

Q2 2016 Earnings Call

Company Participants

- Joao Procopio Campos Loures Vale, Chief Executive Officer and Business Development Officer
- Marcus Pereira Aucelio, Chief Financial Officer and Investor Relations Officer
- Rafaela Gunzburger, Investor Relations Coordinator

Other Participants

- Antonio Junqueira, Analyst
- Vinicius Canheu, Analyst
- Wesley Bernabe, Analyst

Presentation

Operator

Good afternoon, ladies and gentlemen. Welcome to the Earnings Call to discuss Taesa's Result for the Second Quarter of 2016. We would like to inform you that this call's presentation is available for download at the website, www.taesa.com.br/ir. All participants will be in listen-only mode during the company's presentation. And later we will have a Q&A session for investors and analysts only, when further instructions shall be given. (Operator Instructions)

Before proceeding, we should mention that forward-looking statements that might be made during this conference call related to the company's business outlook, projections, operating and financial projections are based on beliefs and assumptions of Taesa's management and on information currently available to the company.

Forward-looking statements are no guarantee of performance, they involve risks, uncertainties and assumptions, because they relate 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 may also affect the future results of the company and could cause results to differ materially from those expressed in such forward-looking statements.

Now, I would like to turn the floor to Mr. Joao Procopio who will start the presentation. Please Mr. Joao Procopio, the floor is yours.

Joao Procopio Campos Loures Vale {BIO 18054226 <GO>}

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Good afternoon, everyone. We are very pleased to present the results for the second quarter of Taesa. Here with me I have, CFO and IR Officer, Marcus Pereira Aucelio; Legal and Regulatory Officer, Luciano Ferraz; Planning and IR Manager, Leonardo Bonorino; and IR Coordinator, Rafaela Gunzburger.

Taesa has taken the first step into its second cycle of growth, and we continue working with our financial discipline driven towards cash management optimization, shareholders return, and debt cost reduction. In addition to keeping consistent, our operating performance with lines availability above 99.9%.

In April, Taesa won Branch P of auction 013/2015, and with that, the right of building and operating 90 kilometers of transmission lines and two substations in the state of Tocantins, that's for 30 years. The auction's annual RAP was BRL56 million, estimated caps by ANEEL was around BRL270 million, and also a construction period of 42 months. The agreement with ANEEL was signed in June. Thus, we have proven our financial discipline with a payment of BRL544.3 million to our shareholders in dividends and interest on equity on the second quarter.

We have the payment in this second quarter, we have paid 323 million in dividends regarding 2015's result, and 222 million in interim dividend and interest on equity, that was regarding the results of the first quarter of 2016, and those were paid in June.

Now, I'll turn the floor to Rafaela, so that she can talk about Taesa's results in the second quarter of 2016. Rafaela, please.

Rafaela Gunzburger

Good afternoon, everyone. Thank you very much for being with us this afternoon. So turning to the presentation on slide three, we have the highlights of the first half of the year and following events as well. In addition to Procopio's remarks, in March the company extended its debt profile by issuing 350 million swap with Citibank at 114% of the CDI and 3.5 years term. That was to settle a debt close to its maturity at Citibank as well.

And on July 1st, we started a new RAP cycle with inflation adjustment, tariff reviews and asset revenue reached their 16th year of operation, IGPM based was 11.1%, and IPCA was 9.3%. Some construction reinforcements held by Taesa underwent tariff review, and RAP adjustment fees on reinforcement was positive for GTEA in 29.26%, PATEA in 51.81% and in ETAU in 4.41%.

Negative adjustments of RAP were in reinforcements for TSN minus 8.4%, STE minus 1.22%, and EATE, minus 6.88%. The concessions reached -- that reached the 16th year of operation have their RAP adjusted for 2016/2017 cycle, but now considering the average of months with full RAP and months with half of RAP. Thus ETAU's RAP was adjusted in minus 28% and ECTE in minus 5%.

Turning to the next slide, on page four, we'll talk a little bit about the results of the second quarter. And here you can see the figures are sound and consistent. In the quarter-on-

quarter comparison, RAP increased following inflation of 2015/2016 cycle, and regulatory EBITDA was similar to the one that we had in the second quarter of 2015. This quarter's EBITDA was impacted by the cost increase and also by an increase in the variable portion. The IFRS result was impacted by the inflation monthly adjustment, which was lower in this quarter than in the second quarter of 2015.

Now talking a little bit more about the net revenue in IFRS on slide five, we can see the 69 million -- the variation of 69 million in the consolidated result, and comparing only inflation in both quarters in 2016, the amount was 84.5 million, and in the second quarter of 2015 the impact was 149 million. And that is a variation which then leads to a period of BRL65 million, and that explains the drop of the revenue -- of the net revenue in IFRS.

