

Q1 2021 Earnings Call

Company Participants

- Adriano Rudek de Moura, Chief Financial Officer, Investor Relations Officer
- Daniel Pimentel Slaviero, Chief Executive Officer
- Unidentified Speaker

Other Participants

- Marcelo Sa, Analyst

Presentation

Operator

Good Afternoon and thank you for waiting. Welcome to the Companhia Paranaense de Energia COPEL Earnings Call to discuss the Results of the First Quarter of 2021. All participants are in listen-only mode during the company's presentation. Later, we will hold a Q&A session, when further instructions will be given. (Operator Instructions)

Before proceeding we inform that forward-looking statements that might be made during this conference call related to Copel business outlooks, projections, operating and financial projections, our goals and they are all based on beliefs and assumptions of the company's management and on information currently available to the company. Forward-looking statements are no guarantee of performance. They involve risks, uncertainties and assumptions, because they relates to future events and therefore depend on circumstances that may or may not occur. General economic conditions, industry conditions and other operating factors may also affect the future results of Copel and could cause results to differ materially from those expressed in such forward-looking statements.

With us today, Mr. Daniel Slaviero, CEO of the company; and Mr. Adriano Rudek De Moura, CFO and IR Officer. Copel's presentation is available at the company's website www.ri.copel.com.

Now we turn the floor to Mr. Daniel Slaviero, CEO of the company.

Daniel Pimentel Slaviero {BIO 20914773 <GO>}

Good afternoon, everyone. Thank you very much for participating in this conference. I hope that all of you and your families are doing well and are healthy, and despite of be facing a very challenging environment, we are very pleased to bring to you the results of

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this first quarter, which once again preceded our expectations and have a sound and consistent growth.

In this quarter, as broadly published in our notices to the market and then specifically in our last call with dedicated great efforts in our agenda to improve the governance in the company. In addition to the new communities to help the Board, in April 29, we had our Annual Shareholders Meeting, which increased the number of minority representatives going from two to three seats. They are Leila Loria, Marco Antonio Boulogne and Andriei Beber, which are here with us in this call today. I would like to welcome them and to say that we'll keep on moving on and those best of COPEL. The Board of Directors share is still Marcel Malczewski, I already know him, he is a great business man and a great entrepreneur.

Here we have our EBITDA, we reached BRL1.4 billion, 30% increase and net income of almost BRL800 million, 50% up. As we have been saying, these results our thanks to (inaudible) execution of our business plan with focus in core business of energy efficiency improvement and discipline in capital allocation, always aiming to generate more value to the company.

Moura is going to go into the details about the performance of our business units. But I want to stress the extraordinary work of Copel Generation and Transmission. There is a growth of 41% in its EBITDA compared to the first quarter of 2020. This is mainly thanks to wider generation, but also we had efficiency in cost management and the strategy of energy commercialization and also a result of our equity income coming from our transmission companies, (Foreign Language). But relevant shares here, yesterday and the committee for electric sector monitoring lifted limits for TPP this batches. Therefore, we can expect good results for weather over the year, something else the market is following up, its re-profiling of the RBSE of the transmission companies.

One, it was extended by the regulatory work of 7.71, this is going to bring Copel a return at present value over BRL80 million and now also the preliminary calculations of CCEE for GSF will pointed to a figure that is close to BRL1.3 billion that probably will be posted in the second quarter. Is --- this is still pending, the re-assessment by the Court of Accounts and this figure could even go up breaching around EUR1.5 billion.

I also would like to highlight in our -- dealing to the conclusion of the last section of Lote-E adding almost BRL40 million in RAB, in total this project has added a BRL120 million of annual RAB for the company. We also concluded the feeling of the reservoir for Bela Vista PCH, therefore we are close to the operations for the first turbine. And both of these projects have been concluded in the budget that we had an -- as far as Bela Vista is concerned, we slightly delivered it earlier. So the beginning of supply will happen in January of 24 and until then, we will commercialize the energy in the free market. The execution of the projects on time and in budget of all these business plans is a commitment of our management. So congratulations Bertol and the whole team of Copel Generation and Transmission on that result.

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But the main topic right now is the units program. We concluded successfully the minimum percentage of enrollment information of the program. We had over BRL248 million of units at B3 [ph] and Parana State Government as a majority shareholders converted another 29 million that is equivalent to 5.3% of its capital.

The state now has 31% of the total capital of the company. And an important piece of data that you can see on this slide, is that our book value is at BRL7.14. Now about a possible offer that shareholders might have. I would like to say that the information that we have other ones published on the notice, 16 2021 on the last week, we would like to say that and a possible offering Copel has no intention of bringing in any type of primary offer.

