Q1 2020 Earnings Call

Company Participants

- Antonio Carlos Velez Braga, General Manager of Investor Relations
- Leonardo George De Magalhaes, Chief Financial Officer and Investor Relations Officer
- Reynaldo Passanezi Filho, Chief Executive Officer

Other Participants

- Carolina Carneiro, Analyst
- Francisco Navarrete, Analyst
- Gabriel Fonseca, Analyst
- Guilherme Lima, Analyst
- Lilyanna Yang, Analyst
- Marcelo Sa, Analyst

Presentation

Operator

Ladies and gentlemen, thank you for waiting. Welcome to the conference call for the results of the First Quarter of 2020 for CEMIG. All participants will be in listen-only mode during the company's presentation. (Operator Instructions)

Now, I would like to turn the floor over to Mr. Antonio Carlos Velez Braga. Please Mr. Velez, you may proceed.

Antonio Carlos Velez Braga {BIO 16813855 <GO>}

Good afternoon, everyone. I am Antonio Velez, CEMIG's Investor Relations Superintendent. We'll now start CEMIG's first quarter 2020 earnings conference call and webcast with the following executives, CEO, Reynaldo Passanezi Filho; CFO and IR Officer, Leonardo George De Magalhaes.

The broadcast can be followed via the following phone numbers, 55-11-2188-0155 or 55-11-2188-0188 as well as on our website, http://ri.cemig.com.br.

I now turn the floor to our CEO, Reynaldo Passanezi Filho for the initial remarks.

Reynaldo Passanezi Filho {BIO 15054064 <GO>}

Good afternoon, everyone, and it's a pleasure once again to be here with you guys. I think of that a little bit of an echo, right? But it's a pleasure to be here with you for the results of the second [ph] quarter. I will have a brief introduction before I turn the floor to Leonardo and Velez so that they can move on with the presentation.

I believe that we are at the level of our main objectives. Obviously, the main objective right now is to guarantee the health and safety of the population as well as our employees, our own employees and outsourced ones as well. And we are very happy to say that about health and safety of our employees and we are talking about over 20,000 of them if we add our own employees and outsourced. We only have two confirmed COVID cases. One in the south of Minas Gerais and one in Brasilia. So we are very proud about that. And it shows that our protection measures have been efficient because they are still out on the streets providing services, and there -- that's where we have our main objective, which is the quality in service providing. We are showing positive indicators for the service continuity. And everything that Leonardo is going to talk about later on about contingencies and everything, protection measures that we are taking for our clients, hospital generators and we do have positive results in terms of quality of our service continuity, I think the results might be negative.

Basically, here we have accounting restatement because there was a ratio about light and also the FX depreciation, you are aware of that. But when we make the adjustments, we see that the results are positive, both for EBITDA and net profit, and that shows the efforts that this company is carrying out to have greater expenses control as well as focusing in its strategic businesses.

And of course, we had two huge challenges with this pandemic. First, we have the challenge of lower volume and an increase of delinquency. And so I believe that we are now working on it, we're analyzing. In our COVID committee, we have all the top management focus in trying to anticipate results and work in the distribution lines to see how we can recover and bring down actually delinquency and recover what is past due. And also, in terms of the drop in the load, obviously, I'm sure that we will need to have adjustment made by the granting power as well as our own adjustments.

And in terms of opportunities -- we don't have only challenges, but we have opportunities as well. There's a single opportunity which is to improve the use of our digital channels. I think here we have a major topic for improvement in the company. And I would like to say and to stress our commitment in our investment plan, specifically in the distribution areas. And also considering the current situation, we also have some things that are working for us, lower traffic and that allows us to move faster.

These are the topics that really concern me on a daily basis. These are the challenges of the lower load, higher delinquency, part of that has to be tackled by the support of the granting power. And we ourselves are working to reduce our PMSO. And in terms of opportunities, really I think there are some there on the table, specifically on digital channels as well as in the guarantee of the investment program, and that's very positive because at the end, the country will come out strengthened. And I do believe that one of the consequences after the crisis is a reincentive to industrialization in countries in general and that might be very positive to Brazil and specifically for our state, Minas Gerais.

These were my initial remarks. And now I'll turn the floor to Leonardo.

Leonardo George De Magalhaes {BIO 21639277 <GO>}

Thank you, CEO for your comments and such important remarks about how Cemig is tackling the pandemic and is dealing with all the problems, and this is such a critical moment for the Brazilian society. So on the first slide we have the main pillars established by the committee to manage the crisis. And here we have the top management gathering every morning for many hours to discuss several issues involving the problem right now and how Cemig is dealing with this three topics.

