

Q2 2021 Earnings Call

Company Participants

- Adriano Rudek de Moura, Chief Financial Officer, Investor Relations Officer, Member of the Executive Board
- Daniel Pimentel Slaviero, Chief Executive Officer, Director

Presentation

Operator

Good morning, good afternoon, and thank you for waiting. Welcome to Companhia Paranaense de Energia's Results Conference Call to present the results of Second Quarter of 2021. We would like to inform that participants will be in listen-only mode during the company presentation. Afterwards, we'll have a Q&A session when further instructions will be given. (Operator Instructions)

Before proceeding, we would like to clarify that forward-looking statements that might be made during this call, in relation to Copel's business outlook, operating and financial projections and targets, our beliefs and assumptions of the company's management as of the information currently available to the company. Forward-looking statements are no guarantee of performance. They involve risks, uncertainties and assumptions as they refer to future events and therefore, depend on circumstances that may or may not occur. General economic conditions, industry conditions and other operating factors may affect the future performance of Copel and may lead to results that differ materially from those expressed in such forward-looking statements.

Today, with us we have Mr.Daniel Slaviero, CEO of the company and Mr.Adriano Rudek de Moura, CFO and Investor Relations Officer. The presentation that will be made by Copel's management can be followed at the company's website ir.copel.com.

Now, let me turn the floor over to Mr.Daniel Slaviero, CEO of the company.

Daniel Pimentel Slaviero {BIO 20914773 <GO>}

Good afternoon, everybody. Thank you very much for participating in our call. And I would like to start by saying that although we are facing a very challenging environment yet, mainly because of the consequences still of the COVID, but especially due to the hybrid crisis. It is with great joy that I started off presenting another quarter of very solid results. Adjusted EBITDA of over BRL1.4 billion, growth of over 50% in the half year, we're getting close to BRL3 billion. But in the last 10 days, we have three news that had a very big impact on the company as that has shown the consequences in the first quarter, receiving BRL1.4 million on the CRC of the Parana government, the completion of the renegotiation of GSF that will bring in additional results of over BRL1.4 million and the conclusion of one

of the most relevant facts in our history, the conclusion of the divestment process of Copel Telecom, and thereby, we receive BRL2.5 billion.

Next slide. As you can see on the slide and as we have mentioned quite a few times, the process is part of our strategic plan are posted on our home page. All the major figures come from a very well-structured process, that's comparing process and (inaudible) by the proposed agencies. I would like to highlight our expectation that the operation might bring in additional results of BRL1.2 billion in the third quarter as I said.

Ad now, our priority is focused on the divestment process of Copel GeT to invest in the last few weeks and I would like to share with you all. We have received an official letter of Gaspetro given the preferred rights for the acquisition of 24.5% in the concepts of sale of Gaspetro or Petrobras. And we will have until the beginning of September to purchase or not, exercises or not. And we are analyzing the position, but as we have the type of issues to sell Compagas, if the price is according to the market conditions, our trend is not to exercise the preferred rights or the presence rights and continuing with the process of sale. And another fact that's even more relevant is that, the State of ParanA has offered the public consultations, a public hearing until the 22nd of August for the condition for the renewal of the confession. This is a critical factor, so that we may have a negative value and with the renewal for the next 30 year that we are evaluating the general conditions and you will be submitting your suggestions. But overall, in preliminary fashion, you see that the conditions are in line within the best market practices. As our expectation is to renew the concession by the end of this year and have the option of a decrease until the end of the first half for 2022, the latest.

On the next slide, we see that despite the sales results that I have mentioned. So, I would like to mention something unprecedented that we have already communicated to the market Copel, we have identified the score AAA and in the work sales itself is the reflex of the fact that Copel was an integrated company with a strong financial profile and a composite operating management hoping forth. And I would like to remind you that are capital intensive, we are in an intensive capital sector and this was one of the first premises to be competitive in our processes of acquisitions and investments, and auction et cetera. So, this is extremely relevant for us and core.

And at Copel GeT, we achieved the data (inaudible) in the quarter. I would like to highlight the results of whether of Caiua reinforcing the importance of complementarity of a gas thermal power plant in our portfolio of generations in order to poke the hybrid crisis. And beside the acquisition of Vilas Wind Farm at the beginning of March reinforces one of the most important points in our strategy, which is discipline in capital allocation and we have also brought forward the federal of Bela Vista SHP and saying that the execution and bringing forward of this timeline will be one of the most important tasks of this management. And in order to go through the highlights of the quarter, I would like to mention the results of the fifth tariff revision of Copel Distribuicao with increase in the RAB by 70%, totaling over BRL8.3 billion.

