

COPEL PN

4Q23a: Mixed results among segments

Maintain Rating: BUY | PO: 12.00 BRL | Price: 10.22 BRL

Small beat due to power generation

Copel (CPLE) reported 4Q23 results 6% above BofAe, with adj. EBITDA at R\$1.4bn (+26% YoY). The small beat was mainly driven by good results in power generation (adj. EBITDA +20% vs BofAe) and better energy trading results offset R\$30mn negative impact from renewables curtailment. However, results in power distribution fell short of estimates (adj. EBITDA -14% vs BofAe) due to higher energy losses (+40bps QoQ) and higher-than-expected manageable expenses (+7% YoY and +9% vs BofAe). At the current price, we estimate CPLE offers 10.6% real IRR, which we see as attractive relative to peers (+100bps vs CPFL Energia). Maintain our Buy rating.

Adj. EBITDA at R\$1,429mn, +6% vs BofAe

Copel's reported EBITDA at R\$1,541mn was impacted by one-offs: 1) R\$11mn positive energy sales contracts mark-to-market, 2) R\$124mn impairment reversion related to generation assets, and 3) R\$51mn provisions due to a litigation agreement. Adjusting for one-offs, EBITDA reached R\$1,429mn, up 26% YoY and 6% above our estimates. If we look at the bottom-line, Copel reported a R\$306mn negative financial result (vs -R\$401mn BofAe), leading to a R\$596mn reported net income. Leverage levels: 1.9x Net Debt/EBITDA vs 2.3x in 3Q23. Net debt decreased R\$259mn QoQ.

Maintain Buy rating with R\$12 PO (10.6% real IRR)

Our constructive view on Copel is based on: 1) attractive valuation at 10.6% real IRR (+100bp vs CPFE), 2) low execution risk of its post-privatization operational turnaround.

01 March 2024

Equity

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Stock Data

Price (Common / ADR)	10.22 BRL / 8.25 USD
Price Objective	12.00 BRL / 12.00 USD
Date Established	15-Aug-2023 / 15-Aug-2023
Investment Opinion	B-1-8 / B-1-8
52-Week Range	6.55 BRL - 10.55 BRL
Market Value (mn)	17,163 BRL
Free Float	61.9%
Average Daily Value	24.10 USD
Shares Outstanding (mn)	1,679.3 / 277.1
BofA Ticker / Exchange	XLPUF / SAO
BofA Ticker / Exchange	ELP / NYS
Bloomberg / Reuters	CPLE6 BZ / CPLE6.SA
ROE (2023E)	1.5%
Net Dbt to Eqty (Dec-2022A)	46.3%

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Timestamp: 01 March 2024 06:38AM EST

Copel 4Q23 results

Exhibit 1: Copel reported a R\$1.4bn EBITDA in the 4Q23

Copel 4Q23 results (R\$mn)

Consolidated ex-VNR and construction	4Q23A	4Q23E	4Q23A/ 4Q23E	4Q22A	4Q23A/ 4Q22A
Net Revenues	4,960	4,190	18%	4,658	6%
Energy purchased + TUST	-2,827	-1,971	43%	-2,711	4%
PMSO	-678	-907	-25%	-1,172	-42%
EBITDA, Adj.	1,455	1,312	11%	775	88%
EBITDA Margin	29%	31%		17%	
(-) D&A	-346	-381		-318	
EBIT	1,109	931	19%	457	143%
Financial income	273	219	25%	233	17%
Financial expense	-578	-620	-7%	-513	13%
Financial Results	-306	-401	-24%	-280	9%
Equity Income	63	21	201%	148	-57%
Earnings Before Taxes	866	551	57%	325	166%
Taxes	-270	-181	49%	367	-174%
Tax Rate	-34%	-34%		207%	
Net Income	596	370	61%	692	-14%

Source: BofA Global Research estimates, company report

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Exhibit 2: Copel adj. EBITDA at R\$1.4bn, +6% vs BofAe

Copel 4Q23 results (R\$mn)

	4Q23A	4Q23E	4Q23A/ 4Q23E	4Q22A	4Q23A/ 4Q22A
EBITDA, reported	1,541	1,333	16%	966	59%
(-) VNR	-20			-34	
(-) Construction Margin	-2			-8	
(-) Equity Income	-63	-21		-148	
(+/-) MTM Energy Purchases	-11			-37	
(+/-) Impairment Reversion	-124			-35	
(+/-) GSF	26			0	
(+/-) Other Provisions	51			453	
EBITDA, adjusted	1,397	1,312	6%	1,156	21%
(+) BRGAAP vs IFRS Transmission	32	39	-18%	-24	-232%
EBITDA, adj.	1,429	1,351	6%	1,132	26%

Source: BofA Global Research estimates, company report

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Exhibit 3: Copel adj. EBITDA at R\$1.4bn, +6% vs BofAe

Copel 4Q23 results (R\$mn)

