

Q3 2013 Earnings Call

Company Participants

- Cristiano Correa de Barros, Chief Financial Officer and Investor Relations Officer
- Jose Aloise Ragone Filho, Chief Executive Officer

Presentation

Operator

Good afternoon, ladies and gentlemen, and welcome to the third quarter conference call with the earnings results of taesa. We would like to inform all the participants that the presentation to be presented is available for download on the website www.taesa.com.br/ir. All participants are in listen-only mode during the company's presentation. And after that we will be initiate a Q&A session only for investors and analysts. And at that occasion further instructions will be provided. (Operator Instructions)

Before proceeding, I would like to clarify that any forward-looking statements related to the business outlook of the company, projections and operating targets and financial targets are nearly beliefs and assumptions from the company's executives as well all of the information available for the company. Future considerations are no guarantee performance because they involve risks, uncertainties and assumptions. And we may refer to future events and as such depend on circumstances that may or may not occur.

Investors must understand that general economic conditions, inventory conditions and other operating factors may affect the future outcome of company that may lead to results that materially diverge from the company's future considerations.

Now I would like to give the floor to Mr. Cristiano Correa de Barros, CFO and Chief of Investor Relations, who will initiate the presentation. Mr. Cristiano, you have the floor.

Cristiano Correa de Barros {BIO 4273820 <GO>}

Good afternoon to all of you. I would like to thank you all for participating in this earnings call. I have here Jose Aloise Ragone Filho and all of our IR team. I would like just to justify the absence of our colleague who is usually present in this conference, but today he had to go to Sao Paulo to participate in the auction and later on he is going to travel abroad. I will start by referring to the results of the third quarter which came in keeping with the company's expectation. This year we are already presenting results that reflect all of the acquisitions that the company did in 2012.

Therefore, I must say that the results were in line with our expectation. Our cumulative profit was BRL715,000 million [ph], 60% above the same net income in 2012. These

figures just reflect the soundness of the company, but we are still looking for further growth, especially through acquisition.

I'll give the floor to Filho, who will give you then more details about the results for the third quarter, and further on I will be available to answer all of your questions. Filho, you have the floor.

Jose Aloise Ragone Filho {BIO 16438993 <GO>}

Good afternoon. I will just go straight to slide number three, and now I'll refer to the year to September results. As Cristiano said, all of the results were very much in keeping with our expectations. And we -- our EBITDA, the regulatory EBITDA accumulated totaled 896.6 million with an EBITDA margin of 87.7. The net revenue was 1.138 billion and net income also IFSR reached 751 million, 60% above the same period of the year before. Cristiano already referred to this increase in net income which occurred because of ATE in our results, the introduction of ATE. And now having said that, I think I can go straight to the cash flow.

So let's look at what happened up to September in terms of cash flow. So I am on slide four. The company's cash flow really summarizes our business model and also the quality of our transmission business contract. It generates a lot of cash. Now, from now to September, we had BRL831 million in operating cash generation and so far we paid 359 million in dividends referring to the balance of 2012. We also had to date.

In regards to financial flow on the right side of this chart, BRL1.159 billion [ph] of amortization of interest that we paid. The highlight here is that we paid all of the debt for STE, NTE and ATE, and we also pre-paid the debt of ATE II. And in order to do that prepayment, we issued BRL400 million in promissory notes in the first half of the year. We paid 1.691 billion for TBE and with that our consolidated cash of 760 million considering the -- that considered PATESA and also ATE III. The other companies ETAU, BRA, TBE have a cash of 829 million held. That's why their total -- I mean, their total cash including all other companies add up to 829 million at the end of September.

Going to the next slide. Now we will give you more details about the results of the third quarter of 2013 comparing these results with the same period of the year before of the third quarter of 2012. On the top of this slide, we see the consolidation that we do today, EBITDA without IFRS is 315.8, with an EBITDA margin of 87.8%. Net revenue IFRS was BRL612 million, and net income for the quarter was BRL477.9 million, which was up 59.6% when compared to the same period of the year before.

As we made changes in our accounting methods and without doing subsidiaries and associates that we have, we have a significant amount of equity income in our income statement coming from subsidiaries and associates. But in order to facilitate your understanding, we put together a financial management that, in fact, consists of the promotion of another companies that are part of the taesa group considering our other stakes independent from any other accounting area.

So in the third quarter of 2013, we would have a regulatory EBITDA of BRL400 million, 35% higher when compared to the same number, to the same results in 2012. Now the IFRS net income was -- the net income of 478 million, 39.6% more than the same period of 2012.

Now we will give you more details about regulatory EBITDA. And here we also see how the company performed now with a full quarter of TBE. This was the first quarter where we were able to post numbers for the full quarter and also comparing 100% of what we had in that last quarters. There was a small -- a slight mismatch.