So we will talk about these main pillars. First, we are ensuring the service continuity, also the employees' health and safety, relationship with the clients, social responsibility as well as our financial sustainability. And in the next slide, we are going to go into the details about the service continuity. We have -- we know that electric energy activity is essential. And right now, the company has a social duty and responsibility to maintain the essential services, they should be up and running, and that's very important.

Thus, the company have several measures that have been implemented that involve the reduction of planned disconnections, increment in live wires to avoid outages, and also we prioritize essential services hospital units, medical units and areas that treat and that receive the population. So far we are working so that we have no risk or reduce a lot of the risks for any hospitals or hospital units, anything that is related to electric energy supply. And as our CEO has mentioned, we are maintaining the investment program through the distributing company. But in order to maintain cash, any investment that -- from 2020 that might be postponed to 2021 or 2022, but we are making sure that we are going to make the basic investment in our concession that are going to improve our service and are not going to compromise the quality of our service. So we are continuously improving the quality of customer service to our clients.

On the next slide, Dr. Reynaldo also mentioned that we only have two cases among our employees who were -- that have been diagnosed with COVID-19. So these people are being taken care of and they are recovering. So we have many people in home office, over 3,200 people in home office. 1,900 of those are our own employees and 1,300 outsourced. And they are involved in availability of also protection equipment for those that are out on the street.

In terms of social responsibility, on next slide, we have already donated BRL5 million to public and charity hospitals so that they can buy ventilators and other important equipment so that they can tackle the crisis and fight the pandemic. Also we have established special rules for installment payments for public hospitals, so that these essential services are not suspended at all. In addition to the encouragement to all the incentives to the low-income residential users, they are encouraged to register for bill exemptions.

So we know how important it is to maintain the liquidity in the company. And for that the company has taken several measures that we consider to be important and they do not compromise our quality or our service, neither the continuity of our operations or the financial economic sustainability of the company. But we believe that in the short-term these actions are important. They involve the reduction of our CapEx program, 13%, but maintaining the program close to BRL1.5 billion. We understand this is a robust program. Just in distribution activities, we will see it in more detail shortly, efforts to reduce material service contracts.

OpEx, our OpEx reduction has already guaranteed for 2020 is around BRL100 million, so we believe that we have an efficiency opportunity that can be tapped into. And the company is keeping this opportunity to discuss our budget so that we already have approximately BRL100 million to be reduced in our P&L, so in the approved programs. As far as dividends are concerned, we are paying BRL0.50 of dividend this year, that's per share. And we understand that right now it's very important to have this reduce in dividends in order to maintain the cash of the company. And we understand that it's also converging with our shareholders, because the idea here is to preserve cash. And also there was a deferral of payment on labor, taxes and charges and that is especially to deal with this COVID-19 crisis.

About the government's measures, some of them have been implemented. One of them is a fund reserve of BRL122 million, that's already in the cash. And some of the measures are related to energy disconnection for some low-income consumers. And another one also has to do with low-income consumers and federal funds. We will pay for those electricity bills, because the economic difficulties will be greater there. And also issues related to -- as we already said, labor, taxes and charges deferred.

We also have an emergency COVID account financing that is being distributed between ANEEL and the Ministry of Mines and Energy. And we understand that by the end of May, these funds are already available and addressed to companies in a way to allow us to deal with lower revenues and lower liquidity and lower load in the market. So this emergency COVID account is going to be very important for us. Therefore, CEMIG and other companies are discussing this topic with the regulating agency and the ministry in a way that we can conclude this process. And these funds can come to the company in order for us to maintain the system's liquidity. So that refers to distributing company sustainability as well as the transfer of funds to the generating company.

In the next slide, we have our investment program revision. What was approved was BRL2 billion for distributing company, it was almost BRL1.7 billion, and we have postponed part of that 2021 and 2022. But as our CEO already mentioned, we maintained the program for the tariff cycle. So the postponement for this year of BRL266 million and that's going to strengthen the company's cash, but program is close to BRL1.746 billion for 2020. Up to March of 2020, we have already executed BRL285 million, that corresponds to 16% of our total invested amount.

In the next slide, it is important to show you a little bit the effect of COVID-19 on our revenue and on our energy load. You can see that our provision for doubtful accounts was an average of BRL32 million a month. And the provision amount for April 2020 in the next quarter that will be -- it was higher than that, it was BRL39 million, and in fact, that was already forecasted by us because we did expect higher losses because of the crisis, the economic impact on our consumer business.

