

Q1 2019 Earnings Call

Company Participants

- Marcus Pereira Aucelio, Chief Financial Officer and Investor Relations Officer
- Raul Lycurgo Leite, Chief Executive Officer

Other Participants

- Luis Antonio C. Vaz de Lima, Analyst

Presentation

Operator

Good afternoon, ladies and gentlemen. At this time, we would like to welcome you to the conference call for Taesa for the First Quarter 2019. We would like to inform all participants that the presentation that will be made is available for download at the site, www.taesa.com.br/ri. All participants will be in listen-only mode during the Company's presentation. Ensuing this, we will go on to the question-and-answer session only for investors and analysts. This is when further instructions will be given. (Operator Instructions)

Before proceeding, we would like to clarify that forward-looking statements made during this conference call referring to the business outlook of the Company, forecast, operational and financial goals are based on beliefs and assumptions of the Taesa management, as well as on information currently available to the Company. These forward-looking statements are no guarantees of performance as they involve risks, uncertainties and assumptions. They refer to future events and, therefore, depend on circumstances that may or may not occur. Investors should understand that general economic conditions, industry conditions and other operating factors could affect the future results of the Company and lead to results that differ materially from those included in these forward-looking statements.

I would now like to give the floor to Mr. Raul Lycurgo, who will begin the presentation. You may proceed, sir.

Raul Lycurgo Leite {BIO 19066621 <GO>}

Hey, good afternoon to all of you. We thank all of you for your presence at our conference call. And before beginning the presentation of results for the first quarter 2019, I would like to make a few remarks. As you know, the year 2018 was a year with great achievements, something that motivated us to attain greater and better results and challenges. We have positive expectations for the year 2019 that has already proven to be very promising in the first quarter. The Company made significant strides in its greenfield

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projects. We have some installation licenses for Ivai and others, and we can now begin the work on these enterprises. We have focused our efforts to anticipate the delivery of these projects, as well as to seek CapEx efficiency and better financing conditions. Additionally, we have had an evolution in some of the stages of the process that refer to the Eletrobras auction and the operating assets. We continue to work to ensure that all the precedent conditions will be complied with, so that we can successfully conclude the acquisition and attain almost BRL200 million in RAP for our bid.

Now, in terms of greenfield, we have become ever more competitive, which reflects the learning that we have after every auction. Our team is continually enhancing the processes for analysis and participation. And this is proof to Lot 12 that we won in the last auction. Additionally, according to the last report, there will be more than BRL100 billion in investments in transition until the year 2027 in Brazil. And therefore, we're highly motivated, and we'll continue to assess each and every auction. It is our understanding that we are contributing to the development of the transmission sector, and we have become a benchmark for the transmission sector in the country. And we will continue moving forward by restating our leadership position and getting ready for the challenges that we will face.

I would now like to give the floor to our CFO and IRO, Marcus Pereira Aucelio.

Marcus Pereira Aucelio {BIO 19965152 <GO>}

Thank you, Raul. Good afternoon to all of you. I initially would like to begin with the presentation on Slide number three that refers to the highlights for the first quarter 2019. When it comes to our IFRS results in this quarter, net income reached BRL159.6 million, a reduction of 31% when compared to the first quarter of 2018.

Now, the main factors impacting our net income in the first quarter were a lower IGP-M that during this quarter had a deflation of 0.2%. And through this, it impacted our revenue line and the shareholders' equity line item as most of our indices are impacted by inflection that is indexed to the general price index.

Now, besides this macroeconomic factor, we also had an increase in the net financial expenses of BRL12.2 million, once again due to the issuance of debentures that we have, our fifth issuance and the first issuance of Janauba debentures in February of this year that jointly totaled BRL700 and-some-million.

