

Q1 2016 Earnings Call

Company Participants

- Jose Aurelio Drummond Jr, Chief Executive Officer
- Marcelo Patricio Fernandes Costa, Executive Vice President, Investor Relations Officer

Presentation

Operator

Good morning. Thanks for standing by. Welcome to the conference call of ENEVA's to discuss the results related to the first quarter 2016. Today with us we have Mr. Jose Aurelio Drummond Jr, the CEO of ENEVA and Marcelo Patricio Fernandes Costa, the Executive Vice President and Investor Relations Officer.

We would like to inform you that this event is being recorded and all participants will be in listen-only mode during the Company's presentation. After ENEVA's remarks are completed, there will be a question-and-answer section by that time further instructions will be given. (Operator Instructions) We have simultaneous webcast that may be accessed through ENEVA's IR website ir.eneva.com.br. The slide presentation maybe downloaded from this website. Please feel free to flip through the slide during the conference call. There will be a replay facility for this call on the website. We remind you that questions which will be answered during the Q&A session maybe posted in advance on the website.

Before proceeding, let me mention that forward-looking statements are being made under the Safe Harbor and the Securities Litigation Reform Act of 1996. Forward-looking statements are based on the beliefs and assumptions of ENEVA's management and on information currently available to the Company. They involve risks, uncertainties and assumptions because they relate to future events and therefore depend on circumstances that may or may not occur in the future. Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of Eneva and could cause results to differ materially from those expressed in such forward-looking statements.

Now I'll turn the conference over to Mr. Jose Drummond. You may begin the conference.

Jose Aurelio Drummond Jr {BIO 16095800 <GO>}

Good morning, everyone. Thank you for joining the call to discuss the results for the first quarter 2016. With me are Marcelo Costa, our IRO. And before giving the floor to him, I would like to make some brief remarks. As you know, announced on March 26th, the celebration of agreement executed with Cambuhy Investment and OGX to contribute with their respective interest to Parnaiba Natural Gas in favor of Eneva. For this transaction

to be performed Eneva should promote capital increase of at least 1.15 billion to be completed the capitalization operations should observe a number of conditions.

I would now like to highlight the completion of one of those steps which was the recent approval of this transaction by the Administrative Council for Economic Defense on May the 2nd. After the implementation of this conditions, Eneva shall call its shareholders to decide under realization on the capital increase. And once implemented, Eneva will hold a 100% stake in PGN. With this the company will position itself as the only independent company gas-to-wire in the country with this distinct and complementary activities of power generation and exploration and production of oil and gas.

And the relevant issue that I would like to point out still within the context of the first quarter of this year is the recent operation reverse stock split. The procedure was carried out by -- that will meet one of BOVESPA regulation which established that the present security must remain above BRL1 per share. On April the 7th, the company shareholders approved the proposed reverse stock split at the ratio of 100:1 and the company has been traded in this manner. And I believe that the transaction decides for filling on requirement of self-regulatory body of the market will position the company in the capital market since all the steps of traditional recovery plan provided so far have been fully implemented.

In relation to the financial aspect consolidating Parnaíba III, IV and Parnaíba BPMB contributed to the positive EBITDA recorded in the period. The generation of cash, consolidation of assets help to keep the trend of debt leveraging and the stability of the debt profile in the company in the last quarter of 2015. The operational aspect also showed significant improvement despite the reduction of certain power dispatched by the ONS. The revenues from the plant Itaquí, Parnaíba I, II and III were offset by the lower spending on operating costs and input and have registered a high availability levels compared to the last three months of 2015.

After this brief remarks, I now turn the floor to Marcelo Costa who will present in more detail results. I would still like to highlight how happy we are to see the company progressing in the first quarter and those in the EBITDA generation, cash generation, deleveraging and we are continuing to build path with the scenario full of opportunities and very bright of the company from the viewpoint of growth considering the transaction that we announced in the beginning of the year. And also all the prospect we have ahead of us. We are very enthusiastic about the progress of the company. I would like Marcelo to give some more light in relation to what we have done in the last three months.

Marcelo Patricio Fernandes Costa {BIO 17719152 <GO>}

Thank you, Drummond. Good morning, everyone. I would like to start the presentation from page two with the legal notice. And moving on, let's go to page four to talk about our recent highlights. As Drummond has already mentioned, we have been following this EBITDA positive trend reducing leveraging and generating cash. And looking at the highlight, you can see that EBITDA had an evolution of over 30 million. Cash generation increased at 36.5 million between those two periods and we had an important reduction in the leverage of the indebtedness comparing the two quarters 2015 and 2016.

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And this is basically due to the reduction of the holding debt as a result of the process that the company went through last year. Another important point that has already been mentioned by Drummond was the negotiation. The contribution of 100% of PGN realized with Cambuhy and OGX. And it's still going on and our expectation is to have it completed in the second semester of 2016. Reverse stock split since yesterday as Drummond has already mentioned the consolidation of new assets since November last year. Consolidated numbers have two important operational assets BPMB, Parnaíba III and Parnaíba IV with a positive impact on our indicators at all levels. Debt profile from December and the first quarter of 2016. We can see that the debt profile is very balanced. Stable according to the financial structure and together with the availability to higher in the period. We come to a better leveraging as we are going to provide in more detail.