About now -- about collection, and we are comparing that to what was estimated. We already estimate a delinquency actually in collection on a monthly basis, vis-a-vis what we bill. But here it shows that in March, according to what we already estimated, we had 10.5% higher drop in revenue. And in April, it improved a little bit, but even then we had a drop of 8% vis-a-vis our forecast that was already considering 45% delinquency. So in April, total drop in payments of 13%, 8% of that are the effect of the pandemic regarding April.

We believe it's important to show you the load in this system. You will see that Minas Gerais according to other units of the country and we cannot guarantee the future, but we see that so far our consumption load is being less impacted by the pandemic. And the load for Cemig Distribution on average in April 11 had a reduction of 12.4% and now it's at 7.9%.

And our own load, in the case of our captive consumers, in the beginning of the social isolation in March 21 had a drop of 11.4% and some cities are already going back in a very controlled fashion to their operating activities. They are opening the stores and some activities. Obviously they are following the right protocols of restriction in a way that today the drop is of minus 5.2%. So there was around 6% improvement when compared to a lower consumption moment. This is not a future guarantee, but it shows the trend in the low recovery, at least so far and the load of free clients. Here we have a transformation, there was a drop of 12%, it was 15.8%, now it's 12.0%.

Now moving forward on this slide, we have the effects on Cemig GT. We see that the drop in consumption is higher for free clients of 16.8% up to the moment. This is the drop that in the first weeks it happened in a steeper fashion. And we see that the second half of April, the figures are more or less stable, close to 17% reduction.

About consumers of Cemig GT, we are also are negotiating with these consumers that have financial difficulties in a way that we can maintain the current value of the contract and making prepayments or providing energy to these consumers from 2021, 2022. And just as our energy purchase contracts, we are also looking for payment deferrals in a way that we can maintain that cash flow for Cemig's generation, transmission, maintain the liquidity of the company, both by deferrals of these contracts as well as looking for deferrals in purchasing contracts, energy purchasing contracts.

In the next slide, we have the quality indicators for Cemig Distribution. And here we can see that the company is continuously improving its quality indicators. For 2019, we have indicator very slow to 2018, but in 2020, we already have a reduction -- an improvement of almost 10% in this indicator when compared to 2019. And what we expect for 2020, considering all our investments and the budget that is guaranteed for our corrective maintenance activity as well as planned maintenance, we understand that we will be able to meet the established indicators established by the regulating agency.

I'll start talking about the results and then I'll turn the floor to Velez. Let me just start with these initial results. Here we have the main effects on the results for the first quarter of 2020. We did have some relevant events that are non-cash events. They only have an accounting effect on our financial statements, but we believe that they are important to mention, of course, because they are still related to higher risk perception that we have right now because of the pandemic in this Brazilian scenario and we have to make a restatement at market value for Light, so there was a reduction of BRL609 million. They were at BRL18.75. This was the amount of December of 2019 when we had the sale of part of it, we lost the controlling interest of Light and when we closed the quarter, the share was at BRL9.75, so there was a loss in market value and we had to restate that.

Let's follow that up and see how the performance of the stock exchange will be, specifically light's shares to see if we will be able to revert part of that amount in the next quarters. But this is a non-cash effect, one-time off and that is related to this situation.

Centroeste is the company where we had a 51% of that with Furnas. And because of accounting procedures, we had to do a restatement at fair value in the accounting amount. Here we had an accounting gain of BRL52 million into our balance sheet. For Cemig Distribution, we had a drop of 2% in the volume of electricity sold. We understand that the social resolution period started, especially in the second half of March with already a huge impact in our market. And at the end of the day that represented a lower -- 2% lower of the volume of the electricity sold. And that's also part of this process, the increase in delinquency because of the economic impact on the families because of COVID. So -- and that was the ADA of -- that was up to BRL33 million.

About Cemig GT, our EBITDA was very robust and that improved the selling of Cemig's energy, own energy and also resold energy that is around BRL700 million, and Velez is going to mention that. But last year was even better because of the scenario that we had last year a high GSF and the spot price was very high as well as BRL290 vis-a-vis BRL187 in the first quarter of 2020. And that nomination brought the EBITDA last year much higher than this year. So these are specific effects that ended up having additional effects of BRL434 million. And now we have BRL20 million effect. And we will explain why we had such a good result last year, but we should say that the results for this year, also are very positive. And then we have foreign exchange variations that's going to be explained more in the next slide because this has to do with Eurobonds that Cemig has for 2024 and because of the real depreciation last year they had a faster effect last year, about BRL119 million and that was the effect of foreign exchange variations with hedge effect. But this year we have BRL438 million negative impact, it's also non-cash. But it's also impacting our consolidated results.