I would like to remind you that once again, the investment of Copel Dis proved by Aneel. And in the last 12 months, we see a deficiency of 15% vis-à-vis the regulatory EBITDA and then Copel Mercado Livre for the third consecutive month. It is the biggest trader in the

country. And if we take the adjusted EBITDA of the past year compared with last year, we see a growth of over 500%. Congratulations, all officers of our company, our colleagues and subsidiaries toward these outstanding results.

And the next slide my last one, I would like to mention that Copel built a headquarter in Curitiba, where we have been for over 50 years in the central region of the city, we sold the building, we centralized the activity and in (inaudible) kilometer three as a way to reduce costs; but mainly, to increase collaboration of work and the synergies between and among the businesses and the team. And this is a very important change in the company. And I am also proud to receive (inaudible) continue included in the FTSE4Good Index, which shows our commitment with the ESG agenda. This is a permanent agenda on the part of Copel. No other company in the market will be as relevant for the next two years. All companies that need to be relevant or need to be relevant, they need to be there.

And I would like to say that we created a statutory committee that will be dealing with all ESG teams as well as people and we also announced in the first quarter, our carbon neutrality plan up to 2030 and all the executives of the company as of next year will have a very short-term incentives, one climate targets. And in order to end my part of the presentation, I would like to highlight that all the funds available in our hands at a low level have the objective of strengthening our strategic plan and generating value for our shareholders. We will continue with impeccable execution of our strategy, because it's on the core business and always looking for a good investment for the company to grow in distribution, sales and innovation in cultivation. This is our priority. So undoubtedly, our dividend policy is one of the drivers of our value generation.

And Moura will be talking in detail how we are addressing this internally and with the Board of Directors. Now, our CFO, Adriano Moura has the floor.

Adriano Rudek de Moura {BIO 3590957 <GO>}

Thank you, Daniel. Good afternoon, everybody. Thank you very much for your participation in our call. Now, let's go to Page Number 8. It is a great pleasure that we published another quarter with challenging set of results coming from our focus of (inaudible) in the execution of a very well-defined strategy, with few objectives delivering more and more value to our shareholders and also, to all the stakeholders in the company. The growth that we see here 47% of the adjusted EBITDA and over 70% in adjusted net income reflects an improvement in all the Copel businesses and (inaudible) the cash generation of the quarter was higher than BRL750 million, R\$1.5 billion year-to-date already reflecting the negative impact of the higher cost of purchase of energy and technology charges of this may be in the first quarter in the half year. The adjusted EBITDA has exceeded BRL2.8 billion, 28% higher than the same period last year and adjusted net income higher than BRL1.6 billion, 52% higher than last year.

On Page 9, I highlight some non-recurring items as we can see the main adjustment since Q2 '21. That was a reversal of the impairment of assets of generation assets of a BRL125 million and the main asset here was (inaudible) the total balance of the previous year amounted to BRL139 million. Considering the expectation of a better dispatching

scenario, both for the current year until November, we will continue to dispatch as well in the next few year. So, there is no more (inaudible) and we are also including here the positive impact of BRL18 million more or less on the adjustments -- in fair value of the purchase and sales of the strategy. I would like to remind you that last year in the second quarter, we recognized the (inaudible) amounted to over BRL1.1 billion (inaudible) had a positive impact on the EBITDA in the quarter and this is one of the advancement of last year. Including the non-recurring items and considering discontinued operations (inaudible) net of the result of Copel Telecom and this would have been BRL1,514 million in the second quarter of '21 and BRL2,817 million in the year-to-date for the half year.

Now, on Page 10, in addition to the highlights already mentioned and the operating results improvement of all businesses, I also should highlight our investment plan. It is as planned, both financially as well as in the physical plans, both in the GT and this. In the second quarter of 2021, we invested BRL518 million and we are close to BRL1 billion in the first half of 2021. This is around 22% higher than what we spend in the first half of last year in the comparison base. And of course, the focus here is the conclusion of the ETA works with PCH of Bela Vista, Jandaira that should end in 2022. And in the gas, the largest investments are Parana Trifasico and the Smart Grid, which in addition to increase in the remuneration base in the next tariff cycle and significantly improve the quality of Copel's grid all over the state. It also will allow us to have a good cost reduction for the next few years. In addition to CapEx, I also highlight the very successful conclusion of the sixth debenture issuance of this of BRL1.5 billion worth of excellent as to year-on-year, we already see reflected rating for Copel, the AAA by Fitch.

In addition to the improvement of the working capital for this, it will also be priority really use that for investment as I have mentioned before. The first installment of dividends were paid by the end of April and the second installment of dividends was paid yesterday for shareholders totaling over BRL2.5 billion in terms the results of 2020, the highest amount of dividends already paid by Copel in year ago over 13%. And now, we were already discussing dividends for 2021. I'll talk more about that shortly.

