

Eletrobras

4Q23: small miss, but positive turnaround trends

Maintain Rating: BUY | PO: 50.00 BRL | Price: 43.39 BRL

Small miss impacted by one-offs, but good cost-cut

Eletrobras reported a small miss on 4Q23 results with an adj. EBITDA at R\$5.4bn, up 15% YoY but 10% below our estimates (-6% if adjusted by provisions). The miss was driven by a lower energy gross margin (-9% vs BofAe) and higher adj. provisions (+R\$244mn vs BofAe). Results were partially offset by good cost-cutting, which we see as the main focus and one of the main initiatives of the ongoing post-privatization turnaround (manageable expenses down 18% YoY). Despite the miss in 4Q23 results, we see the ongoing turnaround and an improving outlook for long-term power prices as the main drivers for the stock. We maintain our Buy rating with R\$50 PO (14% real IRR).

Adj. EBITDA at R\$5.4bn (+15% YoY but -10% vs BofAe)

ELET's reported EBITDA at R\$2.6bn was impacted by one-offs linked to provisions:

(-) Provisions: Eletrobras reported R\$3.3bn new provisions in the quarter (R\$2.8bn non-recurring). Negative highlight to: 1) R\$1.7bn assets impairment (non-recurring), 2) R\$862mn negative MtM of energy sales (non-recurring), 3) R\$329mn delinquency of Amazonas Energia energy sales contracts and 4) R\$380mn taxes and civil litigations.

(-) Energy gross margin: Eletrobras reported a R\$7.6bn energy gross margin in the quarter, 9% below our estimates due to lower energy allocation and trading.

(+) Manageable expenses: in our estimates, Eletrobras reported a 18% YoY cost-cutting mostly related to the voluntary dismissal plan and third-party services.

(=) Financial result: R\$2.5bn negative financial result in-line with our estimates (vs R\$2.6bn BofAe) impacted by R\$1bn sector funds payments monetary adjustment.

(+) Taxes: ELET reported a R\$3.3bn income taxes reversal impacted by: 1) R\$453mn interest on equity of subsidiaries and 2) R\$2.5bn tax credits recognition of HPP SAESA.

(+) Energy balance: ELET announced ~655avgMW new energy sales contracts for 2024-27 (~4% of total capacity). However, prices were not disclosed.

(+) Maintenance capex: ELET reported a R\$746mn maintenance capex in the power plants (+155% QoQ and +121% YoY). However, we think that this capex level hints that ELET could be front-loading investments, which would decline in upcoming years.

We maintain our Buy rating and R\$50 PO

At the current price, we estimate that ELET's valuation implies <R\$95/MWh for its uncontracted capacity offering, an attractive asymmetry as 1) the regulatory floor for energy prices is R\$70/MWh and consensus is >R\$135/MWh long-term prices, and 2) we see upside potential from the turnaround. We maintain our Buy (~14% real IRR).

14 March 2024

Equity

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Stock Data

Price (Common / ADR)	43.39 BRL / 8.73 USD
Price Objective (Common / ADR)	50.00 BRL / 9.40 USD
Price (Pref / ADR)	48.45 BRL / 9.69 USD
Price Objective (Pref / ADR)	56.00 BRL / 10.60 USD
Date Established (Common / ADR)	20-Jun-2023 / 20-Jun-2023
Date Established (Pref / ADR)	20-Jun-2023 / 20-Jun-2023
Investment Opinion	C-1-7 / C-1-7 / C-1-7 / C-1-7
52-Week Range	29.81 BRL - 49.41 BRL
Market Value - Common (mn)	87,952 BRL
Market Value - Preferred (mn)	111,494 BRL
Free Float	30.1%
Average Daily Value (mn)	56.89 USD
Shares Outstanding (mn)	2027.0 / 2301.2
BofA Ticker / Exchange	CAIFF / SAO
BofA Ticker / Exchange	EBR / NYS
BofA Ticker / Exchange	CAIGF / SAO
BofA Ticker / Exchange	EBRB / NYS
Bloomberg / Reuters	ELET3 BZ / ELET3.SA
ROE (2023E)	1.8%
Net Dbt to Eqty (Dec-2022A)	32.6%

