

Q3 2017 Earnings Call

Company Participants

- Alexandre Nogueira, Vice President of Regulatory Affairs
- Mauricio Perez Botelho, Chief Financial Officer, Investor Relations Officer, Member of the Executive Board

Other Participants

- Maria Carolina Carneiro, Analyst

Presentation

Operator

Good afternoon, ladies and gentlemen, thank you for standing by and welcome to Energisa's Conference Call to discuss the Third Quarter of 2017 Results. We would like to inform that during the company's presentation, all participants will only be able to listen to the call. We will then begin the Q&A session when further instructions will be given. (Operator Instructions). We would also like to inform that the conference call in Portuguese will be presented by the company's management and for the English conference, there will be a simultaneous translation.

This event is also being broadcast simultaneously on the Internet via webcast, which can be assessed at the company's IR website at www.seca.com/br/ir [ph] and MZiQ platform together with the respective presentation. This conference call contains forward-looking statements that are subject to known and unknown risks and uncertainties, that could cause the company's actual results to differ materially from those in the forward-looking statements.

Such statements speak only as of the date they are made as the company is under no obligation to update them in light of new information or future developments.

I will now turn the conference over to Mr. Mauricio Botelho. Please Mr. Mauricio, you may proceed.

Mauricio Perez Botelho {BIO 2105889 <GO>}

Thank you. Good afternoon, everyone. I would like to thank you all for attending the conference call to discuss the results of the third quarter of 2017. Here with us, we have Claudio Brandon [ph] , Corporate Finance Officer; Alexandre Nogueira, Vice President of Regulatory Affairs; Roberto Carlos Currais, Vice President of Business Support; Gioreli de Sousa, Vice President of distribution and our Investor Relations Manager, Mariana Rocha.

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I'll present some slides about the results and afterwards we'll open for the Q&A session. Please go to slide number three. Among the operational highlights, I am -- highlight the growth in the market in the quarter, which increased 3.9% and continue to present a differentiated growth when compared to Brazil, 2.5 percentage points as above the country's growth.

In addition to the operating highlights, I mentioned the improving electric losses in the consolidated figures for the fourth consecutive quarter, we continued below the regulatory cap. Among the financial highlights, there was a significant increase of a 112% in net income in the quarter and year-to-date, which reached the BRL134 million in the quarter and BRL340 million in nine months and the evolution of the recurring EBITDA, which grew by 12.3% in the quarter.

Finally a highlight, the intense activity of the company and several issuances in the capital markets between June and October this year totaling around BRL2.3 billion was at an average cost of a 108% of the CDI. Let's now look at slide number four, with a more detailed look at the market.

On the left-hand chart, we have the variation among the quarters and considering the unbilled sales, there was a growth of 5.2%. The concessions of the Midwest were the main responsible for the growth in sales, driven by higher temperatures and the recovery of industrial segment.

On the upper right-hand chart, we see the variation of consumption per class which presented a growth in all the segments. I highlight the Residential and Commercial segments that had a behavior influenced by distributor in companies of Midwest, which recorded high temperatures, lack of rainfall and low air humidity driving the use of air conditioning equipment and air humidifiers.

On the other hand, the distributing companies in the Northeast had a reduction in these classes, affected by the high rainfall levels and lower temperatures, especially in the states of Sergipe which in September had the highest rainfall level since its privatization.

The industrial class resumed its growth and had -- the greatest contribution came from Energisa Mato Grosso influenced by the Food industry and Cement industry. Also reflecting an improvement in the economic scenario, the industries located at Energisa Sul-Sudeste, ESS have grown by 4.5% driven by the timber industry.

Other concessions that had good growth in industrial segments were Tocantins ETO which recorded 7.8% growth and Mato Grosso do Sul, EMS with a growth of 3%.

The rural class grew by 5.8% favored by concessions located in the Midwest which finished at a record harvest in 2016-2017. Until September, only 25 of the harvest at Mato Grosso and 15% of the harvest at Mato Grosso do Sul had been sold, raising the use of warehouses and silos for storage of grains, which increases the consumption of energy.

Now moving on to slide five. We have a comparison between our market and the national market. We highlight here the geographic diversity of Energisa that operates in areas that are growing, obviously with a differentiated growth.

In this chart, we see growth year-to-date until September that has been growing above the national average, since the beginning of the year. On the other chart, we see the total figures. On slide six, we have the breakdown of losses; technical and non-technical losses, which together accounted for 11.85% of injected energy and again in consolidated terms, we have closed within the regulatory cap.

We highlight the reduction of non-technical losses in the last 12 months amounting to 272 gigawatts hour, which is equivalent to the all energy injected in the area of Energisa Nova Friburgo, ENF.

