

Q1 2016 Earnings Call

Company Participants

- Eduardo Haiama, Chief Financial Officer and Investor Relations

Other Participants

- Gabriel Brilhante, Analyst

Presentation

Operator

Good afternoon everyone and thank you for waiting. Welcome to Equatorial Energia SA First Quarter of 2016 Results Conference Call. With us here today we have Mr. Eduardo Haiama, Chief Financial and Investor Relations Officer.

This event is being recorded and all participants will be in a listen-only mode during the company's presentation. After Equatorial Energia SA remark -- remarks, there will be a question-and-answer session. At that time further instructions will be given. (Operator Instructions) This event is also being broadcast live via webcast and may be accessed through Equatorial Energia SA website at www.equatorialenergia.com.br where the presentation is also available. Participants may view the slides in any order they wish. The replay will be available shortly after the event is concluded. Those following the presentation via the webcast may post their questions on our website. They will be answered by the IR team after the conference is finished.

Before proceeding, let me mention that forward-looking statements are based on the beliefs and assumptions of Equatorial Energia SA management, and an information currently available to the company. They involve risks and uncertainties because they relate to future events and therefore depend on circumstances that may or may not occur. Investors and analysts should understand that conditions related to macroeconomic conditions, industry and other factors could also cause results to differ materially from those expressed in such -- in such forward-looking statements.

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

Eduardo Haiama {BIO 7279971 <GO>}

Good morning everyone. First of all I'd like to thank you all for joining us in our first quarter conference call. As per agenda for today, which you can see on slide two, I'll start the conference call describing the highlights of this quarter, then I'll comment the impact

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of the Commercial System Implementation of both companies, later I will comment on our operating, financial results and finally we open the Q&A session.

Before the highlights I'd like to clarify some procedures regarding the figures presented in the earnings release and in this presentation. I'd like to point out that our consolidated information reflects 100% of CEMAR's, 100% of CELPA's and 100% of Equatorial Solucoes, which in turn consolidated 100% of Sol Energias' figures. It's important to note that, (inaudible) figures are being registered only on the net income line Equatorial's consolidated figures.

Moving on to slide six, in this quarter, we implemented new commercial system, SAP/CCS for both companies, which during its implementation and stabilization period, some billing and loss combat initiatives are temporarily affected. We explored this issue reported in the presentation. Both CEMAR and CELPA proposed a very solid required energy growth respectively of 5% and 3.7% in the quarter year-on-year.

Billed energy grew 3.4% at CEMAR, and decreased 0.7% at CELPA. However, considering our estimate of the impacts from the implementation of the commercial system, volume growth would have reached 4.7% at CEMAR, and 3.4% growth at CELPA.

Energy losses are also impacted by the change in the commercial system. CEMAR total losses in the quarter 17.9%, and CELPA 29.9%. Also considering our estimate of this change, losses could have ended at 17.7% at CEMAR and 29.2% at CELPA, in line with fourth quarter figures. Finally, both CEMAR and CELPA present significant improvements in both quarter indicators that can effect -- effect in the quarter.

Moving on to slide seven, adjusted consolidated EBITDA reached 237 -- BRL236 million, a 3.7% increase year-on-year. If we adjust by our estimate from the commercial system implementation, EBITDA would have reached 264 million in the quarter. Net income reached BRL122 million or an increase of 182%. And finally, consolidated investments totaled BRL270 million or 17% decrease mainly due to CELPA's reduction in CapEx.

Moving on to slide nine, give an overview of the benefit -- benefits of the new commercial system. The main benefits of this new system can be summed up by savings, annual savings of around 7, BRL8 million -- BRL7 million in costs per year in both companies. Turning (inaudible) some of the system and commercial procedures in CEMAR and CELPA, and also higher efficiency in the daily activities. But total change in commercial system always generate some disruption in operations as we continue (inaudible).

It's important to mention that implementation in CEMAR was set on January, we can make it possible for some recovery within the quarter, according to our estimate CEMAR losses could have reached 17.7%. If we were able to build an additional 18 gigawatt hour in volume. In that case, CEMAR's EBITDA would have amounted to BRL142 million.

It's also important to highlight that including the EBITDA, there is a negative impact coming from non-billed revenues of BRL14 million, that could also have been impacted by the volume that we do not have build because of this commercial system implementation.

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CELPA, the implementation was held in March, thus have the higher impact in the quarter. Also a point of conservative estimate of billing of an extra 80 giga in the quarter, total energy losses would have reached 29.2%, hence EBITDA would have amounted to BRL127 million. The same thing here applies in terms of the non-billed revenues that had a negative impact of BRL31 million in the quarter, and we believe that it also had an impact in terms of the implementation of the commercial system, so that this number could be lower than that.

Finally, it's important to highlight that we are strengthening the commercial department structure to speed up the normalization in the recovery of the billing process in both companies. So to -- if not eliminate, but close to eliminate the impact of this implementation of first quarter and maybe a little bit of that in the second quarter by year end.

Moving on to slide 11, CEMAR's demand grew by 3.4% in the quarter, also again affected by the implementation of the new commercial system, that adjusting by debt, CEMAR's growth could have reached 4.7%, and that compares to the required energy growth of 5% year-on-year.