Here it's important to explain that issue regarding the company's exposure. It's important to make it clear that interest that we have to pay up to 2024 have full swap. So the interest that we are paying to our bondholders, they are equivalent to 142% of the CDI. We do not have any effect of the FX variation on interest that we are monthly paying to -- or quarterly paying to our bondholders.

About the principle, the dollar today is close to BRL5.70. There was a drop when compared to the prior date, but we have a protection spread of BRL3.45 up to BRL5. So up to BRL5, Cemig is going to be BRL3.45. And above BRL5, Cemig would pay the difference. So right now where the risk perception is very high in that amount, about BRL5 is not covered by our hedge. But we also understand that we are in a moment with a high risk situation and in the long-term, we will have to follow-up the dollar behaviors so that we can see the real impacts in the company. We understand that right now this dollar rate is very much impacted by the situation. And after the pandemic, we will be able to see the best perception in this new environment. We'll be able to see what is the new dollar rate and adjust it to our currency.

So we understand that this is the practical effect here which would be only by 2024 and the maturity of the bond, but that doesn't mean that Cemig is going to be exposed up to 2024 to this situation, because we might have a much higher dollar rate in the future. So I want to make it clear that Cemig management is tuned, is alerted to the situation and after the pandemic, Cemig will take all needed actions to reduce the tax exposure whether by swapping the foreign debt by local debt or rolling out the coverage. We're expanding the hedge coverage, but we are going to take all needed measures to make sure that the company is not exposed to the FX variation up to 2024. So we have to be patient and understand that this is an acute crisis moment, but as all economic crisis, this is cyclic and we will have a new scenario in the future, we don't know exactly how this is going to be. But in this new environment, the risk perception in the future will be better and more adequate for other measures, and measures that we understand that can generate other values and more values to the company whether exchanging the debt for a cheaper one or reducing our leverage and we'll see the risk perception in the market about the company or whether the issues that involve the right risk perception vis-a-vis Cemig.

Now about the energy market, I will turn the floor to Velez, our IR Superintendent and he is going to go into the energy market results in detail.

Antonio Carlos Velez Braga {BIO 16813855 <GO>}

Hello. We are on slide 16. We have prepared some charts to explain the behavior of the energy consumption, and Cemig distribution. In general, transmission and total distributed energy had a reduction of 2%, the total distribution. And when we see the variation, transmission had an increase of 1% the total energy carried. This is the consumption of customers or building the consumption areas.

And for our end consumers, there was a reduction of 4%. Basically the reduction happened because of the economic activity that is not favorable in the concession area with a reduction of 3% of industrial clients and also significant reduction of the rural clients, that was because of the rain. Remember that last year there was a drought, and this year we have a lot of rain. So basically the rural consumer varies a lot of the consumption because of the electric energy that they use for irrigation. So that was the variation in the period.

Now turning to the next slide. The main figures for EBITDA and net profit. As Reynaldo mentioned, we had some events in this year, Light, Centroeste and the FX hedge. But we had an adjustment to show the exceptional gain, thanks to the strategy that we had stemming from energy allocation that we decided to do last year, and because of the GSF that was around 1.5 and the spot price, that was very high prior quarters. We did have an exceptional results. This year, it was very good as well. This was the right strategy. We have a very robust EBITDA, as I have mentioned, but last year's was much better.

So when we carry out these adjustments, just for a comparison basis, we see that there was a growth in our EBITDA of 31% while our net profit also considering the FX that has an impact on the financial results. Both last year, as well as this year, we had an increase in the consolidated net profit of almost 36%.

And the next slide, number 18, we have EBITDA and net profit for Cemig GT. Cemig GT had an adjusted EBITDA this year that was very strong of the EUR685 million. But in the adjustment also, we see an exceptional gain of EUR20 million, a gain that I would say that is recurring of this allocation strategy and it's BRL20 million, and also it's much lower than the gain that we had last year, thanks to this allocation. So with that, we had an improvement in the EBITDA of Cemig GT of 38% while the net profit had an increase of 25%.

For Cemig Distribution, we had an increase in -- I'm sorry, a reduction of 2% in our EBITDA, that is more or less in line with the results of last year. So in despite of the efforts of reducing expenses, as you have already seen, and we'll talk more about that, there was an increase of BRL33 million in our PCLD or our ADA that impacted the results in the first quarter. Even then the financial results was much better than last year, especially because of a lower interest rate. Therefore, the net profit for Cemig Distribution went from BRL188 million to BRL197 million in the first quarter of 2020 with an increase of almost 5%.

