

Q2 2017 Earnings Call

Company Participants

- Ant nio Carlos V lez Braga, Superintendent of IR Officer
- Leonardo George De Magalhaes, General Manager
- Unidentified Speaker, Unknown

Other Participants

- Marcelo S , Analyst
- Maria Carolina Carneiro, Analyst
- Unidentified Participant, Analyst

Presentation

Ant nio Carlos V lez Braga

Good afternoon. My name is Ant nio Carlos V lez Braga, Superintendent of Investor Relations Officer. We will now start the video webcast of Cemig relative to Second Quarter 2017 with the presences of Dr. Ad zio de Almeida -- or Dr. Leonardo George de Magalhaes, rather, Controller. We apologize now for the absence of our Chief Officer for Finance and Investor Relations, Dr. Ad zio Lima. Due to busy agenda, he was not able to report in this call. Perhaps, he'll join us by the end.

Now let's then begin with the presentation. The first slide, #3. We have a summary of results. We have an increase in net revenue as compared to the Second Quarter '16 of 9.4%. EBITDA also growing 8.7%. And net profit also. The main drivers are listed there. The main reason for increased revenues was CVA, much bigger than last year's. I think that we should comment on the provisions of energy on the point of view of consolidated numbers of 2.4%. Also, equity gain was a little lower because of the Taesa and Light results as compared to last year. Participation and stake in Cemig -- at Taesa was reduced by 25% in November last year.

In terms of expenses, we had some labor litigation provisions, meaning BRL 125 million of further expenses.

Slide #4 now, the net revenue. Consolidated net revenue, as we said before, it increased by 9.4%. Volumes sold, consolidated, was reduced as compared to the First Quarter last year by 2.4% minus. All the classes of consumers, except for commercial, which showed an increase, we had a CVA that was more than BRL 500 million higher as compared to last year. Also, revenues from CCEE spot price at around BRL 144 million higher. And last year, we had revenues from transmission indemnity that was this year BRL 561 million lower in the Second Quarter.

Also, Gasmig extended its sales to 3 industrial consumers. And that's an increase of BRL 92 million in revenues, as we will see later on.

Next slide, operational expenses. An increase in expenses in those non-manageable items, BRL 625 million of cost of power supply purchase that was higher.

Our new voluntary retirement plan, by June this year, it had more than 900 -- 890, rather, adhesions that was more than expected. And the expense in the Third Quarter was then BRL 165 million, as recognized for the expenses. But in net terms, considering that the expenses related to the voluntary scheme last year was BRL 64 million, we have then an increase of more than BRL 100 million. But if we consider that this is a one-off type of expense and subsequently, we will have reduced expenses with our payroll. And that will mean in the end a net reduction of expenses.

As for provisions for losses on investments, that's an important issue as well. The put Parati, that's the Light put with the balance of BRL 1.1-plus billion. That's a reversal of BRL 8 million. The SAAG put also balance reduced by BRL 5 million, down to BRL 238 million as balance.

With regard to consolidated debt profile, net debt of Cemig closed the Second Quarter at BRL 12.5 billion, meaning a reduction of almost BRL 500 million as compared to the quarter before, the First Quarter of 2017. And after June, we paid a further BRL 777 million in debt. That demonstrates our commitment to reducing Cemig's leverage. We can see the leverage graph that Cemig's leverage was reduced. It's down to a little more than 4x.

And the cost reduction in March 2017, from 15.67 down to 12.03 at June '17. That's a reflection of the Selic interest rate reduction.

Next slide, we talk about results of Cemig GT in the Second Quarter 2017. Due to its very good performance during the period, the revenues were higher, especially from transactions in CCEE. A reduction in EBITDA of some 10.4%. And net profit, down around 7%.

But it's important to highlight that Cemig GT showed also 174 employees accepted our voluntary retirement scheme.

Now to add a comment here with regard to generation and transmission, BRL 149 million. These were regulatory assets that were presented to the previous carriers. But we claimed from ANEEL a higher value. And they acknowledged it. And we will accept and we'll receive that further injection of money. And that will help us in our reduction of leverage. Yes.

Now the next slide, we can see that we have reduced our debt by BRL 363 million by June. And also, that extra debt paid after June, that happened in Cemig GT, the BRL 777 million. More than 16% down to 12% of EBITDA. And the leverage is pretty much stable in view of the small reduction in EBITDA when compared to second half 2016.

