

Q2 2019 Earnings Call

Company Participants

- Eduardo Haiama, 'Chief Financial Officer'

Other Participants

- Andre Sampaio
- Marcelo Sa

Presentation

Operator

Good morning, ladies and gentlemen and welcome to the audio Conference Call of Equatorial Energia. Thank you for standing by. At this time, all participants are in a listen-only mode. Later, we'll conduct a question-and-answer session and instructions to participate will be given at that time.

(Operator Instructions). As a reminder, this conference is being recorded. I would now like to turn the conference over to Mr. Eduardo Haiama, CFO. Please go ahead sir.

Eduardo Haiama {BIO 7279971 <GO>}

Good morning, everyone. First off all, I'd like to thank you all for joining us on second 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 financial results. Give you an update today on the development of the transmission projects and then finally we'll open the Q&A session.

First, it's important to mention that this a first quarter, we are consolidating Equatorial Alagoas results. Also as the communication strategies strengthens Equatorial's brand in work positioned on seven acquisition areas. We are changing our names of all our details within the group to Equatorial to do so and then the name of each state. As per the highlights of this quarter, on slide 3.

In second quarter, Equatorial consolidated adjusted EBITDA reached to BRL 943 million. This figure was mainly impacted by the consolidation of Piaui and Alagoas that also posted positive EBITDA, but also the adoption of IFRS 15 of the transmission asset we formally disclosed with impact on the next slide. In our discussion, we arrived at seeing the regulatory parameter for quality and (inaudible) check, integrating the recently acquired concessions of VRE in Alagoas. In our most recently activities Alagoas the

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operational restructuring that is undergoing what they concluded as the first (inaudible) representing a significant reduction in the company's portfolio.

We concluded on our tariff review last week, RAP went up to BRL 5 billion and regulatory total losses increased to 27.5%. Net total volumes by the LCOE kept growing grossing 1.7% and 3.1% increase in this quarter. On the other hand, despite positive growth of (inaudible), Piaui and Alagoas both of 2.4% in 27% respectively. On the positive side, the required (inaudible) for for professionals with the combined figure amounting to 3.6%.

As for the transmission project, we secured a 100% of the long-term funding having 44% of this funding (inaudible). As highlighted the SPV8 has already reached 72% of working progress, while SPV1 and 2 are at about 50%. In terms of EBITDA, if you were to consider only those from the old assets basically just (inaudible) on products. We would have grown 20% year and year, reaching BRL560 million.

Moving on to slide 5 are some indicative bonds. Combined with sales from our distributor growth drop by 4.4% in the quarter, strongly influenced by our Alagoas. Since this first quarter controlling this company. We've adjusted some tax billings, negatively affecting borrowings in the quarter.

This impact in the quarter result is completely offset by the reverse of the delinquency provision deposits of the associated work. If you would look at adjustments the combined (inaudible) of the group could have grown by approximately 0.3%. Even on our directive approach regarding last common selection product of a drop of 2.4% year-on-year. This negative variation were quite often upset by the growth of 1.7% the money on 3.1% in Piaui.

Mostly fueled by a natural growth in these regions. On the slide 6, talking about the image, the combined growth reached 3.6%. Alagoas posted the strongest growth of 7.8%, basically influenced by the lower rainfall in the period. The capital of the state Maceio which concentrates 0.7% of the load had 23% less rain volume in the second quarter in the same quarter of last year.

Maranhao also benefit from these lower rainfall with a 3.9% growth. In the same case, because of some reason the capital of Maranhao had a 15% less rainfall compared to the same quarter of last year. In all this was the trucker strike in this knowing destructive between the Brazilian national team match in the world cup last year has a minor mechanism over this report of the growth. We estimated between 30 to 50 bps.

On slide 7, we show the report in the loss of billing post, the level of energy loss of Maranhao and Para have been impacted by the monitored pause or loss of gross profit (inaudible) second half of 2018. In Para after the (inaudible) last week, the regulatory level for total losses went up to 37.5% from the increasing the level of technical losses with organizing the company (inaudible) structure. In Piaui and Alagoas, the level of losses in both companies is mainly impacted by the adjustment between procedures that has been made once we arrived in this conference. It is worth mentioning that we had soon took up

hiring and training new teams to prevent losses and we should expect improvement in the next quarter.

Moving on to quality indicator on slide 8, it shows the quality matrix of Maranhao and Para continue to be well below the preferred targets. As for Piaui, the recent increase seen in the recent quarters is the consequence of adjustments to the way we measure that is seen to the right. This changes continue to affect the indicator in Q4 quarter of this year. This is calculated using 12 months moving years.

The same thing happened to Alagoas, but it was a much smaller impact in the final two years. Moving on slide 9, in terms of the FEC indicator, we are below regulatory targets in our DisCos even in our recent acquired companies Piaui and Alagoas. On slide 9, we show you the (inaudible) of the demand and (inaudible) in our distribution company non-annual post value increase up 3.6% growth of the year-on-year slightly above the 12 month inflation in this projects (inaudible) while our Para posted another decrease in (inaudible) FEC in the quarter, amounting to BRL180 million. (inaudible) dropped by 1 million, in this case which there had been reduction in headcount and certified service dropped by BRL 6 million due to (inaudible) operation of efficiency.

