

Q1 2020 Earnings Call

Company Participants

- Fabio Antunes Fernandes, Chief Financial Officer and Investor Relations Officer
- Marco Antonio Resende Faria, Chief Executive Officer and Legal and Regulatory Officer

Other Participants

- Carolina Carneiro, Analyst
- Guilherme Lima, Analyst

Presentation

Operator

Ladies and gentleman, thank you for waiting. Welcome to Taesa conference call to present the results for the first quarter of 2020.

We inform you that all participants will be in a listen-only mode during the company's presentation. We will then start a Q&A question (Operator Instruction)

Before proceeding, let me mention that forward-looking statements are being made under the Safe Harbor of Securities Litigation Act and forward-looking statements are based on the belief and assumptions of Taesa management and on information currently available to the company. They involve risks, uncertainties and assumptions because they relate to future events and therefore depend on circumstances that may or may not occur in the future. Investors should understand that general economic conditions, industry conditions and other operating factors could 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 over to Marco Faria, CEO and Regulatory Legal Director and Technical Director of Taesa. Please, Mr. Faria, you may proceed.

Marco Antonio Resende Faria {BIO 16679297 <GO>}

Good morning, everyone. This teleconference is going to introduce the results of the first quarter 2020. My name is Marco Faria. I am the company's Technical Director, acting as Interim-CEO and Legal and Regulatory Director.

Here with me, we have Director, Fabio Fernandes, who takes on the interim role of Finance and Investor Relations Director; and the Interim Director of Business for

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Expectation [ph] Management and Implementation, Marcus Vinicius, as well as our IR team.

Before starting our presentation, I'd like to share some comments. First of all, I'd like to inform you that in the meeting of the Board of Directors that we held yesterday, Dr. Raul Lycurgo, the CEO, Legal and Regulatory Director, as well as the CFO and our IR Director, Marcus Aucelio [ph] have left their positions, concluding a virtuous circle of work, which was very successful based on excellence by both of them. Both Dr. Raul Lycurgo and Marcus Aucelio have done an excellent job heading the company as well as the Finance Department. Taesa and the Board of Directors thanks them both for their total dedication and relevant services provided on behalf of the company and all of its employees.

I, Marco Faria, have worked as a Technical Director since 2009. I have accumulated 10 years at Taesa and over 40 years in the electrical sector. And now I accumulate temporarily the position of CEO and Legal and Regulatory Director. Fabio Fernandes, Interim CFO and IR Director knows the company well and was responsible for the area of new businesses of Taesa for so many years. He has had other roles such as finance planning, treasury, project finance and capital market operations.

Marcus Vinicius is now responsible for new businesses and implementation in Taesa. He is an electrical engineer, has worked in different companies, which have an excellent reputation in this sector. I also reinforce that our management and technical team is highly trained and is competent to move on with Taesa's businesses. We remain focused on the strategic pillars of sustainable growth, financial discipline, operational efficiency and value generation to our shareholders.

Finally, it should be mentioned that headhunters will be responsible to hire the new professionals to be hired by the company. We will remain focused on moving on the company based on excellence as we've always done. Early this year -- actually, the beginning of this year was marked by the COVID-19 pandemic, which affected the whole world, including Taesa.

The company is always committed to the health and safety of its employees and to the national system, tried to obtain information from the WHO and the relevant national bodies. Since February, measures aiming at the protection, safety and health of our employees were adopted, taking into account their families and local communities to protect our most important assets, people, and to reduce the dissemination of the Coronavirus in the country. By means of these measures, we also tried to protect our transmission assets guaranteeing the continuity of our operations in this very sensitive moment of a global health care emergency.

We also highlight that due to the characteristics of this transmission business of energy, the 39 constructions of the company have long-term contracts with fixed income, which are readjusted according to the inflation rate and are based on performance and availability of the lines and transmission substation. In the first quarter of this year, the company had an availability rate of 99.98%, recording the highest level of availability in the

last two years. Furthermore, the variable share was 1.5% of the RAP, which is a very comfortable level.

I will talk a little bit about new projects. Between the end of last year and the beginning of this year, three important enterprises were started, Miracema, EDTE and the Novatrans reinforcement. In the brownfield, we concluded the purchases of Sao Joao Transmissora and Sao Pedro Transmissora in February as well as Lagoa Nova Transmissora, Rialma I is new name in last -- in March. With that, we have added BRL242.8 million to our RAP. Even with the uncertainties caused by the COVID-19 pandemic, the company remains committed in investing in its growth, and we are working hard to deliver the other seven enterprises, which are being built. Together they add BRL3.3 billion in investments, taking into account only Taesa's share.