HPP SAESA = Santo Antonio Hydro Power Plant

MtM = mark-to-market

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Timestamp: 14 March 2024 08:41AM EDT

Eletrobras 4Q23 results

Exhibit 1: Eletrobras reported BRGAAP EBITDA at R\$2.6bn was impacted by R\$3.2bn new provisions

Eletrobras reported BRGAAP EBITDA (R\$mnn)

BRGAAP (reported)	4Q23A	4Q23E	4Q23A/4Q23E	4Q22A	4Q23A/4Q22A
Net Revenues	10,275	10,769	-5%	9,246	11%
(-) Energy Purchase & TUST	-2,714	-2,505	8%	-2,396	13%
(-) PMSO	-1,703	-2,032	-16%	-3,717	-54%
(-) Provisions	-3,251	-230	1311%	-1,542	111%
EBITDA	2,607	6,001	-57%	1,591	64%
EBITDA Mg.	25%	56%		17%	
(-) D&A	-1,581	-911	73%	-1,581	0%
(+) Equity Income	249	120	108%	655	-62%
EBIT	1,275	5,210	-76%	665	92%
(+/-) Financial Result	-2,527	-2,635	-4%	-1,545	64%
EBT	-1,251	2,575	n.a	-880	42%
(-) Taxes	3,112	-1,077	n.a	86	3534%
Tax Rate	-249%	-42%		-10%	
Net Income	1,861	1,498	24%	-794	n.a
EPS	0.81	0.65		-0.35	
EBITDA, adj. (ex-provisions)	5,858	6,232	-6%	3,133	87%

Source: BofA Global Research estimates, company report

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Exhibit 2: Eletrobras adjusted BRGAAP EBITDA came at R\$5.4bn, 10% below our estimates

Eletrobras adjusted BRGAAP EBITDA (R\$mnn)

BRGAAP (Adj.)	4Q23A	4Q23E	4Q23A/4Q23E	4Q22A	4Q23A/4Q22A
Net Revenues	10,275	10,769	-5%	9,246	11%
(-) Energy Purchase & TUST	-2,714	-2,505	8%	-2,396	13%
(-) PMSO	-1,694	-2,032	-17%	-2,074	-18%
(-) Provisions	-475	-230	106%	-96	393%
EBITDA	5,392	6,001	-10%	4,680	15%
EBITDA Mg.	52%	56%		51%	
(-) D&A	-1,581	-911	73%	-1,581	0%
(+) Equity Income	249	120	108%	655	-62%
EBIT	4,060	5,210	-22%	3,754	8%
(+/-) Financial Result	-2,123	-2,635	-19%	-1,510	41%
EBT	1,938	2,575	-25%	2,244	-14%
(-) Taxes	205	-1,077	n.a	86	140%
Tax Rate	11%	-42%		4%	
Net Income	2,143	1,498	43%	2,330	-8%
EPS	0.93	0.65		1.01	
EBITDA, adj. (ex-provisions)	5,867	6,232	-6%	4,776	23%

Source: BofA Global Research estimates, company report

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Price objective basis & risk

Eletrobras (CAIFF / EBR)

Our R\$50 PO (ELET3) (US ADR: \$9.40) is built on a sum-of-the-parts valuation that does not incorporate any of the upside of a potential privatization. We derive our fair value from: 1) DCF-based valuation for main subsidiaries, discounted by a 10% real terms (14.3% in nominal terms). We estimate FCFEs through the end of the concession periods and do not assume any residual value. 2) market value of listed equity holdings, and 3) average sector multiples for non-listed equity holdings (wind, hydro and transmission SPVs).

Upside risks: 1) higher energy prices, 2) further cost-cutting initiatives, 3) liability management.

Downside risks: 1) compulsory loans liability increasing above our R\$20bn NPV-loss base-case, and 2) unattractive investments.

Eletrobras-Pref (CAIGF / EBRB)

Our R\$56 PO (ELET6) (US ADR: \$10.60) is built on a sum-of-the-parts valuation that does not incorporate any of the upside of a potential privatization. We derive our fair value from: 1) DCF-based valuation for main subsidiaries, discounted by a 10% real terms (14.3% in nominal terms). We estimate FCFEs through the end of the concession periods and do not assume any residual value. 2) market value of listed equity holdings,

and 3) average sector multiples for non-listed equity holdings (wind, hydro and transmission SPVs).