In terms of leverage, we ended the second quarter with 1.6 times, which is an increase vis-à-vis the last quarter that had an impact of the first installment of dividends payment BRL1.2 billion in dividends paid in April. Also, there is an impact of CapEx of 22% higher. So, we are demanding more cash. And also, on the comparison with the other quarters, we have the credit for PIS/COFINS that entered in that comparison base in the last 12 months in the prior quarters. Thus ends up affecting our leverage. But certainly, our expectation is that, this leverage will come down by the end of the year, considering the proceeds from Telecom of BRL2.5 billion. Also, the prepayment that is already in our cash from CRC of BRL1.4 billion. And in addition to the respect of extraordinary results such as Telecom, the sale -- the results of sales, not only the catcher size, but also the results of the sale, also the renegotiation of GSF that Daniel already mentioned.

Final highlights before we move on to the other topics is the qualification by the federal revenue service in Brazil of the COFINS and PIS credit, which started the offset with payment of federal taxes starting in June, and we estimate an average monthly offset of around BRL100 million a month. That's a significant amount every month.

Remember that the process of this last area of review for Copel Dis, now that happened in June 24th, and I already included as a financial component around BRL700 million, which is part of the credit already recognized by Copel, that's going to be returned to consumers. There was a transfer of these amounts between liabilities, we're bringing down liabilities to refund consumers and increasing sectorial financial liability once this already benefited consumers by tariff reduction and remember that these financial components may be reviewed by Aneel in the next tariff adjustment.

Now, turning to the next, Page 11. Very briefly, we highlight our results; adjusted operating results for each subsidiary, a wonderful growth in the Copel GeT, Daniel mentioned that. And then despite of the negative impact of the water crisis and it has affected partially, the second quarter, where the results of purchase and sale of energy was reducing BRL100 million, especially because of the need of -- higher need of purchase energy, because of GSF. In fact the good news is that the negative impact was totally offset by some positive factors, as I already mentioned, had an EBITDA of BRL113 million, compared to a negative result last year in this. So, there's a variation of a BRL120 million over 500-megawatt hour generated in the quarter. Also, there is an increase of almost 80% in revenue for the transmission at work availability of almost BRL400 million, compared to BRL220 million in 2Q '20. And this was because of the increase of assets remuneration, mainly because of tariff review affecting GeT's result in over a BRL170 million.

And there is also a positively impact stemming from transmission work conclusions (inaudible) especially. And the last part in the transmission line of Lot E increasing RAP BRL39 million and these results here, we are not including the non-recurring items, such as the impairment reversal, which was a significant variation and we'll talk more about that shortly. So, in this, the growth of 12% in the grid market was very significant and that already shows a good recovery in the state's economy, especially, in the agribusiness and in the industrial sectors. And even comparing growth of 2Q '19, that is the pre-pandemic period. The growth would be around 5%. In addition to that, there was also a significant improvement in the PMSO, mainly in costs with personnel and that already shows a reduction of 341 employees and there was an increase in services of 12%, but that's because of the electrical system maintenance and we expected that there is a reduction of these costs by the end of the year.

And finally, I highlight the regulatory efficiency of this, which reached 15% as already mentioned in the last 12 months. Finally, and still important Copel free market, Copel Meca delivery's results, we are maintaining our leadership in the third consecutive month with a significant growth in energy sale. We had -- we have a positive EBIT of BRL19 million compared to negative in 2020. We are growing with profitability. This is a lower profitability when compared to other Copel's business, such as MTM did, but it is in line with the market.

Turning to Slide 12, talking about PMSO. Well, what is important to mention is that we have several initiatives to cut costs that are included in the business plan for each subsidiary and all of them are linked to performance bonuses for our executives, and we are following these targets very closely and these are very aggressive targets, and we are seeing results out of this plan. Efficiency improvement and cost reduction is our feelers of our strategy and this is always going to be a part of our agenda.

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As you can see in the summary, in general and despite of contracts adjustments, because of inflation and the collective bargaining agreement from last year, costs are coming down on line P from our personnel. This is our highest manageable cost, almost BRL320 million in the quarter. The amount was down 4.3%, because of a reduction of 462 employees in our headcount. Thanks to the voluntary redundancy program.

So, in the last 3.5 years, the reduction of personnel was over 20%, and here also profit-sharing program of significant reduction year-on-year, comparing 2021 and '22, considering that the change in the decree that was regulating the stop at decoupled dividend from the calculation base. Therefore, we estimate that we are going to reduce that from BRL400 million -- the BRL400 million result in 2020. And in service line, what we talk about, we worked with maintenance and the other good news is that our AVA, which was also down contributor to the result and of the quarter reducing a 31% from BRL57 million to BRL39 million, almost BRL18 million. In summary, a relevant drop above 29%.