Now to the details. I'd like to mention that the net profit in IFRS has more than doubled when compared to the first quarter of 2019. Also, two years after recording recurring quarter decreases, the regulatory net income grew, and that was leveraged by new brownfield and greenfield projects. We have worked hard to turn the company more and more competitive, both in the auctions, in ANEEL transmission auctions and in the secondary market, in addition to maintaining our leadership and reference position in energy transmission in the country.

We have also monitored the progression of the pandemic and its potential impact on the electrical energy sector. We are convinced that we have the required strength to overcome the challenges of these new times, keeping our commitment to transmit energy with reliability, transparency and safety to our society.

I now turn over to our CFO and IR Director, Fabio Fernandes who will present the results for the first quarter of 2020.

Fabio Antunes Fernandes {BIO 21749197 <GO>}

Thank you, Marco, and thank you, everyone. I will make a summary on the results of the first quarter for 2020.

In this quarter, as Marco highlighted, the net profit more than doubled when compared to the same period last year, reaching BRL364.2 million. The main factor that explains this performance in the net profit were an increase of BRL128 million, resulting from currency adjustment as a function of higher macroeconomic rates. And later, we'll talk about this.

We also had a growth in constructions and also in concessions, Paraguacu, Aimores [ph] in partnership with ISA CTEEP. The latter have had a positive impact on the equivalents line. I would also like to highlight that we had an increase greater than 300% in construction projects or BRL249.5 million when compared to the first quarter of the previous year.

And finally, there was an increment in Taesa's profit resulting from the recent acquisitions of Sao Pedro, Sao Joao, Lagoa Nova and the three lots obtained in Eletrobras auction, in addition to the conclusion of the capacitor banks of Novatrans. The increment added

about BRL50 million of positive impact on Taesa's net profit. We had two negative effects in the quarter's results. The first was an increase of almost BRL71 million in the net finance expenses, resulting from the sectors performed in the last 12 months and also to the global crisis we're facing. The second was an increase in operational costs and expenses ex-construction because of the readjustment of inflation, hiring strategic consultancies and also influenced by new projects.

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Together, they add BRL263.3 million in the first quarter this year. We continue excluding the impacts of the adoption of CPC 47 in terms of dividend and distribution to avoid causing problems to cash and leveraging, considering this effect is merely an accounting effect. In the first quarter of 2020, the adjustment for the effect of the CPC 47 was BRL100.9 million. With that, the current balance dedicated to the special reserve is in the order of BRL597.1 million. This will be divided in the future to shareholders as new construction projects start operating.

Based on the results of the first quarter, the Board of Directors approved yesterday the distribution of BRL241.7 million or BRL0.70 per unit between dividends and JCP, representing a payout of 91.8% of the adjusted net profit and 66.4% of the net profit. Payments will be made on May 28. I would also like to remind you that our assembly on the 30th of April approved the use of the 2019 results. With that, today, we are paying BRL61.8 million of additional dividend, which is equivalent to BRL0.18 per unit, totaling BRL655.9 million of distribution of profit from 2019 with a payout of 92.3% of the adjusted net profit.

In face of the current world crisis, Taesa has prioritized a solid position of liquidity and compliance with all of its contract obligations. And therefore, we have closely monitored potential impact of the crisis on Taesa's businesses in evaluating the distribution of dividends every quarter. Because so far we do not see any impact to our business, we are carefully and disciplined in the distribution of the results for the first quarter of 2020.

We will now talk about the regulatory results in Slide 4. You can see the comparison of net profit totaling BRL372.8 million in the first quarter after two years of recurring decrease, even in face of a timid annual growth of 2.8%. The highlight is very important because we can see that the result of new projects added to the inflation readjustment of the income already compensated the effect of the RAP cut and some concessions of Category II, which took place in the 2019-2020 cycle. We have a total of BRL60.2 million of operational costs and expenses in the first quarter. This increase is due to the readjustment according to the inflation rate, also because we hired strategic consultancies and to the start of the operations of new Taesa concessions, in addition to the Brasnorte consolidation.