Now turning to slide number 20, we have operating costs and expenses, they are consolidated results of course is that we have expenses with buying gas, transportation, buying energy, and so that's what we consider to be manageable in distribution and in generation and we are always looking for margins, of course. And here we highlighted the reduction in manageable costs, basically our PMSO and other expenses, provisions and so on. And with that, we had a reduction of 8.2% in the expenses that we have -- from the expenses last year to the expenses of this year and that is, thanks to a reduction in our personnel expenses and provision that we had last year for our profit sharing program.

And as we already said, we are still committed to bringing down expenses this year. We already have a contracted reduction of BRL100 million in materials and services contracts. And this reduction is going to be even higher because of the efforts that we are dedicating ourselves to this topic. And also it's important to mention that we just announced another voluntary redundancy program. Our employees can enroll up to the end of the month. And it's important to say that we expect a payback within eight months that because of the cost that this program has, the average cost per employee and the costs per employees that can enroll in the program. So this is our continued commitment to our operating efficiency.

And on the slide number 21 comparing the regulatory OpEx and EBITDA for Cemig Distribution execution and the realized. The realized OpEx is very close to the regulatory one. If it were not by those BRL33 million, our OpEx would have been within the regulatory OpEx. So the real OpEx in the first quarter was BRL25 million higher than the regulatory level. And in addition to this OpEx impact, our non-technical losses -- I'm sorry, losses over the tariffs coverage, we're a little bit over BRL75 million, so that we have a gap vis-a-vis the regulatory of BRL75 million. And as you know, we are continuing working on those losses, we're fighting them and trying to reach this regulatory OpEx and regulatory EBITDA as soon as possible.

Talking about our debt profile. We have slide number 22. In terms of maturities for this year, we are at a comfortable position after March investments add up to BRL1.9 billion. And remember that Cemig has a gap that is due in the fourth quarter of BRL900 million and the remaining is for Cemig D and Cemig GT, this must be rolled out and probably will be rolled out. We don't see problems in rolling that out, not at least right now. So we have a reduction in the cost of debt both nominal and real terms. That is because of our debt is indexed by the CDI as you see on the pie chart.

And in the slide I am having the dollar-denominated debt of 51%. As we already mentioned, this is also attached to CDI at a cost of 141%. In terms of leverage, we also see an improvement in the total net debt and over adjusted EBITDA and there is an increase in the hedge that was contracted to protect us against those FX variation.

On the next slide, we have a chart with the performance of our covenant of the Eurobond. Here it's calculated according to Eurobond's description. So considering here -- and what's important is to see the amount of the derivative hedge that was contracted to protect us against FX variation and the hedge in December of '19 was of BRL1.691 billion. And right now, in this first quarter, it was almost BRL3 billion. So if we discount the amount of that credit that we have our debt and the holding goes from BRL13.4 billion [ph] is our net debt of BRL11.9 billion [ph], and Cemig GT more or less stable. In a way that the covenant net debt over EBITDA of the bond is within the limits to 2.9, much lower than 4.5. In the case of the holding, the covenant is below the limit of 3.50 at 2.38 that is the net debt over EBITDA.

Well, these were the slides that we have prepared to bring to you about what is happening about the results in the first quarter and we are here now to take your questions, questions that you might have. Thank you.

Questions And Answers

Operator

(Operator Instructions) First question is from Carolina Carneiro from Credit Suisse.

Q - Carolina Carneiro

Hello, everyone. Thank you very much for the call. I have a question. You mentioned several measures for cost reduction and to prepare for possible impact that's coming from the prices and the company has announced a new investment plan with some reduction in the amount to adjust to cash generation. I would say to adjust to this more challenging environment. But if you can comment one of the pillars that the company had a few years ago to reduce leverage was to sell assets, the divestment program. And clearly in this more difficult scenario, it's very complex to talk about that divestment, right. But the company still have several non-core assets. So if you can give us an idea if you do have divestment plans or what kind of assets could in fact be available in case you need to prepare yourself to a more complex environment because of the crisis or is the idea this year, in fact is really to improve cost and postpone any possible divestments?

A - Antonio Carlos Velez Braga {BIO 16813855 <GO>}

Carolina, thank you for your question. Well, you have three main issues, the cost, the sale of assets -- and well, let's start by the costs. If we compare costs in the first quarter, we already see a significant reduction when compared to prior quarters. And the company seizing this opportunity to a reanalyze many of its process. Our cost reduction for this year, we mentioned is going to be -- it's already close to BRL100 million as we mentioned, but it's -- but we are reviewing all our processes. There are topics and of course that we are facing because of pandemic as well because we have some places that are closed these help us stay. But regardless, these topics we understand that -- and we are under the leadership of our CEO Reynaldo in order to review processing, improve operating efficiency, and right now we have an aggressive proposal to cost -- to reduce cost, but we are maintaining the quality service, this is not a trade-off and we are going to hurt the quality of our services to reduce costs. No, but we are reviewing costs and having greater operating efficiency, so we -- the management is committed to that. And we understand that the combination of the process review also of our voluntary redundancy program, all of that is going to generate positive results and we will improve our margins.

