

Y 2017 Earnings Call

Company Participants

- Paula Alves, Controller
- Pedro Zinner, Chief Executive Officer

Other Participants

- Antonio Junqueira, Analyst
- Thiago Silva, Analyst

Presentation

Operator

Good afternoon and thank you for holding. Welcome to the Conference Call for ENEVA to discuss the results for the fourth quarter 2017. We have with us the CEO and the IRO, Mr. Pedro Zinner. We'd like to remind you that this event is being recorded and everybody will be in listen-only mode during the company's presentation. (Operator Instructions) We would like to remind you that this event is being broadcast through Internet via webcast and can be accessed at the address ri.eneva.com.br and also on the MZiQ platform, where the respective presentation is also available.

You can control your own slides and the replay of this event will be available soon after the presentation is completed. Please note that the webcast participants will be able to preregister questions that will be answered during the question-and-answer session.

Before proceeding, I would like to clarify that all forward-looking statements made during this teleconference regarding the business outlook of ENEVA and forecasts are based on the assumptions of the company management as well as information currently available. These forward-looking statements are not a guarantee of performance. They involve risks, uncertainties and assumptions as they relate to future events and therefore they may or may not materialize. Investors should understand that general economic conditions, industry conditions and other operational factors could impact the future results of ENEVA leading to results that differ materially from those expressed in these future-looking statements.

We would now like to give the floor to the CEO. Mr. Pedro Zinner will begin the presentation. You have the floor, sir.

Pedro Zinner {BIO 17260844 <GO>}

FINAL

Thank you. Thank you for participating in our conference call to release results for the fourth quarter 2017. We have with us Laira Sanui, Thiago Freitas as well as the person responsible for Investor Relations and our Controller. I would like you to please look at the disclosure. We're now going to go on through the first slide of the presentation.

I think that all of us at ENEVA cannot be happier with the results obtained. The company has based itself on capital projects to ensure our maintenance in the energy sector and we have worked with an innovative model that has enabled us to ensure that we have competitive and secured energy for the country through reservoir to wire. We have delivered concrete results based on these challenges and we have worked with Caboclo and Azul Gaviao camp and now have reserves in our production system. We have also maintained a recovery rate of 70%. We have reached a volume of 18 BPM of certified reserves in December 2017.

We have acquired an addition of five blocks in the Parnaíba basin, as well as in the (inaudible) and we now have new options across further company in Itaqui, the availability of our plant is above the contract requirements, since the second semester of 2017 and more recently the tax deferral of ICMS was created. We have had sustainable and excessive reductions in our operating costs. And we have maintained a significant parcel of our capital to invest in new assets and to ensure that we are able to face the risk of our business. We have advanced in the restructuring, the financial restructuring of the company with a primary resource of BRL835 million.

And we have been able to ensure our assets we have paid our debt for the short-term and we have ended the year with a reduced leverage of 2.7 times net debt to equity. Thanks to a stringent financial discipline and a correct use of capital, ENEVA obtained the best results of all time. So we've reached an EBITDA that is a record of BRL1.250 billion [ph] with a growth of 14% and have had an adjusted net debt of BRL140 million.

We now go on to the following slide, where we will speak about the highlights for the fourth quarter. In the fourth quarter of 2017, we continue presenting an enhancement in our operational and financial results in the company. And adjusted EBITDA of 406 million with the growth of 10% vis-a-vis the fourth quarter 2016. In the year 2017, as I mentioned before, the EBITDA obtained historical record.

Another highlight in the results of this quarter was the growth in the gas sales volume. In most of the plants in Parnaíba, we went from 28 million in the re-contracting of Parnaíba II and we are now hedging a compensation cost when it comes to the generation sector. We closed the quarter with consolidated cash balance of BRL981.5 million with a continuous decrease in leverage is once again reaching a net debt-EBITDA ratio of 2.7.

Another highlight is the new certification with an increase in our reserve volume reaching 18.8 billion cubic meters at the end of 2017 and this is equivalent to part of our replacement value of 170%. We reached a 104 million in the fourth quarter of 2017, with 19 million for the sale of gas, so this continuing on with our exploration campaign that has been planned for Parnaíba.