I will later on show you further details on the new acquisitions of the operation of projects in the income and regulatory expenses. It's important to highlight that the consultancies were hired to prepare the long-term strategic planning of the company to improve the efficiency of participation in auctions and also for the cost referencing project of Taesa.

With that, the regulatory EBITDA of the company totaled BRL312.7 million during the quarter, which is basically aligned with that for the first quarter of 2019. The EBITDA margin

was 83.9% in the first quarter of 2020 versus 85.7% in the first quarter of last year. Net profit added BRL139.2 million, representing 24.8% decrease in the annual comparison.

At the end of the quarter, the gross debt of the company closed at BRL5.7 billion and the cash position is BRL1.7 billion, resulting in a net debt of BRL4 billion, with an increase of 42% in the quarter. The net debt-EBITDA ratio was 3.0 times versus 2.2 times in the last quarter of 2019. This was especially due to the payment of Sao Joao, Sao Pedro and Lagoa Nova.

Finally, I would like to highlight that the operational performance of the company in the first quarter of 2020 delivered an availability rate of transmission lines in the order of 99.98%, one of the highest levels reported in the last two years.

We are now going to move on to Slide 5, where we're going to talk about the macro impact in our results. We have a presentation of the impact of macroeconomic rates on IFRS results for Taesa. As you all know, our IGP-M exposure is higher than the IPCA exposure since 80% of our operational concessions belong to Category II. And that's why there's a strong correlation of our income to the monetary adjustment with the inflation rate. We can see that IPCA was 1.62% compared to 0.90% in the first quarter of 2019. As a result, the currency correction in the first quarter of '20 was BRL125.6 million compared to less than BRL2.4 million in the first quarter of 2019, with a growth of BRL128 million.

In Slide 6, we present the effects on the revenue and regulatory expenses. As you can see in the graph, the brownfield acquisitions of Sao Joao, Sao Pedro and Lagoa Nova and Brasnorte had a positive impact of BRL40.9 million, whereas the readjustment according to the inflation had a positive effect of BRL29.4 million. These effects when added were higher than the negative effect of BRL63.7 million of the RAP [ph] cut that was observed for Category II in the 2019-2020 cycle.

And in the second graph in this page, with the regulatory costs, acquisitions and enterprises increased this line in BRL4 million. And we had, therefore, a regulatory EBITDA with a slight increase which was caused mainly by the conclusion of acquisitions and projects with a positive impact on EBITDA of about BRL37 million. And only for us to -- as an exercise, in case we hadn't had the 50% RAP cut, our net revenue would have grown about 20%, and the EBITDA would be 19% higher with a margin of 86% in the quarter versus 85.7%.

In Slide 7, we present the status of the projects in construction. As you can see on the slide, we have delivered 2 of the 9 enterprises, Miracema, EDTE. We are about to deliver Mariana with a period of construction of 14 months as agreed upon with ANEEL [ph]. The other projects are ongoing, and we are going to deliver them within the contract deadlines.

I'd like to remind you that we have been informed that some providers are finding it difficult to keep their pace because of the pandemic. Since then, we have created a management committee of vendors to monitor all of the letters and information of these

vendors asking for better clarification on the -- their activity to guarantee that contracts will be complied with.

I would also like to highlight that, as you can see in Slide 7, all of the funding for the investments in these projects has already been hired, and therefore, we no longer need to have more funds to be able to continue the enterprises under construction, which is positive. And before concluding, I turn over to Marco Faria again. He will talk to us about what we have in face of the pandemic and the new Coronavirus. I thank you all for your attention.

Marco Antonio Resende Faria {BIO 16679297 <GO>}

Okay. So finally, on Slide 8, we're going to present the actions we're taking to minimize the contamination risk of COVID-19 and to move on with our operations. We set out [ph] these actions in three important blocks. In the first block, we are worried about all with the safety and health of all of our employees and have adopted a series of measures even before there was an official social distancing policy in the municipalities to protect people and provide guidelines from the new Coronavirus.

We have adopted home office. And currently, we have over 400 employees working remotely. Naturally, we have suspended travel, except for the cases where it is required to maintain operations and maintenance and implementation of new projects and any activity involving crowding of people.

In the second block related to the continuity of our operations, and in the projects under construction, two important committees were created. The Crisis Committee, which was first installed and it is done regularly with the management where information flows very quickly and decisions are made at a timely manner.