Now, turning to our investment program. Almost at the end of our presentation, we have the performance of our investments. We talked a little bit about this and GeT Investments. And just an additional comment, the CapEx that we expect for 2021, in addition to our approved original expectations by last year, that was approved by the Board of Directors of BRL1.9 billion, also will include the acquisition of the Vilas Wind Farm and it should be concluded by the end of November, and the enterprise value was approximately BRL1 billion growth of debt. And of course, if they will be updated and will be taking into consideration until the end of November.

The debt profile on Page 14. Here, we already talked about this one time of increase of our leverage. There is a downward trend after the accounting posting of non-recurring events and also, with the proceeds from Telecom and CRC about of the average cost of that 5.75% that's very attractive considering, mainly the expectation of a higher inflation, basically because of the CDI contract and long-term interest rates about our maturities, no red flags here. It's very diluted. It's a very good program. It's very much in line with our financial capacity.

And finally, before turning to the last topic of my presentation, remember that our target for leverage that is compatible with adequate capital structure, that would be around 2.5 times and it cannot go over 2.7 times and this is one of the drivers to reach our target. It is a dividend policy in addition to the investment policy. So, I would like to end my presentation with some comments on dividends for 2021.

Now, let's turn to Page 15 and my last slide. Here, the main message that I would like to convey to you is that, already in the next month, in September, we will be submitting to our Board of Directors the proposal for the payment -- the third dividend payment of this year. So, the first dividend being paid for the results of 2021. So, the last -- two last events from the April and the one yesterday, were regarding the results of 2020 that is as the dividend policy states that the policy that was approved in the beginning of the year.

For the first time, Copel will pay a part of the dividends on the year's result on that very same year. That is the dividends for 2021 will be partially paid now by the end of 2021. So,

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we will also submit to our Board of Directors in September, a study for a possible partial prepayment of dividends in 2021 in December. We are taking into consideration here, the other investment plan, the water crises, leverage and of course, the tax reform. Just as the three extraordinary events that have already been discussing here and that will be posted in the results of 2021. In summary, this is a very positive scenario for a strong dividend yield and I believe that it is among the best in the market.

And to conclude, I would like to highlight that the company continues to having an efficient execution of its business plan and we will continue to focusing on the capital allocation discipline and continuous improvement of all our businesses.

Thank you very much for your participation and I will turn the floor to the Q&A session.

Questions And Answers

Operator

(Question And Answer)

Thank you very much. Now, we will start the Q&A session. (Operator Instructions)

A - Daniel Pimentel Slaviero {BIO 20914773 <GO>}

I think there are no questions. So maybe, the explanation was very good, very self-explanatory. But I would like to thank you all very much for your presence and restating our enthusiasm that we need in the work that we are developing here at the Walmart like everybody here as the holding company as well in our investment plans and all the things that have already been mentioned quite extensively -- and I would like to say something before we close about the process and the ongoing discussion. We believe that the agency mainly, the Ministry of Mines and Energy as all Americans are there, all the other agencies we believe that itself was adequate and we will be going through this process with no major facts unless we mentioned that ones that we have already mentioned this increase in process impact the economy as a whole, but the rates are already being mitigated in Paranaense in the south of Brazil.

We are following this very closely and this is well in our strategic map as well, so that we may give our own contribution. Once again, I would like to thank you all very much. Thank you, my colleagues my friends and the members, and (inaudible) and thank you very much for your participation in our conference call.

Luis is bringing me a question, (inaudible). Good afternoon. How do you see the rate of 2022 and what measures could we expect in terms of limiting consumption?

There will be a limit of working ahead before 2022. So, we believe that it's not under the control of anybody, but the forecasts are not as bad as they were for this (inaudible). Together with the fact that all the terminal call that will be operated as we've seen and we believe that this will be enough for us to have at least a minimum level in our reservoirs

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that I don't need adequate to be minimum, and doesn't have a (inaudible) and we have been -- well we know that the Ministry has created the position to measure it and the mediation changer and one of the first topic is our some letters of encouragement of stimulus and others, who contribute construction of the major of large customers that are residential customers. This is something that we have been following very closely, but based on the information that we have, we believe that there is no grid of impacting negatively influence of the economy in our country, this year and also next year. I will say that we are very confident and very comfortable with everything that could change on [ph].

I think there are no more questions. So once again, I would like to thank for the questions. And we are come to an end, reinforcing once again, our confidence in the future of this company for (inaudible) for Paranaense and for the whole energy sectors in the country. Thank you very much and have a very good end of the week.

Operator

Thank you very much. Copel's conference call has come to an end. We thank you all for participating and wish you a very good afternoon. Thank you.

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