Thus, on the other hand, we would like to highlight the good performance of our investments. During the quarter, we performed above 79%, which gave trust to our financial revenues offsetting our financial expenses for the quarter. Now, net income was positively impacted by the construction margins of the project with an increase of BRL31.4 million due to the greater investments in the quarter in accordance to CPC 47, once again that changes the contractual accounting. Ending the exercise of 2018, the Company has excluded this effect from its results due to the adjustment of CPC 47 for the payout of dividend. Now, because of this, we should consider as adjusted net income BRL113.3 million for the quarter. With this, we approve at our management council yesterday the

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maximum payout of adjusted net income after preserving our legal reserves, and the totality is BRL96.7 million as payout, which is 85.4% payout. Additionally, the ordinary general assembly that was held on April 29 approved the destination of the results, the net income from 2018, and we paid out 72 point -- excuse me, BRL57.2 million additionally totaling BRL858.1 million of earnings distribution for the year 2018 reporting a payout of 89.9%.

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We now go on to the regulatory results, and I would like to highlight our excellent operating performance during the first quarter. Taesa for more than one consecutive quarter had an availability rate that is above 99.96%. And once again, in this quarter, the true figure was 99.96%. The variable portion was positive in almost BRL1 million improving and enhancing the revenues for the period.

Now, when we compare this with the same period in 2018, the improvement was BRL4.5 million. We also have sound results when we look at our liquidity position. We ended the quarter with a cash balance at BRL1.2 billion, an increase of 45.8% vis-a-vis the end of 2018. Thanks to the issuance of Janauba and a greater accumulation of cash during the quarter. Net debt was almost BRL2.4 billion, a reduction of 3.2% vis-a-vis the fourth quarter of 2018. Therefore, the net debt-EBITDA ratio ended the quarter at 1.7 times, once again aligned with what we recorded at the end of fourth quarter 2018.

Net revenues of the first quarter 2019 added up to BRL362.7 million, down 13.4% year-on-year, mainly due to the 50% cut in the annual permitted revenues in some of the concessions as you are familiar with. The operating cost and expenses totaled BRL51.8 million, an increase of BRL6.6 million when compared to the first quarter 2018. Now, of this amount, BRL1.7 billion are due to salary adjustment and the rest to timely expenses due to the implementation of the new SAP system besides, of course, the impact of tax incentive loss of almost BRL1 billion.

At this point, I would like to highlight the digital transformation process that we are undergoing in the Company with the implementation of SAP. We have already carried out all of our processes through integrated solutions that are integrated to the SAP and human resources projects, especially the projects under construction expenses, traveling expenses and everything that refers to acquisitions in the Company. Now, this digital transformation has made feasible a great number of benefits, everything based on a single platform with high performance and better quality of information for the Company's decision-making process. We are pioneers in the adoption of this solution in Brazil and, therefore, we are one step ahead in a very competitive market with great expectations for future growth.

Now, this sets us aside, gives us a competitive edge, a possibility of cost reduction and the possibility of enhancing the management of new projects and the existing assets and reaffirm the positioning of Taesa as a very important player in the transmission market. This will be important for the management of the projects and the high investments in brownfield and greenfield in the coming years, making possible greater efficiency in our processes and a sustainable growth for our business.

Now, when it comes to the regulatory EBITDA, we reached \$310.9 million, a reduction of 16.7% in the annual year-on-year comparison. Even with the cutoff of the RAPs that has reduced revenues, net margin was 57% showing the resiliency and our operational management in a period where we have had great drop. It is the cut of RAP that was responsible for 16.2 percentage points in our EBITDA margin when compared to the first quarter of 2018.

Now, despite the drop of the EBITDA that we had foreseen, the Company has had very good financial results and cash results enabling us to maintain the maximum payout of proceeds to the shareholders. When it comes to the operating assets, we completed the acquisition of the ETAU stake. Now, Taesa has a total stake of 75.6%, which means an addition of BRL13.2 million to our RAP. We have also acquired the purchase and sale contract for Brasnorte and Transmineiras.

Here, I would like to mention that the injunction that had been set up temporarily not allowing the transfer of shares of Eletrobras and Transmineiras to Taesa on Monday were judged by the court of Sao Paulo that reversed this and suspended the effects of this injunction, which means that we are now ready to continue on with the closure of this business. We also had the approval of CADE in January of the four operating assets from Ambar. And we have the consult of ANEEL and Caixa Economica Federal referring to Sao Joao and Sao Pedro assets with a share of 100%. As mentioned by Raul, the Company continues to work ensuring that all precedent conditions are complied with, so that we can fully complete these acquisitions.

