

Y 2016 Earnings Call

Company Participants

- Marcus Pereira Aucelio, Chief Financial Officer and Investor Relations Officer
- Rafaela Gunzburger, Investor Relations Coordinator

Other Participants

- Andre Sampaio, Analyst
- Marcelo Sa, Analyst

Presentation

Operator

Good afternoon, ladies and gentlemen. Welcome to the Earnings Call to discuss TAESA's results for the fourth 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 and also in the platform Engage-X.

All participants will be in listen-only mode during the company's presentation. And later, we'll have a Q&A session for investors and analysts only, when further instructions will be given. (Operator Instructions)

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

Forward-looking statements are no guarantees 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. Marcus Aucelio, who will start the presentation. Please, Mr. Aucelio, the floor is yours.

Marcus Pereira Aucelio {BIO 19965152 <GO>}

Good afternoon, and I would like to thank you all for being with us for the earnings conference call of 2016. I would like to highlight that TAESA is maintaining its policy on

financial discipline and focus on shareholders returns. In 2016, TAESA has acquired five new concessions in the transmission auctions that happened along the year.

We were awarded a lot in April and four other lots in October. Summing all that, considering proportional, we have gotten 374 millions of RAP, which corresponds to investments of 1.9 billion and 1.4000 kilometers of transmission lines and four new substations. The regulatory recording that represents cash generation for TAESA has totaled 1,492.8 million in 2016, 5.6% higher than 2015, but we were able to keep our EBITDA margin. The regulatory EBITDA margin for the year at 89%. Last year, we had 89.2%. So our net income in the IFRS for 2016 has totaled 862 million with a reduction of 5.2% vis-a-vis 2015 and that was because mainly of 2016 being a little bit lower than 2015.

Our financial discipline showed that last year, we have paid 931.5 million in dividend on interest -- on equity and also, 748.4 million on interest and amortization of our debt. The annual availability rate for our transmission lines was of 99.96% and the variable portion for the year totaled 24.9 million, which corresponds to a discount of 1.3% of our RAP once again, showing our operating efficiency.

In October, we have done a follow on, where we sold 65.7 million that was under the hand [ph] of FIP Coliseu and CEMIG, where we are able to have BRL1.3 million. Therefore, our free float went from 34.5% to 53.6%. In December, we signed a contract between FIP Coliseu, FIA Taurus and ISA Colombian that we signed a contract, so that we had a change in the controlling block. So 2016 was a very good year for the company and for shareholders. In 2017, we will keep on holding and working to grow the company maintaining same financial discipline and focusing on shareholders' return, as we have done up to today.

Now, I will turn the floor to Rafaela, and she will start a detailed presentation on our results.

Rafaela Gunzburger

Good afternoon, everyone and thank you very much for participating on this call. Now, let's turn to page four in the presentation. I will tell you a little bit about the annual result, where we can see some inconsistent figures on the main indicators. The RAP adjustment was lower than what we had by the inflation adjustment because since concessions reached the level of operation and the work down, we have and that has impacted total RAP of the company.

The EBITDA margin of 89.2% prove that TAESA's capacity of managing operating costs, if they are even after that reduction. But now on IFRS result has been impacted by the inflation adjustment, which in 2015 or in 2016 was lower than 2015 that's why we have that change. And even then we are able to pay the maximum amount in dividends, the payout towards the 91% of the result that proves there is strong cash generation, as well as cash control.

Now turning to page five, where we'll talk about quarterly results. The IFRS result was impacted by inflation variation in the fourth quarter of 2015. The IGP-M, which is the index for most of our operating concessions was 4.42%, while in the fourth of quarter '16 that percentage was 0.33%. That's why we had that reduction of 40.4% in our net income. But since this is a quarterly variation in the annual result, you can see that the impact is not that strong.

And the new RAP cycle also has impacted the quarterly comparison, when we compare 4Q '16 to 4Q '15. And now, we had a quarterly EBITDA margin of 89%, which reflects the drop of RAP into concessions. And the dividend payment, which now we are paying on a quarterly basis was of 188.8 million. And from that year on, we started making quarterly payment, so -- those you are already planned.