About our leverage, it's being reduced in an important fashion, and even right now, there is difficulty about sales of assets because of the situation for Light assets is still available for sale. It's under our balance sheet. And we do understand and investors also understand that this is not the best moment to talk about sale of assets right now. So we do have our investment program and divestment program. We know that this is in line to our core. And we know that now we are with BRL2.4 billion of cash, very robust and we can go through this moment, and of course that with the support of the federal government to help the distributing companies with liquidity, that's very important. And our liquidity, which we already have to guarantee our cash plus the support of the federal administration by the COVID account -- the loan coming from COVID account and other cost reducing issues. And as we reduce the leverage of the company even if we do not sell any assets right now. Although it's important to say that the non-core assets that we have been announcing to the market that we want to dispose of them. And whenever the opportunity arises, we do have this in future, we do wanted to sell them. But we are making on many different -- taking many different actions and making efforts in the market. So the sale of assets is going to happen in the right moment but we understand that through all these other actions, we are going to generate a lot of value to our investors.

Q - Carolina Carneiro

Perfect, thank you.

Operator

Next question from Mr. Gabriel Fonseca.

Q - Gabriel Fonseca

Good afternoon, everyone. Thank you very much for the call. In the covenant calculation, I would like to understand that, is that -- you had to work with the issuing bank with the bondholders or those -- so, this does not involve any questioning from the other -- from any of the players involved?

A - Leonardo George De Magalhaes {BIO 21639277 <GO>}

Good afternoon, Gabriel. Thank you for your question. Actually the covenant issue is something that is already included in the bonds, contracts. But in the beginning it didn't make much of a difference and we ended up not taking into consideration. But in the definition of indebtedness and in the bond contract, there you have a you have a clear certain hedge must be considered for the calculation of the net debt whether it's negative or positive increasing the company's debt with the banks on the counterpart of derivatives or reducing whether if this is a credit.

And now that FX variation is more volatile, as we know, we decided to calculate in the way that it allows us to do this in order to better reflect the derivative as a financial instrument that we contracted to protect us. So there is no controversy here, this is a legal matter, it's there on the bond agreement. Just to complement on that if we consider the real leverage of the company with a real investments, you would have to use all the amount that we have in our accounting minus the hedge that it's also mark-to-market and this will be net right now, that is we understand that the calculation, the way it is now better reflect the financial obligation of the company regarding its debt, whether it is real denominated debt or dollar denominated debt.

Q - Gabriel Fonseca

I understood. Thank you very much.

Operator

Next question from Mr. Marcelo Sa from Itau.

Q - Marcelo Sa {BIO 16454581 <GO>}

Hello, thank you for the call. I have two questions. First about this PLR, the profit sharing program and you ended up recognizing a lower amount of BRL20 million, an amount that you having posted last year, I would like to understand which are the criteria are based on an expectation or if this is the -- just as the profit of this year and non-recurring adjustment? The second question is about the ADA, you have shown the performance year-to-date of March and a difference in April. But this seems to be very low considering COVID's impact and in the explanation you mentioned that you had ADA because -- also you have ADAs also for the public customers, public clients. So what is your expectation for ADA this year? And if you expect it to be higher in the second quarter's results?

A - Leonardo George De Magalhaes {BIO 21639277 <GO>}

Hello, Marcelo. Thank you. About the profit sharing program what happened last year is that in a change in the -- it was not a change in the calculation criteria. We didn't have an agreement, collective agreement last year establishing 4% of the net profit, but also it has an additional, in case, the profit was higher than was budgeted. And like we showed, last year we had an additional gain of that allocation. And just adding to that, last year, we did not have any adjustments that were extraordinary and nothing that was non-recurring. So we did have a step-up as the profit was under budget and this did happen in the first quarter. So in addition to the 4%, there was an additional amount. So this year, we won't have that.

This year, according to a new negotiation, with our employees now collected bargaining agreement for profit sharing, it's only 4% and if there is any non-recurring impact depending from sales of assets or anything else or any legal judicial claims or -- that we are awarded and all of those would not be part of this calculation. So from now on, starting this quarter it's only 4%.