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In the next slide, we would like to present some of the details of our consolidated operating performance. In slide number four, we see the average power generation for the fourth quarter of 2017 vis-a-vis the same period in 2016 with the highlight for the Pecem II. We have had an increase in dispatch. And the Parnaíba Complex had a dispatch of 98.5% vis-a-vis 92.4% in the same month in 2016, Itaquí with 29% compared to 82% in the fourth quarter '16.

During the year, the level of average dispatch of the Parnaíba Complex was 61%, representing a reduction of 31%, if compared to the year 2016. And continuing on with the dispatch levels of the company, this happened due to an increase in the hydroelectrical capacity installed along with delays in the transmission line projects in the Northeast and Southeast.

We now go on to slide number five. The availability of the plants in the Parnaíba Complex increased 7% during the period reaching 94% in the fourth quarter 2017. Despite the fact that they had been (inaudible) for stop over, but we were able to continue and for the maintenance of our engines. In terms of coal TPPs, we have significantly increased our figures with 19% increase in availability, thus reaching 93% in the fourth quarter of 2017. Another highlight is the availability of Itaquí. This is the third consecutive quarter in which availability was higher than the 95% that is foreseen in the contract. Pecem II with availability of 86% affected by corrective maintenance throughout the quarter.

We now go on to slide number six. In January of this year, we went through a revision of our certification we had -- we went to 18.8 cubic meters, 2.7 cubic meters of gas compared to 17.7 in 2016 was an increase of 170% for the year. Now these results are much higher than what we have expected in the gas camps in the Parnaíba Complex.

On slide seven, we discuss the financial performance and net income grew by 40% in the fourth quarter, reaching BRL933 million. With a positive impact by re-contracting 250 megawatt from Parnaíba II and the adjustment of inflation over the revenues for the contracting of energy and a higher dispatch. The adjusted EBITDA reached 406 million for the period with a growth of 10% when compared to the fourth quarter 2016. Positive contributors for this result was, first, the recontracting of Parnaíba II as I mentioned before through the mechanisms of compensations of energy and the subsequent recontracting of about 40% of a -- at higher cost, causing this positive result for the fourth quarter 2017 and 57.4 for the year. The impact of gas sales is a proof of the successful strategy related to the availability. Adjusted EBITDA margin dropped to 43.5% in the fourth quarter 2017, compared to 55.6% in the fourth quarter 2016, with an impact from the reduction of the margin, that was partially offset by the margins provided by Parnaíba complex.

On slide eight, we analyze the evolution of EBITDA by segment. And we can observe that there was a contribution of BRL76.7 million from Parnaíba complex with highlight to Parnaíba II as a result of the recontracting of energy as I mentioned before. The increase in the upstream segment reflects the higher volume of gas sold that explained by the higher dispatch that more than an offset in the amount of BRL53 million.

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Itaqui had a negative contribution to the EBITDA of the company, which is explained by the higher dispatch and the higher cost of coal in the international market with the consequent impact in the ICMS tax. It's important to mention that the Government of the Maranhao reestablished the ICMS tax application that is going to be applicable by 67% by December, which will result in an important impact on the results as of 2018.

Moving on to the next slide. On this slide, we can have more details about Parnaiba Complex. We could see there was an increase of dispatch in the last quarter of the year, had a positive impact on the EBITDA of the year with a growth of 20% reaching BRL400 million. The adjusted EBITDA in the segment of Gas TPP amounted to BRL190 million with a growth of 54% when compared to the value that was recorded in the fourth quarter 2016, which had a positive impact due to the recontracting of Parnaiba II that offset the effect of high allocation and flexibility in relation to the fourth quarter of last year. The successful hedging strategy also caused a positive impact on the result. On this quarter, the EBITDA margin was 30.2%, an increase of 5.2 percentage points when compared to the fourth quarter 2016.

And as to the upstream segment, natural gas production increased more than 5% due to the higher dispatch, then reaching 47 millions of cubic meters and the result of the fourth quarter 2017 reached BRL210 million with a growth of 5% even considering the increase in the expenses associated to this.

On the following slide -- now on slide 10, when we discuss the performance of coal generation, adjusted EBITDA negatively impacted by higher dispatch level. And this is due, as I mentioned before, to the higher cost of coal. And even though the initiatives to increase the operational efficiency has reflected on the availability, the higher dispatch by 21% in the fourth quarter 2017 impacted negatively the EBITDA margin. And ICMS tax reflects also contributed significant -- contributed significantly to the restoration of the margin in 2018. As to Pecem II, the EBITDA for the fourth quarter 2017 was 43 million in line with what was registered in the same period of 2016.