Next slide now. Now to conclude, I would like to highlight the main topics of our investment policy. As we have brought you in our Copel Day. As we can see on the slide, our priority is concentrated on Copel distribution investments. Thanks to our prudent use history of funds and also to the regulatory work.

We are executing a consistent investment plan and this is already showing in our tariff review preliminary data from a now -- point to a RAB of BRL8.3 billion, up 70%, right (inaudible) or ahead of the process and Copel distribution. So, right after that our priority points to renewable assets, wind and solar preferably brownfield and that present any synergy with our current structure. So it's important to say that, we are aiming a minimum size for each type of source. Therefore, the competition is going to be among companies of the same size.

In addition to that we are paying attention to opportunities of auctions of transmission that will be carried out by analysis, specifically by the end of the year and obviously, these will be Greenfield. It is also crucial to say that we will have a strict discipline in capital allocation. That is, we will only be doing businesses with the right returns and that generate value for the company and its shareholders. Recent changes in our by laws are to stress to reinforce that governance process.

And also with the creation of those investment committee we had. And finally, we have the perspective of commercialized where this energy in long-term auction. Therefore, we will have the right profitability to this asset in any matter, while we do not have that happening as I mentioned before, we are very happy about the operating and financial performance of this plant. Which is also a good perspective that we see in the capacity auction that MMENNL [ph] intend to do by the end of the year.

So after my initial remarks, I will turn the floor now to Moura and later on we'll come back to take your questions. And Moura is going to go into the details now of this quarter.

Adriano Rudek de Moura {BIO 3590957 <GO>}

And thank you, Daniel. Good afternoon, everyone. I also thank you very much for being here with us for this conference call. It is with great pleasure that we bring to you another quarter with sound and consistent financial results. We ended 2020 with historical results

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and we started 2021 very well at the same pace with EBITDA and net income better unprecedented for first quarter. And this is thanks to an execution of sustainable growth, capital allocation discipline and also efficiency improvement in all our businesses.

The EBITDA of BRL1.4 billion and a net income of most of 800 million, a growth of 19% and 36% respectively. Some factors that have contributed to these better results. One of them is the growth of over 30% in the electric energy supply, specifically because of the commercialization of UEGA, 690 gigawatt hour in the quarter. Also we have a growth of almost 80% in the sale of energy by Copel MercadoLibre or free market reaching 5,199 gigawatt hour and availability of the electrical network grid. We had an increase of almost 8%. This was affected by the growth of 2.6% in the grid market and the G&T, the periodic tariff review of transmission and the tariff adjustment applied to the other transmission contracts were also very positive.

Another highlight is the increasing the results in our equity income over BRL60 million, specifically because of the commercial -- full commercial operation of Mata de Santa Genebra in mid of last year and also (inaudible), which also started its operation in the second half of 2020. These are joint controlled companies from Mata de Santa Genebra, it's jointly controlled with foreigners.

Further on, we are going to talk about PMSO details, but I can tell you that we had a reduction of BRL55 million in provisions basically, these were impairments and litigation and they have offset higher costs with the electric grid maintenance and also we had there a performance incentive program amount being paid. And here the results are being -- that are being presented included the discontinued operation of Copel Telecom.

Moving forward, here we have some non-recurring items, as we can see, we had a few adjustments in this first quarter of 2021, just BRL4 million in that. But in the prior quarter, these amounts were more significant around BRL64 million, basically impairment generation assets and the impact of an arbitration of GTF 16 million, that's not going to be recurring.

On the next page, we also have some of the highlights of this period with a sound cash position. We ended the quarter with BRL3.2 billion and also a positive cash generation of BRL760 million that was specifically affected in January and February, because of higher tariff cost which are transitory with Parcel A on COPEL, because of higher thermal dispatches and also because of an increase in the FX exchange.

In terms of CapEx, we are on budget, financial budgets and (inaudible) budget, we have invested BRL445 million in the first quarter and we believe, we are going to reach BRL1.9 billion, this have been approved by our Board of Directors. We already talked about the growth of the grid market, but I can tell you that there is a trend here to recover the demand of the energy gradually, specifically in the industrial sector that had a good recovery in March, here and Parana.

I should also say that we concluded the works and Daniel mentioned that a Lote E, 39 million of our AP Copel GET and also another referencing year is the payout of BRL2.5

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billion in dividends for 2020 and we have already paid in April -- on April 30, 1.250 billion and the remaining amount will happen by the end of the year and the data is going to be defined by our Board of Directors. And Copel has not posted the impacts of the renegotiation, as Daniel mentioned, probably this is going to happen in the second half of the year and we are just waiting for announced approval.

