we do not expect those restrictions affecting 4Q volumes, the opposite because 4Q is a quarter that starts to be an off-season quarter if you compare to the 2Q and 3Q, and so the port is not so pressured as it is in the 2Q and 3Q in the grain side. And the problems on those terminals are very addressed and will be completely solved along the 4Q.

Santoro mentioned that October was the best month in the year in terms of volumes, which is not normal because of the seasonality of the business, but which reflects the improvements in the capacity of the ports.

Stephen Trent:

OK, great. Thanks, Rodrigo. And just one other question, I recall several months ago, I mean perhaps the end of 2012, Brazilian authorities put these restrictions on truck drivers in terms of how many hours they were allowed to operate, and there was supposed to be another phase where we would see tougher enforcement of these restrictions. And just to get an idea, where would you say we are in that process and what should be the read-through fees charged by the truckers?

Rodrigo Campos:

Actually it was the measure pretty covered from that. This was a measured taken by the Brazilian Congress in September last year. So, it is more than a year ago, and the enforcement of this law was postponed by six months and was postponed again, and now the Congress is thinking, is reconsidering all the legislation again. So, it is hard to know what will be the final outcome. Probably it will not be something so severe as it was at the beginning, but probably several new restrictions will be added by the new regulation. So, I believe that there will be some intermediary legislation; it will not be so severe as it was first approved and also there will be a lot of new things as compared to the legislation we have today. But it is not defined yet, it still needs to be defined.

Stephen Trent:

OK, very helpful. Well, I will leave it there, Rodrigo, and thanks for the color.

Mark Suarez, Euro Pacific Capital:

Hey, guys, I was cut off from the last session here. I just had one final question on the regulatory front. We heard talks that the Government is thinking of auctioning some rail concessions for the right of building rail tracks and expanding the rail network throughout the Country. Now they are seeing, I think it is November. I am wondering what your thoughts are on that, and will you have any interest in maybe expanding your own rail network through the bidding process, if you will?

Rodrigo Campos:

Mark, you are correct. The Government has a plan of expanding and building new rail tracks in several regions of Brazil that today are not covered by rail tracks. So, it is a plan to think the logistic infrastructure of Brazil, thinking 30, 50 years ahead, so it is a big plan that the Government has, and there are options programed for this year and the Government is already setting other things in order to try to make these auctions this year.

When we see ALL, we believe the new concessions of those new tracks will be in a model that separates the owner of the rail tracks to the rail operators, that will transport and haul the cargo inside those tracks. So, in this model, I believe the DNA of ALL is more to be the rail operator, the guy that will make the transport in those new rail lines.

So, we see ourselves more during the rail transportation there than the guy that will build the track. That is our position related to that. We believe this is a big opportunity for us once those rail lines are there. We are the guys who have scale, who have knowhow, we are the general cargo guys in Brazil, and it would be a great opportunity to bring our operations to other regions at a much more asset-light model, with rights of ways, and operate cargo on those new tracks.

So, that is how we see this model for our business at the end. But we see in a very good way all this movement that the Government is doing.

Mark Suarez:

Got it. Well, thanks for your time as always.

Rodrigo Campos:

The first question from the Internet here is, “Do you keep the trend in positivity measures such as average velocity and terminals real time?” This is a first question from Evan Ho.

Sure, we have. Actually, our growth model is highly based on productivity gains. We look very closely to RTKs per railcar, RTKs per locomotive, and we try to improve the capacity of the system every year, improving the productivity of the system, so at the end of the day when in your question, as I understand, it says ‘average velocity’, we look to the average speed but, more than that, also we look at all the cycle of railcars and locomotives. So, the average speed on the track, at the crossings, there terminals real time at the ports. So, all those things together account for the asset cycle, which is a very important indicator for our rail operation.

And the second question also from Evan Ho is, “Consolidated CAPEX spend for 2014 and general comments about that amount per year beyond 2014, growth versus maintenance split”. Thank you.

If we think the CAPEX plan for 2014, it is good to separate in terms of railroad. We have been investing around US$700 million per year. We should keep this CAPEX in real terms; that is the level of CAPEX we should have in order to sustain our organic growth rate for 2014 and for the years after that, and in real terms. So, that is the level of CAPEX we see.

It is more or less 50% maintenance, 50% expansion. And for the other business, as we commented here, with the capitalization Brado should go to its curve of more or less R$200 million per year, and Ritmo is a business that does not demand too much capital, because it is a very asset-light business. The main business of Ritmo is the business of intermodal trucking transportation, where basically we hire trucks at the port.

Operator:

I will turn over to Mr. Alexandre Santoro for final considerations. Mr. Alexandre Santoro, you may give your final considerations.

Alexandre Santoro:

Thank you. I want to reinforce our confidence in our business and remind you that we are located in a region that represents 70% of Brazil’s GDP, with lots of opportunities to grow and increase our productivity and profitability. And we have a great team to do that. Thanks, everyone. And have a great day. Bye.

Operator:

Thank you. This concludes today’s ALL’s earnings conference call. You may disconnect your lines at this time.

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