

Q3 2021 Earnings Call

Company Participants

- Lino Lopes Cancado, Chief Operating Officer
- Marcelo Habibe, Chief Financial Officer
- Pedro Zinner, Chief Executive Officer
- Unidentified Speaker

Presentation

Marcelo Habibe {BIO 20367888 <GO>}

(Abrupt Start) One were positively impacted by the significant increase in fuel price indexes, CIF, ARA and Henry Hub. Additionally, the increase in spot price in the period impacted the portion of energy sold in the spot market. All these effects contributed to the growth in net revenues in the third quarter of 2021, which increased by almost BRL1 billion when compared to the same period of last year.

Turning now to Slide 7. I'll talk about the main impacts on EBITDA in the quarter when compared to last year. In this quarter, Adjusted EBITDA reached BRL573 million. A considerable increase compared to the third quarter of 2020. The result was mainly driven by the performance of the Upstream segment reflecting the higher dispatch, which impacted the variable revenue from the sale of fuels without -- with no counterparty costs. The performance in the coal-fired Generation segment also contributed to the year-over-year increase in adjusted EBITDA. In this quarter, both plants had their CDUs positively impacted by the increase in the CIF ARA.

Decoupling from the average cost of coal stock previously acquired at lower prices. This resulted in positively variable margins in the plants. On the other hand, the growth of the adjusted EBITDA was partially offset by the need to reimburse the balance toward the Parnaíba II plant, which went through a period of corrective maintenance between June 19 and July 17. During that period of unavailability, those costs totaled BRL72 million.

Moving on to Slide 8, we present the main impacts on cash flow. Operating cash flow reached BRL431 million in the quarter leveraged by the higher EBITDA in the period due to the better operating result. The result was mitigated by the combination of some effects, especially the impact of the higher -- higher impact of working capital requirement in the quarter. That variation was basically due to the higher dispatch and CDUs of the plants, impacting the balance of accounts receivable and an increased value of coal inventories.

In cash flow from investments, disbursements totaled BRL280 million, mainly for the construction of the Azulao, Jaguatirica and Parnaíba V projects and for the development of Campo Gaviao Preto. The cash flow from financing activities totaled BRL116 million

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leveraged by the disbursements of the financing with BNB and BASA and the total amount of BRL244 million for the construction of those projects. In this quarter, we made the last disbursement with BASA concluding the total expected funding of BRL1 billion with that particular institution. The positive impact on the financing cash flow was partially offset by the amortization of interest and principle in the period and by the increase in the balance of linked deposits for the reserve account due to payments related to the Parnaíba 1 debentures. We ended the quarter with a solid consolidated cash position of BRL2 billion which gives us the flexibility and liquidity to face the company's growth strategy.

Moving on to Slide number 9, we present Eneva's capital structure. At the end of the quarter, the company's net debt total BRL5.9 billion and leverage was at 3 times net debt over EBITDA ratio. The average maturity of a consolidated debt was 5.5 years at the end of the quarter, with most maturities concentrated after 2025. At the end of September, this year, 65% of the debt was indexed to the IPCA and 34% to CDI. The average spread of IPCA index debt was 3.9% and for the other debts 1.5% above CDI.

I'll now turn the floor over to Lino, who will detail our investments in the quarter.

Lino Lopes Cancado {BIO 20167891 <GO>}

Thank you, Habibe. Good morning, everyone. Investments total in the quarter BRL499 million of which BRL264 million were allocated to the Azulão-Jaguatirica and Parnaíba V. The upstream total investments amounted to BRL155 million with highlights for the development of the Gaviao Preto Field in the Parnaíba Basin at the amount of BRL93 million. The remainder was allocated mainly to the exploratory campaigns underway in the Parnaíba and Amazon Basins. The Generation segment, about BRL50 million for the acquisition of the main piece of equipment for power for OTE [ph] Parnaíba VII which closes a cycle for Parnaíba III totally BRL7.7 million.

Another BRL50 million were allocated to the payment of a contractual milestone -- contract related to the preventive maintenance of the turbines carried out in the first half of the year.

Now moving on to Slide 11, we present the main advances relating to the construction of the Azulão Jaguatirica integrated project. In the Azulão field, we are happy to inform that the liquefaction plant already operated 70% of its capacity during commissioning. Since September, the plant has already been operating, with a 100% self-generation. In addition, in October, or at the end of October, more than 115 trucks with GNL gas had already been sent to Irchi [ph] Jaguatirica and Roraima accounting for more than 5,000 cubic meters of liquefied gas delivered. In Jaguatirica II, works are close to finish. Since August, natural gas has been made available under operating conditions for the generation units. In the same month, gas turbines were turned off for the first time. After that we concluded the works of assembly and commissioning of the structure of the transmission line of substations Jaguatirica II and Boa Vista connections in October the transmission line and the stations were energized and the generated gas units were synchronized for the first time with the isolated system at Roraima.