And the other highlights here in this page are have been already mentioned and we can go to the next page. And here, Daniel also mentioned, our E&S program. I just would like to stress that 277 million units that are already being negotiated or traded at B3 with a code set the PLE-11 B3 and in the US they are being negotiated under the code ELT since April 29.

So these units, the ADR that were in the CPLE6 preferred shares, now they represent one unit, that is one ADR is one A unit. Considering the shares conversions that happened when we created the new units, our final shareholder structure has changed, now preferred shares represent 61.5% of total capital and common shares represent 38.5% of total capital and the state of Parana is our majority shareholder and they have a 69.7% of shares with the right to vote.

Finally, it's important to mention that BNDES has formed a 131 million units that represents all its stake of 24% in the capital stock of the company, and as I mentioned Parana State, it has 29 million of units and those represent 5.3% of total capital of the company and BNDESPAR and the State of Parana have over 160 million units, that is a 58% of total units.

Now the next page. We have this information as exceptional result of Copel G&T that has grown 30% vis-a-vis the first quarter. These are adjusted numbers and the contribution for (inaudible) dispatching the EBITDA, it was up BRL34 million when compared to the first quarter of 2020. Another important highlight of G&T was 4% higher energy sold reaching 5,111 gigawatt an hour. Specifically, because the optimization of the strategy to contract energy that has allowed us to have a higher contracting level of 85% in the first quarter of last year and now we have 91% in this quarter.

In addition to that, because of the improvement of the hydrological situation our HPPs, we have a much better situation of 1,049 gigawatts -- average gigawatts, we have over 2,000 this quarter and that has rewarded the optimization from minus 34 million to 6 positive million in the first quarter of 2021, a variation there a delta of EUR40 million. Finally, we have already mentioned, but we have an increase of transmission remuneration and increase and that has contributed to better results at GET, in addition to the positive impacts of the conclusions of Matrincha and Mata de Santa Genebra works.

Now in our DIS we still have efficiency higher than regulatory standards. We ended the quarter at almost 9%. But in this quarter, the increase in the grid market was not totally tapping to enter this revenue and in addition to that we had higher maintenance costs in the electric network. To reduce the impacts in the DC and FEC sellers, an increase in the provision of our profit sharing program and performance incentive program, we are paying attention to this negative impacts and to work on that in the future, about the

profit sharing program, we expect that in this year, we have a relevant reduction compared to last year.

Once we are not going to have a negative impact of paying dividends, which was in our calculation based and that was -- that's rule in 2020. And now this negative impact is probably going to be fully offset in the first quarter, then I believe we will have a reversal -- a reversion here in the last quarter. So we are very happy about this, we believe we are going to have a great year. We are having efficiency improvement, we are reducing costs. And also have the fifth tariff cycle that was start now on June 24.

Telecom the sale process is already advanced and in final stages, I would say. But we are still consolidating the results up to the final conclusion and to the transfer the -- everything that needs to be done by the end, the mid of this year and then we'll post the results of the transaction and also the cash of BRL2.5 billion. Anyway, the results are consistent and they are improving vis-a-vis last year, specifically because of the reduction of the third-party costs and services and that is based on revision of contracts and also renegotiations with suppliers.

For Copel Mercado Libre or Copel free market, in addition to an increase in energy sale, we are already seeing improvements in results and they are thanks to prior negotiations from past years with sustainable and better margins and that is in line with best market references. Remember that this month we are celebrating five years of Copel Mercado Libre. And we are some of the largest energy commercial organization companies in the country. Congratulations to all involved and Copel Commercialization and Mercado Livre, in this quarter -- the just in this quarter, the adjusted EBITDA of 22 million, 23 million is the whole EBITDA for the past year. So just in one quarter, they had that.

So now on the next page, we have PMSO and in the first, you have the comparison first Q 2021. On P line, you see a reduction in 2%, with personnel, because of the voluntary redundancy program of 427 employees in 2020. So there was represented a 6% reduction and our head count. And here we already have around 2,000 people less over 22% and the whole period of the program.

Salaries were adjusted last year and almost 4%, so this reduction was of more than 6%. Because if we were to discount the inflation that we have this matter of 2% that you see in the presentation. We always say P today's, our highest manageable cost and we are always focused in improving efficiency, reviewing process, investing in technology and in our 2021 plan, we already have several opportunities included there.