In regulatory EBITDA on page six, this is an indicator that we should consider the operating and financial one for the company, so we analyze the regulatory one, not the IFRS. So -- and despite of the RAP adjustment for 2015/2016 cycle and increase in the variable portion, combined to higher costs resulted in a regulatory EBITDA in line to 2Q 2015, an Taesa EBITDA margin of 87%; and managerial EBITDA margin that takes into consideration. Also the other EBITDA result was an 87.8%.

Slide number seven, we see the main variations in that variation for net income between 2015 and 2016. Although we had a drop of 21.7%, lower financial expenses and payment of interest on equity in this quarter which has generated tax credit had a positive impact on the net income which was lower 14% quarter-on-quarter.

Now turning to our final slide, number eight, talking about our indebtedness. We can say that Taesa's always aiming for a balanced capital structure, with debt amortization profile extended as shown on the first chart. The lack of dollar denominated debt is part of the company's strategy, once our revenue is 100% based in real. So the net debt went from BRL3 billion in the first quarter of 2016 to BRL3.3 billion in the second quarter of 2016, and BRL544.3 million were paid in dividends and interest on equity in the second quarter of 2016.

So this was a quick overview of the company for the last quarter, and now we'll open the session -- to the question-and-answer session.

Questions And Answers

Operator

Thank you very much. We will now start the Q&A session for investors and analysts. (Operator Instructions) Our first question is from Mr. Antonio Junqueira, BTG Pactual. Please, Mr. Antonio.

Q - Antonio Junqueira {BIO 15403195 <GO>}

Hello. If possible I would like to know the competitive dynamics of the industry, not only for new projects, because maybe that's easier for us to follow-on on our daily basis, but

especially in terms of M&A, we all know that some companies are undergoing financial problems, and it looks like we are at a moment -- an appropriate moment for that type of approach. So I would like to now communicate and tell us some details what is your point of view? Which are the players, I don't know, what you can share, but whatever you can tell us? If you can give us more details, I would appreciate. Thank you.

A - Joao Procopio Campos Loures Vale {BIO 18054226 <GO>}

Thank you for your questions, Junqueira. This is Procopio. Yes, in fact, we see in the market several companies and industries going through hard times, some of them are really not doing that well. But Taesa has always tried to be very careful. Obviously, we are analyzing the situation very closely, but we don't have anything real that we could share with you right now.

And I believe that in industry today that the major opportunities that we might see the company that would be available, will have to do with the Greenfield. You know that, we have auctions at around 220, that is much more significant than any other type of investment.

So I don't know if I addressed your question. But yes, we are analyzing the situation, keeping our eyes open, but within that scenario.

Q - Antonio Junqueira {BIO 15403195 <GO>}

So you would say that, scenario of Brazil a little bit better, is attracting more people? How do you see the dynamics today both for Greenfield as well as acquisitions when you compare it back to March of this year or February of this year in which we were in a much more difficult situation?

A - Joao Procopio Campos Loures Vale {BIO 18054226 <GO>}

Obviously, if you analyze all the areas in the economy infrastructure -- in the infrastructure, transmission has a very important role to play, and it has a very well established regulatory approach. And that is attracting a lot of investors, even investors out of that industry, and that's what happened in April's auction.

We have seen companies from other industries, other areas, being awarded some investments. They won some of the investments and so we believe that we will have BRL70 billion in investments. So we need to bring in wind energy and also HPC [ph] in the north-northeast. So the acquisition needs to be consolidated, so that we can -- bring all those energies to consumers to the South and Southeast.

So for the industry it's important to have a material regulation, because this is a large volume of investments, and it has been attracting and it continue attracting interested players. And if we have a better economy, those investment decisions will be even strengthened.

Q - Antonio Junqueira {BIO 15403195 <GO>}

Thank you very much.

Operator

Our next question is from Mr. Wesley Bernabe from Banco Do Brasil.

Q - Wesley Bernabe {BIO 17336637 <GO>}

Good afternoon, everyone. Thank you. Actually I have two main topics I would like to discuss. First, the distribution of assets portfolio, and also the possibility of transmission auctions going to happen in September. So which branches would make more sense in terms of synergy, if there is any if you can share that with us, where do you have a higher concentration?

I know you have a higher -- high concentration in Minas Gerais, Bahia and RAC [ph], half of the project seems to be interesting, also the lines expansion.

