Q2 2015 Earnings Call

Company Participants

- Alexandre Americano, Chief Executive Officer
- Ricardo Levy, Executive Vice President and Investor Relations Officer

Presentation

Operator

Good morning. Welcome to the conference call of Eneva to announce the results of the second quarter of 2015 and other matters. Right now, all participants are connected in listen-only mode. And later, we are going to start the question-and-answer session when instructions for you to participate will be provided. (Operator Instructions) You should be reminded that this conference call is being recorded.

Now I would like to turn the conference over to Mr. Alexandre Americano, CEO of Eneva. Please Mr. Americano.

Alexandre Americano {BIO 18747818 <GO>}

Good morning, everyone. I am here with the company's CFO, Ricardo Levy; VP and COO, Roel van der Stok. The second quarter of 2015 was a very important quarter for the company. And in the presentation that we announced yesterday night, I'm going to go straight to page 4 to mention the highlights.

So, the sale of Eneva's interest in Pecem I of BRL300 million was 50% of the plant being sold to our former partner and this has been very relevant for us to build up a cash cushion to withstand the Judicial Recovery Process.

Also on April 30, we had our creditors meeting and this meeting approved our Judicial Recovery Plan and the payment of creditors up to BRL250 [ph]. We have already started paying those creditors right after the approval on May 12. There was also a discount in 20% in the total amount of the debt amounting to BRL489 million and also we had the re-profiling of the remaining debt amounting to BRL985 million, which is going to be explained in further detail by Mr. Levy, our CFO.

Now on page 5 is a reminder of some things that had been approved in our Judicial Recovery Plan, which are fundamental for the future of Eneva. So, there is a capital increase of up to BRL3.6 billion. This is in our plan. In that meeting that we called for August 26 and as part of the capital increase there will be a debt-to-equity conversion of 40% of the debt BRL979 million. There is also important asset contribution by certain stakeholders amounting to BRL1.3 billion and there might be the participation of minority shareholders in this capital increase. As a reminder, that the price for the issuance per stock will be BRL0.20 and then we are going to pay the remaining amount for all creditors with outstanding payments up to 550 million. We are going to pay the remaining 50% soon as the capital increase is approved.

So, the company's management is very much focused on reducing SG&A and you will see with explanations provided by Mr. Ricardo Levy. And Parnaiba Complex after tax and the agreement with our gas supplier PGM has increased the availability and lowered costs for the gas in the Complex with the substitution of the close circuit plant in Parnaiba II as compared to open circuit in Parnaiba II.

So, we have that substitution and also in the quarter we had some important achievements in the regulatory field in our power plants. We are recovering our FID and also we have the ADOMP related to downtime costs. One factor that is outside the company that has been important for us is the reduction of energy prices in a spot market and this helps to reduce the financial exposure of the company with FID and ADOMP costs, and it ends up going back to the beginning of Eneva when availability that will not be fully dispatched on the basis.

Now, going to further details about our main financial and economic data, I'm going to turn the conference over to Ricardo Levy who is going to continue our conference call.

Ricardo Levy {BIO 16259732 <GO>}

Thank you, Americano. Good morning everyone and now continuing our presentation in line with the highlights that Americano mentioned, going straight to economic and financial details on slide 7. So, initially we had a smaller net operating revenue as a result of many requests by the ONS and this has been affecting specially Parnaiba. We saw the result was about 20% below as compared to the second quarter of 2014. And it's important to highlight that every comparison that we make to the second quarter last year, we have what we call pro forma because along the second quarter of last year we sold 50% of Pecem II and therefore Pecem II is no longer being booked and we should take it out from our consolidated basis so that we would have equal comparison basis with the numbers of 2015. Even though the revenues dropped by about 20%, operating costs have accompanied with a reduction of about 24%.

Likewise, operating expenses have an important falling trend as Americano said briefly and we're going to see further ahead the numbers, the evolution of the quarter and it's possible to notice that there has been relevant impact with smaller expenses resulting into a wider margin and also a better EBITDA for the company.

In the case of expenses, we have closed the quarter 8% below last year. And as a consequence of all of that, adjusted EBITDA for the first half of 2015 with an increase of about 10% is closing at 128 million as compared to BRL116 million when it was published in the first half of 2014. As we've mentioned, the net operating revenue and the requirements from ONS, but we have been able to keep the growth of EBITDA compared to last year.

And now, continuing our presentation on slide 8, we have the evolution of this quarter's EBITDA, the 10% growth in this quarter. When we look at the adjusted EBITDA for the first quarter of 2015 compared to the EBITDA of the same quarter, we see a reduction of about 34% especially because of this issue of the reduction in dispatch by ONS. Operating costs have also remained or had a drop rather with an impact in expenses, especially lease costs for the GTU operating costs -- expenses were also smaller, you're going to see the expenses of the Holding Company and also we had the unavailability adjustment and we exclude it because it's not non-recurring, but practically every quarter we've been having some adjustments. In this case, positive of refund of expenses that we incurred in the past. So when we compare EBITDA and other numbers, we always see an adjustment related to the exclusion of these refunds that the regulator granted us.