On slide 12, energy losses are not -- are effected by the volume that were -- are not. Energy losses, it's important to mention that, given that we were not able to view all the volumes in the quarter, that also affect losses in the quarter. So they are adjusting by debt. Losses would have posted a slightly lower number from 17.9% to 17.7%.

Moving on to slide 13, some of the quality indicators, that can impact, continue to improve by 8.4% and 11% compared to fourth quarter '15, amounting to 14 hours and 8 times. They continue to be well below regulatory parameters set by ANEEL.

Slide 14, CELPA demand grew by -- decreased by 0.7% in the quarter, also mainly explained by the transition period of this new commercial system, that's accounted to estimate, reduced our billed volumes by about 80 gigawatt hour in the quarter. Adjusting for that, volumes growth would have been 3.4%, all in line with the required energy growth of 3.7%.

Moving on to slide 15, the same -- the same thing that happened in CEMAR applied to CELPA in terms of losses, due to the commercial system transition period. In that case, losses that supposedly would have grew to 29.9%, adjust by 80 gigawatt hour of volume that was unused in the quarter. Total losses would have reached 29.2% or in line with the previous quarter.

Moving on to slide 16, DEC and FEC continue to improve in CELPA by 5.1% and 0.4%, reaching respectively 36 hours and 22 times. It's important to highlight that in this quarter, the DEC impact related to the transmission companies or generation companies increase DEC by almost 1.9 hours, in fact by almost 0.7 times.

Moving on to slide 18, reported EBITDA reached BRL255 million, adjusted by the nonrecurring events, it would have reached BRL236 million or 3.7% growth. It's important

to highlight that this BRL236 million does not consider the impact that we estimate from the implementation of the commercial system in the quarter, and if we were to adjust this impact on the implementation of the commercial system. EBITDA could have reached BRL264 million in the quarter.

Moving on to slide 16 -- sorry, moving on to slide 19, net income reached BRL122 million, and it's important to highlight that we have not considered any estimate in terms of net income, which is down due to volumes, because of the implementation with the commercial system in the companies.

On slide 20, gross debt reached BRL4.6 billion, being BRL2.4 billion at CELPA and BRL2.2 billion at CEMAR. By the end of first quarter, consolidated base, Equatorial had a cash position of BRL2.2 billion, that's well above the short-term debt of BRL765 million.

On slide 21, we break down Equatorial's consolidated net debt which amounted to BRL2 billion, excluding net regulatory assets consolidated cash position, CCC and CDE subsidiaries, some are swaps, so there are -- we reached 1.7 times net debt to EBITDA by the end of the first quarter, that's -- we believe it's a very comfortable leverage. If adjust net debt in proportion to Equatorial's stake in CEMAR 65% and CELPA 96%, as shown in slide 22. Net debt would have reached BRL1.6 billion, representing 1.8 times net debt to EBITDA ratio.

Moving onto the final slide, slide 23, represent our CapEx figures. CEMAR's own CapEx in the quarter amounted to BRL106 million or 53% up year-on-year; as for CELPA, it has decreased by about 45%.

Now we can start the Q&A session. Thank you.

Questions And Answers

Operator

Thank you. The floor is now open for questions. (Operator Instructions) Mr. Gabriel Brilhante from Haitong wants to make a question.

Q - Gabriel Brilhante

Hi, my question is about the demand, because after the adjustments we are seeing very good figures for both distributors and hearing the southeastern -- southwestern region, we see demand fall of 5% for some distributors. I'd like to know how much do you expect in terms of demand growth for the entire year compared to 2015? Thank you.

A - Eduardo Haiama {BIO 7279971 <GO>}

Thank you, Gabriel. So tough question. I believe like -- we continue to post like a very strong volumes growth, and we continue to say that, at least in the second quarter. But if you say that for the whole year, our expectation early this year and even, let's say, end of

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last year was in -- that was what we have -- what have said, right. When we release our fourth quarter results, that are -- it would be in between the growth that we had last year in -- close to zero, in between.

So CEMAR had a growth last year of around like 4.5%, 5%, so more or less that rate adjusting by losses, it would be a little bit lower than that. And in our view, given that the market situation continue to be tough in -- we didn't foresee, by the time we continue to not foresee today that there would be a significant change at least this year.

I believe like -- you should expect second half reaching these levels, maybe we are going to end probably at the high end of the forecast that we had last year, meaning, close to the volumes that we had seen last year, a little bit lower than that, right, because of this very strong first half [ph] of the year. So -- and we -- so far we haven't seen a change to that.

Q - Gabriel Brilhante

Okay. Thank you.

Operator

(Operator Instructions) Excuse me. This concludes today's question-and-answer session. I would like to invite Mr. Eduardo Haiama to proceed with his closing remarks. Please go ahead, sir.

A - Eduardo Haiama {BIO 7279971 <GO>}

To sum up, we would like to reinforce our commitment delivering a differentiated depreciation to our shareholders for exceptional financial and operating results. We also would like to highlight over the years, the highest level of transparent in corporate governance and reassure that both me and then our investor relations team are available to help you should have any further questions. Thank you all again for taking part of our fourth -- first quarter conference call and have a good day.

Operator

That does concludes Equatorial Energia SA conference call for today. Thank you very much for your participation and have a nice day.

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