About the profit sharing program performance, incentive program, we see better results when we compare that to the prior quarter. And once again, I say that, we expect the relevant reduction for the profit sharing program for 2021 compared to 2020. Talking about dividends here, starting in this quarter, there was an increase that we will not see again considering the change. The degree that when the regulating that up to 2020, so starting 2020, '21 dividends will not be part of the calculation base.

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And in the last quarter of last year we recognized over 170 million because of this link with the dividends, we won't have that again. In material line, we had a reduction of BRL5 million in expenses and specifically with fuel and in the third-party services there was an increase of BRL31 million. Like I said, this basically -- this is maintenance of our grid, (inaudible) and the provision line, there was a reduction of BRL55 million and that is specifically for the litigation and impairment and there was an increase of BRL16 million, because of additional maintenance costs and HPP and that's non-recurring.

Before I move forward, improving efficiency and cost reduction. more than ever are in our agenda. And just like last year, we will have aggressive targets to reduce cost related to the compensation of all -- also all our top management.

On Slide 13, we see the history of our investments, there is nothing new here. We talked about our investments in the quarter and we will focus on this and concluding GET works, which are ahead, they are very advanced works. Our goal is to fulfill the approved budget and the approved budget is of 1.9 billion.

Finally, our leverage reduction, it is at 1.2, our target for the right capital structure is to be close to 2.7 without going over that limit and will move towards that goal that target. As we have already said, combining the investments and dividend policy, so that we can reinvest in the long term.

So I thank you all very much for your participation. And now we can open for the Q&A session. Thank you.

Questions And Answers

Operator

We will now start the Q&A session. (Operator Instructions) First question from Marcelo Sa, Itau.

Q - Marcelo Sa {BIO 16454581 <GO>}

Good afternoon, everyone. Congratulations on the results. I have two questions. First, I would like to understand what is your expectation about the revisions, the preliminary region revisions. Is there anything that you were trying to address there? And another question is, your leverage is very low. You do not -- you still have the dividends cash there. So it will increase a little bit, right? So but then in anyway, it's low and I understand that now the company probably will start looking at a growth.

Remember that the -- that your times that we have talked, it look to buy if you wanted to focus in M&A and brownfield. I would like to understand your expectation about growth, if that's really what you want to focus on or if you have anything relevant to happen this year? Thank you.

A - Daniel Pimentel Slaviero {BIO 20914773 <GO>}

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Hello, Marcelo. Thank you very much. About reviews or the revisions, both in the remuneration base of 8.3. We don't expect to have anything major changing. We should be in the same level and we would like to maintain the 100% compliance there. Now we are doing everything to follow on those lines, we are very cautious me, Max everyone, we are very cautious about the subject. So that all investments. I can comment at this space and be remunerated for us and the company.

About the tariffs adjustment also there was a preliminary figure of 9.67 and we see a huge effort and announced side to use several instruments in order to have a low impact for consumers right now. I think this is a right measure to be taken, right now we are ready have a part of that (inaudible) posting. But recently, we have the degree of (inaudible), this could be a deferred amount.

And we believe and now might use it. But I don't think there is going to be a significant variation in the process. But that could vary a little bit more, but within that arrow margin, just remember that as approved and the by laws. This will be implemented right after and now confirms this date of June 24. Anything else?

Q - Marcelo Sa {BIO 16454581 <GO>}

Yes. That's it. Now about leverage.

A - Daniel Pimentel Slaviero {BIO 20914773 <GO>}

Yes, it is very low and according to all the postings and we already mentioned, both the GSF and telecom deal are not posted to our balance sheet yet, we are moving towards the second quarter now and everything points to a very low leverage. And our policy this shows that we are at that level that our policy determines of 65%, that's a very good perspective and that's adequate for our investors profile.

But I mentioned in the call and Copel Day and also in the policies filed at CBM that we have the assumptions and the guidelines and our team there. The team of new businesses Castillo and his team, we are working on it. We are analyzing the options, always considering a lot of discipline. But we are working hard in the last few months to analyze the opportunities. So we believe that in the next few months, we can have something, if that really moves forward and works out. But what our policies, is data and I don't want to be repetitive here. After Copal distribution we have the renewable assets wind and solar and we have a preference for brownfield. And that have synergy with us of course.

So we are see ourselves with an average size of assets, for each source we have a minimum size. So that we can look at them and dive into them and also, not only the NLs [ph] transmission auction that will happen ahead. There is a lot of that has a lot of synergy with our structure here in Parana and also in the country side of Sao Paulo. But we also have C3E that will open the data room of theirs in the next weeks. So we will keep on looking at that, but always working on governance and guaranteeing the right returns for the company and for our shareholders.

