

Q1 2018 Earnings Call

Company Participants

- Flavia Martins, CFO
- Lino Lopes Cancado, VP E&P Division
- Pedro Zinner, CEO, Chief IR Officer & Member of the Executive Board
- Unidentified Speaker, Unknown

Other Participants

- Andre Sampaio, Research Analyst
- Gustavo Miele, Analyst

Presentation

Operator

Good afternoon. And thank you for waiting. Welcome to the conference call of ENEVA to discuss the results referring to the First Quarter 2018. Here with us, we have Mr. Pedro Zinner, CEO and Director -- Investor Relations Officer; and Flavia Heller, Investor Relations Manager. Be informed that this event is being recorded. (Operator Instructions) This event is also being transmitted simultaneously via webcast over the web and can be accessed at the address ri.eneva.com.br. And also at the MZiQ platform where the corresponding presentation is available. The selection of the slides can be controlled by you. The replay of this event will be available shortly after the event. We remind you that the participants of the webcast may also record at the website the questions to be answered during the Q&A session.

Before proceeding, I would like to clarify that statements that can be made during this call regarding the prospects of -- business prospects of ENEVA, projections and goals regarding operational and financial aspects are based on the beliefs and assumptions of the company's management as well as information currently available. Future considerations are not guarantee of performance. They involve risks and uncertainties and assumptions and refer to future events and, therefore, depend on circumstances which may or may not occur. Investors must understand that general economic conditions, industry conditions and other operating factors may affect the future performance of ENEVA and these results that differ materially from those expressed in such future considerations.

Now I would like to pass the floor over to Mr. Pedro Zinner, who will start the presentation. Mr. Zinner, you may continue.

Pedro Zinner {BIO 17260844 <GO>}

Thank you. Good afternoon, everyone. And thank you for participating in this conference call of ENEVA for the First Quarter of 2018. Before starting, I would like you to look at the disclaimer on Slide #2.

Now moving on to Slide #3. We have closed the First Quarter of 2018 with an adjusted EBITDA of BRL 251 million. We reached cash flow -- operational cash flow of BRL 311 million. And we completed successfully the prepayment of debt, which was set forth in the re-IPO of the company last year. Also, our operating performance as we highlighted because all the plants have operated above their contractual availability, which allowed to -- due to the efforts in investments to increase the performance of this plant. This is the fourth consecutive quarter that Itaqui had an availability above the contractual commitment with an average availability in the period of 100% and that generation has grown by 15%, reaching 1,376 (kilowatts) per hour with an average dispatch of our unit of 26%. And that has to do with the seasonality concept that we mentioned.

The operating cash flow reached BRL 311 million with the growth of 28% when compared to the First Quarter of 2017, an improvement in cash -- in working capital, which had a positive influence of receivables flow, BRL 38 million in recurring when compared to BRL 2.8 million of the same period of last year and had a positive influence by the improvement of financials results and due to the indexes to correct the debt and the prepayment process that I mentioned before.

I think it's worth highlighting that the result of Itaqui, because for the first time since the beginning of its commercial operation, it had a net income of BRL 3.4 million. We made investments of BRL 58 million in the quarter with the highlights for the beginning of overhaul of Parna ba I, which was completed successfully in April on less than -- less time than we expected and below budget.

And in April, we ended, as you know, when replicate -- we're trying to replicate the integrated generation model as well as the participation of units at Pec m II. So after six months of our re-IPO, we could complete the prepayment plan that was scheduled.

Finally, we ended the quarter with a consolidated cash of 64 -- BRL 604 million. And net debt to adjusted EBITDA of 3.8x (sic) (2.8x).

Now I pass the floor to Flavia, who will talk about some details about our consolidated performance.

Flavia Martins

Now moving on to Slide #4. We have an operating performance -- a snapshot of operating performance of the company despite the low dispatch in the First Quarter 2018, as it was expected, because of the high rainfall. There was an increase in the volume of generated energy, both coal fired and gas fired.

Parna ba III was shut down in the beginning of February because they are locating with the north subsystem and the reservoir industry and the restrictions of transmission of

energy to the south and southeast. They were shut down as expected. Only Pec m II that stayed in the northeast remained as such throughout the whole period. And it's important to note that, although the dispatch has been lower than the same period as last year, the generation was higher because of the higher availability of the plant.

Slide #5. We can see the consistent and growing availability. This quarter, it was above contractor availability in all plants. That has to do with the continued efforts and investments to maintain the efficiency of our plants, especially in coal, which resulted in an improved operational performance.

Pec m II, after the planned maintenance, is now back with 100% availability. An important observations about the availability of Parna ba. In the First Quarter, we bought parts and equipment for the overhaul of 2 turbines of Parna ba I that was conducted in April.

Slide #6. In the gas -- the production of gas was 0.2 with an average dispatch of 26%. With that, the remaining reserves at the end of the quarter remained at 18.6 Bcm, with an increase of 6%, when compared to the First Quarter 2017 and the replacement rate of 171%.

