

Q1 2014 Earnings Call

Company Participants

- Eduardo Haiama, Chief Financial Officer and Investor Relations Officer

Presentation

Operator

Good morning, everyone, and thank you for waiting. Welcome to Equatorial Energia's First Quarter 2014 Results Conference Call. With us here today, we have Eduardo Haiama, Chief Financial and Investor Relations Officer. This event is being recorded and all participants will be in a listen-only mode during the company's presentation.

After Equatorial's remarks, there will be a question-and-answer session. At that time, further instructions will be given. (Operator Instructions). This event is also being broadcast live via webcast and may accessed through the Equatorial's website at www.equatorialenergia.com.br, where the presentation is also available.

Participants may view the slides in any order they wish. The replay will be available shortly after the event is concluded. Those following the presentation via the webcast may post their questions on our website. They will be answered by the IR team after the conference is finished.

Before proceeding, let me mention that forward-looking statements are based on the beliefs and assumptions of Equatorial's management and on information currently available to the company. They involve risks and uncertainties because they relate to future events, and therefore, depend on circumstances that may or may not occur in the future. Investors and analysts should understand that conditions related to macroeconomic conditions, industry and other factors could also cause results to differ materially from those expressed in such forward-looking statements.

Now, I will turn the conference over to Eduardo Haiama. Mr. Eduardo, you may begin your presentation.

Eduardo Haiama {BIO 7279971 <GO>}

Good morning, everyone. First of all, I'd like to thank you all for joining us in our first quarter conference call. As per agenda for today, which you can see on slide two, I'll start the conference call describing the highlights of this quarter, then I'll comment our operating and financial results. Later, we'll comment some quarter updates for the quarter, and finally we'll open this Q&A session.

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Before the highlights, I'd like to clarify some procedures regarding the figures presented in the earnings release in this presentation. I'd like to point out that consolidated information reflects 100% of CEMAR's, 100% of CELPA's and 100% of Equatorial Solucoes, which in its turn consolidates 100% of Sol Energias' figures.

It's important to note that since first quarter, 2013 Geramar's figures are no longer being consolidated on the Equatorial due to a change in the accounting rules. Its results are now being registered only on the net income line in Equatorial's consolidated figures.

Moving onto slide six, in this quarter, CEMAR and especially CELPA posted a very strong energy demand growth respectively of 7.9% and 14% year-on-year. In the quarter, energy loss continued from both companies CEMAR losses fell to 18.4% of the required energy. And CELPA, 34.2%.

Again representing improvement in both quality indicators for both companies taken in term of DEC and FEC.

Moving onto slide seven. First quarter, Equatorial net revenues reached R\$1.3 billion about 24.3% compared to first quarter of '13, in terms of EBITDA for the quarter totaled R\$144 million considered adjusted regulatory EBITDA, consolidated value amounted to R\$231 million or growth of 45%. In the quarter, Equatorial represents net profit of R\$15 million, also consider regulatory results, consolidated net income amounted to R\$91 million. In terms of investment, consolidated investments reaches R\$211 million or 25% increase. It's important to mention that the approved ACR-account quota for CEMAR and CELPA were R\$101 million in R\$233 million respectively.

Moving on to slide nine, we'll talk about the electricity market in CEMAR. In CEMAR, as you can see, energy demand growth was 7.9% in different segments, mainly as a result of the 3.8% expansion of our client base, the energy loss reduction and the increasing per capita construction appeared reflecting investments being made in Maranhao.

Moving slide 10, CEMAR energy losses reduced to 18.4%, below the new regulatory target set by ANEEL in the last year's our tariff review process of 19.6%. In this quarter, this reduction amounted to 0.8 percentage point relatively to fourth quarter '13. The same reduction occurring with non-technical losses which was at 13.7% in the quarter, down from 15.9% as you find at the regulatory target by -- set by ANEEL. This index represented a 1.4 percentage point reduction relatively to fourth quarter '13. In 2013, we reassessed the loss converting plant, increasing the productivity (inaudible) and the result is the reduction of energy losses in the last three quarters.