In this quarter Piaui posted a reverse of expense from previous years (inaudible) to monitor BRL160 million. Adjusted for that, in recurring tax adjusted by 27% compared to the same quarter last year. Keeping (inaudible) reduction is bone bare layout program, concluded in the first quarter of 2019, when 30% of the personnel left the company. In Alagoas has seen the very early stages of this turnaround since we took the control in March, The company (inaudible) posted the 14% reduction in expense quarter.

Our (inaudible). Moving on to slide 12. The good cost control showing the previous slide reflecting EBITDA growth were reinforced in the DisCos. Maranhao and Para offer very healthy growths up roughly 20% each.

Amounting BRL 248 million and BRL 267 million respectively. The BOE following the (inaudible) positive recurring currency value in the first quarter. The (inaudible) from the second quarter, reached BRL 30 million positive. All had a strong number even before we complete one year concerning this company, and it feels before the actual net their (inaudible) December.

Now I go to the first quarter consolidating results which means the second quarter EBITDA is strongly impacted by the several (inaudible). Considering only the (inaudible) viable events, adjusted EBITDA is (inaudible) BRL 9 million. Moving on to the slide 13, it shows the consolidated EBITDA for Equatorial in the second quarter we posted BRL 943 million adjusted EBITDA. Benefit from the consolidation of transmission asset and they newly acquired (inaudible).

For comparison purpose, if we exclude the results from the this new assets Piaui and Alagoas transmission assets and intesa, consolidated EBITDA would have reached BRL 516 million or increase of 20% year-on-year. On slide 14, we present more different schedule in the leverage for the company Equatorial's leverage considering the two

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consolidation of its assets reached 2.6 times in this quarter. Following the consolidation of Piaui and Alagoas which contributed worth BRL 3.1 billion of net debt. It should be highlighted that this leverage of relationship and the one made for the covenants at the company.

As this continued in the last 12 months of the results continuous per quarter by the grouping of years. The (inaudible) was almost BRL5.5 billion in cash position, which is more than enough to cover the first two years of debt maturity. With the use of the (inaudible) debt structure to accommodate not only Piaui and Alagoas, debt sheets, but also the future CapEx for the transmission project. Fortunately, we have a retribute some debt of that group.

On slide 15, talking about CapEx. As can be seen investment in transmission segment have picked up in the recent quarter. Now, we are just BRL 687 millions in the quarter. Following the stop of the construction (inaudible) of eight SPE.

And since the beginning of the development of this project, we have spent BRL 2.2 billion. On slide 16, we show the outcome of the tariff review for Para, on August 7, the tariff in Para was adjusted by 0.69% where it grew by 0.63% in the cycle reaching BRL 5 billion with translated into almost BRL 1.1 billion in regulatory EBITDA. Adding the regulatory impact delinquency provision, (inaudible) will be about half of (inaudible) amount to BRL 1.8 billion. Total regulatory losses amounted to 27.5%, following (inaudible) the technical losses 11.7%, it is slightly decrease, no technical losses to 33.5%, the entire of the figure should drop by 50 bps every year until 2022.

Lastly X factor was calculated 0.08%. It's important to remember the recurring for productivity (inaudible) and no back trajectory (inaudible) speaks for the whole cycle. But the only two factors, X- factors is 0.36%. Moving on to slide 18, talking about transmission.

We have obtained (inaudible) construction license for the project except for small part of SPV 7. We have already started the construction of seven of eight lines in our portfolio. I'd like to highlight that the evolution of the construction RSV, but especially in SPV 8 is the second biggest in our portfolio in the last one we want in the options from 17. That have already reached 70% working progress.

SPV 1 and 2, should also be mentioned as already 50% completion each. On slide 19, we show long-term funding status for each of the, we have are executing a 100% of the long-term funding a very effective cost that should translate to the significant gross in terms of return the risk reduction not only in terms of (inaudible) for the group but also in the (inaudible) the long-term funding is in (inaudible) inflation, which is same index of our revenues. It is important to mention that this is the result of our three year long fund raising effort from four different. BNB, FDA and infrastructure debentures.

Of the BRL 4.1 billion in funding side, BRL 1.8 billion or about 44% has always been (inaudible) and these are amounts is very much in line with the CapEx already deployed. I think now we can start today's Q&A session. Thank you. (Question And Answer)

Operator

Ladies and gentlemen, we are now begin the question-and-answer session.

Our first question comes from Andre Sampaio with Santander.

Andre Sampaio {BIO 19422379 <GO>}

Hey, guys, good morning and I would like to meet a quick question on the tariff provision of CEPISA, if you guys could give us more details on how the process is evolving and if you could have any new information on that. Thank you.

Eduardo Haiama {BIO 7279971 <GO>}

Thank you, Andre.