Now, when it comes to this asset, we will be adding another BRL130 million in RAP and 1,170 million of new lines in assets. We're quite satisfied with the progress of our projects under construction. They are in line with the total RAP of BRL43 million and the CapEx of BRL3.8 billion. Once again we're considering only our stake in this. And in a few minutes, I will speak in more detail as we proceed with the slides.

We now go on to Slide number four that shows us the macroeconomic impact on the IFRS revenues. And I do think it is worthwhile to initially highlighting the fact that we went from an IGP-M accumulated for the first quarter of 2018 of 1.72% to a deflation of 0.20%. And this shows you that we had a drop of 1.92 percentage points, which, of course, implies a drop in the monetary restatement of BRL61 million when we compare the first quarter of this year with the first quarter of 2018.

It's worth underscoring that when it comes to the second quarter, we're already with April and mid-May close. We have a partial inflation of 2.19%. This without taking into account the inflation that refers to the month of June. Now, if we look at the inflation that has already been announced, our forecast is that, for the second quarter of 2019, we will have a relevant impact on the revenues. And this will also suddenly impact on our revenues and the payout of dividends for the second quarter.

And another important factor in the second quarter refers to the payout percentage that will be increased as we will be paying out a great amount during the second quarter. And there will be an increase in the payout, as well as in the effective income tax rate, which

means that in general we will observe better results when it comes to dividend for the second quarter of 2019.

We go on to slides number five, the IFRS net income. When we compare the net income for the first quarter 2018, that negative effects of BRL71.2 million that refers to the monetary restatement of revenues due to the lower inflation indices that we had in the first quarter, also show a drop condition by macroeconomic factors, a drop of BRL37.5 million in the shareholder equity and allowing for an improvement of BRL34 million in the construction margin. And we get to a profit of BRL179 point-some-million. Now -- I'm sorry, if we take away the effects of CPC 47, the adjusted distributable income would be BRL113.3 million.

We now go on to Page number six -- Slide number six. We would like to present the projects under construction. Our projects are advancing as expected, and some of them are surpassing our expectations. Now, if you look at our implementation schedule, we also see that we are using a CapEx that is below what we have stated when we participated in the auction. As you can see on the slide, we do have that prior license of the projects, and we have installation licenses. The only ones that are pending are Janauba, EATE [ph] and some of the installations in Ivai. What we expect is to obtain these installation licenses in the coming months. Those of Miracema and Sant'Ana that have already begun are fully compliant with their construction terms.

In the other projects, we're undergoing works, and the expectation is to be able to anticipate these works, and this will enable us to generate value. We would like to mention that in January, we had the first issuance of debentures of Janauba with maturity in 25 years, which means that all of the financing of this project is already addressed. Jointly in the market, we continue to assess attractive financing conditions for the other projects, and will continue to work to anticipate the delivery and optimize our investments.

With this, we would like to end the presentation of the results of the first quarter 2019, and we would now like to open the floor for questions and answers.

Questions And Answers

Operator

Thank you. We will now go on to the question-and-answer session only for investors and analysts. (Operator Instructions) Our first question comes from Mr. Luis Lima from Credit Suisse. You may proceed, sir.

Q - Luis Antonio C. Vaz de Lima {BIO 19360261 <GO>}

Good afternoon, and thank you for the call. I have a very short and quick question. If you could give us more color in terms of your decision in income tax? Second question refers to M&As, and what it is that you see for this year in terms of the auction that will be held at the end of the year? Thank you.

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A - Marcus Pereira Aucelio {BIO 19965152 <GO>}

Luis, thank you for your questions and for the opportunity to be able to clarify what is happening with Transmineiras. In truth, Taesa has always advocated that the right of preference in terms of the shares of Eletrobras did belong to Taesa and not to the shareholders, which means that Taesa should have the right of preference at the same amount as that offered in the bid. Now, this right does not only pertain to Taesa. Taesa is an anchor in Eletrobras, and it has clearly shown that the others would only have the right of preference if Taesa did not fully exert this right.