Next slide. We have resumed at the middle of last year the exploration campaign -- exploratory campaign and -- of R13. We acquired 179 kilometers of seismic data. And with the increasing rainfall, no drilling was made for exploratory wells.

Slide #8. Let's look at the performance -- the financial performance of the company. The net operating revenue has grown by 15% this quarter, reaching BRL 510 million and had a positive impact of higher generation of energy. The adjusted EBITDA reached BRL 251 million despite when we did not restart the campaign. And based on the negative result of the (inaudible) ADOMP penalty. It's important to explain here how the penalty actually is measured. Penalties are measured by the energy gap that I have based on the moving average of 60 months and it's regulated by floor price minus (CDU) in the drought season. In the dry season, the spot price is higher and the expenses are higher. The objective of the hedge is not to be exposed to significant increase in spot prices during the dry season. So the strategy of the company expected a negative result of ADOMP hedge in the beginning of the year given that -- given the lack of liquidity of energy contracts during the dry season, especially in the north. The hedge is made based on annual contracts. And in the wet season, between January and May, hedge operations tend to give a negative result, which is more than offset by the dry month given our projection of spot price. There has been a growth in the net income given the leverage of the company according to interest rates and IPCA, which are the main indexes of company debt.

Slide #9. Looking at the evolution by segment of the business. We see a negative contribution of BRL 7 million of Parna ba Complex for gas generation, as there was a negative impact given the readjustments of values of the plant, given by Parna ba I and III. This payment is made to (QGM) and then the consolidated result that is eliminated and also a negative result of the hedging as I mentioned -- as I already explained.

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The positive contribution of upstream resulted for the higher volume of gas sold, higher dispatch as well as the adjustment of thermal plant leasing. And exploration expenses totaled BRL 20 million. At the holding company, there was a significant reduction in cost of personnel because the number of managers was reduced and we had expenses with stock options and labor termination costs. In the First Quarter 2017, the holding expenses were inflated by restructuring costs giving the merger of Eneva QGM .

Now moving on to Slide #10. The company has invested BRL of 58 million in the First Quarter of 2018, 20% more than the First Quarter of 2017. Most of these funds, BRL 36 million, were used for overhaul and efficiency programs in generation to increase the operation availability in Itaqui and purchase of parts and equipment for plant maintenance in Parna ba I. In upstream, we completed the assisted operation phase of Gavi o Caboclo field and acquired equipment for plant maintenance at GTU and EPGVB.

Slide #11. The cash -- operating cash flow of the company amounted to BRL 311 million, a growth of 20% when compared to the First Quarter of 2017, mainly due to the reduction of working capital needs and also a reduction in accounts receivable. In the north of the country, in the beginning of February until the closing of the First Quarter, there was a reduction of accounts receivable when compared to first Q 2017. Another impact was the receipt of revenues regarding settlements in December 2017. That was only settled in the January 2, because December was not a working day. And the reduction of hedge with the spot price was significantly higher. So on a cash basis that entered in the First Quarter of 2018. So the consolidated cash flow, including deposits, amounted to BRL 744 million.

In terms of investments, BRL 220 million, that was made for prepayment of (NDS) debt and the acquisition was completed in April. And therefore, the 10Q results will be consolidated as of the Second Quarter of this year.

The cash flow and financing includes the prepayments of debt in the amount of BRL 522 million, BRL 307 million Itaqui and the rest of PGN and a new debt in Parna ba III in addition to the normal flows, amortization and debt payments of the company.

Next slide. This is a snapshot of the company's indebtedness. 54% of the debt is indexed to the CDI. Therefore, the drop in interest rates has a positive impact on the company. The nominal -- average nominal cost at the end of the quarter was 10.7% versus 13% for the First Quarter of 2017. And at the end of March, the consolidated net debt totaled BRL 3.5 billion, which is equivalent to a consolidated net debt EBITDA adjusted ratio of 2.8x.

Slide 13. We can see an overview of the payment of the debt -- re-IPO debt prepayment plan. We had a prepayment of Itaqui with Bank Votorantim in Brazil in the amount of BRL 307 million. The disbursement of the first tranche of the second debenture issued to Parna ba III, BRL 172 million and the payment of BRL 215 million in the principal by PGN. These movements have caused the reduction of 23% in the total principal to mature in 2018 and '19 and have six months after the closing of the public offer of shares in 2017. The company has successfully completed the prepayment plan that was in the prospectus of the offer. And currently, we're starting new forms to optimize the capital structure of the

company. And the last slide, as mentioned before, the acquisition of Pec m II was completed in April. It was the final step to complete the prepayment plan of the debt and is up to Second Quarter of 2018, the figures will be consolidated in ENEVA's balance sheet.

