

Q2 2016 Earnings Call

Company Participants

- Antonio Carlos Velez Braga, Investor Relations Officer
- Fabiano Maia Pereira, Chief Officer for Finance and Investor Relations
- Leonardo George de Magalhaes, Controller
- Unidentified Speaker

Other Participants

- Andre Sampaio, Analyst
- Unidentified Participant
- Vanessa Dezem, Analyst

Presentation

Antonio Carlos Velez Braga {BIO 16813855 <GO>}

Good afternoon to all. My name is Antonio Carlos Velez Braga, Investor Relations Officer of CEMIG. We'll now start our webcast with CEMIG results relative to the Second Quarter 2016 with the presence of Dr. Fabiano Maia Pereira, Chief Officer for Finance and Investor Relations; and Dr. Leonardo George de Magalhaes, Controller. The transmission can also be followed through telephones 55 (11) 2188-0155 or 55 (11) 2188-0188, and also on our website, ri.cemig.com.br.

To start our presentation, we will show you our first slide with summary of results. You can see 11.8% of negative results, a reduction in EBITDA of minus 45%, and net profits dropping 62.2%, as compared to second quarter last year. If you recall, some of the factors, some have already been disclosed by -- you should recall them. In the second quarter, our results, we have recognition of 561 million in transmission indemnity revenue, that impacted EBITDA and this showed a net impact from this accounting.

We should remember, as we already said and have commented quite often, that in 2016 the strategy for allocation of energy was the opposite of 2015. In 2016, we sold much more energy in the first semester, the first half, and this showed -- this proved to be a -- the correct strategy and this reflected in comparison with 2016 to 2015. The collateral of this is the lower results, because of the lower volume of energy sold.

Also in this second quarter, we had the average -- the increase in the provision for the Put option of Parati, due to the new pricing criteria.

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This slide, we decided to include it in our presentation in view of some of our -- the questions raised by investors and as an opportunity to restate that the Group follows the defined guidelines, among which reduce leverage of the company; second, increase productivity and efficiency, higher efficiency, and a review of the portfolio of equity interests as we have been discussing.

We focus on the company's core business, mainly generation, transmission, distribution, and trading. In addition, we have internally discussed some solutions for the companies in which we have a full control. This is all I had about this slide, right Velez?.

Fabiano Maia Pereira {BIO 19066644 <GO>}

Yeah, here I should make a comment on the indemnity revenues, as Velez said in the beginning of our presentation, an event that affected our results in the second quarter, in the relevant way was a recognition of the indemnity revenue. We have been updating that value according to IGP-M.

But by then, we didn't know what the criterion would be to adjust the values starting from the second quarter, given the new instructions from the mines and energy ministry. We had to recalculate and we saw a large effect, one related to the IGP-M that we were using and that resulted positively. And the other one representing the remuneration that we haven't received ever since 2012 related to depreciation of our asset basis. And also by the capital cost, this value as determined by the Ministry of Energy. This will be adjusted by the IPCA by 2017.

Using this system and adding the inflation, we saw a positive effect in the results. From now on, we'll update by the regulatory instruction plus IPCA and that's what we've been doing right now.

Going deeper in the figures for net revenues, we had a drop of 11.8 from 2015. Main factors impacting positively, as Velez [ph]mentioned, 561 million in revenue; and in the negative side as compared with last year, lower volume of electricity sold on the spot market and the Sao Simao output is now -- has now been transferred to the quota regime and lower spot price in the second quarter at around BRL62.4 per megawatt hora -- hour rather as against 356.8 in 2015.

As for the selling of energy, this is associated to the dropping of Sao Simao from our portfolio and a lower volume of sales in the spot market. The growth in the distribution department or sector of the company was very strong, 5% increase in the amount of energy sold. This already indicates an upturn, reflecting [ph] upturn from now on.

As for consolidated operational expenses, we had very slight increase of 0.02%. The new point we had is voluntary retirement plan, around 621 employees accepted the plan and 27 October is the period -- is the deadline for disengagement. This is more than our expense associated to this, we will -- more than -- be more than compensated in the coming years.

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Also impacts on results for provisions from Parati and SAAG, leading to worsening of the expenses. But in positive terms what we can say is, despite increases in provisions, the operational expenses were pretty level as compared to last year.

With regard to your last comment, it's important to emphasize that even if we don't take into consideration, inflationary effects or the costs have been kept in very suitable levels with a greater efficiency achieved by the company and there is this increase in -- or because of the change in methodology of Parati, 355 million are expected and the impact of this new methodology is associated to a change in the prices of light [ph] in the market.

Their shares -- share prices are growing and for this next half or the next quarter, all the issues involved at Parati will pay more dividend than reducing values of the Put option. And we expect lower results because of these issues. But this is just a one-off effect in the -- given all the other considerations, we expect better results in the next quarter.

As for EBITDA, as it's been said, we had this 45% drop. And as a result of this, we had this -- there was a down of -- 93.1% down of spot prices and average spot price significantly lower also.