	4Q23A	4Q23E	4Q23A/ 4Q23E	4Q22A	4Q23A/ 4Q22A
Copel-Dis	579	677	-14%	474	22%
Copel GeT	835	656	27%	729	14%
Elejor	19	42	-54%	30	-35%
Holding	-54	-62	-13%	-11	385%
Intercompany / Other	19	0	0%	-66	-128%
EBITDA, adj.	1,397	1,312	6%	1,156	21%
Generation and Transmission	854	698	22%	759	12%
(+) BRGAAP vs IFRS Transmission	32	39	-18%	-24	-232%
EBITDA, adj.	1,429	1,351	6%	1,132	26%
Generation and Transmission	886	737	20%	734	21%

Source: BofA Global Research estimates, company report

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Price objective basis & risk

COPEL PN (XLPUF / ELP)

We derive our R\$12 price objective using free cash flow which considers a cost of equity of 10% real. We discount cash flows through the end of existing generation and transmission concessions in 2053E and no real perpetuity growth for the distribution. A R\$10/MWh higher energy price for un-contracted capacity vs our energy pricing assumption raises our DCF by 3%.

Upside risks

1) higher-than-expected dividend payout/yield, 2) higher-than-expected long-term generation prices for un-contracted capacity (each +R\$10/MWh vs R\$110/MWh base-case assumption implies +3% upside), 3) divestment of non-core assets under favorable conditions, and 4) higher than expected cost-cutting

Downside risks

1) lower-than-expected long-term generation prices for un-contracted capacity, 2) sub-par returns in potential new Greenfield projects or acquisitions

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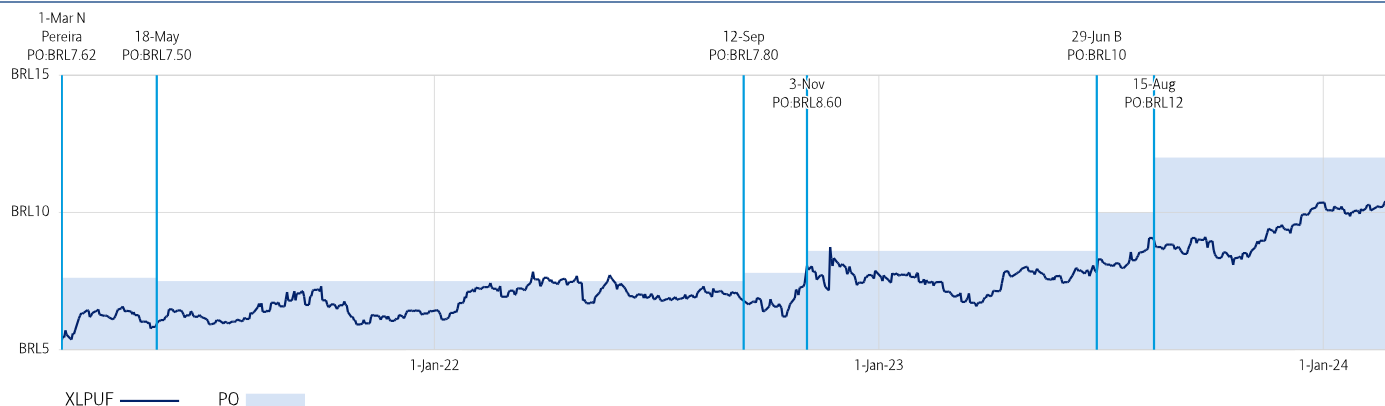
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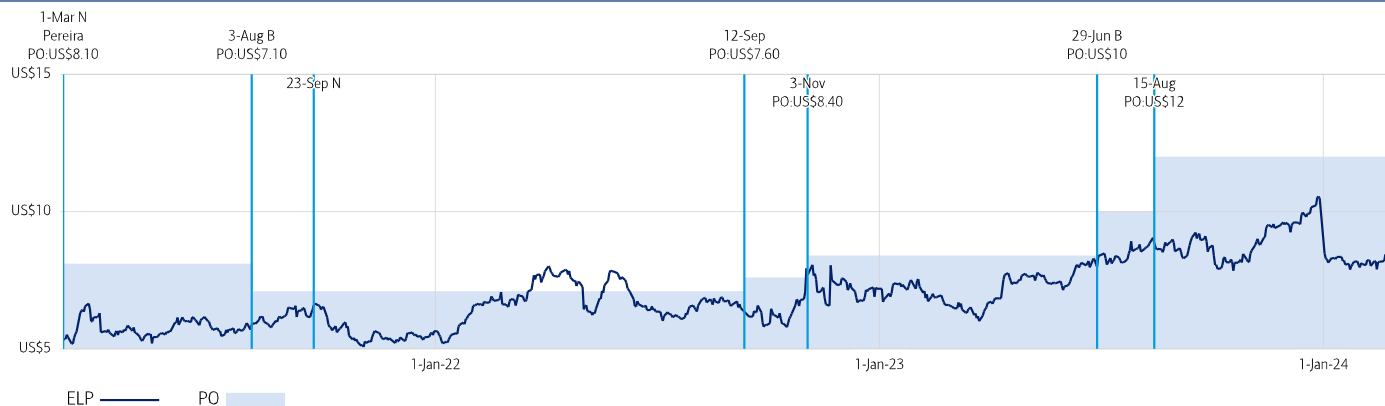
Cia Paranaense (XLPUF) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Cia Paranaense (ELP) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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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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Buy	≥ 10%	≤ 70%
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Underperform	N/A	≥ 20%

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