Upside risks: 1) higher energy prices, 2) further cost-cutting initiatives, 3) liability management.

Downside risks: 1) compulsory loans liability increasing above our R\$20bn NPV-loss base-case, and 2) unattractive investments.

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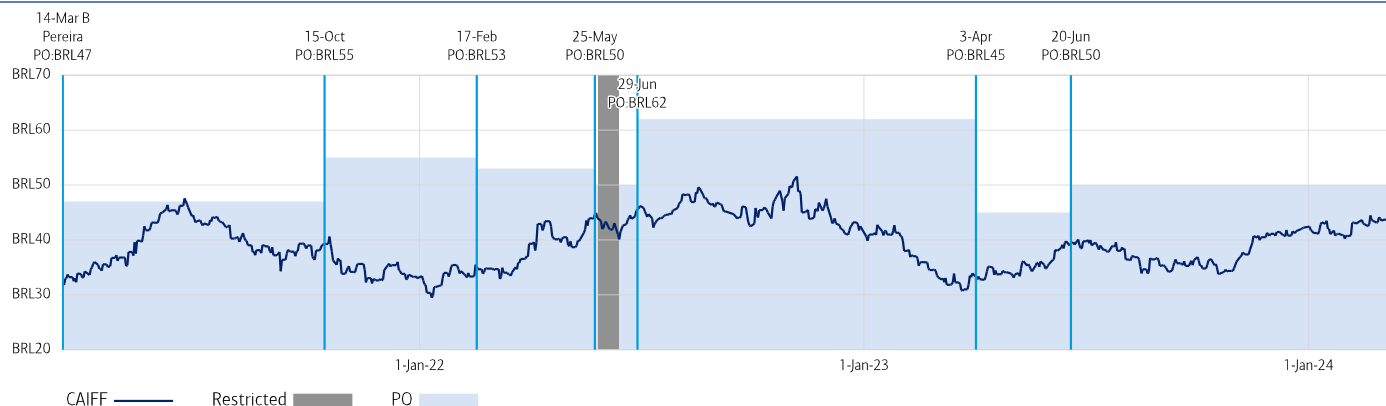
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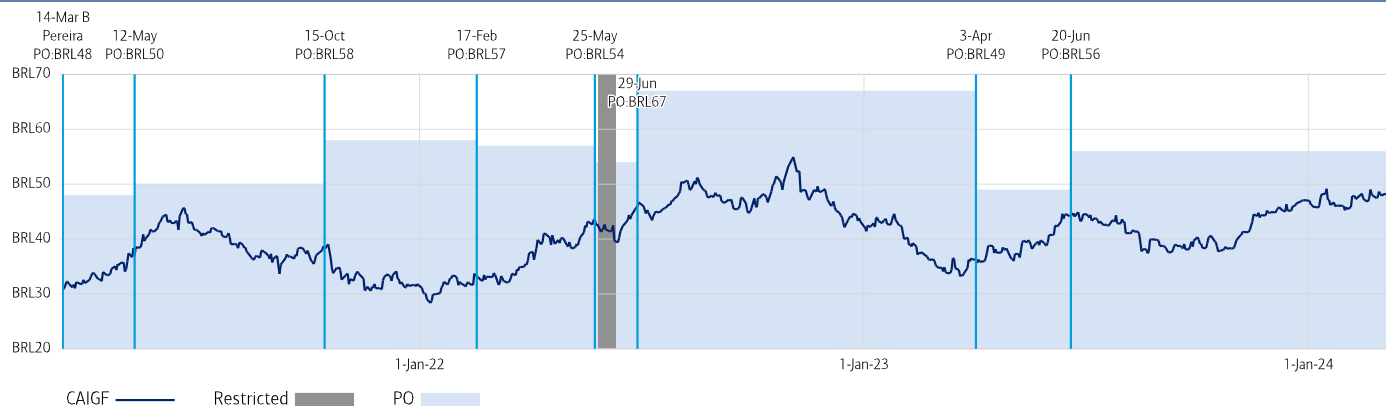
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Eletrobras (CAIFF) Price Chart