As for consolidated net profit, 62.2% drop, given the sharp fall in energy prices in this quarter in allocation of the energy for the second half of 2016. Equity method gain contributed 72 million in the second quarter '16 as against 6 million in the second quarter 2015.

With regard to debt in the consolidated of CEMIG, we have a homework for the second half, which is the rolling over of part of our debt, most of it, by the end of the year. The positive aspect here is that, despite the increase in nominal terms -- in actual terms, because that is now stabilizing, the actual cost of the debt, it is a positive point and with regard. And if we look only to GT, that's the bulk of the debt to be rolled over in the next half, we see 3.092 billion. We have been working with the banks towards rolling that over and our guideline is to prevent it to be happening in the long term, perhaps three years ahead in order to prevent a coincidence of our debt -- other debt that are maturing.

Cemig D, we have conducted almost all the roll over of the year by now and we should be looking at extending the debt in 2017 and trying to pay installments of that debt at lowering the leverage levels.

As for investments, that's the plan we have shown in the first semester -- in the first quarter early this year, we should only comment that there is large amount of investment in the very relevant amount in concessions, given the auction we won last year. This has been fully traded for.

In our distribution Cemig D program, investment program is a very robust one, almost 40% of the total volume expected for the year and we are convinced that we should do that. While in the first quarter, we had this repayment of cash with reduced investments. But after the adjustment, the CVA, that's very big that we are collecting, we will proceed to this investment program without any problems.

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And for the cash flow, George like to talk about that.

Leonardo George de Magalhaes {BIO 21639277 <GO>}

In the previous slides, we had very conservative flow -- cash flow program, 1.6 billion for the year, for another 3 billion for cash generation, 2.5 billion as total available, and this has been financed by -- while we haven't deepened our indebtedness, we haven't seen much capital injections other than finance and so on, that leads the number come to June in 1.5 billion. We are talking about almost 2.5 as total available, we're talking about cash nearing BRL2 billion, which is a comfortable position for our investments and to ensure the leverage to previous periods as planned.

That was the presentation and the slides we prepared talking about the second quarter of 2016, and now we move on to the questions-and-answers session.

Questions And Answers

Operator

Ladies and gentlemen, we now start the Q&A. (Operator Instructions) Andre Sampaio from Santander would like to make a question [ph].

Q - Andre Sampaio {BIO 19422379 <GO>}

Good morning. I would like to make a question. (technical difficulty) The idea would be to finalize it right now or going into other areas of CEMIG or perhaps resuming the program for the second half?

A - Unidentified Speaker

Sure. This voluntary retirement program, we don't think we need to do any more about that in the second semester, we leave it for next year. For this year, (inaudible) has been planned. So --

Q - Andre Sampaio {BIO 19422379 <GO>}

That's perfect. Thank you.

Operator

(Operator Instructions) Our next question comes from Ms. Young [ph] from HSBC.

Q - Unidentified Participant

Hello. Thank you. I'd love to hear from you about the negotiations of Sao Simao and Jaguara. On the generation side, what are you expecting for next year?

A - Unidentified Speaker

With regards to the talks related to the hydro plants, Jaguará already at the Supreme Court. We have been talking to the government, but so far we haven't arrived at any final decision to bring to the Supreme Court. The same situation, as the last time, we talked about it.

With regard to the trading, would you like to say anything?

Well, prior to our power trading this year, next year, yes, we have been entering a few contracts, we have prepared for the second half of 2016. We've done some time ago. And for 2017 energy prices, given the potential upturn of the Brazilian economy and the reports never arrived at a very comfortable level. We are still expecting price increases on the spot prices this year, but some contracts have been signed already for the second half and already some for next year.

2018, 2019 are positioned well, so to be more careful about this because we are at a short position, given the uncertainty with regard to whether we will kick [ph] the clients or not. We have been trying to repurchase energy to cover the short position, but still relevant into the next years.

Operator

Thank you. Our next question comes from Ms. Vanessa Dezem from Bloomberg.

Q - Vanessa Dezem {BIO 18753036 <GO>}

Good afternoon. My question refers to light. We have seen on the media that they are already negotiating with sale of light. When will that start this purchase or the sale?

A - Unidentified Speaker

Well, on the parts of the CEMIG, we have no information regarding the selling of light. Our CEO has founded repeatedly that light is our way to grow in distribution. What happens and that's known by everyone is that, our partner FIP is willing to leave. What may happen is restructuring of this big holding configuration, but there is no way of talking about selling it.

Operator

(Operator Instructions) We now close this Q&A session. We'll now hand over the floor to Dr. Fabiano Maia Pereira, our Chief Officer for Finance and IR, for his final comments.

A - Fabiano Maia Pereira {BIO 19066644 <GO>}

I'd like to thank you all for participating. And again place our shareholders [ph], our staffs at your disposal for clarification of any issues that may still (inaudible) and we should stress our purpose with CEMIG of being transparent before all our investors. Thank you.

Operator

So the video webcast with Cemig Second Quarter Results is now closed. We thank you all for attending, and have a good afternoon.

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