

Q1 2022 Earnings Call

Company Participants

- Marcelo Cardoso Malta, Chief Financial Officer
- Marcos Keller Amboni, Chief Regulation And Market Officer
- Rafael Bosio, Investor Relations Manager

Presentation

Rafael Bosio

Hello, good morning. We are now beginning the Conference Call to discuss the results of Engie Brasil Energia for the First Quarter 2022. My name is Rafael Bosio, the Manager of the company. You're in listen-only mode. And as we open the Q&A question, you can address your question, post your questions using the platform on our site, which is www.engie.com.br/investidores, slide presentation and the company's earnings release in addition to other documents, as we disclosed to the market. And we provide a detailed information or more detail on our operations, new project and the analysis of the financial statements of the period.

Before proceeding, I would like to clarify that all statements that may be made during this conference call regarding business outlook of the company should be treated as forecasts depending on the country's macroeconomic conditions of the performance and the regulation of the electric sector besides other variables, therefore they are due to changes. Journalists who wish to ask a question, can send their questions to the company's press office.

I turn a call to Malta, the Financial Director of Energia, who will be with me during the presentation to begin our activities. Malta, you may proceed.

Marcelo Cardoso Malta {BIO 21276941 <GO>}

Thank you, Rafael. Good morning, everyone. It's an honor to be here once again, in this event to present the results of the first quarter 2022 of our company. On Slide 5, we can see the highlights related to the first quarter 2022. On the graph to the left, we can see an increase of the EBITDA and the net income of 8.8% and 21.9% respectively.

On the right, we can see some of the important drivers that we have for the results of the first quarter of this year. And one of them is the increase of our average net sales price up 9.9% and together with small volume of sales of energy in this period amounted to revenue of BRL203 million. We had a lower cost of fuel for this quarter and this was driven by this sale of Thermoelectric Complex, Jorge Lacerda in 2021. On the other hand, we also had volume of purchase, which was quite significant of Jorge Lacerda, which was contracted at the moment we sold the asset.

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We also had a very important contribution of BRL78 million in the segment of transmission. And this impact is only economic and this is due to the remuneration of the financial assets of construction, according to a specific accounting practice. But we would like to reinforce that these assets have already started to generate some cash, considering that we have already with our operation started and the amounts of the RAP of Gralha Azul and Novo Estado amounts to BRL650 million a year, considering that those assets started operating in the past few months.

In order to make it easier for us to understand the impact on our results, considering this transmission results we are going to start to disclose a reconciliation from the corporate result and regulatory result, that in essence would recognize, for example, as our AP revenue, the assets in the mobilized and cost of operation, et cetera. So we understand that with this you will be able to understand in a more clear way, the impact of our assets related to transmission on our results and cash flow.

We had some important variation in our financial result, year-on-year considering that we have important variation of inflation, rate, in the two quarters. So with this, the effect was only BRL8 million in the financial results. But we would like to reinforce that the impact of -- for each of the quarter was quite significant and in this quarter, for example, we had financial expenses of BRL974 million and financial expenses of BRL150 million, and this reduced our net income in two quarters.

Next one, please. On Slide 6, we have the highlight and I would like to draw your attention to the completion of implementation of Gralha Azul. In the end of April, we had ensured 77% of the RAP, and in May we hoped that we are already going to reach 95% of the RAP already assured. We'd like to say that RAP annual for Gralha Azul is BRL275 million.

The Novo Estado project is according to the implementation schedule. We have already ensured for April 50% of the RAP and expectation is that by the end of the fourth quarter, we have the RAP completed 100%, which is fixed in the amount of BRL370 million a year.

As we have already announced, we have completed in March the acquisition of the photovoltaic complexes at Paracatu and also Floresta that added about 218 megawatt hour to our portfolio and we have reaffirmed of our AAA rating at the national level. And we have recently seen the alignment of our growth strategy. And as a result, we approved the wind project to Serra do Assurua and the approval was during the Board that was held yesterday. The install capacity is estimated at 880 megawatts and the investment will amount to BRL265 million.