Furthermore, we have also created a Vendor Management Committee to closely monitor all of the issues related to the pandemic, so as to guarantee that contracts will be complied with as well as their deadlines. I would also like to mention that there have been alterations in the operation procedures, especially in our Operation and Control Centers and also maintenance of our assets. So far, we have not seen any impact of the pandemic on the O&M.

We have also invested as anticipated in the seven projects which are under construction. This is proved by an increase of over 300% in the total CapEx in the first quarter of 2020 on year-over-year comparison.

Finally, the third block is concentrated on the financial health of the company. As I mentioned at the beginning, I reinforced our comfortable liquidity position with BRL1.7 billion company's cash and also with an adequate level of leveraging, which is 3 times greater than the net debt over the EBITDA. And this does not take into account the BRL900 million that was captured in April and relatively more expensive cost due to the pandemic. However, with the lowest historical SELIC rate, currently it is 3%, the costs of

this capture are relatively low. We do not need to obtain any more funds in the middle of this crisis.

Another important topic is a possible risk in the electrical sector, also as a result of the pandemic. We have closely monitored it. And we have seen positive movements of the regulator and M&A. We'll continue monitoring very closely. We have also evaluated alternatives to protect our liquidity in the next 12 months in case the situation gets worse.

We now conclude our presentation and open to a Q&A session. Thank you all.

Questions And Answers

Operator

Thank you. We will now start the Q&A session. (Operator Instructions) Our first question is from Guilherme Lima, Santander.

Q - Guilherme Lima {BIO 21017551 <GO>}

Good morning. Thank you for the Q&A session. How do you see the M&A market because of the cash problem in some companies, and also liquidity problem? Thank you very much.

A - Fabio Antunes Fernandes {BIO 21749197 <GO>}

Hello Guilherme, good morning. Thank you for your question. Guilherme, we understand that the company is prepared to continue its acquisition projects in brownfield since we have a favorable condition, both regarding cash and our position in the sector. We understand that in this crisis, there may be good opportunities, and we will always be on the watch, evaluating, analyzing each and every opportunity, always respecting our pillars of sustainable growth and financial discipline.

Guilherme, thank you very much for your question.

Q - Guilherme Lima {BIO 21017551 <GO>}

Thank you.

Operator

Our next question is from Carolina Carneiro from Credit Suisse.

Q - Carolina Carneiro

Good morning. I have two questions. The first is about the payment of dividends. You announced the dividend for the quarter, but I wanted to understand what the perspective is for payment from now on? Are you always going to take into account payment of

dividends per quarter? Was it basically a special case, taking into account the cash condition of the company?

The second question is could you talk a little bit more about the changes in the Board of Director? I just wanted to have a general idea to know whether that will change the company's strategy in terms of capital allocation. Thank you very much.

A - Fabio Antunes Fernandes {BIO 21749197 <GO>}

Hello Carolina, good morning. I thank you for your question. So far, the company has not had any impact resulting from the Coronavirus crisis. We have been observing the market and the conditions, and in face of the fact that thus far, our business has not suffered any impact, we're going to distribute dividends. We will continue monitoring very closely what the impact of the crisis are on the company. And then after April and in the future quarters, the company will evaluate from time to time the distribution of dividends. And in face of eventual new facts, we will keep or not the dividend distribution.

Now regarding your second question, I will turn over to Marco Faria. He will answer your second question. Thank you, Carolina.

A - Marco Antonio Resende Faria {BIO 16679297 <GO>}

Hello, Carolina. This is Marco Faria. Thank you very much for your question. As we know, Raul and Marcus Aucelio, we have already said, played a very important role in the company. There's nothing to be said against them. Quite the other way around. There was an agreement with the shareholders. A successful cycle was closed with excellent work performed.

The strategy of the company doesn't change. As mentioned before, we are concluding our strategic planning, always focusing on growth, financial discipline and return to shareholders. Our strategy is to grow, at all times generating maximum value to our shareholders. Thank you very much.

Q - Carolina Carneiro

Thank you for your answers.

Operator

(Operator Instruction) Okay, since you have no more questions we return to Marco for his final consideration.

A - Marco Antonio Resende Faria {BIO 16679297 <GO>}

I'd like to thank you all for your participation in this teleconference. Thank you all. I hope you have a good day. Take good care of yourself and remain in good health. Thank you very much.

Operator

Thank you. Taesa's teleconference is now closed. We thank you all for your participation and wish you a nice day.

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