We're just going to have a workshop for 2018 EBITDA because EBITDA adjusted was BRL 304 million in the First Quarter compared to BRL 306 million in 2017. The net debt to EBITDA is 2.9x. So no change. No significant change compared to the previous financials that were consolidated in the quarter and 10.98% of cost of the debt. I'd like to thank for your participation.

Now the session is over for questions -- is open for questions. Thank you.

Questions And Answers

Operator

(Operator Instructions) Our first question comes Gustavo Miele from Ita  BBA.

Q - Gustavo Miele {BIO 21077665 <GO>}

I have a question. As the closing off -- shutdown of Parna ba, in the projects that had been rented for 2013, there was this project in Maranh o of 303 (inaudible) mega. And this is a municipality of Parna ba. If you have more details on that, do you? And another question about dispatch. Has anything changed or dispatch is going to be the same as it used to be in the past?

A - Lino Lopes Cancado {BIO 20167891 <GO>}

Lino Cancado is speaking. You are right. This was the project that was registered in Maranh o. It's the closing of the sales cycle of Parna ba I. This was done according to planning. And in regard to dispatch, in fact, in this quarter, we are repeating what we did in the First Quarter -- last quarter last year. It's going as expected. So it's very similar to what we did last year.

Q - Gustavo Miele {BIO 21077665 <GO>}

Another question. What about PPA in Parna ba I, which was 28? What about the shutdown of the company? How do you change the concept of Parna ba I? Because it was a matched deal, wasn't it? Could you please give us more information on that?

A - Lino Lopes Cancado {BIO 20167891 <GO>}

The room that was used in this room is kind of PPA for the seller. So this ruling...

Q - Gustavo Miele {BIO 21077665 <GO>}

Okay. I understood. The ruling establishes that and ensures that everything should be done in joint effort. So the victory was that you have a CVU the same as the original CVU

used in that field. So it gives more efficient. So it has -- which was smaller. This would be great risk for the entrepreneur. This goes -- it's follows the pack, right. And new ability and also meets what's required by pack. To our understanding that pack requested a condition. And we should close the circle and this would -- will have a deadline in 2019. When it seems that this requirement has been concluded, there'll be -- pack requirement has been concluded properly. So the closing of the circle is just the EPS, right?

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A - Lino Lopes Cancado {BIO 20167891 <GO>}

Well the option is 1 minus 6.

Q - Gustavo Miele {BIO 21077665 <GO>}

Is there any incentive for this or not?

A - Lino Lopes Cancado {BIO 20167891 <GO>}

Right now, we are not considering any anticipation in dividends. This is going to be done when we do the auction.

Q - Gustavo Miele {BIO 21077665 <GO>}

Pedro, one more comment. We're told about the closing of the cycle. But you registered there are -- I don't know. So that 2 sides and the ability -- improved availability of power generation as the lowest part of the strategy. And the objective is also to include it in the auction.

A - Lino Lopes Cancado {BIO 20167891 <GO>}

Have you already registered? So if you can monetize this generation before the deadline, this is going to be good for the company. Thank you. I didn't notice AzulÃ£o. What has caught my attention was the shutdown of ParnaÃba I. Thank you for calling my attention to AzulÃ£o.

Operator

Mr. Andre Sampaio from Santander would like to pose a question.

Q - Andre Sampaio {BIO 19422379 <GO>}

I just want to add something to Pedro's question.

A - Unidentified Speaker

Could you please repeat your question because it was cut?

Q - Andre Sampaio {BIO 19422379 <GO>}

Okay. The question is an addition to Pedro's question. Could you give us a growth idea of (inaudible)

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A - Unidentified Speaker

I think that we've seen organic growth in the more opportunistic way. Maybe the most efficient event was (inaudible) but I think that we are taking the opportunities available in the market. So that the company can understand better what's going on. We are concentrating on the core business of the company.

Q - Andre Sampaio {BIO 19422379 <GO>}

So there's nothing fixed to be announced?

A - Unidentified Speaker

No. And if there were, we cannot say anything about it. No. We have to follow (CVM) and the agreement that we did. Any news would be not proper to divulge.

Operator

(Operator Instructions) We've got a question from webcast. How is Parna ba contract worth after shutting down the company and (inaudible) 27 we're going to follow the contract of closing the cycle.

A - Unidentified Speaker

It's 3 as of 26, 27 with a lateral hiring or according to the current rules, or it's going to be settled when we have the shutdown of the company. Parna ba in this case -- and more flexible to hire people because I do not need funding for that financing. So we -- if you have a long-term contract and if we can finance capacity and this is going to be depreciated until the end of the contract -- the termination of the contract.

Operator

(Operator Instructions) Since there are no further questions, I'd like to give the floor to the company. So that they can make their final comments.

A - Unidentified Speaker

Thank you. Well let's close this call. I thank you very much for your participation. I would like to meet you again next time. Thank you very much.

Operator

Thank you. This ENEVA teleconference is closed. So disconnect your lines. And enjoy your afternoon. Have a good afternoon.

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