Moving on to slide seven, we will talk about the delinquency indicators. The collection rate reflects collection in the last 12 months over sales in the same period. We see that there is indicators in line with indicator of September 2016. On the right hand side, we see delinquency based on provision for doubtful accounts over the billed consumption in the last 12 months, and the consolidated indicated amount to 0.78%.

It's worth saying that if we do not consider the reversals occurred at Energisa Mato Grosso, EMT the indicator of September 2016 would have been 1.11%.

So there would have been a reduction of 0.33 percentage points among the quarters. Nevertheless, there is an ongoing action, plans including renegotiations with city and state governments, weekly collections inclusion of more debtors in blacklist, filing of appeals against injunctions that prevent energy cuts that occur in the regions of EMT, EMS and ESE; collection of delinquent customers by reading teams on non-reading days.

And debt reconciliation and increase of collection by phone and Mets [ph] cutting efforts.

Now moving on to slide number eight, we see the quality indicators, all concessions are within the regulatory limits of SAIFI. With regard to SAIDI, only Mato Grosso EMT, ETO and ESE are slightly above the regulatory cap in the regions of EMT and ETO, Mato Grosso and Tocantins, respectively, additional actions have been taken since the beginning of the year.

And I highlight that ETO had a decrease of 2.1% in SAIDI in that 12-month period ended in September 2017. With regard to ESE, the increase is explained by the high rainfall which between April and September amounted -- was 91% higher than the same period of 2016, in addition to the need to increase scheduled downtimes to finish construction to include assets to the remuneration base of the concessionaire.

It's a temporary increase, and we believe that in the next quarters, concession will go back to the regulatory cap. Moving onto slide nine, we have some financial highlights.

Analyzing the consolidated PMSO, we had an increase of 3.3% in the quarter, which is more or less in line with inflation as expected for the second quarter.

If we consider PMSO accumulated in the year, there is still a drop of 0.6% when compared to the same period in 2016. It's important to highlight a significant point in the analysis of our investors. With the beginning of the activities of the Shared Services Center of Energisa, it becomes a little more important to analyze the consolidated PMSO due to the beginning of inter-company agreements between distributing companies and the holding company.

On slide number 10, we have some charts that explain the evolution of the consolidated EBITDA in the quarter. The left chart, we see a drop of 12.9% between adjusted EBITDAs of the quarters, but it's important to call your attention to the chart on the right side that highlights some non-recurring effects among which compensatory costs of third [ph] quarters. The effect of the reclassification of the VNR which in 2016 was considered as other revenues therefore impacting EBITDA.

The reversal of 86.6 million at Energisa Mato Grosso EMT and the renegotiation of that in arrears with SANECAP in the third quarter of 2016. Adjustments of arrear surcharges at EMS in the amount of 40 million which were accounted for accord with under other financial revenues in the first and second quarters of 2016 and reclassified for the line of arrear surcharge in the third quarter.

Therefore, we -- if we do not consider non-recurring events and reclassification adjustments, the adjusted EBITDA has a growth of 12.3% or plus BRL56.5 million in the quarter. Individually among the distributing companies that had a reduction in EBITDA, it's important to highlight that EPB was affected by the reduction in sales in its concession area and by the actuarial adjustment of the pension fund. EMT Mato Grosso had a reversal on provisions of 86.6 million at the third quarter of '16, already mentioned previously, and ETO had an increase in expenses with PMSO especially on personnel and third-party services, aiming at improving the reduction of losses and improving the SAIDI, SAIFI indicators.

On slide 11, the income of the quarter closed at a 134 million, an increase of 111.8%, mainly explained by the improvement in the financial results. In nine months, the growth was also of approximately 112% and reached 340 million.

On slide 12, we have the indebtedness of the Group, the net debt went from 6.3 billion in June to 6.1 billion in September of this year. This slight decrease was influenced by the creation of active CVA which is receivables. The chart on the left include some credits which was in March of 20 -- going back to the levels, March 20% below 10% a year, between June and October 2017, we had, we made good issuances for investments and replacement of that.

I would like to highlight in July, 374 million in infrastructure debentures at the holding company at a cost of 102% of the CDI. In September, we issued 300 million at Energisa Mato Grosso do Sul, EMS at 108% of the CDI. In October, we went back to the market with

a new launch of the holding totaling 850 million and partially allocated in infrastructure debenture with the average cost of 107% of the CDI.