Q - Marcelo Sa {BIO 16454581 <GO>}

Great, thank you very much, Daniel. In the beginning of the presentation, you said that you didn't have much information about what the shareholders of the company were doing this potential secondary offer. I remember that the BN and BS had stated that they expected to place offer up to June. That would be their idea. Did they tell you anything about timing? About the size of the offering? If they are going to sell a more or less share of it? What are they telling you or they are not telling you anything? Thank you.

A - Daniel Pimentel Slaviero {BIO 20914773 <GO>}

Marcelo, as I said, this is the main topic. I know the topic of the moment, but they have not said anything. What they always say is that this is part of a larger strategy, a broader strategy of the divestment of the BN, BS par portfolio. So but they don't have any indication and I think that will depend on the market. We see that the utilities sector as a whole is having a hard time. And I'm sure, this is under the radar as well, so that they can understand that as the right condition.

What we know is what I mentioned it's registered and is that we are waiting on the side of shareholders, is specifically B&S [ph]. What they expect that the size and everything, but what we know is that, they have a lot of experience on the market. And just to conclude and I don't want to repeat myself once again. But Copel, in case those operating happens Copel is not thinking about primary offers neither leveraging the business plan, that is not in under our own radar. Thank you very much.

Operator

(Operator Instructions) We just received a message via chat. This question comes from William. About the water crisis we are going through, how this is going to affect the company's results in 2021?

A - Unidentified Speaker

Okay. So let's talk about this, how this water crisis affecting Copel and the whole national electric system. Well, William you have seen that the water crisis is worsen, its getting worsen. Considering the September of '20 and April of '21, this is the world history of the national integrated system that we have seen. Since we started register that figure in March of 20 -- April 2021, which is considered what period was the fourth and the worst one and April of this year was the worst in history.

So we see it as a difficult situation, because the level of the reservoirs is low in the south region, we have it a little bit better. We have a favorable condition here. As Dan and Moura mentioned, our energy generation was good, it was qualified. So we didn't have a positive balance with the Energy Optimization tariff of MRE. In terms of sales strategy, we developed a season analyzation, so that we could bring down our risk specifically for a low GSF in January and a high spot prices.

So we worked with a seasonalization to protect it and now so we have a strategy to buy energy throughout the year, in order to offset the exposure that we have in some

months, considering energy prices that we found to be enough for this strategy. So really this is a difficult environment with a lot of volatility. But we have a strategy, we are very efficient there and we are always moving towards mitigating this impact and to have a good assets generation and good results.

Q - Marcelo Sa {BIO 16454581 <GO>}

Okay, thank you. Brito

Operator

(Operator Instructions) There is another question coming in via chat. From Mr. Allison, how is delinquency ended this -- because of the pandemic?

A - Daniel Pimentel Slaviero {BIO 20914773 <GO>}

Max, can you answer that?

A - Unidentified Speaker

Thank you very much for your question. Actually this delinquency both in 2020, while in 2020, it was very close and even a little bit lower than what we had in 2019. In the first quarter and now also it was a stable with no major changes. So we have a lot of actions being taken, specifically to try to balance out the debt and for consumers that are in difficulty. But we realize that there are no significant changes. Remember right that this is 1.5%. This is one of the lowest delinquency rates in Brazil and this also -- thanks to the fact that we are in Parana, the state and because of the economic profile of our consumers as well. So as Max mentioned, we haven't seen major changes around and our historical rate has been 1.5% and there are -- we haven't seen major changes around it.

Operator

So we'll be here for one more minute to see if there are any additional questions rather buy -- via chat or here on this call. So if you don't have any questions, can we just a little more and if there are no further questions, we can end the call today. (Operator Instructions)

A - Daniel Pimentel Slaviero {BIO 20914773 <GO>}

Well, if there are no further questions, I would like to thank you very much for your participation. I would like to say that, we have here with us Andriei, with us our new Board member Andriei. Welcome once again, they have of all the top executives here. I would like to say that we are very proud of this result. The numbers, we were able to achieve, we have a great expectation for 2021 for Copel. I think also we have had dividend yield over two digit. That's a positive result and we are continuing on this historical series of results. So 2020, we have the best results in our history and we believe that with all the future events we'll keep on having these good operating results. And we believe that, we'll continue generating value and growing this company, a company that is so relevant for Parana, for Brazil and electrical system.

Thank you very much. Have a nice afternoon and nice rest of the week.

Operator

Ladies and gentlemen Copel's conference call for the results of the first quarter of 2021 has ended. Thank you.

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