On slide 11, the company invested a BRL104 million in the fourth quarter 2017, an increase of 86% when compared to the fourth quarter 2016. Most of the resources BRL77 million were allocated for the continuation of the campaign for the development of the field of Gaviao Caboclo and Gaviao Azul. And drilling campaign in discovery appraisal plans Angical and Araguaia. More than BRL20 million was invested for operating improvements especially in Itaqui amounting to BRL17.5 million.

On slide 11, we can see that the company had operating cash flow of 295 million for the period, a reduction of 22% [ph] in relation to the fourth quarter 2016, as a result of the higher payment of taxes in 2017 as a result of the positive result of Parnaiba II in 2017 related to natural gas. The consolidated cash result amounted to BRL1.2 billion, an increase of 50% when compared to December 2016.

The free cash flow amounted to BRL486 million with a positive impact due to the raising of funds, due to the IPO in the last quarter of 2017, and expenses and commissions of about BRL110 million. The cash flow for investments had a reduction of 86% from BRL57

million negative values to a 106 negative values due to the higher investments made in the period.

Now moving on to the next slide, on slide 13, we can observe that 50% of ENEVA debt is indexed to CDI, and the interest rate drop has been observed and this can lead to a positive impact in the results of the company. The average weighted cost was 11.3% a year when compared to 13.8% in the fourth quarter 2016. We can observe that in December 2017, the consolidated net debt amounted to BRL3.7 billion, which is equivalent to a net debt adjusted EBITDA of 2.7 times and with the average maturity period of 2.7 years.

On slide 14, we can see the amortization schedule by December 2017 compared to February 2018 that considered all the events up to the date. And we would like to highlight the following facts. First, the early settlement of Itaquí debt with Votorantim and Bradesco Bank in the amount of BRL303.7 million. And the second point is the disbursement of the issuance of debentures in the amount of BRL173 million. And lastly, the amortization of BRL250 million and the principle for natural gas. We can see that we had a reduction of 56% in the total maturity funds for 2018. In order to improve continuously our capital structure, we have debt profile with amortization period, which is now consistent to our business strategy.

On the following slide, we will discuss the key objectives for 2018. We see major opportunities in the energy market in Brazil. In 2018, we'll continue working to position the company to generate value in the long-term for the shareholders. In the upstream segment, our purpose is to complete all the discovery evaluations planned in the new round and move towards the second -- the third round. So that we can implement the plans for the next drilling period. We will continue working to reduce the variable cost in Pecém in order to reach more attractive margins.

We will improve the capital structure of our subsidiaries in 2018. We want to make headways in this regard, improving efficiency, maximizing first coal approaches and provide possibilities to have finances in the long-term for the company. We'll also continue to contribute to improving the regulatory aspects, so that we can actively contribute to improving new auction conditions and regulations. We completed 2017 and we started 2018 with concrete plans in relation to the future of the company.

I would like to take the opportunity and open the Q&A session. Thank you.

Questions And Answers

Operator

Thank you very much. And with this, we will go on to the question-and-answer. (Operator Instructions) Mr. Thiago Silva from Santander would like to post a question.

Q - Thiago Silva {BIO 17655676 <GO>}

FINAL

Hey, good afternoon to all of you and thank you for the call. I have two questions. The first on the company restructuring, after the follow on that took place last year, you began a more in-depth restructuring at that point. I would like to know if you have any expectation on when this process will be completed in terms of debt, the debt you still have at the holdings?

My second question refers to the company's growth strategy for this year, for coming years. What is that you're expecting in terms of growth in the combined cycle of the Parnaiba Complex and in the case of renewable energy as you already have authorization and are interested in perhaps purchasing or procuring brownfield assets?

A - Pedro Zinner {BIO 17260844 <GO>}

Thank you, Thiago. To speak about our restructuring process, we have been undertaking analysis since the end of last year and at present, we do have a plan that will have to be adjusted in terms of its details. And we're going to ensure to have very clear details about our fiscal and regulatory aspects involved. Our intention, nevertheless, is to complete this until the end of the year.

Q - Thiago Silva {BIO 17655676 <GO>}

Thank you very much.