We'd like to mention that this project is high-quality project, it has a capacity factor, which is high about 50%. It already has the access reports and most of the lands have already been regulated and regularized. And I could say that, they are very -- it's very close to its implementation and we are going deeper into our studies. But we believe in this project to replace our bets on this project and we are working with a control link. So that by the end of the year, we make a decision in relation to the implementation of this project. As I said, our expectations are very positive and very high. And with this project, we are going to increase our project pipeline to about 3 giga, 1.7 giga is wind and 1.4 is solar.

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We approve the distribution of complimentary dividends for the fiscal year of 2021 in the amount of BRL549.8 million. We issued our sustainability report, it's already available. I would highly recommend, you reading this report, its content is very rich and it will help us understand our business.

And lastly, Engie Group decided that hydrogen project in Brazil are going to be conducted and developed by Engie Brasil Energia, and we already have a company, which is fully dedicated to this business. And we believe that as of now, considering this focus on project development of hydrogen inside the company, we'll discuss our perspectives along the next quarters. We are going to disclose what we have been doing and what we believe to be -- see development opportunities of projects of this nature.

I'm going to turn the call to Rafael and then I'll be back to make some additional comments on our financial performance. Rafael, you have the floor.

Rafael Bosio

Thank you, Malta. Now, we are going to talk about ESG indicators. We have already disclosed on a quarterly basis, our performance for the years. We also discussed social environmental KPIs along the 10-years already, but now we have this in the clear way during your presentation. And in the first quarter, we reported consistent improvement in our data, and of course, they are related to the divestment of that was made of the Thermoelectric Complex Jorge Lacerda as mentioned previously in the presentation.

So, we have -- you can see the reduction of the total emissions and other impressive data, and this reflects the number of women in the workforce and the complex had men, mostly men working in the assets. So this also -- this initiative brings more diversity to our workforce and we are going to continue report information related to ESG and as we sell Assu we are going to provide more information and the divestment of the Assu is expected to be ended by this year -- the completion of this year.

Now talking about our commercialization strategy. This is the quarterly update and if you want to compare with the numbers that were disclosed in the previous quarter, we'd like to mention that we can continue contracting energy in the short, middle and long terms. So the averages above 80 megawatts for the second quarter of 2022. And if we see the attachment of the presentations, you can see the energy balance and you can see that the prices of the new space have contributed to the increase of the average price. This is what we have been mentioning and energy prices have been pressed down in the previous period, due to the cost of implementation of the project. The increase in the interest rate, as well as restrictions in the supply chain, and we have seen that there is phase opportunity to charge the right price, so that we can continue our growth according to the strategic plan of the company.

Moving on to talking about the commercial strategy. So this is our share in the market and there has been a drop in relation to the first quarter, 2021. And this was a result, basically of the hydroelectric crisis that we went through last year. We had to reduce the sales pace in order to preserve the energy in the portfolio, so that we can hedge in order to mitigate

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against the electric energy deficit generation. And we are going to be summarizing the acceleration of commercialization for the next quarters.

Now moving on with our presentation, you had access to the presentation, so I would like to draw your attention to some points and what we have been celebrating, because we have accelerating our implementation. We have 45 of the turbines with a bases already contracted, the construction of the substation has more than one-third of the physical progress and leading to an overall physical progress of about 14.5% and the perspective is that the operation will start by the fourth quarter of this year, and with a full commercial operation in the beginning of the first quarter of 2022, increasing our installed capacity.

The next capacity, which also made headway in a significant matter, I'm talking about Gralha Azul. At the end of the quarter, we had the right to receive 77% of the RAP as Malta mentioned, but in April we had another progress reaching 87%. And now in May, we stand at 95% of the receiving RAP, and we will see -- we'll reach 100% in March next year, considering that there are some regulatory related restrictions that depend on the transmission line, which still to start operating that is planned to start in March next year. So we are anticipating the operation -- the start of operation and this will help us flow the transmission of energy.