And also on October, we completed issuances of commercial papers at EMT of 250 million, at ETO 150 million at 106% of the CDI. Moving on to slide 13 now, investments, on the right-hand chart, we have an increase of 21.5% in investments of distributing companies in the year totaling BRL1.5 billion. It's important to highlight that investments coming from special obligations, which totaled 494 million, especially due to the incorporation of network fee [ph] according to ANEEL's resolution 229/2006.

The remuneration basis of companies that are still -- will go through the fourth cycle of Tariff Review were closed on October 31st. Right now, the appraising companies preparing the appraisal report, which will be delivered in the beginning of December. Usually ANEEL opens a public hearing 90 days before the review date which shall occur in January.

Of course, each concession has a different characteristics, but we are confident that in the recognition of the investments made throughout this last cycle and the distributing companies of EMT, EMS and EST.

On slide 14, we compare the regulatory EBITDA and the reported actual EBITDA in the last 12 months without non-recurring effects. In the consolidated figures of the group, we are above the regulatory EBITDA around 35%. We highlight the evolution of companies acquired by Grupo Rede [ph] , which in the fourth quarter of 2016 had an EBITDA 13% above regulatory and are currently at 27%. Now, I end my remarks and I'll now start the Q&A session. Operator, please?

Questions And Answers

Operator

Thank you. We will now start the Q&A session. (Operator Instructions). Carolina Carneiro from Santander has a question.

Q - Maria Carolina Carneiro {BIO 16342681 <GO>}

Good afternoon, everyone. My question is about M&A. Recently, the people from PPI has published a resolution with some general rules for the privatization auction for distribution companies of Eletrobras. I know there is a lot more details to be provided, based on this resolution and the decree, but I would like you to please comment a bit on the expectations and the overall format for this auction.

Among those distributing companies of Eletrobras, which ones Energisa would be interested in? And in addition to that, if you could comment some more on other assets you might be looking at for M&A growth. Thank you.

A - Mauricio Perez Botelho {BIO 2105889 <GO>}

FINAL

Good afternoon, Carol. As we have already mentioned in other occasions, there is a (inaudible) that must be solved. The conditions of the concession agreement, the starting balance and the managing of contingencies. Of course we made contributions at the new hearing, talking about the process, getting our input, of course, they must consider something and we see that starting balance when the new resolution was published, we made -- we suggest that some conditions to be adjusted to the starting balance.

There are some clarifications such as conversion of that into shares, contingencies were not addressed yet and they must be and the work must be finished. And we need to make a good analysis of the projects.

Q - Maria Carolina Carneiro {BIO 16342681 <GO>}

Okay. It's clear. Thank you. And since you mentioned the WACC, ANEEL decided to open this public hearing for discussion and once number 171, that's more interesting when compared to 172. Do you have an expectation of what could be improved regarding the 771?

A - Mauricio Perez Botelho {BIO 2105889 <GO>}

I would turn the floor over to Alexandre Nogueira. He will answer your question.

A - Alexandre Nogueira {BIO 20586114 <GO>}

Good afternoon. The proposal now has been substantially changed when compared to the first proposal. However, there are some methodology issues that will be discussed during the hearing. That will be much broader than we expected. We also encourage you, investors to contribute to give your input in this I [ph] that will be so important for the industry and society. However, we do expect the regulators and I think it has proved that in the way that this public hearing was proposed that they are willing to be open to discussion, okay? So I think this will be the emphasis of this public hearing.

Q - Maria Carolina Carneiro {BIO 16342681 <GO>}

Okay, thank you.

Operator

(Operator Instructions) Thank you. I will now turn the conference over to Mr. Mauricio Botelho for his final remarks.

A - Mauricio Perez Botelho {BIO 2105889 <GO>}

Thank you all for attending the call. My final remarks that we remain focused on finishing the fourth cycle of our distributing companies. We have an important delivery already in the beginning of 2018, because almost 55% of the EBITDA of the Group will go through a Tariff Review in April with the concessions of EMT, EMS and ESC, and I believe that as it happened with the other six concessions that have been through the fourth cycle, we will have consistent deliveries.

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I would like to say a bit more about the transmission, just to wrap up on this topic, we are within these initially planned schedule. We have made the first investments in the project, about 3.4 million in the quarter and among environmental activities we've completed the field survey and have filed proceedings with IFA [ph] . In the land front, we have made a surveying list and started negotiations with the landowners affected by transmission lines.

And we've also filed the basic projects with the National System Operator. Also we continue to look for opportunities of growth in the industry and we expect that the institutional and regulatory environments of the country continue to allow sustainable businesses to benefit customers and ensure a good return for investors.

Once again, I thank you for your trust of our shareholders, and thank you, good afternoon.

Operator

Thank you. This concludes Energisa conference call. You may now disconnect and have a good day.

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