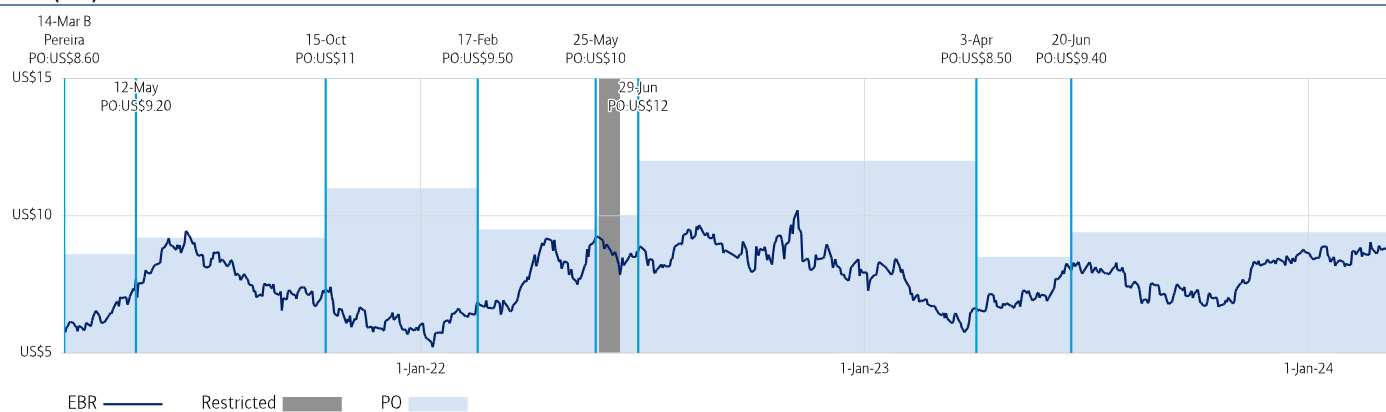
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Eletrobras-Pref (CAIGF) Price Chart



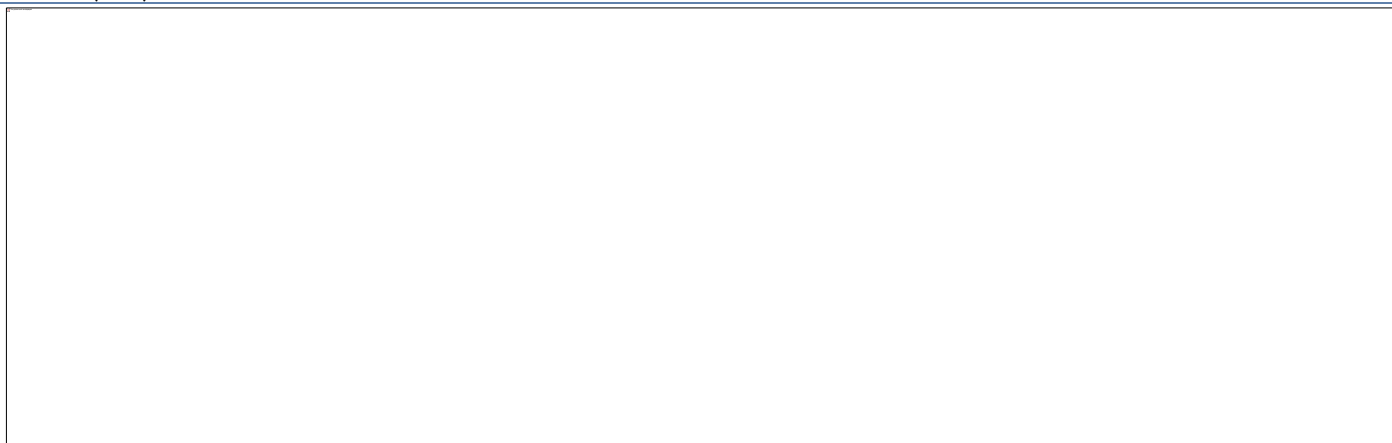
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Eletrobras (EBR) Price Chart



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Eletrobras-Pref (EBRB) Price Chart



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Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	72	46.45%	Buy	52	72.22%
Hold	45	29.03%	Hold	32	71.11%
Sell	38	24.52%	Sell	21	55.26%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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