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And the first megawatt hours were produced at a lower cost and at a cleaner condition. The gas operations now going through a testing phase to start operation -- commercial operation in the second half of 2021. The water/steam cycles hit the final preparation for the start of commissioning and availability at a 100% of installed capacity. Once again, ANEEL has approved the exclusion of liability with the start of the contract until January 27, 2022. Without changing the contract term and our expectation for the start of commercial operation is expected for the end of this year 2021.

On the next slide, we'll see the main milestones in Azulo Jaguatirica. I am moving now to Slide number 12, where you can see on the picture on the left hand side, the gas treatment unit are already completed 100% in operation. On the right hand side, on the top right, inside the isotanks which store the liquefied gas produced at Azulo on the left bottom. The Cryoboxes which do the liquefaction of the gas at the unit and lastly, on the bottom right hand side, you can see the facilities for self-generation the gas run, the unit that produces the energy consumed by the plant.

On the next slide, Slide number 13. We see two bird's eye view of Jaguatirica plant on the left, in the foreground, the substation and then in the background, the two -- the gas turbines can be seen. On the right hand side, GNL gas tanks with seven modules. Each module represents one day of operation at 100% of operation. And also the re-gasing equipment and in the background, again the two gas turbines and steam turbines can be seen as well.

Moving on to Slide number 14 please. I can see on the left hand side, the air cooler condenser, which as the word says condenses the steam coming out from the turbine and on the right hand side, the facility for the turbine and -- that steam turbine. And then on to the left, the two gas turbines standing can be seen.

On the next slide, Slide 15, we'll be talking about the advances, the progress in Parnaiba V. The start of the operation is expected for the first half of 2022. In September, we completed the coal commissioning and the final task for energizing the elevator tractor with the commissioning of the MG LV electro sensors. With the conclusion of the energization process, we now proceed to the commissioning by individual systems and thus which are consuming electric energy.

We also started the BTA operation along with the 40 kilometers pipeline, which was concluded last year allowed us to produce the mineralized water to start the first hydrostatic gas for the boilers, also closed the internal body of the steam turbine for low pressure.

The next step will be to align the rotating shaft [ph] turbine -- in the turbine and move on with our target of leave the equipment ready to use with electric engines in the shortest period possible with quality and safety, and the main transformer is already ready for backfeed. It has already received the energy from the transmission line. On Slide 16, we see also some current pictures of where the project stands. On that slide, the first picture on the left, the moment when the rotor of the turbine -- low pressure steam turbine was permanently installed. On the second picture, we can see the closing of the steam turbine

with the rotor inside, as can be seen. Then you can see the -- building the installation or the facilities for the steam turbine.

And then the boiler assembly on the right hand side.

Next slide please. Slide number 17. Now, I turn the floor back to Marcelo to continue with the presentation.

Marcelo Habibe {BIO 20367888 <GO>}

Thank you, Lino. Good morning, everyone. On Slide 17, we see the Tepor Project Port Terminal project located in the City of Macae on the north coast of the state of Rio. The development of this project is part of the Company's strategy to develop a gas hub in the Southeastern region of Brazil. That gas hub includes the construction of thermal power plants and associated infrastructure, all of that integrated with the re-gassing terminal and with the possibility of future developments of new flow routes to receive pre-salt gas and being able to be connected to be gas grid, which will allow servicing distributing companies locally and also final users either through gas pipelines or through small scale GNL distribution.

As we analyze -- announced last September, we have an exclusivity contract with the ValiAzu Group [ph] to form a joint venture with the objective of developing and managing and explore the Tepor Project. The agreement assures us exclusive rights to analyze and transact and negotiate transactions through the end of last year, next year and then a right to own the projects until the end of 2024.

Tepor is located close to the Cabiunas Terminal and also close to the Hatadoise Pipeline [ph], which is very important, very strategic for the outflow of pre-salt gas. The main one in the Brazilian coast today and for the next years, the ValiAzu Group already has the environmental permits to construct or to build that structure and also for the logistic works and we have bulk terminals, upshore terminal support up to 21 million cubic meters a day (inaudible) terminals for ship to ship oil operations.

And a PGN, which is not part of the transaction. If we conclude the deal, the company will have the option to conduct other business including a distribution of GNL in small scale and the transportation of other loads. I turn the floor back over to Habibe who will talk about the main evolutions about the company's strategy.

Questions And Answers

A - Unidentified Speaker

Thank you very much. With this, we close our presentation and we're going to open for the Q&A to the whole Board of Directors and we're available to you. Good morning, everyone. I just like to remind you that questions must be submitted via chat.

So I'm going to read the first question. Good morning. Could you update us on the gas commercialization strategy and what is the timing for us to close contracts and how do you evaluate potential demands and this type of monetization when compared to other gas monetizations and how can we supply with a capacity reserve or future thermal plants?