And another project of the transmission line in the state and there has always been a significant increase reaching in the beginning of May on the 1 May, 50% of the RAP and the project continues advancing and it's likely to complete by the end of this year.

On slide related to the expansion of Jirau, we are updating the expansion of the asset. We do not have a lot of update in addition to the excellent performance of the plant. And the independent Board of related parties is going to consider it, transfers to the controller to Engie Brasil Energia.

Next slide. Still talking about expansion. We have the project at a more advanced the stage of development and those plans are not under construction yet. They are at stage of being authorization for construction. And the news that Malta has already mentioned in the beginning of the presentation, is the inclusion of Serra do Assurua in the Wind Complex into our portfolio, and this is going to be implemented in by year with installed capacity of 880 megawatt. As Malta commented it at a very advanced stage of development now and it's likely to be in operation in time to use the regulatory benefit and discount of the transmission tariff.

Malta, over to you to address the financial performance.

Marcelo Cardoso Malta {BIO 21276941 <GO>}

Thank you, Rafael. This slide shows a little bit of the soundness of our performance in the financial aspect. We can see the indicators that would reaffirm our financial discipline and how we allocate our capital very efficiently. On the right, we can see the evolution of our investments and our financial performance from 2016 to 2021.

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Next, this slide shows the evolution of our revenues. We have already mentioned in the highlights that, the increase of prices, volume of energy added BRL3 billion to our revenue. We had a reduction of the volume of operations of trading of BRL95 million, but we also had a reduction in the volume of purchase. So, the impact of EBITDA was negligent. And assets in transmission to revenue is reduced because it's just natural that when we reach to a more advanced step of implementation, we reduce the CapEx. So when we compare the CapEx of both quarters, we had a reduction. And as a result of this, there was also a drop in the construction revenue. You will see that -- the EBITDA as I mentioned before the impact of this transmission activity was BRL78 million.

Next, please. This is a little bit of the result of target, this quarter it added to our EBITDA BRL173 million in the first quarter 2021. The result of equivalence was about BRL175 million. So with the performance quarter-on-quarter is quite consistent.

Next, here shows the evolution of the EBITDA. We have already mentioned in the beginning of the presentation, the main impact and I'm going to repeat price and volume of energy, fuels we had a drop because of the sale of Jorge Lacerda. On the other hand, there was an increase in the volume of purchase of energy that was driven by the sale of Jorge Lacerda. And the effect of the assets of transmission that added BRL78 million to our EBITDA, here is a graph with the net income change. The main effect that impacted this evolution or this change was the impacts that had already been mentioned in our EBITDA.

This slide shows basically the information about our indebtedness level. Net debt over EBITDA is still very comfortable. There was an increase from two times to two point two times as a result of the acquisition of Floresta and Paracatu complexes. When we incorporated the debts of the SEs and we also had the payment of dividends in this quarter. So, these were the main justifications for the increase in this ratio of net debt over EBITDA. We closed the quarter with debt of BRL16 billion, and cash of BRL4.6 billion.

Here you can see the profile and the composition of our debt, the breakdown of our debt according to the taxing aspect and our share is prefixed, and it's going to become mature in 2022.

We'd like to remind you that we had a debt swap of some swap from CDI at the end of 2020. And this decision was very assertive and correct. And it has added a lot of value to our financial results. So we continue with the significant position of the IPCA and the breakdown of our debt and the nominal cost for the quarter ended at 14.5%.

This slide shows our history of investments that was very significant for this year. And for this year, we have estimated BRL3.4 billion. And most of this volume is going to be used in the construction of Santo Agostinho.

In 2023, we basically have Santo Agostinho also, and we hope that we are going to approve the investment in Assurua. And this volume of investment as of 2023 should grow. And this is the evolution of our payment of dividends. And last year, we paid 100% of our adjusted result equivalent to 6.2% of dividend yield.

And with this, I end the presentation and I will open the Q&A session.