Turning to slide number six, we can see our IFRS net revenue, how was the movement both for TAESA as well as for managerial result. And also that variation of the IFRS revenue had to do with inflation accounting adjustment. The accumulated -- the IGP-M of '16 was 6.9% and the IGP-M for '15 was 10.2%. So when you compare just the inflation for TAESA in '16, we had an amount of almost 340 million, while 2015, we amounted 532 million that is '16 -- 2016, we had a reduction of a little bit over BRL190 million, just because we had good [ph] inflation.

So now turning to page seven, we have the regulatory EBITDA in IFRS. And I just mentioned companies, this is the indicator that should be analyzed to check the operating and financial performance indicator of the company. So in the annual result, the EBITDA variation was 5.6% that was higher in '16 than in '15. And also, that has been impacted by the RAP adjustment that was lower than inflation because of the two concessions that have reached its 16th year of operation and have their revenues cut down by half. In addition to that most of the costs [ph] have been adjusted by inflation in 10%, it's a little bit higher than the final adjustment of RAP. So considering all these variables, the EBITDA margin for TAESA has reached 89.2% for 2016.

On slide number eight, we have the annual history of regulatory EBITDA and EBITDA margin as well. Since the acquisitions that happened in June of 2012, the company is looking for operating efficiency based on cost reduction and also operating and keeping our own personnel. So these measures show the company -- the company's capacity of adding value through acquired assets with the objective of maintaining EBITDA margin in that level close to 90% even with the beginning of RAP reduction of a few concessions.

Now on page nine, where you can see the IFRS net income for 2016. The adjustment of IFRS revenue by inflation had a negative impact in the IFRS net income for TAESA, and the variation of the jointly controlled and associate company's results, which are posted by the equity method was positive because TBE paid more interest on equity on '16 than in '15 and that had a positive impact on the net income. And the financial result for 2016 was lower than 2015 and that was due to a lower monetary variation in debentures, where the principal adjusted by the IPCA and also because of a reduction of interest.

Although, we had lower interests, our financial revenue was aligned to 2015 because of an improvement of financial investment policy. So in 2016, we were able to have greater benefit than what we had in 2015. Also, payments on interest and on equity and tax [ph] benefit of SUDAM/SUDENE have dropped in 60% the income tax bracket, and the result of this equity method was 8%. Therefore the bracket, if I could record was 11%. So IFRS net income for 2016 was 5% lower than net income of 2015 totaling BRL862 million.

On the slide number 10, where we see the cash flow. You see that it summarizes our business model as well as the quality of the company's transmission. So the cash flow on page 10, brings the information that the dividend that we received by jointly controlled and associate company's has totaled BRL1.6 million, which was enough to pay dividend on a quarterly basis, which totaled BRL932 million, and the BRL748 million for that service. The only debt roll over has happened in March of 2015, sorry, 2016 in the amount of 250 million.

Now on page 11, the total debt of the company, TAESA aims to keep a balanced capital structure with a debt amortization profile that is extended, as you can see in the first chart. In 2017, the first series of the third debentures issue is due and that's going to happen in October and that will impact the amount to be amortized -- amortized and the short-term debt. The lack of dollar denominated that is part of the company's strategy once our revenue was 100% in real, so it makes no sense that we have a tax exposure. So the gross debt was stable and ended 2016 at BRL3.3 billion. And cash also, we are paying the maximum and dividend has ended the year with 367 million.

The company's leverage was 2 times debt -- net debt over EBITDA considering we have a covenant of 3.5 times of the second debentures issue, and that covenant is due in December this year. So we already have a much lower leverage than we needed. So thank you very much.

Let's now turn to our Q&A session. Thank you.

Questions And Answers

Operator

Now, we are going to start our Q&A session for analyst and investors only. (Operator Instructions) Our first question is from Andre Sampaio, Santander Bank. Please Mr. Andre.

Q - Andre Sampaio {BIO 19422379 <GO>}

Good morning. I have a quick question about fiscal benefit. I would like to understand the changes that we had in the last quarter. I see that there is a reduction in the areas of the benefits of some concessions. I would like to understand that a little bit better?

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

Hello, Andre. The change was actually an adjustment we have made in the release -- in the concessions. Some of the concessions and some parts were not there and we had

considered they had. So it is just an adjustment that we made in the release.