A - Marcelo Habibe {BIO 20367888 <GO>}

Thank you for the question. The project we have just introduced to you, which is the southeast gas hub is actually included in this strategy so that we can diversify our business models, including gas sales, be it to the end client or to the distributor for those client that are connected to our network and for those who are not connected using LNG.

And because today, we're not located close to the pipelines, we need first to find a solution to have a solution, so that we can have the molecules, so that we can close eventual new contracts in place of this new gas market. We have been discussing this in the regions where we already have the molecule available with some clients. However, this is done outside of the gas network and also in the delivery forms for the distribution of LNG.

But this is nothing that we can discuss yet. And regarding the alternatives to sell to the end client or to supply for thermal plants, this is something that will always be taken into account in the discussions that the company will have. We have to find the best opportunities to use the molecule, be it for an industry or for a thermal plant, trying to evaluate the best opportunities to monetize the molecule in the auctions that we have in hand as well as future opportunities.

And that will be part of the analysis for the gas strategy.

A - Unidentified Speaker

Well, thank you, Marcelo. The next question? I will ask actually Pedro to answer it. What is the status of the profit negotiation? Could you further discuss it?

A - Pedro Zinner {BIO 17260844 <GO>}

Well thank you very much. Good morning, everyone. And I thank you for the question. I think that regarding Urucu, we are engaged with the discussions with Petrobras. But the prices have changed our discussions with Petrobras have been intensified and we've been discussing it for a longer time than we would have liked. But I think that time somehow works in our favor, because we have some options and then we can make the best choices for us in terms of capital allocation.

This will give us a better perspective and somehow will also decrease the emotional biases related to the negotiation of these transactions. I will tell you why I'm saying all this. I think that this would be our B plan and you will see the reserve certifications at the end of the year and we had a very successful campaign in the past and also in the surrounding areas that were purchased and the auction. We have also gone further with the Jurua gas.

So those are part of our auctions [ph], as I mentioned before.

And so in face of this context, I think that the main decision we have to make in the near future is related to the most efficient capital allocation. So first of all, we have to make the Urucu acquisition. And then in the future connected Jurua or else accelerated the Azulo asset and then replicated in the Amazon basin in scale -- in a larger scale. And so one of the prior questions asked about the possibility to multiply this model. Since we have already given a first step in this regard by having a thermal with a capacity 275 megawatts in the next December auction to commercialize gas in the Amazon basin.

The negotiations will move on. And because of the long negotiation, we have included this possibility in our portfolio. Also in terms of cash generation, as you've seen, and we have a very large acquisition portfolio and we will only make any purchases if we do believe that we will have an increase in our returns. So growing for the sake of growing does not generate value.

A - Unidentified Speaker

Thank you, Pedro. And the next question is you were trying to buy Echoenergia and it was sold to Equatorial. So do you have any other target in mind? I now turn over to Marcelo.

A - Marcelo Habibe {BIO 20367888 <GO>}

Well, thank you for the question.

Well we were actually in the process of deinvesting. We analyze the asset. We liked it. We perform the due diligent and we consider that our price limit went beyond by Equatorial and they got it. Our strategy includes evaluating the segment of the renewals. We are evaluating other assets that for confidentiality and competition purposes, I will not mention the names, I expect you are following it up. The market of renewables has increased a lot in the last few years, but it's very fragmented.

There are many possibilities for acquisitions. It is important for us to try to have platforms with a specialized team and this is a new competence we must acquire, but we do have other alternatives. We are evaluating it and in our capital allocation, we always look at two variables, risk and return. So when the risk is lower, we can have the luxury of having a lower return, and the other way around, is also true. We're evaluating other opportunities. In due time, we will inform you.

A - Unidentified Speaker

Thank you, Habibe.

Next question. Eneva closed third quarter of 2021 with accumulated losses of BRL590 million and had a net profit of BRL362 million. So should we suppose that if we keep the current conditions in the market in the second quarter of 2021, the company will revert this accrued losses into accrued profits and with that the company would be ready to distribute profits to the shareholders.

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A - Marcelo Habibe {BIO 20367888 <GO>}

Well, I thank you for another question. It's actually an excellent question. We do have accrued losses of BRL590 million. We hope to decrease it. So that perhaps in the first or second quarter of next year, we will zero and revert -- disposition will have accumulated profits and we'll be able to share dividends. We have drafted our dividend policy and we're discussing it with our board of executives. And so we first needed to turnaround this result. And then after that, or simultaneously, we will start with our dividend policy. And then at the end of the day, the rationale all has to do with efficient capital allocation and we will distribute dividends when we have a good opportunity, but the -- we must have a healthy leverage level.

So this is what we believe that should be done and we hope that in the next few months, we will let you know what the main parameters will be. Well, thank you very much.

A - Unidentified Speaker

I would like to remind you that questions must be submitted via chat. If we do not have any other questions, I'm going to turn over to Pedro, so that we can wrap up this call.

A - Pedro Zinner {BIO 17260844 <GO>}

Well, once again, I wanted to thank you all for participating in our call and I will see you next time. Have a great day.

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