And gains and continued efficiency in the holding and across all structures of assets of the company. As for the operational aspects I would like to highlight that quarter-on-quarter when we analyze asset by asset we see improvements in all our operational assets. Considering we have lower request or requirements from ONS. And as a result, we had a reduction in our operational costs and this provides us with very important stability in terms of cash generation and EBITDA. And I would like to highlight the case of Pecém II that in spite of the fact that it show the positive situation in terms of stability and EBITDA. We have some challenges in relation to cost because of the challenge of -- in the supply of char coal and also related to transportation.

This was not a isolated case. Our asset of gas production and distribution contributed in a very positive way in terms of leveraging. When we show our consolidated numbers, we see that there was a lower sale, lower dispatch for the company. Because of the fact that dispatch was low, but the EBITDA generation was important and the gas which was now dispatched is kept as a reserve for the future. On slide six, we can see a snapshot of the main indicators for the company. As I mentioned before EBITDA grew significantly. There was a reduction in the net debt and EBITDA from 22 to 8.9 times. This is the ratio for this quarter.

I would like to remind you that in 2015 we had an indicator of 9.5 in the same comparison, meaning consolidated comparison, some assets were consolidated in November last year. And they help us compose this indicator in a positive manner.

And the result is positive because at first the net result shows the reduction of about 35 million in terms of the net loss of the company for the quarter. But it's important to mention that in the first quarter of 2016 considering that it was in the beginning of the process of filing the judicial recovery that period of 2015. There was no recognition of financial losses in relation to the holdings indebtedness. If we had considered such accounting record in the first quarter 2015, the net loss of the company would have been in a pro forma way of about 217 million against this negative result of 94 million. So I would like to highlight this improvement.

On slide seven. Here we can see an explanation in this bar graph. The evolution of EBITDA. We're going to talk more about it in the next slide, but what we can see here are the main points that affected the EBITDA of the company.

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Beginning with the net revenue on slide eight. We basically we have the effect of revenues, net operating revenues the resulting of the operational assets. And also we see an increase in the fixed revenues of our assets Itaqui and Parnaíba III because of the consolidation which was not included in the first quarter 2015. In addition to the evolution in revenue, most of this evolution was related to the fixed revenue which is regardless of the level of the dispatch of the company and it has a natural protection in the long-term as to inflation. It has an annual indexation adjustment. So it has a solid growth basis.

On slide nine. We can see the increase in the operating revenue and here we see the increase in the operating cost. This is due to the contribution of the asset since the end of last year that brought about an effect of a higher operating costs. But on the other hand, our operating cost of assets that had already included in the first quarter 2015 had a reduction of nearly 60 million with an effect in the cost with the increase of 33 million. We would like to remind you that the operational revenue increased even though the operating cost increase in a comparative way the situation was very positive in terms of EBITDA results.

Moving then to slide number 10. We have a breakdown of operating expenses despite low effect when we explained the EBITDA for the quarter. That small variation is quite important. We have consolidated several assets and those operating expenses grew only slightly, only a BRL1 million. And the difference between the expenses, holding expenses and assets expenses the difference now has a higher participation and the expenses that are now recognized within the project which brings about a level of tax efficiency which is quite relevant.

On slide number 11, we have consolidated cash position between quarters. The message is quite positive and straight forward. We see an increase of 36.5 million in our cash position, due to our operating improvements, which have been already mentioned.

Moving now to slide number 12 as it was said by Drummond and as I said when I started. We are on the slide number 12 now, by the way. Our consolidated debt which is measured by the net debt over EBITDA ratio is now at 8.9 in this quarter, basically because of the effects which I have already mentioned in terms of operating improvement, lower leverage levels when compared to last year. If we were to consider, once again in a pro forma basis, if we were to consider Pecém II figures which are not consolidated in our income statements, but if we were to pro forma as I said to consider those numbers that 8.9 number would go down to 7.4 times. Once again emphasizing an important trend in terms of deleveraging.

As for the debt profile when compared to the last quarter, which we filed basically things remain unchanged. The only thing was a slight increase of 1% in net debt basically driven by financial expenses interest payments that's basically an accounting file. On top of that, we of course, maintain and service our debt, but with growing EBITDA. Given the fact that we made some comments about project the idea was to present those numbers in a consolidated manner.

And then have you make comments or ask questions should you have any outstanding doubt.

Questions And Answers

Operator

Thank you. We'll now start the Q&A session for analysts and investors. (Operator Instructions) Thank you. This concludes the Q&A session. I give the floor back over to the CEO for his final remarks.

A - Jose Aurelio Drummond Jr {BIO 16095800 <GO>}

Thank you all for participating in this conference call. I'd like to reinforce or reaffirm, our confidence in seeing the company move along from last year to this year moving towards a better capital structure, more robust, more responsible capital structure, an increase in EBITDA generation with the participation of new assets, the growth in revenues perspective of concluding a project which will be defining for our market. We are very optimistic and excited with this progress and the company's business outlook.

I hope to be able to repeat and replicate the same level of optimism in the coming announcement. Thank you again and have a nice day.

Operator

Thank you. ENEVA's conference call is now over. You may now disconnect your lines. Have a nice day.

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