Questions And Answers

A - Rafael Bosio

(Question And Answer)

(Operator Instructions) We have two questions already coming from (inaudible), our individual investor. The first question is related to the transfer of Jirau. And his question is, in case of completion, it's a bit difficult or complex to as assert this time. So he asked what will be the potential increment of revenue generation? Is that a trigger to unlock the beginning of this transfer?

A - Marcos Keller Amboni {BIO 21277208 <GO>}

Thank you for the question. It's always important to mention that Jirau is an asset, which is controlled by our controlling company. So we do not have a lot of access to information or more precise information about Jirau. Considering that this asset may be transferred at some time in the future, therefore, we may -- we try to maintain independence from Engie Brasil Energia and Jirau.

So we do not have access to this information as a result of what I've just mentioned. But as this process gets mature, of course, we are going to be conveying this information and reporting any additional data about this process, should there be any transfer of this asset.

A - Rafael Bosio

Thank you, Malta. The second question comes considering that the recovery of the reservoirs in the south, should we expect an increase of revenue? And he also gives a tip to the answer. It might not be translated into revenue considering the drop in the spot price.

A - Marcos Keller Amboni {BIO 21277208 <GO>}

I do not know if I quite understood the question, but I'm going to make some considerations in relation to it. Yes, we have seen this. There has been a rise in the reservoirs levels, and of course, this will impact the GSF and this is what we have seen. We have seen that GSF has been behaving steadily in relation to the previous year and also the spot price for the quarter has been close to the expected. But as to GSF and the spot price, we tend to be more flexible or not in terms of the reserve we have in our portfolio in order to protect from the GSF. So an increase of revenue or mitigation of the prices considering the impact of GSF will depend a lot on our prospects in terms of hydrology and also the levels of reports.

So our strategy along the year may change in order to be aligned with those prospects of hydrology and energy price. So trying to answer in an objective manner, it may or may not impact our revenue. Yes, MRE is very important because we have to remember that

considering this mechanism is replaced by the theoretical optimization tariff, which is very much below of the contracted energy in the short term. And the values are below BRL15 megawatt hour, and even if reproduce more, the generated revenue is not going to be very significant. And in the long term, we purchase energy in the MRE considering that other plants have generation -- higher generation because their hydrology situation is better. Even though we are present in most regions of the country that, that happens. Bruno, if we had not answered your questions, please let us know and we will provide more clarifications and we can talk more about it.

A - Rafael Bosio

Next questions comes from (inaudible) analyst. He's asking about CapEx, out of the total of BRL3.45 billion, how much would be addressed to Santo Agostinho?

A - Marcos Keller Amboni {BIO 21277208 <GO>}

And simple question, BRL1.73 billion, including an investment that we made in Floresta and Paracatu complexes. So this is basically it. To Agostinho BRL1.6 billion, Floresta and Paracatu BRL700 million, Novo Estado BRL700 million and the maintenance of assets BRL300 million. So this is the breakdown of this CapEx of BRL3.45 billion.

A - Rafael Bosio

Thank you. Now I'm going to ask another question by Leonardo. He is asking about the volume of sales. Why is there a discrepancy from what we have in terms of contracted sales and the volume sales recorded for the period. I think he is comparing it to our energy balance. Leonardo, I would like to remind you the energy balance does not consider the GSF. And this is discounted from the capacity of the plants and does not consider the flexibility of agreements, right Malta?

A - Marcelo Cardoso Malta {BIO 21276941 <GO>}

Yes. Exactly. This would be the answer.

A - Rafael Bosio

So we change the focus a little. Let's now talking about long-term strategy, Malta. He is an analyst of (inaudible). He is asking us to give some more details about green hydrogen. We're not talking about projects, right Malta, but we can talk about the structure of the company with that purpose.

