

Q4 2015 Earnings Call

Company Participants

- José Aurelio Drummond, Chief Executive Officer & Director
- Marcelo Patrício Fernandes Costa, Executive Vice President & Head-Investor Relations

MANAGEMENT DISCUSSION SECTION

Operator

Good afternoon, and thanks for standing by. Welcome to ENEVA's Conference Call to discuss the results of the fourth quarter 2015 and also about the PGN transactions. Here with us today, we have Mr. José Aurelio Drummond, Jr., CEO; and Marcelo Costa, Executive Vice President and IRO. I'd like to inform you that this event is being recorded and all participants will be connected in listen-only mode during the company's presentation.

After ENEVA's remarks are completed, there would be question-and-answer session when further instructions will be given. This event is being broadcast simultaneously over the Internet at ir.eneva.com.br where you also find the respective slide deck. You will be able to freely control the presentation.

Once again, participants will be able to post questions before at the hand, which will be answered throughout the Q&A session. Before proceeding, we'd like to mention that forward-looking statements made during this call concerning the company's business outlook, operating and commercial targets are based on the company's assumptions and beliefs, as well as on information currently available. Those forward-looking statements are not guarantee of performance because they involve uncertainties and assumptions, which refer to future events and may or may not materialize. Investors should have in mind that general economic conditions, industry conditions and other operating factors could also affect the future results of ENEVA, and thus lead the results that will differ materially from those expressed in these forward-looking statements.

Now, I'd like to turn the conference over to Mr. Drummond who will start the presentation. Please, sir, you have the floor.

José Aurelio Drummond

Good afternoon, everyone. Thank you for participating our call today. Here with me to participate, our Vice President and IRO, Mr. Marcelo Costa. In this call, as you will know, this was scheduled for Thursday of last week. However, as we got closer to the weekend, we had clear indications that we could have news to inform in terms of our relations with OGX which were the object of a material fact announced by the company early in the month.

As a sign of respect to investors, we decided to wait for those conversations to be over before I could make announcement. Negotiations with the company and OGX, in fact, got to a conclusion over the weekend and were the object of a material fact announced earlier today. So, we will be tackling two items today, the results of 2015 and also the transaction with Cambuhy and OGX involving PGN after the conclusion of which will turn ENEVA in a different energy platform in Brazil.

I will start with the results on 2015. Before tackling the numbers, I would like to highlight a few points that marked the company's transition last year and got the company ready for a new growth back.

The year 2015 marked the conclusion of our stabilization plan, which had started its Judicial Recovery Plan in 2014. The first landmark was in April, when the plan, JR Plan was approved at the creditors general meeting. Along with the approval of the sale of the stake that the company had at Pecém I, was very important to strengthen our cash position at the time. And a important landmark for the company took place in August when our shareholders approved a capital increase which was scheduled in our JR Plan.

As you can see slide number 4, the stabilization plan had four pillars, a reduction in 60% of the company's investment, from BRL 2.4 billion approximately down to BRL 983 million. Number two, the allocation of the outstanding debt balance to long term and reprofiled in line with project and cash generation. A contribution of strategic and cash generator assets such as the stakes in the Parnaíba Complex, and the change in the shareholding structure turning ENEVA into a true corporation.

On slide number five, we can see that operating issues were also equalized, with significant improvement in the company's asset. For the Parnaíba Complex, for example, we had several improvements. We concluded the start-up of water from the Mearim River increasing its operating flexibility. We also implemented the generation pipe replacement from Parnaíba I to Parnaíba II. We also worked on the gas turbines contract and saved BRL 25 million.

As for Itaqui, the normalization of the unloading processes will generate productivity gains and make the operation leaner. EBITDA was impacted before by those bottlenecks, which is no longer the case. As for Itaqui and Pecém III (sic) [II] (06:04), we have a very sustainable solution which results in a decrease in cost of storage.

Slide number six, please. From the standpoint of regulation, ENEVA obtained a significant victory with ANEEL, the agency recognized an older claim. It has defined that the Electrical Chamber to reimburse the costs - the charges which were overpaid, relative to Pecém II, Parnaíba I and Parnaíba II. Just go give you an idea, we were questioning the methodology used to apply charges relative to unavailability payment.