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The next slide, #9, we have a summary of results of Cemig distribution. Over the period, Cemig D had some nonrecurring impacts. They're not ordinary. Among them, the voluntary retirement plan that meant BRL 531 million; also, provision for labor law litigation associated to a change in procedure by our legal department; also, the debt adjustment in CVA impacting the revenue. And as a consequence, the EBITDA of the company. So we are talking about 4 different components that altogether add up to some BRL 400 million, directly impacting the EBITDA line. And we shouldn't see this again ahead of us. It was a one-off, yes. First, the labor law litigation provision is very high this year, as we mentioned. We should reassess those provisions. We expect that value to be reduced in the upcoming quarters.

As for the CVA, during the tariff readjustment, we considered the values that are being deducted from our revenues. We'll do that readjustment of tariffs. We produced a final account together with ANEEL. And we saw the need for this further adjustment of BRL 200 million. And that affected our results.

As for debt, now for debt, it was increased somehow. But we expect that to be reduced. And by the end of the year, we want to further reduce that figure. We know that this is an issue that requires constant attention from the company. Thank you for your comments. Sorry.

Slide #10, we have the debt profile of Cemig Distribution. The debt has been reduced by BRL 206 million from March to June this year. The indexers, leverage, EBITDA and so on. EBITDA showed some increase. And you can see the drivers that as explained before, this is not expected to reoccur in the foreseeable future. GT consolidated debt, that was a reduction -- there's a substantial reduction, too, from 15.95% to 10.97% in June 2017.

To conclude, we can see the cash flow on Slide 11. As you can see, by June, it showed a very strong generation of cash by operations, BRL 1.9 billion; financing, a little above BRL 1 billion; and investments, BRL 906 million.

From December last year up to now, the reduction was just BRL 50 million. If we considered the bonds in the security, we can see that available cash is around BRL 2 billion. Would you like to add anything?

Leonardo George De Magalhaes {BIO 21639277 <GO>}

Yes, I have a comment on that. In our last meeting with investors here in Belo, we saw that even without any of this investment, the company had before a trend towards reduction of leverage. So the cash flow that we have demonstrated last quarter and in this quarter, in the first 2 quarters of 2017, we can see that in the half year, we generated something near BRL 4 billion. And considering that the northern plants are almost ready to operate and the investments are just residual, only concentrated now on transmission. So we have this relief of pressure on our investments. We paid the investment. We made the investments necessary. And even so, we had this good result for the cash flow. And it's coherent and reflecting what the company has been announcing. It points to a sustainable

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course. And we could expect to reduce even further our leverage by the next 2 or 3 quarters.

Antônio Carlos Vilez Braga

Yes. Thank you for your comments. That's our message: commitment to reduction of the leverage. And investments are an important part -- and these investments are an important part of this effort. We had prepared this very brief and very summarized demonstration of results and are now ready for your questions.

Questions And Answers

Operator

Yes. Now we will start our Q&A session. (Operator Instructions) Marcelo Sá from UBS has a question.

Q - Marcelo Sá

I have a few questions. First, with regard to the Light put benefit, it was predicted for early November. What's the estimated amount that you expect for that put exercise? As for the tariff, you had dealings, recent dealings on that. And I would like to know the timing of those negotiations. And perhaps, you could signal to the market the achievement of a short-term liquidity.

A - Unidentified Speaker

Thank you, Marcelo. About Light put issue, as you said, our commitment is by late November this year, the balance estimated by then, something around BRL 1.5 billion. Our intent is to take that put with resources resonating from the sale of Light. There is a possibility in our timetable for the selling to meet that deadline. But if not possible, we don't discourage negotiations with the put holders an additional -- an extended term. But we're going to pay it from the resources or the funds coming from the sale of Light. As for Taesa, the decision, well, it does not make a difference to us, to Cemig, to sell it today or within a month or within 2 weeks. In reality, selling it from today until the sale of Light. The shares that we have outside the control block of Taesa, that's tied to the Light put. If we sell the shares, they will become money cash that will be deposited. This is not coming to Cemig. This doesn't help in our investment. It doesn't help the put. So our vision is that we shouldn't rush with that. Expectations were created in the market. Volatility was the result of Taesa. We saw that was not our intention or desire. Perhaps, closer to November, closer to the sale of Light, perhaps we could do some complementation by selling Taesa's shares. But it makes no difference for us within the short term Taesa shares.

