

Q1 2018 Earnings Call

Company Participants

- Eduardo Haiama, Chief Financial & Investor Relations Officer

MANAGEMENT DISCUSSION SECTION

Operator

Good afternoon, everyone, and thank you for waiting. Welcome to Equatorial Energia SA First Quarter of 2018 Results Conference Call. With us here today, we have Mr. 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 Energia SA remarks, there will be a question-and-answer session. At that time, further instructions will be given.

This event is also being broadcast live via webcast and maybe accessed through Equatorial Energia SA 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 Energia SA management and on information currently available to the company. They involve risks and uncertainties because they're related to future events and therefore depend on circumstances that may or may not occur.

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 certain forward-looking statements.

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

Eduardo Haiama {BIO 7279971 <GO>}

Good morning, everyone. First of all, I would like to thank you all for joining us in our first quarter conference call. As for our agenda for today, I'll start the conference call describing the highlights of this quarter, then I'll comment on our operating and financial results, and finally we will open the Q&A session.

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As for the highlights for the quarter on slide 3, adjusted EBITDA reached BRL 324 million, with both DisCos reducing their energy loss in the quarter. CEMAR's adjusted EBITDA grew by 22.5% in the quarter mainly due to the volume growth, cost management and lower provisions. As for CELPA, EBITDA grew by 15%, basically for the same reasons.

Our total billed volumes in Equatorial amounted to 3.5000 gigawatt hour (sic) [3,497 gigawatt hour], representing a growth of 3.9% at CEMAR and 4.1% at CELPA. Total losses in CEMAR amounted to 16.8%, a drop of 0.4 percentage points compared to that seen in fourth quarter 2017. And at CELPA, total losses were 27.2%, or a 0.3 percentage points drop. Both DisCos quality compensations that are used to be booked in manageable costs [indiscernible] (03:44) are now being booked in the revenue deductions affecting the company's net revenues.

In the Transmission segment, we started construction to implement the synchronous condenser in Rurópolis substation, part of the lot 31 that we won in April 2017's auction. Finally, in April, we received the Preliminary Environmental License for the lots 8, 9, and 12 that should allow us to move forward with some of our fund raising efforts.

Moving on to slide 5, CEMAR energy market. Energy sales grew by 3.9% to CEMAR, mainly due to the recurring in the company's energy losses in the quarter and growth in the number of consumers by 3.1%. In the Residential and Commercial segments, growth were mainly basically boosted by lower rainfall and higher temperatures in the quarter.

On slide 6, CELPA's billed energy grew 4.1% in the quarter, also boosted by favorable weather conditions and the loss reduction in the quarter. Worth noting that Industrial segment has shown signs of improvement in the quarter and grew 1.8%, considering both captive and free markets.

Moving on to slide 7, CEMAR's total losses in the quarter at 16.8%, or a 0.4 percentage points drop. It's important to mention that in the recent quarters the company has been successful in reducing even further its losses in spite being considered to be one of the most compressed concessional areas in Brazil by the regulator. In terms of quality indicators, DEC and FEC, CEMAR continued to be well below regulatory targets. And according to ANEEL's quality ranking, we continued to be among the top.

Moving on to slide 8, CELPA's energy losses in the quarter at 27.2% or 0.3 percentage points drop compared to that of last quarter. Despite being the most complete concession area in the country according to ANEEL, CELPA has also been able to reduce its losses gradually over the years and is now closing the gap to the regulatory level of 26.9%. In terms of quality indicators, we continue to show improvements. End of last year, we have already been considered by the ninth-best company according to ANEEL's in terms of quality indicators.

On slide 10, adjusted EBITDA at CEMAR reached BRL 167 million versus BRL 136 million in the quarter of last year. If you're to disregard the financial asset update, CEMAR's EBITDA would have reached BRL 165 million in the quarter. Again, EBITDA growth is a result of the growth in billed volumes, the reduction in losses, and also a very tight management cost

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control. As for net income, adjusted figure amounted to BRL 84 million in the quarter versus BRL 62 million reported in the first quarter of 2017.

Moving on to slide 11, CELPA's adjusted EBITDA amounted to BRL 145 million in the quarter, a 15% increase year-on-year. The reasons behind this growth are basically the same as CEMAR: billed volumes growth, good management cost control, reduction in losses, and reduction in bad debt provisions in the quarter. As for net income, it amounted to BRL 30 million in the first quarter of 2018, compared to BRL 11 million in the first quarter 2017.

On slide 12, we showed the consolidated figures for Equatorial. Just (08:10) for the non-recurring effects (08:13) impacting CEMAR and CELPA, consolidated EBITDA amounted to BRL 324 million, or 23% growth year-on-year, while our net income amounted to BRL 93 million versus BRL 61 million in the first quarter 2017. I'd like to report that Intesa's figures, the transmission line that we bought end of last year and as well as Geramar's, they have been consolidated only through (08:44) net income, not-consolidated EBITDA.

On slide 13, we present the debt amortization schedule and leverage for the company. Considering 100% consolidation for CEMAR and CELPA, the consolidated net debt to EBITDA remained at the comfortable level at 1.8 times net debt to EBITDA, representing a net debt of BRL 3.2 billion. It's also important to mention that we ended the quarter at almost BRL 4.1 billion in cash position, which is more than enough to cover more than three years of debt maturity.

On slide 14, we basically show the CapEx made in the recent quarters. As can be seen, the investments in the Transmission segment has started to pick up since the last quarter - fourth quarter 2017 and have reached BRL 124 million in this quarter. These expenditures basically relate to the conclusion of the environmental studies, securing land rights for the (09:53), and also some field studies such as topography, field probing and aerial survey. Also in Lot 31 that we won in April 2017 auctions, we have already started the construction works, implement a synchronous condenser within one of our substation. It's important to mention that once operational, this condenser will allow us to have partial revenues (10:25).

Moving on to slide 16. In April of this year, we announced that Lots 8, 9 and 12, lines that we won in October 2016 auction, we have already obtained the Preliminary Environmental License from IBAMA. And once those conditions are met, we should receive the construction license, which will allow us to start the construction phase of these lines. It's also important that with this Preliminary License, we should also continue with our fund-raising efforts for our long-term finance budget lines.

Also regarding Intesa's acquisition, we have announced the binding offer made to acquire the remaining 49% of the company. And once we conclude this acquisition, Equatorial will own 100% of Intesa.

Moving on to slide 17, here we show the status of our lines product-by-product. The main reason to highlight apart from the Preliminary Environmental License that I mentioned is

the evolution of the land rights secured, which have already reached above 70% in most of the lots. These two points, environmental license, land rights, as they are crucial to the beginning of the construction phase.

I believe now we can start the Q&A session. Thank you.

Q&A

Operator

Thank you. This concludes today's question-and-answer session. I would like to invite Mr. Eduardo Haiama to proceed with his closing remarks. Please go ahead, sir.

A - Eduardo Haiama {BIO 7279971 <GO>}

To sum up, we'd like to reinforce our commitment delivering a appreciation to our shareholders for exceptional financial operating results. Also, I would like to highlight over the years, the highest level of transparency and corporate governance and reassure that both me and our Investor Relations team are available should you 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 Equatorial Energia SA conference call for today. Thank you very much for your participation and have a nice day.

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