Passing over on to slide 11, in terms of quality indicators, both DEC and FEC improved in the last quarter respectively by 24.9% and 6.5% amounting to 16.1 hours and 10.5 times in this first quarter mainly as a result of the investments made by the company. It's worth mentioning that this improvement in quality indicators should allow us to increase our tariff re-adjustments. In this year's tariff re-adjustment, we should benefit from 0.5 percentage points tariff increase due to the improvement in last year's quality indicators compared 2012 periods.

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Moving on to slide 12, in CELPA, energy [ph] grew by 14% in the quarter, mainly explained by the loss reduction, mainly in the labor market in 2014 and also by the absorbed higher activity level in the main industry in the state of Para.

Moving to slide 13, the company entered 12-month figure amount and losses at 34.2% of the required energy or 1.3 percentage points reduction compared to the fourth quarter '13. Non-technical losses on Low-Voltage Market index amounted to 54.7% or 4.8 percentage points reduction in the quarter. Both highlight in the decrease in the level of losses reflects the beginning of our loss converting program in the second half of 2013.

Moving to slide 14, represent continuous improvement in quality indicators. Since we took control of CELPA in the end of 2012, we have focused on improving quality indicators and provide better customer service as well. Since then, we were able to improve them quarter-after-quarter. In the first quarter in 2014, DEC and FEC in the last 12 months improved by 31% in 27% respectively, reaching 65 hours and 35 times. It's worth mentioning that we should also benefit in the coming tariff re-adjustments for 0.5 percentage points tariff increase due to the improvement quality indicators in 2013 compared to 2012.

On slide 16, first quarter EBITDA, consolidated EBITDA by the IFRS standards amounted to R\$244 million [ph]. Considering the cash flow of ANEEL of net regulatory assets for both CELPA and CEMAR into the results and adjust by non-recurring impact in the quarter, regulatory adjusted EBITDA would have amount to R\$231 million or a 45% increase, this increase in first quarter EBITDA is already the result of verified cost control after 2013 tariff review CEMAR and also reduction in related to loss in both distribution companies.

In the next slide, consolidated net profits was R\$15 million and revenue adjusted by the same net regulatory assets in the recurring items, would have present profit of R\$91 million in the quarter or 51% increase.

On slide 18, we present the amortization sched of the consolidated gross debt. Equatorial gross debt amounted to R\$3.2 billion, 1.5 for CELPA and 1.7 from CEMAR, by the end of the first quarter on a consolidated base Equatorial had about R\$1.3 billion of cash position much bigger than our consolidated short-term debt of R\$287 million. I'd like to remember that the including in amounted [ph] debt from the (inaudible) from first quarter 2013 quite changing consolidation criteria.

Moving on to slide 19, we breakdown Equatorial's consolidated net debt which amounted to R\$1.3 billion, excluding net regulatory assets and consolidated cash position. As a result, net debt-to- regulatory EBITDA last 12 months amounted to 1.7 times.

Even adjust by the proportion by Equatorial is taking CEMAR and CELPA in the next slide, slide 20. We've reached R\$954 million represents in the same 1.7 times net debt, so EBITDA of last 12 months.

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Moving on to slide 21, we present our CapEx figures. CEMAR's total CapEx in the quarter amounted to R\$79 million a decrease of 5% in the year. As per CELPA, total CapEx increased by almost 54% year-on-year.

On slide 23, just like a highlight, the Equatorial provide equity to CELPA and that approximately R\$50 million in May. And in April, in order to improve even more corporate audit standards, our Board of Directors approved the creation of the audit committee, which too had a company's internal auditing and compliance policies, internal controls and fraud combat initiatives. Now, I believe we can start the Q&A session. Thank you.

Questions And Answers

Operator

Excuse me ladies and gentlemen, we will now begin the question and answer session. (Operator Instructions). This concludes today's question-and-answer session. I would like to invite Mr. Eduardo to proceed with his closing statements. Please go ahead, sir.

A - Eduardo Haiama {BIO 7279971 <GO>}

To sum up. We'd like reinforce our commitment delivering -- differentiated the (inaudible) shareholders for exceptional financial and operating results. We also would like to highlight our adherence to the highest level transparency and corporate governance and reassure that both me and our Investor Relations team are available to help, if you should have any further questions. Thank you all again for taking part in our first quarter conference call, and have a good day.

Operator

That does conclude the Equatorial Energia's audio conference for today. Thank you very much for your participation, and have a good day.

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