Q - Andre Sampaio {BIO 19422379 <GO>}

So just in this quarter, you just included benefit in three units, but you do not have any negative impact, is that right?

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

No, it was just an adjustment we were posting it as 100%, but it was not. But accounting wise, it was happening in the right way. It was just an adjustment in the release because that was wrong.

Q - Andre Sampaio {BIO 19422379 <GO>}

Yes. It's clear. Thank you.

Operator

Our next question is coming from Mr. Marcelo Sa, UBS.

Q - Marcelo Sa {BIO 16454581 <GO>}

Good afternoon. I have a question about the transmission auction, and I would like to understand what is your mindset. What is the size of it. How big you -- if you are to go into this auction depending on your leverage capacity, do you have a specific lot in mind or you analyzing all of them, or you intending to have partners -- partnership with any other players?

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

Hello, Marcelo, good afternoon. Just last week, there was a notice for bidding and we were studying it. So we are going to choose and to go with the same strategy. We have started analyzing the process. We do have information from the notices, and we'll analyze different lots, and we would like to go into this auction very strongly and maybe with 2 billion.

And about partnerships, we don't have anything ready, anything close, but we go by -- could go by ourselves or with other players. In the last auction, we did have a good partnership with CTEEP. We are analyzing the possibility of having new partnership. But there is nothing final so far once that notice was just released last week.

Q - Marcelo Sa {BIO 16454581 <GO>}

Okay. And I have another question. Do you believe this competition will be fiercer this time, it will be the same as last year. And can you tell us, what is your mindset in terms of funding if BNDES is more open than what it was before. How are you going to deal with infrastructure. So can you tell us more about the funding?

FINAL

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

Well, first about competition. Our feeling, what we see is that this is going to be just as competitive as last auction. It's maybe a little bit more, but yes, we do expect some competition there. We see new players coming in and also the traditional players. We understand, they will come in strong in the auction.

About funding and the discussions that we had with BNDES, the information that we have is that they will keep the same conditions of the last auction. About debentures and infrastructure debentures, we already see a higher appetite. Also, the terms -- the debenture terms are being greater or longer and that makes it much easier for our financial strategy. Also, with a reduction of the interest rates, I believe we see a higher appetite there. And also, migrating debentures to transmission sectors in the past, we had a concentration of debentures and generation, also wind generation, and now we see a higher appetite for the transmission industry and that improves the possibility of financing all projects.

Q - Marcelo Sa {BIO 16454581 <GO>}

Thank you very much.

Operator

(Operator Instructions) Our next question is from Mr. Andre Sampaio, Santander. Please, Mr. Andre.

Q - Andre Sampaio {BIO 19422379 <GO>}

I have one more question. I would like to know if there is anything new about M&A. Anything about Eletrobras or any other news on that subject?

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

About M&A, today we've opportunities, but with a small stake. Today what we see is nothing yet really could change the company, unless the larger one that everyone knows about, which are Abengoa and Itochu [ph] because we already have those two opportunities. We -- yes, we do expect to see the operating asset of Eletrobras. The information we've is that Eletrobras will be concentrating itself more on generation and they need cash flow. Therefore, they might intend to sell distribution asset, as well as transmission asset. And we'll see great opportunity in the transmission asset for TAESA. We do have financial capacity, and we are waiting further information about the sales of asset of Eletrobras both for Abengoa and Itochu.

Q - Andre Sampaio {BIO 19422379 <GO>}

It's clear. Thank you very much.

Operator

Bloomberg Transcript

Since there are no further questions. I would like to turn the floor to Mr. Marcus Aucelio for his final remarks. Please Mr. Aucelio.

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

2017 for us, our expectation is going to be just as 2016, a very good year for the company. We are paying very much attention to all opportunities of growth. We will have three auctions in 2017. We are also alert to M&A opportunities. We are still working on our pillars, financial discipline and return to shareholders. And I would like to thank you all very much for being here with us in this conference call. And we hope to see you again in the next call. Thank you all, and have a nice afternoon.

Operator

Thank you. The conference call for the fourth quarter of 2016 result for TAESA is closed. Please disconnect your lines now.

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