This quarter we can already run a comparison, on the left side of the chart on slide six, we are comparing what is the consolidated EBITDA that includes taesa into concessions and also ATE III. So we had 316 million EBITDA, 8% above the same period of 2012.

Basically here the reason for this growth relates to adjustments for inflation. We're considering the same asset base. There is a slight operating improvement, but basically we are talking about the graph adjustments. Now on the right hand side, we see the quality of the assets of TBE that were introduced in the company. So that was 401 million of EBITDA, so our managerial EBITDA would be 105 million above the same period of the year before, reaching 401 million.

On the next slide, now speaking about our IFR net revenue, and comparing the net revenue with the same period of the year before, the first thing that I would like to highlight is that in the third quarter, every third quarter, we ran an adjustment of our financial assets. And that's why in this quarter, we see an IFR revenue which is significantly higher than the same revenue in the other quarters. The other factor that also brought about increases in the consolidated figures was a higher revenue coming from construction and here we are referring to our recent contracts and concessions, where we have a 100% stake.

And to conclude this managerial reasoning, the introduction of TBE really impacted our results and that also reflect the fact that the company is very assertive in terms of introducing this strategy last year. So what we had in the third quarter of 2013 and 2012 on the left hand side of the chart, we were able to add 67 million in addition to what we had in our financial assets, because the adjustment this year was higher than the year before with the adjustment for inflation and we were able to add 9 million more in construction revenue. And on the right part of the chart, we have TBE 211 million that was associated by TBE in the third quarter of 2013.

In the next slide, we see the IFRS EBITDA. Interestingly here we measure the revenue of IFRS. Here we have this picture just to give a better idea of where we stand. I think the regulatory EBITDA reflects our cash generation capacity much better than good IFRS EBITDA. In 2013, the total was BRL547 million, up 14% when compared to the third quarter of 2012, considering the -- also the financial management, including ETAU gross margin of 747 million.

So on the next slide, we'll look at the net financial expenses and there are two important things to say about this slide. First of all, there was a reduction in our financial expenses. And this happened because in the third quarter of 2012, the company had all of the ideal cash already invested and that we used the cash of the IPO in the third quarter this year. We -- when we compare both quarters year-on-year, the average cash would lower in 2013 than one in 2012. We had less financial investments.

In addition, there was an increase in other financial lines, so this is just a provision that the company that in -- on this line, because of an infraction notice that we received from ANEEL related to the outage that happened last year in October we had a very conservative provision and now the company already presented. And so thanks to ANEEL and now we are doing everything we can to have the best possible results. TBE added 10 million of financial expenses. And in total the financial management was 109 million in the first quarter, 49 million more than in the second quarter of 2012.

The following slide, we have a comparison between net income in the third quarter of 2013 and the third quarter of 2012. Our net income in the third quarter of 2013 totaled BRL478 million, a BRL178 million higher than the third quarter of 2012.

Here, I think the slide illustrates very well because in the middle of the chart we have an addition of 140 million when it comes to equity income, because that reflects the introduction of TBE. We had improvements in the EBITDA lines 77 million -- 67 million. That what really pushed the results with equity income which came with TBE.

And to conclude today's presentation, I would like to talk a little bit about indebtedness. The company this year is focusing on the debt level of the company. We did a few things to reduce our exposure and we were very fortunate because we could do everything before the currency, the dollar was up. We also made the decision to pay BM&F for NTE, STE and ETAU, which at the end reduced because of the debt. And today our capital structure is very balanced between equity and net debt, and the debt is much more long-term rather than short-term.

If we only take into account the companies that we consolidated 100%, meaning ATE III and taesa, our net debt is 3 billion -- 3.6 billion. But once you consider the entire group, even including those companies that we do not hold control, the debt is at approximately BRL4 billion.

This is just to give you an idea of our leverage levels today. I would then estimate EBITDA of approximately 1.2 billion for a net debt of 3.6, only considering companies that we hold 100% stake. So we would have a leverage level of three times net debt over EBITDA. So what we had to show you today is that, and now I would like to open the floor for question.

Cristiano, our CFO is available to take your questions, and also myself. I would like to thank you all very much, and I wish you a good afternoon.

Questions And Answers

Operator

Thank you. We will now initiate our Q&A session for investors and analysts. (Operator Instructions) We will hold while we collect your questions. (Operator Instructions) As there are no further questions, I would like to give the floor back to Mr. Cristiano Correa. You may have the floor, sir, with your final remarks.

A - Cristiano Correa de Barros {BIO 4273820 <GO>}

Okay. Well, thank you very much for participating in this earnings result call. We are certainly at your available for any further questions that you may have. And I am also available if you do need to discuss any particular issue, I would like to thank you once again and have a nice afternoon. Thank you.

Operator

Thank you very much. taesa's earnings result call is now over. Please disconnect your lines and have a nice afternoon.

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