Put together, all those elements resulted in a company with a much more adequate debt and structure profile. As we concluded those processes, we can say that now ENEVA can look to the future in terms of growth. I'd like to give the floor now to Marcello who'll tackle the financial numbers for the last quarter.

Marcelo Patrício Fernandes Costa {BIO 19696616 <GO>}

Thank you, Drummond. Good afternoon, everyone. On page number eight, we have the main indicators for the fourth quarter 2015 relative to ENEVA. I believe the year 2016 was very important for the company. We started with a very significant reversal when compared to the bottom line of our statement. We came from a negative number of BRL 1.5 million to a positive number of BRL 142.6 million in the year 2015 that can also be seen in the fourth quarter, when we compare the fourth quarter 2014 and the fourth quarter of 2015, a significant reversal of figures which clearly shows some improvement in the company's cash generation processes as measured by the EBITDA in 2014.

When comparing to 2015, we approximately doubled that figure of the EBITDA, and as we analyze the fourth quarter of 2015 and compare it with the same period of 2014, we came from minus BRL 85 million to a positive number of BRL 217 million. And based on what Drummond just said, in terms of improvement in our leverage levels, the debt indicator for net debt over EBITDA has also decreased not only as a result from the Judicial Recovery Plan, but also coming from a better operating efficiency. We moved from BRL 23.2 million in terms of net debt over EBITDA up to BRL 9.5 million on December 31, 2015. I think those are the main indicators to highlight on slide number eight.

Moving to slide number nine. We have basically a breakdown of the EBITDA and what led to its improvement along the quarter. As a recurring element and excluding an adjustment that we had in the fourth quarter of 2015 relative to the re-accounting of the inavailability as referred to before, even excluding that effect, the EBITDA for 2015 for the fourth quarter is quite different from that posted in the fourth quarter of 2014, moving to something close to BRL 66 million in the quarter, an increase of BRL 111 million quarter-on-quarter. When we compare that, and include the unavailability factor, we get close to BRL 207 million in terms of EBITDA for the period. Part of that accounting has to do with previous years, but of course elements of around BRL 20 million, which refer to the year 2015.

In the next slide, slide number 10, the main points in 2015 we had a energy generating level, which was higher in 2015 when compared to 2014, but still, our costs are clearly under control, quite stable in 2015 when compared to 2014. So, there was an increase in gross generation of energy, but cost remained flat, which reflagged the adjustments coming from the ADOMP recounting. That's an important point to emphasize in terms of operating efficiency, and I would like to share with you.

On the chart on the right still on slide number 10, the bottom line of the chart shows the operating cost per gross energy generated reais per megawatt hour. And we can see that in the fourth quarter of 2014 that number stood at BRL 182 per megawatt hour and that number dropped to BRL 140 in the fourth quarter of 2015.

Moving on to slide number 11, we have a breakdown of expenses for the holdings, a series of efforts we've conducted last year to control expenses. Those were throughout the year but also will impact on the fourth quarter, where there was a reduction in headcounts aiming at re-adopting the structures. These are the new configuration that we have today.

And also a reduction in cost in the fourth quarter of 2015. And still on the fourth quarter, we still see some impact from provisions that have to be made at the end of the year and which are spread throughout the coming year. So, we also see the effect of those provisions, but still we still have a number of BRL 56.7 million when compared to BRL 44.8 million in the fourth quarter of last year vis-à-vis 2014.

On slide 12, an overview of our cash position between the fourth quarter – rather, December 31, 2014 and last year, December 31, 2015, there was very little change, very little variation in terms of cash position. If you have provisions to take care of tax that are still on our portfolio, but the cash position remains pretty much the same.

On slide number 13, we have something about our consolidated debt. In the end of 2014, that net debt of the company stood at BRL 5 billion, just about. There was a reduction of BRL 1 billion at the end of last year, 2015, that was the result of the JR Plan. That reduction was converted into capital, and there was also a change in the profile of the company's debt.

In the fourth quarter of 2014 – if we look on the right-hand side of the slide in the pie chart, the fourth quarter of 2014, our short-term debt stood at over BRL 3 billion, a third of which maturing relative to projects and the remaining relative to the holding, which in theory should not be seen in a company focused on projects.

Now, when you look on the right side for the fourth quarter of 2015, we have BRL 1 billion in the short term only referring to projects, a completely different scenario from which we have in the previous year.