A - Pedro Zinner {BIO 17260844 <GO>}

Thiago, this is Pedro. When it comes to our growth outlook, I think that we're still at the first phase of the plan when what we are doing is to consolidate the Azul plan and we're going to perhaps conclude this in May or June of this year. And the intention is to be able to take part in the coming auction. We're thinking of doing this through bilateral contracts that we of course have been assessing as part of the growth plan for the company.

And we are going to consolidate all of this with the Azul project. But, we're not going to stop here. We are going to be able to extend even further. And this is only part of our outlook for the year 2018 through the R2W. Of course it will be a new phase of investments in the company based on the generation of projects that we have that give us a competitive edge. Very generally once again, this is what we are planning in terms of growth.

When it comes to the two projects, you have a project that is licensed, it is a basic project that is practically fully concluded. And you seem to be ending the cycle here. So we're now ending the cycle and we are going to participate in the auction and of course analyze the conditions at the auction Azulao II. [ph] The conditions are somewhat different from the previous project. And we are awaiting the conclusion of this transaction and we're still pending approval for this. We're waiting for the environmental license, because what we have is an old license and as was mentioned by Pedro in parallel with this, we are of course analyzing other alternatives to continue on with this project, alternatives that do not depend on the auction.

Q - Thiago Silva {BIO 17655676 <GO>}

Thank you very much. And another question, if you allow me. What is your expectation for the year 2018?

A - Pedro Zinner {BIO 17260844 <GO>}

We have always highlighted the cyclic nature of our business model with a low dispatch in the first semester of the year, with a higher dispatch during the second semester of the year. And of course we're focusing more on the assets of the Parnaíba Complex where we tend to have a better dispatch, thanks to the hydrological conditions in the Parnaíba, Itaqui Complex. Of course we are subject to seasonality and since coming into operation of the machines, we have achieved (inaudible) in 2016.

I would -- since you like to say that we are in 80 days of 2018 and if we compare this to the 80 days of the last year, the results are quite similar in terms of dispatch. We're expecting to have the same dispatch as in 2017. The conditions of course are aligned that way and we're not expecting the higher dispatch in that case and in the Northeast of course the dispatch will remain as it has been for the entire year.

Operator

(Operator Instructions) Thank you. As there are no further questions, we would like to return the floor to the company for the closing remark. Mr. Antonio Junqueira would also like to pose a question, if you will.

Q - Antonio Junqueira {BIO 15403195 <GO>}

Thank you. In truth, I wanted to ask about the communication that you just released referring to the ICMS calculation when it comes to the coal production. And I would like to know if you could give us an estimate of which will be the reflection of this on the average price of what you are dispatching? I would like to know once again if this will lead to a reduction, and if it is reasonable to estimate that this reduction will be very similar to what you have authorized for Itaqui?

A - Paula Alves {BIO 15055914 <GO>}

Hello, Junqueira. This is Paula speaking. Is everything okay? The deliberation that is taking place in the state of Maranhão was a very recent one. It dispatched to the 8th of March. And the news that we have is quite positive because it has set forth a deferral of the tax. And this, of course, is a very positive situation for us when it to the coal production.

We're estimating that the deferral will take place beginning with the exports that will take place in December of 2018, which is when we will have the best deferral terms.

A - Pedro Zinner {BIO 17260844 <GO>}

Simply to complement what was said by Paula, you asked about some of the value of dispatch as this deferral, so (inaudible) this deferral of ICMS represents approximately 7% in terms of variable cost. And when it reaches 12% [ph] it will represent BRL13. And, of

course, we're basing ourselves on this unilateral decision taken by the State of Maranhao. And this is something that the company does not have within its control. We know that economically, this is very important for the state and, of course, we are hoping that this will continue on.

Q - Antonio Junqueira {BIO 15403195 <GO>}

Thank you very much for your response.

Operator

(Operator Instructions) Thank you very much. As there are no further questions, I would like to return the floor to the company for their closing remarks.

A - Pedro Zinner {BIO 17260844 <GO>}

Once again, we would like to thank all of you for participating in the call to release results for the fourth quarter 2017. We hope to see you at the next earnings release. Thank you very much.

Operator

Thank you. The conference call for ENEVA is adjourned. Have a good afternoon and please disconnect your phones.

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