About ADA, I understand your question. But in our case here, this is an IFRS accounting criteria for us here. So as the bills are overdue, these are part of the delinquency. And so what we already have -- so we already mentioned what we had accumulated up to March, is a little bit higher than last year. And because of the possibilities in the beginning of the year of the collection, in the beginning of the year, it was because of the rain. But right now, we cannot make any disconnections because of the COVID. So this was already high. So, in April, it represents only our ADA, it's difficult to say what delinquency will be because we need to wait the bill to be overdue, so that we can understand what is going to be the ratio, delinquency and ADA. And as it has been explained, the collection had a deterioration of 8% vis-a-vis what we expected. So this 8% will become delinquencies? Difficult to say. We need to wait and see how this curve will behave. So we'll go back -- when we go back to the connections, this will also allows a reversal.

Q - Marcelo Sa {BIO 16454581 <GO>}

And if you will allow me to add to the question about the collection of CEMIG D, how much is paid by electronic names or brick and mortar stores because this is also a variable that is going to make a difference in your collection, in your ADA right, stemming from the crisis as well?

A - Leonardo George De Magalhaes {BIO 21639277 <GO>}

Marcelo well, I might know the details, but I would say 70% is electronic means and 30% would be other branches.

Q - Marcelo Sa {BIO 16454581 <GO>}

Okay, that's great, thank you very much.

Operator

(Operator Instructions) Next question from Mr. Francisco Navarrete from Bradesco.

Q - Francisco Navarrete {BIO 15936808 <GO>}

Hello everyone, thank you for the call. I have two questions. You mentioned the performance of delinquency in April. Can you comment anything about May? It looks like you already saw an improvement, right, on the sales volume for April, it was worse, delinquency was also worse. But you -- it looks like you already see an improvement in volume for May, right? What do you see for delinquency in May, also for low-income consumers, those -- that will have federal funds being paid your bills, how much of your revenue that low-income consumers represent?

A - Leonardo George De Magalhaes {BIO 21639277 <GO>}

Thank you very much for your question. About low income, they represent today more or less BRL25 million a month. ICMS is not included there because it's exempt. So it's not a significant amount, it's BRL25 million a month. So we are talking about one quarter and it's a fact that that would be paid and covered by the new federal legislation, that would be BRL75 million.

About delinquency, right now, we can't say much. May collection has improved vis-a-vis April. We believe that we might have a seasonal daily effect and we cannot say that this trend will last through the end of the month. So we do not have a final figure. But in the first two weeks of May, what we see as a trend is that these figures have improved vis-a-vis April. So this is a positive effect as well. But we rather wait a little bit because there is a seasonal effect. And, but right now, we do see an upward trend.

Q - Francisco Navarrete {BIO 15936808 <GO>}

Thank you very much.

Operator

Next question from Ms. Lilyanna Yang from HSBC.

Q - Lilyanna Yang {BIO 14003234 <GO>}

Hello, thank you very much for this opportunity. My question is about your free client contract. You have 400 megawatt contract, how are you selling it? Is this a contract return among clients or do you guarantee the revenue of these clients? And how much of that is being paid by the spot price or are you negotiating with free clients? Can you give us any color on that?

A - Leonardo George De Magalhaes {BIO 21639277 <GO>}

Hello Lilyanna. Thank you very much for your question. The free consumers or free clients are not easy negotiations, these are complex environment because we have a mix, and in many of the case we are able to renegotiate and they say that the price difference, that is pressuring our consumers now. We can extend that cost and actually increase the price further on so that they can have a cash relief now and maintaining the energy. So in a lot of the cases, that's what we do. In other cases more difficult. For instance, one of our clients, a shopping mall for instance, really have a hard time there and we are negotiating so that we can work with them, and the process sometimes involves the return of energy and that's where -- they were able to get it lower than take, they have an effective energy that is higher. And actually, then the discussion is just regarding on what is below the take and that generate some negotiations. But the take -- then the energy is a surplus. And then it's negotiated at the spot price. So difficult to negotiate that energy right now because there's a lot of energy available in the market because of the economic deceleration of the market, but we understand that what we are negotiating by the spot price, that's not the most representative one, the more significant. So many of the negotiations are successful and we believe that by the end of March -- we always thought this was a very challenging process, and it still -- it will be successful in these negotiations with our clients.

But in some of cases because of the consumption is at the low range of the take, we are really selling at the spot price and in case that this will have an impact for GT -- CEMIG GT revenue, but we understand the impact of the pandemic will be much concentrated on the second quarter, they might extend to the third quarter and we understand that these are one-time off impacts in CEMIG GT's results.

Q - Lilyanna Yang {BIO 14003234 <GO>}

Just a follow-up. Can I understand that the regulated market, maybe the demand is a little bit lighter, but the free market may be the trend is to worsen in the second quarter to improve in the third quarter to be confirmed. And what is the pressure on the sale price in the free market for the long-term contracts, BRL140 or BRL130? What do you see on that issue -- on that topic, please?