A - Marcos Keller Amboni {BIO 21277208 <GO>}

Yes. I think it's important to mention that we already have a team, which is very experienced. These are people who have operated in hydrogen projects for quite a while. So there's one officer that has already joined our team. And he already has a team already structured and they have been working on the expansion of the team. We have been talking to the market. We have already considered different opportunities. And in one of the cases, we have already presented an MOU. And for the time being, we cannot provide more details or mention the company involved with. I believe that in the first quarters, we are going to disclose more information in relation to this MoU.

So in addition to this, we have also considered other companies to -- considered or evaluated the opportunities of partnerships. We'd like to mention that the German government is about to launch invitation for the purchase of green hydrogen with incentivized resources by the German government. And one of the projects that we are considering and we are discussing also maybe related to this expectation of use opportunities of this auction. So this is as much as -- the most that I can disclose to you at the moment.

A - Rafael Bosio

Thank you, Malta. Another question focused on commercialization. When looking at the future, you tend to focus on the free market and the captive market. The market has seen that we have focused on the freight market in order to grow. We're not the first companies to develop the project of renewables and 100% of the energy was directed to the free market considering the low prices and the competitive market of the regulated market. And with expansion of the free market, we can see that the opportunities are going to be offered. So I think this is a market consensus, it's not something that is only limited to us. And our competitors are also going to be focusing on the free market and the perspectives are very positive when we see this expansion and we are ready to make sales in this regard and we already have a platform energy marketplace, we already have digital products in order to streamline the contracting process, so we are looking at the migration and capture all the smaller clients to include in our portfolio. Would like to add anything, Malta?

A - Marcos Keller Amboni {BIO 21277208 <GO>}

No, this is basically that, Rafael. We would just like to remind you that our latest projects, the ones that we have implemented, they were all made visible with energy sold in the free market (inaudible). We managed to implement it. It's going to operate in the free markets. I think this is a trend and we believe that we are -- we will have good opportunities of sales in this market and this is the path we want to take.

A - Rafael Bosio

Perfect, Malta . Now going back to debt. Lucas, individual investor, he says we see low indebtedness level and we see some projects underway. Are you planning on new captures. So it's important to say or to discuss about our indebtedness because the individuals are usually concerned about this indebtedness level.

A - Marcos Keller Amboni {BIO 21277208 <GO>}

Yes. As was mentioned our debt level is very comfortable yet. We have a lot of room to finance new projects, Assurua, that would include Assurua where we have the opportunity to finance part of the equity of this project. I would say that if we approve Assurua, we are going to have a capture of resources. And even with the implementation of Assurua, while we are going to continue with a very comfortable situation in terms of indebtedness level. And we may even keep a high level of dividend distribution.

A - Rafael Bosio

Okay, Malta thank you. We have a lot of questions here, which is so good. So it's very important to communicate with the market. There is a question related to the review of fiscal guarantee of Eletrobras, and if this was a topic that was addressed in the privatization, would you like make any comment about it?

A - Marcos Keller Amboni {BIO 21277208 <GO>}

Yes, this was something that has already been addressed and it's important to mention that the generators had an expectation of a much larger reduction of the fiscal guarantee that did not materialize in the end. And series that was used for the calculation of this fiscal guarantee reduction was did not consider the year of 2020. And if this year had been considered in that series, the number of the reduction of fiscal guarantees would be much -- would have been much higher. The generation agents played a very important role so that it would be possible to change such perspective of reduction of fiscal guarantee. But this was not what happened. So whatever is estimated is going to be maintained according to the terms of privatization of Eletrobras.

A - Rafael Bosio

Okay, perfect. Let's change ways now. The company is platform of investment and we have a lot of topics to be addressed. So we can talk about it gas transportation segment. The question is what are the plans for the growth of TAG? What are the plans for the expansion of the gas pipelines considering the gas market? What we have reinforced is that the market was very anxious in relation to this, but we have seen evolution in the market and this is an evolution that is going to play out in the medium term. Would you like to add anything, Malta?