Well, there's nothing much disclosures this moment. The only thing to document is we are including the operator for the new RAP that we want to present to (inaudible). It should probably be the next week, but it's too early to say what's going to be final outcome because there are a lot of discussions going on right now regarding the methodology. We're going to use to have a full review of the RAP if you remember we have said that we ask for full review of the RAP because we believe there are lots of facets that are not including the test right and in good position to boost this number, but there are many details that need to be discussed before we can say which way is going to go.

So But what I can say is that, so far the analysis we've made give us confidence that the number that with that was presented before should be at least a admirable, but it's to say how much? But it's hard to understand.

Andre Sampaio {BIO 19422379 <GO>}

Sure and thank you for the answer.

Operator

Excuse me, (Operator Instruction) Our next question comes from Marcelo Sa with UBS.

Marcelo Sa {BIO 16454581 <GO>}

Good morning, everyone.

I have one question. I mean, you mentioned in the release the reversal of BRL151 million in personal provisions that will now be booked as investments, I just want to confirm if this is likely to be recognized as assets pays for CEPISA. That's the first question and the other question is regarding the discussions on the regulatory watts, so far and no one else has initiated the discussions on the regulatory walk for generation and transmission, but not

yet for distribution. I'd like to know if you have a view or more details on the discussions that we will start on the regulatory walk for distribution.

Thank you.

Eduardo Haiama {BIO 7279971 <GO>}

Thank you, Marcelo. Aside from the last question regarding the watts, no, we don't have yet guidance (inaudible). We can say you how the discussions going to go.

Discussion as you know, it's what you propose to have to occur at the same time before generation transmission, but (inaudible) everyone saw that it was important to separate the discussion because they are different in a way. We should calculate risk and the impact on that this (inaudible) have different segments. (inaudible) believe that this discussion needs to be just stopped they soon. So that we can have time to properly That's a review when and have a discussion to year-round.

Otherwise, it's going to be hard for why did you walk for the next year's therefore deal? So what I can say is like expectation that discussion should we start a yeah, there's a report of the work we are doing to prepare the operation, right? But like I said with the discretion in Q2 I wanted to say what's going to be the final number, right? Because there are many fees regarded the (inaudible) regulator (inaudible). You have to do upgrade of even for some of the things that we saw. how we are going to consider to say to see what's going to be the impact. Right.

What I can say is like what if it did was trying to up to have similar people make (inaudible) in terms of how we consider CapEx right. When we are doing (inaudible) existing companies, Maranhao and Para, but to see exactly what's going to be the fact that, the end of the day, it's only bit.

Marcelo Sa {BIO 16454581 <GO>}

Okay, perfect. It's very clear.

If I have another question regarding the description on the (inaudible), and I said at (inaudible) tax, basically you gain in the first Q related to the discussion, and I just want to confirm, if you guys had a chance to talk to you now. If you now have the view, if these gains are going to be. The gains of the company, I'm going to be happy to share with the consumer just you to get a better understanding on how are these discussions, if you can share with us. Thank you.

Eduardo Haiama {BIO 7279971 <GO>}

Well. From organic difficulties, yeah, big discussion (inaudible) in this sector (inaudible) already like in that case you and well, so we are now talking about how we should proceed right. You know if we specifically we have one of the gauge for two of the companies, but we still have to do how can I say the final numbers approved by the

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(inaudible) is right because before that we cannot use a credit so in all cases just went away, right. Ask for how much we're going to share not that I did two or three ways that you can you can have discussion each weekend for strictly the law, right? Give me one, how you doing consumers and buyers or can be the way you do the -- purpose -- how long can you extract? Right -- something that a related to see who contract, but it's how (inaudible) we're going to lie what if he says like the way we approve the (inaudible), I believe we are the most conservative scenario.

Okay.

Marcelo Sa {BIO 16454581 <GO>}

Okay. Do you think an (inaudible) for example see as an alternative consider as other revenues and then let's say last 40% be with the company and 60% with the consumer if this is an alternative that (inaudible) that might be discussing?

Eduardo Haiama {BIO 7279971 <GO>}

So this could be a scenario like sharing the way they share all the revenues like 60% to consumers and 40% to the company. That's a good scenario.

Marcelo Sa {BIO 16454581 <GO>}

Okay. Thank you.

Eduardo Haiama {BIO 7279971 <GO>}

Thank you.

Operator

Ladies and gentlemen, (Operator Instruction).

This concludes today's question and answer session. I would like to invite Mr.Haiama to proceed with his closing statements. Please go ahead sir.

Eduardo Haiama {BIO 7279971 <GO>}

To sum-up, we would like to reinforce our commitment delivering differentiated (inaudible) shareholder.

Through exceptional financial revenue results were also like to highlight (inaudible) to the highest level of transparency in corporate governance, and we assure that both of investing relations team are available should be have any further question. Thank you all again for taking part in our second conference call, and have a good day.

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Operator

That does conclude Equatorial audio conference for today. Thank you very much for your participation.

Have a good day and Thank you for using chorus call.

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