I have just mentioned the improvement of the net debt EBITDA ratio. So, as a whole, our consolidated debt today is concentrated in the long run. Only 24% of that is concentrated in the short run. The snapshot shows a reversal of what we have at the end of 2014 where we had more debt in the short run and less debt in the long run.

The next slides bring a breakdown of the different project also showing significant operating performance, improved cash generation. So maybe we could stop here. If you have access to those numbers, then we are free to tackle questions you may have for each of the project.

But I'd like to give the floor back at this point to Drummond.

José Aurelio Drummond

Thank you, Marcelo. I'll be talking about Cambuhy and OGX. The transactional result in an increasing capital in ENEVA, Cambuhy and OGX contribute with its respective stakes in PGN in favor of ENEVA. And as a counterpart, both Cambuhy and OGX will become partners of ENEVA. That operation is still subject to a series of conditions and also to the analysis of shareholders and regulators.

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When all conditions are met and this operation is completed as we expect it to be, it will allow ENEVA do these important steps towards a new position. PGN, the largest oil exploration and gas exploration company in Brazil, will become a fully paid in subsidiary of ENEVA with two distinct and complementary activities, generation of energy and exploration of oil and gas. It's worth mentioning that both ENEVA and PGN will continue their normal course of operation concentrating on their operating and financial commitments.

Those two steps will also result in the creation of two important companies with significant human and technical assets. With a better integration of the current operations and the development and expansion of the activities of generation of G&P and the consolidation of ENEVA as an important player in the country's energy scenario with an adequate capital structure both for its short-term commitments and for its long-term growth plans. We trust, have high level of confidence in the company's potential. We know that the company now with PGN will open up this with the creation of a very interesting platform to explore both segments.

I'd like to open the floor now for questions and answers so that we can tackle in detail clarifications, doubts, observations you may have. We are here to answer those now.

Q&A

Operator

Thank you. The floor is now open for questions. Please hold while we poll for questions. Thank you. We have a question by Frederico (20:56) from...

Okay. I would like to better understand the advantage of the transaction of the PGN, okay, in figures.

Frederico (21:10), I'm going to try to reply to you by talking about 2015, okay? Not really a forward-looking statement, but it's just to - again, to highlight what you know about 2015. In our balance, the EBITDA of BRL 9.5 million, okay? So, this figure does not consider PGN, only considers two months of EBITDA of Parnaíba II and IV because it was when the transaction was ratified in December. When we consider 2015, we could say that this indebteding (21:54) is below that figure. With this transaction, since PGN is not as advanced, you can see this through the deleveraging of the company.

So, again, considering 2015, we can see the indebteding (22:14) that would be 7 times. But with the PGN, it is lower than that close to 5 times. So, in other words, it has a substantial contribution to us. And we believe it is a ongoing improvement that we have been implementing. If you can see that the EBITDA over the last 24, 36 months, this is our best position ever. And we remain making progress.

A question Mr. Cardoso of Bradesco Bank (22:56). I would like to know about the new shareholders position or structure.

Bloomberg Transcript

Okay. Let's consider the following. The asset contribution that we're going to have, let's suppose that it is the only capital increase that we'll get, okay? If it happens like this, if it's approved in our meeting, if we consider the share of our shareholder is 36% of B2B (23:40), 27% with (23:45) and 8% and 2% with OGX. So, again, is the only capital increase we get is what we already have at PGN.

Okay. Thank you.

Thank you. If there are no further questions, I'll turn over to the company for closing remarks.

A - José Aurelio Drummond

Well, I would like to thank you all for your attention, okay? We have a milestone now for us, and just confirmed based on our contractual and legal conditions, we are fully confident that we'll be able to get all the approvals shortly. And again, some of the remarks mentioned during the presentation is that we have a company now that clearly has two distinct activities. We have the possibility to have a fully integrated presence in the Parnaíba Basin. And we envisage the energy distribution and more prospects that may materialize.

And it's important for us to understand that we'll be the only private company in the energy sector that has the adequate capital structure for mid- and long-term based on the investments that we expect to get. We are fully motivated and confident that we'll be able to get all the approvals. Okay. And we'll be fully compliant. Thank you once again. See you next time.

Operator

Thank you. This concludes today's ENEVA's earnings conference call. You may disconnect your lines at this time. Have a nice afternoon. Thank you.

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