Now, with this information at hand, there were administrative changes in Eletrobras and during the auction itself, and Eletrobras maintains the shares of Eletronorte that Eletrobras has. Now, we were not satisfied with this understanding. We resorted to court. We understood that Taesa was not fully entitled to the shares to the stake that Eletrobras had. And in the first instances, injunction was denied, and there was a risk of security against this decision. They charge when analyzing this risk of security insisted that -- well, he decided that the parties should wait a decision of the collegiate. And while the collegiate did not come to a decision that the entire process will become paralyzed, come to a standstill, that is to say the entire transaction would come to a standstill. We're referring to the end of March.

Now, this process was reported. It underwent judgment. And on the 13th, the thesis of Taesa was accepted unanimously, which means that all of the judges, including the rapporteur that had issued the injunction, and I remind you that when he gave the injunction, he simply understood that for the operation there should be the analysis of a collegiate. Once the collegiate carried out this analysis, they understood that Taesa was entitled fully to this right of preference to the shares of Eletrobras, which means that the injunction that had been issued was canceled. And what we have at present is no longer any legal impediment, so that Eletrobras and Taesa can conclude this operation.

And to respond to your second question, yes, there are opportunities for Taesa. When it comes to M&A, we're open to any and all M&A opportunities. At present, we cannot disclose which are these opportunities. We do see that there are assets. Taesa, of course, will always analyze these assets.

When it comes to the auction at the end of the year, this year is differently from what happened in previous years. The Ministry announced an auction only for the end of the year. It is not an auction of the same magnitude that we had in previous years. Nevertheless, it does pose an opportunity, and we will participate in this auction. We will analyze all of the lots. And evidently, we will set forth a proposal for a lot that make sense for Taesa. We're open, of course, to the brownfield market and open to the greenfield market as well. As soon as ANEEL issues a new call, we will be open to making bids for those lots that would make sense for Taesa, once again always seeking the best returns for the Company. Thank you.

Q - Luis Antonio C. Vaz de Lima {BIO 19360261 <GO>}

Thank you very much for your response.

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(Operator Instructions)

A - Marcus Pereira Aucelio {BIO 19965152 <GO>}

Good morning. We do have a question referring to the new projects and the M&A that perhaps you will be interested in to cover the loss of the annual permitted revenues. We already -- we had a drop of approximately BRL600 million during this period, and we will have BRL660 million in RAP referring to the projects that are under construction. And with Eletrobras, we will have another BRL200 million. So in terms of revenues, we will be adding more than we have lost.

And another important point is that, our EBITDA margin will return to our normal EBITDA margins. I would like to record that for the projects under construction, the margin is higher than 90%. And in some projects, this margin reaches 92%. And by bringing in these new projects under construction, we can increase our margins and given our operating efficiency. And once we acquire an asset 100%, when we carry out maintenance and operations through Taesa itself, you know that, historically, we will be able to increase the margin of these assets once they are operational. Therefore, the outlook is that, once we conclude the projects under construction, once we finalize these projects, we will have revenues that will be much higher than the drop we had in RAP. And we will attempt to return to our normal EBITDA margin of 39% or growing.

Operator

(Operator Instructions) Thank you. As we have no further questions, we will return the floor to Mr. Raul Lycurgo for his closing remarks. You may proceed, sir.

A - Raul Lycurgo Leite {BIO 19066621 <GO>}

We would like to thank all of those that participated in the conference call and especially thank the investors that trust our strategy. Once again, I would like to thank the entire Taesa team for their dedication and their commitment, which is essential for our performance. And we hope to count upon the experience of our teams, to continue on that path of consolidation, to affirm our leadership position and to continue facing challenges in coming years. Thank you very much for your participation. Have a good day.

Operator

Thank you. The conference call for Taesa for the first quarter 2019, and here you can now disconnect your lines. Have a good afternoon.

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