And my second question or the second topic is very specific, and it has to do with the variable portion. You mentioned in the release that there was an increase because of the shutdowns. So can you give us any details, if there is still any plan to shut down or downtime for the next half of the year or something that has already happened in July and August so that we can have an idea of what could happen to the variable portion now?

A - Joao Procopio Campos Loures Vale {BIO 18054226 <GO>}

Thank you for your questions. Well, about the auction that is going to be held at September 2nd, for us and we have been saying that to analysts and investors, this is a portfolio in Brazil. So in terms of synergies, I believe that all the branches that are there have synergy with Taesa's assets. Some of them in the north, or in the Northeast as well, especially in Bahia, and some others also. So we are very diversified geographically.

But now I will tell this assessment depends on the profitability point of view. And what we did take into consideration is the size of the investment, and it's possible profitability, and arguably we have possibilities with higher or lower profitability. But, right now, we can say if it is going to be A or B. We have to track the right profitability. We have to work still on budget CapEx and do all that analysis, and understand if that makes sense to Taesa.

Taesa has a conservative culture in terms of investments, because the transmission investment is -- has no possibility of improvement in the revenue, for instance, and as you can see in generation, for example. In transmission you don't see that. So we are very, very careful when we start the branches, to try to find the ones that who offers higher profitability and lower risk.

We are now assessing our RAF concession, and also BNDES leveraging. So we don't have yet an idea of branches which would be the best.

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And, the synergy in itself is important, but I don't think that is really what's going to have the highest weight on our decision. The decision will have to do with CapEx and budget, but we are always assessing our possibilities in terms of synergies as well of course.

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

This is Marcus on second. We have a shutdown, because we had a conservative approach in Taesa. We have a provisioning of the total amount then, and we did discuss about it, both with ONS [ph] to discuss, if it was needed, to work on that variable portion and how much. So we are still discussing that with ANEEL. We have done that provisioning because of the conservative approach of the company.

Now about to the next quarters, what is planned is the historic average that we have seen in the company of around 1% of our revenue, of our IF.

Q - Wesley Bernabe {BIO 17336637 <GO>}

Thank you very much.

Operator

Our next question is from Mr. Vinicius from Credit Suisse. Mr. Vinicius, the floor is yours.

Q - Vinicius Canheu {BIO 6300903 <GO>}

Good afternoon, everyone. I have two questions. I remember that in the last auction, you mentioned that the problems were not only return on synergies, but also difficulties with labor and financing from BNDES, that would impact your appetite for such projects. Can you comment on that? Do you believe all those topics are well balanced off already? Also you mentioned that, at a certain moment, you would say quarterly dividend. I remember that you had talked about it, is there a possibility of seeing that happening?

A - Joao Procopio Campos Loures Vale {BIO 18054226 <GO>}

Vinicius, thank you for your question. This is Procopio. Yes, in fact, today, when we talk about labor for all these projects, it's not only labor, but we need to have companies with a capacity of doing all of those level of those works when -- especially when we talk about transmission lines. But also there is a bold movement of reconstruction companies, and now they just try and meet the demand there.

So an auction that happened today, the construction will always start within two years, two-and-half years. So there is a period of time, so that the companies can prepare themselves to take over the project. About financing, and BNDES differently from the last auction, which was 313, BNDES will have 70% of leveraging, and the financing of the financeable items. If so, it was a specific [ph] for each undertaking that now was reduced to 50%, that level of leverage. As I said before, we are assessing the impact of those in the return.

So, if we go back to Taesa's history, Taesa took part in all auctions, and eventually we were not winners, because of the discounts, but we believed that the discounts were not appropriate for returns. So that -- we signal the market, now especially for this last branch, we won. We participated on two branches and one we won, the other one we did not. So I hope this addresses your question on labor and financing.

About quarterly dividend payment, I will ask Aucelio [ph] to answer you.

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

About the dividend policy, we have the results of the last quarter, and if we have cash availability we will then pay dividend at every quarter, but the policy that we have today is a payment of 50%. So what we are doing right now is to distribute at every quarter as much as possible we have in terms of -- and considering our cash availability, but the policy states 50%. Thank you.

Operator

As there are no further questions, I now would like to turn the floor to Mr. Joao Procopio for his final remarks. Mr. Joao Procopio, please, the floor is yours.

A - Joao Procopio Campos Loures Vale {BIO 18054226 <GO>}

I would like to thank you all for participating in this conference call. Taesa is always available to address your questions by the means of our IR channel. Thank you all very much and have a nice afternoon. Thank you.

Operator

The conference call for the second quarter results of 2016 for Taesa is concluded. Please disconnect your lines right now.

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