With regards to operating costs on slide 9, there has been a reduction of 63 million in those costs as mentioned before and these costs were related to imports with a smaller variable margin, with smaller revenue and expenses, and also lower costs. Likewise, we have had a reduction in the numbers related to downtime ADOMP number. In the quarter, we had 24.6% on gross energy generated and this request in the reduction of dispatch were related especially to coal lands, Pecem II and Itaqui, and as a consequence we also have had a reduction of the cost associated to the need of a smaller dispatch.

And then, we had a reduction in bad debt compared to the end of the first quarter and basically the difference regards our North market and today we have a leverage of the second quarter BRL212 as compared to the number of BRL372 in the first quarter. So, basically the highlight here is the follow-up of operating costs and reduction as a result of the reduction of net operating revenue as a result of the request to lower our dispatch.

As mentioned by Americano, on slide 10, you can see a clear evolution and here the reduction in the Holding operating expenses with a clear trend to reduce expenses many quarters in a row and we have had -- we've been having a significant reduction and basically the main reasons for that, number one, we are downsizing the headcount. We're conducting a detailed survey in the exact number of people that are necessary to conduct the activities of the Holding Company. In addition to the headcount issues, we also have a better allocation of the Holding expenses in different projects. So, a higher return by operating subsidiaries to the Holding Company. And likewise, we had a provision for a bonus that was overstated for previous period that we mentioned in the call for the first quarter. We have had a quite effective management through the payment of these amounts. So this was lower than the volume that has been provisioned.

And in contrast, we have some non-recurring costs related to the process of Judicial Recovery. So there is a clear evolution of the reduction of the Holding Company's expenses and in the same way it adds to the bottom line the positive EBITDA of the company. In addition to headcount, we emphasize not just people, also there are many other measures that are being implemented by the company's management. And as you all know, we have been reducing the size of the facilities of the offices of our company. We now occupy three floors, we had six floors last year, we've had seven floors, not to mention all other service contracts we've outsourced. By this, that we are trying to avoid and optimize as much as possible.

Now, continuing our presentation on slide 11, you have here the consolidated cash position. Also as stressed by Americano in the opening of our call, of course the main positive impact for the growth in evolution of the company's cash, the consolidated cash in the period refers the payment by EDP for the purchase of 50% of Pecem I and the sale was done at the end of last year and they are to be done along the first quarter of this year and ended on May this month at the same time when the Judicial Recovery was approved by the creditors and approved also by the Judge.

We received BRL300 million. The operational cash generation has also contributed. So, revenue minus cost and expenses, we have a positive result and this has made it possible for us to realize that CapEx that we had forecasted for the period also to settle operations that has been widely disseminated with MMX with the marketing company and also the debt service that are in Eneva's subsidiaries are paying, which does not apply to Eneva itself because at the level of the Judicial Recovery Plan, our debt is fully profiled as we see in the next slide. In this manner, we complete the week with a consolidated cash combining Eneva and other subsidiary companies amounting to BRL419 million in comparison to BRL180 million in March 2015.

Now slide 12, they [ph] have been already fully announced with the major pillars of our Judicial Recovery of Eneva. So it's the reduction of re-profiling this debt of the Holding and in the same time where we got this benefit together with the Holding in Judicial Recovery process, we had some adaptations of the debt of the company, these are our operational expenses. And as a consequence, we see relevant consequences in terms of the consolidated debt of the company. We reduced by 10% when compared to the end of 2014 and this due to the increase of cash compared to the net debt, we have an increase in cash, the same way we had a reduction based on debt discount and this presented a positive result in the first quarter of the company.

On the left side of the slide, slide 12, we see the makeup of our debt in the short and long run, and with the implementation of all conditions approved by the creditors, we see that there is a significant change in the profile in the long and short run. And we have to say that BRL1 billion is still in the short-term, they refer to the debt of Parnaiba II and we are just concluding our negotiation with the creditors of this project so that we are going to terminate this debt in the long run.

And in addition to others, it's important to say that with the conclusion of the Judicial Recovery process as it was mentioned by Americano, with that increase in our capital, we would have the conversion of part of the company debt, about 40% of the Holding debt. This is approximately BRL1.5 billion and it's no longer considered debt, but it's going to be capital. So, the creditors of the company are going to become shareholders of the company.

So, 40% of the company's debt, it represents BRL1 billion; BRL2.4 billion [ph] it was the total debt of the Holding, 1 billion is going to be converted into shareholders and the other 20% is going to be invested as discounts, and we are going to keep debt of about BRL1 billion for the total Holding.