A - Marcelo Cardoso Malta {BIO 21276941 <GO>}

Yes. I would say that this market is still in the process of maturation. We have already noticed some movements that will bring about some levels of optimism. We noticed that there has been interest in the use of the gas pipeline and we also look at the expansion opportunities with like to mention that we have already signed an agreement to connect the terminals that ship to our greater network. It's not such a significant project in terms of volume for target, but it's an investment of about to BRL300 million with revenue of approximately BRL40 million per year. A COD estimated for the beginning of 2024, and we also have an agreement which is being signed with the municipality of Fortaleza, which is gas 42, which is the reinforcement of the North East network with a CapEx of the BRL270 million and revenue close to BRL42 million and the COD for the mid-2023.

This all shows that there are opportunities coming up and we have prospects that opportunities will grow along the next years. And this makes us very optimistic because when the agreement with Petrobras expire, we will have a way to optimize the use of the gas pipeline.

A - Rafael Bosio

Thank you, Malta. We also had some additional questions. Lucas is asking the status of (inaudible). Is there a technical report? Yes, we have 880 megawatts of installed capacity. And this is a project that we are trying to develop in the short term.

Moving on to another segment and talking about the question asked about by (inaudible) is an individual investor. He's asking if we would like to -- if you are interested in taking part in the transmission auction and he asking what's our level of interest.

A - Marcos Keller Amboni {BIO 21277208 <GO>}

Yes, we're interested in this auction and we are probably going to take part. Our investment team is evaluating these projects and we know that in the latest auctions we were not very competitive, the prices were much below much below of what we expected. So that project of this nature could be feasible. Those auction that are going to be held in June and also at the end of the year, those auctions have larger lots than the previous auctions. And this would be very selective in terms of players. So we believe that the competition is going to be limited to some large companies whose balance and capacity to finance and deliver the projects.

And as a result, we believe that we are maybe more competitive. We are reinforcing our team of development of projects and transmission so that we can share experience and evaluate how we can be more competitive than we were in the past. So we are doing our homework so that we can be more competitive than we were in the previous auctions.

A - Rafael Bosio

Thank you, Malta. We're getting close to the end of question. There's another question by Vinicius. He is asking if you would like to increase your share in TAG or you have any interest in acquiring new companies?

No, not for the time being. We do not consider any possibility in this regard. We have a partner who is a financial investor and just like us, he is very happy with the performance of this asset. The returns are much under of what we had expected at first. So for the time being we do not see any perspective. We are not considering increasing our share in TAG.

I would say that our partner is not interested in changing his position. A question by (inaudible). In relation to anticipated renew of concessions, is there any possibility of this to progress this year? It's a question which is quite difficult to answer. We have seen the goodwill on the side of the government to discuss this and we are monitoring this to determine whether or not this is going to be done before the elections, but it's complicated now.

A - Marcos Keller Amboni {BIO 21277208 <GO>}

Yes, Rafael, this is an election year. We have challenges in terms of approving projects and the challenges are greater in this period of the year. It's a project that has very important issues related to the electric sector. As Rafael mentioned, we have seen a major effort from the government to approve this project and we are waiting and we are expecting the project to be approved still this year. We see that this could be an opportunity for the government to raise funds, to address this pressures on energy prices, a complaint from the consumers and also bring in more proceeds, more resources

and address fiscal issues of the country. As I said already, since it's an election year, the challenges are even greater.

A - Rafael Bosio

Thank you, Malta. We came to the end of the Q&A session. And we addressed all the questions that up to the moment. And the IR department is available should you have any other further questions, you can get in touch through our site. And my contact is also in the presentation. We would like to thank you for your interest in our company and we would also like to thank you for the questions you posted. Would you like to make some final remarks.

A - Marcos Keller Amboni {BIO 21277208 <GO>}

Yes. I would like to thank you for attending this conference. It's also a pleasure to be discussing our business. The IR team and I are your disposal should you have any questions or require any additional clarification. I wish you have a wonderful weekend. And with this, we end the results conference of the first quarter 2022 of Engie Brasil Energia. Have a nice weekend, everyone.

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