A - Leonardo George De Magalhaes {BIO 21639277 <GO>}

Well, yes first, that's true. There is a higher pressure in free consumers, specifically in the incentive market that where we have shopping malls, entertainment industry and we believe this market is suffering more. So there is a one-time off effect and more in one company than another.

Now about the other question, the price for contract really has had a reduction, specifically, starting next year because of the pandemic, but we rather not comment on that because these are negating [ph] prices, we are not negotiating anything because of the uncertainties at this moment and the uncertainties that are related to the economic activities. But yes, I would say that there is a reduction of 20% to 30% regarding our prices that we had, up to the beginning of March. I would like to take this opportunity to correct an answer. I switched the figures about the collection. Actually electronic means address 40% of bills paid and branches, bank branches and others represent 60% of bills paid.

Operator

Next question from Marcelo Sa, Itau.

Q - Marcelo Sa {BIO 16454581 <GO>}

If you allow me a final question, more recently it has been announced, a change in Taesa's top management as CEO and CFO left the company. And earlier regarding dismissal also was announced. So I would like to know what was the reason for that if there is any change in strategy at Taesa.

A - Leonardo George De Magalhaes {BIO 21639277 <GO>}

Marcelo, there is no specific reason for this change. This was an agreement we held with them. Some of them did have a proposal to leave the company and others wanted to leave, but there is no specific reason, no specific reason for that change. Sorry.

Q - Marcelo Sa {BIO 16454581 <GO>}

Okay, great. Thank you.

Operator

(Operator Instructions) Mr. Guilherme Lima from Santander has a question.

Q - Guilherme Lima {BIO 21017551 <GO>}

Good afternoon, everyone. Can you comment on some issues that are coming up about the COVID account specifically, the ones that are the counterpart topics for distributing companies. Which are these counterparts? And do they make sense to you? And do you believe that financial economic rebalance can be addressed by a measure or provisional measure or you can -- you should have further discussions for that?

A - Leonardo George De Magalhaes {BIO 21639277 <GO>}

Guilherme, thank you for your question. Well, about the final issues being distributed by distributors and the Ministry of Mines and Energy and now they are all known by the public, they involve dividends and dividend restrictions of other topics. But I believe now the final negotiations have been made and we have to wait for the decree to be published. We now expect for the final decree. We know that distributors with -- in the discussions with the legal agencies, they have both stated their expectations. And so what we know now is that the decree should be published soon. And so, we will now wait. We understand that the negotiation and -- period and discussion period is over, it was very clear, the concerns that we have. So now let's see what is going to be published.

About the financial economic rebalance, is also one of our concerns. We understand that because of the pandemic and everything that is involving not being able to disconnect residential consumers, the connection. So we believe that there is going to be an impact in delinquency. So this is an extraordinary indifferent moment and at a certain moment we understand that we'll be discussing that with the agency about such rebalance. We understand that this is going to be part of the future agenda of discussion. And then we will see if there is going to be a tariff review or any other mechanisms. But now we understand that we are able to use the different ways to look for the rebalance. So we will wait and right now what is important for us is to tackle this short-term problem, which is the liquidity of the company because that's very important when you have a lower revenue coming from the market and what is -- when we better know the effects of this pandemic and we have to know the extension of it, what is going to be the change in the markets, then we will be able to discuss with the regulating agency these effects and take it from there.

Q - Guilherme Lima {BIO 21017551 <GO>}

That's very clear. Thank you so much.

Operator

We now end the Q&A session. I would like to turn the floor to Mr. Leonardo George de Magalhaes for his final remarks.

A - Reynaldo Passanezi Filho {BIO 15054064 <GO>}

Very well. Once again, thank you very much for your participation on this call. We do believe in -- in summary, we did have accounting effect that posted losses on the quarter. But I think the foundations are there. We do have some effects of COVID-19 in our operations in the first quarter and the company is very much focused in the improvement of operating efficiency as well as cost reduction. We expect to have better news and good news in the next quarters, with all the actions that we are taking.

The leverage reduction will move on, considering again the actions we are taking and about our Eurobond that I believe our investors are concerned about that. Remember that in the short term, we are prepared and the company -- and we are protected, and the company in the time will take the right measures, so that we do not have that exposure further on. So the company is alert, and we will take the needed measures.

Once again, thank you very much. And I'm sure that we will keep the market updated about relevant events that might affect the company the next month, everything related to the pandemic and how we are dealing the situation. Thank you so much.

Operator

This concludes CEMIG's first quarter 2020 earnings conference call. Thank you all for your participation and have a good afternoon.