Slide 14 now. We are going to start with Itaqui. You see that in spite of generating less power and this was non-program, non-scheduled for May-June and this led for a quarter availability of about 74%. And we saw an adjusted EBITDA evolution for this plant of about 22% going from 24 billion to 6 billion and we went down to BRL30 million. So, just a comment on the downtime is because there was some repairs that we had to do and we had a downtime of 152 hours in May and 150 hours in June.

So this EBITDA evaluation in spite of being a smaller revenue, what we said before, and with a smaller operating expense, but -- so this was also due to a reduction in PLG and this reduced our cost for the balanced annual revision that we are suppose to do there. And we keep a performance level; up to now, it's stable. If you see what happened in the last quarter, you can see that we have some reasonable stability in this plant. Finally, we're talking about coal.

Now we're going to talk about Pecem II in slide 15. There was maintenance shutdown, a downtime and that this was for the boiler. We used this lost time to have scheduled shutdown that we usually do at every two years. This was scheduled for the second semester 2015. Nevertheless, in practice what happens is that this has affected the generation of gas and (inaudible). The second semester has been said in the chart at left, it was about 53%, and this affected April and May. And in June, almost running normally. And we have now about 89% availability. In July, we still didn't conclude our figures, but we can see that both Itaqui plant as well as Pecem II plant, they both have presented good results compared to the budget.

Now let's start slide 16, talking about Parnaiba I plant. Parnaiba I, Parnaiba II; we put both of them together. Until June 2016 Parnaiba I and II, they are considered as one single operation. In spite of the gas optimization process, there was a partial replacement of Parnaiba II, which is a historical record in June in terms of availability, it was 100% availability. Same thing in spite of a lower dispatch that was requested by ONS and reached at 80% less generation. And then we had net revenue of BRL30 million. So, costs also associated to -- due to the smaller gas generation, it was also because we're following the BRL30 million. Based on this data, I talked about availability was 100% in June, good results also were obtained during the quarter.

And the adjusted EBITDA for the second quarter 2015 was about 58 million, about 2.3% of EBITDA obtained in the first quarter this year. Last comment regarding this plant, it's a very robust plant and it's presenting good performance in the last quarters. In spite of cost reduction due to expenses reduction, operating cost for gross energy generated per real and according to calculation of megawatts per hour, it was a reduction of 3 percentage points in comparison to the last quarter.

In terms of Parnaiba III, slide 17, we also had a dispatch in the quarter, which was quite interesting. Availability was quite high; 100% in April; 98% in June; in May, there is an observation that we reached 69%; all these figures presented here are in the reports of the company and that we announced they are ONS figures. In May, there was a discrepancy because the company thinks this was due to the real availability compared to the number given to us by ONS. Because of this we had some discussions with the regulating agency. Second, (inaudible) it was a smaller dispatch in spite of the fact that we had a smaller net generation by 27%. We also had a cost reduction. Of course, they go hand in hand when you have a -- also we had a reduction in revenue.

And as a consequence in the case of Parnaiba III, there was an EBITDA of about 100 million in the quarter compared to 16.7 million in the first quarter of 2015.

Last comment, an overview before going back to the question-and-answer session. I'd like to say that all plants are presenting good performance and a full recovery. The recovery plan has really advanced. As it was mentioned by Americano, the next steps have already been programmed. And the other point that I'd like to talk about is the capital structure of the company because we had an increase in capital and the conversion of an important part of the debt of the Holding, it was converted into capital.

And the structure of the plant and the Holding itself, everything is fully balanced. This allows the company to go back to exceed [ph]. So we are concentrated again in operations, in the development plan. So, I'll just the floor back to the moderator so that we can continue with our presentation.

Questions And Answers

Operator

Okay. Ladies and gentlemen, now we shall start the Q&A session. (Operator Instructions) There is one question being asked through the webcast by a shareholder. The capital increase will be at BRL0.15 per share?

A - Ricardo Levy {BIO 16259732 <GO>}

Yes, according to our plan the capital increase price will be BRL0.15.

Operator

(Operator Instructions) We are now closing our Q&A session. I would like to turn the conference over to Mr. Alexandre Americano for his closing remarks. Please, Mr. Americano.

A - Alexandre Americano {BIO 18747818 <GO>}

Thank you. Well, I thank you all for your availability in listening to our conference call for the results of the second quarter of 2015. Looking into the future, the company's management today is focusing on what we agreed in our Judicial Recovery Plan. And now on the next phase, there'll be a capital increase that will be decided in a Shareholders' Meeting on August 26 and we will continue being focused on reducing SG&A and on improving our management. Good morning, everyone and have a good day.

Operator

The conference call of Eneva has now ended. We thank you all for your participation and have a good day.