Q - Marcelo Sá

Along these lines, also, if you could comment on the Light process. What about the demand? And also, about Santo Antônio. There was an offer. And you expected that transaction to be completed more quickly. And it seems that book value that are -- the value for Santo Antônio will be much below book value.

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A - Unidentified Speaker

Yes. As for Light, it's been advancing as expected. We have met with several potential buyers. And I can tell you there are lots of them, lots of proponents to buy Light. We are now at this stage of signing NGAs [ph] with the prospective buyers so that they can take a look at the asset and come to a decision. So that's what we're doing right now. As for Santo Ant nio, it's also at the final stage. We are negotiating. The awarding properly of the contract for selling of shares, we understand that it is possible to announce a probable date, to announce the Santo Ant nio decision by September.

Operator

(Operator Instructions) Ms. Carolina Carneiro from Santander has a question.

Q - Maria Carolina Carneiro {BIO 16342681 <GO>}

Two questions. The first, with regard to the retirement plan, you have that amount expected for reduction of expenses. I'd like to hear more about you on the expectation. As for adhesions, 891 by June. Do you expect more employees to accept? And will that impact the results of distribution? Also, you have announced about the payment by Cemig to keep the 3 plants, Jaguar , Miranda and so on. And we have heard that before in the past. And it was as quoted as possible. But there were doubts about how it was going to be conducted. I'd like to understand, from a legal point of view how that could be done. Should we expect a result, a decision on the merits of the matters? And what mechanisms are involved in that judgment?

A - Unidentified Speaker

Thank you, Carol, for your question. I will say a few words about the plants. And that will help me with the retirement plan. As for the plant, we understand that there is room for negotiation. That's what we've been trying anyway. From the legal point of view, our understanding is that if Cemig, which is an agreement with the federal government. And the federal government is down to accept it as we see it, then we could have this agreement approved. Of course, this agreement must be fair to both parties so that the Supreme Court can approve it. But in principle, there's no need to bring it to court before this agreement is announced. As for the structure of this agreement, I would rather hold it back for a while because we are still undergoing negotiations. And these negotiations can lead to a variety of pathways. So what I may reinforce by now is to say that it's expected to be -- to yield good results for Cemig. Then, of course, it is also helpful for the federal government with regard of their fiscal situation. As for the retirement program, those 891 adherents, we expect it to reach 1,000 employees by August. That's a valuable opportunity because 70% of those employees belong to Cemig Distribution. We think that this is very important -- a very good opportunity for us to capture debt reduction. BRL 100 million has been achieved. And now considering, I believe, what had already adhered in previous periods, we can even improve that number. It will be next or near 1,000 employees. That's an investment that we pay off within a period that's shorter than one year. The return is very quick, less than -- about 8 to 10 months. And next year, the cost will be lowered and some other costs that are pressuring Cemig Distribution results. We are doing a fine-tuning to take care of doubtful debt, doubtful loan. We intend to reduce costs associated to that next year. And if you consider the tariffs for next year, we have

made investments over the recent years that will lead to a revision of our tariffs next year. And we'll be able to talk to the regulatory body in a position to justify our costs, considering the size and capillarity of our distribution lines, almost 600,000 kilometers of lines. We expect to have a fair tariff readjustment with a higher degree of our regulatory costs embedded in the tariff. So I expect to have another opportunity to increase the efficiency in this line of cost as part of embedded in the tariff for Cemig Distribution. That's basically it. And thank you, Carol.

Operator

Mr. (inaudible) from Banco Safra has a question.

Q - Unidentified Participant

Just information about issuing of bonds. What's your time line for this? And what are the prospects?

A - Unidentified Speaker

(inaudible), hello and good afternoon. And Thank you for your question. As you know, issuing potential bonds is part of our redesigning of our debt profile strategy. At this moment, we are renegotiating with the banks part of the present debt. And we await a favorable moment for debt issuing. So far, we haven't defined a date for that from these negotiations with the banks. And as we keep track of the evolution in the market, at the proper time we will timely announce debt issuing. We can see that the rates are coming down. A company that has a similar or even worse debt profiles, they have been successful in their redesigning of debt. So I think that this is compatible with our evolution in the next -- in the last -- over the last five months.

Operator

Ms. Gomez [ph] from (inaudible) Intelligence would like to make a question.

Q - Unidentified Participant

I would like to have more detail about the selling of Light. You mentioned the possibility of the selling of it entirely or slight. So to say. How will that happen? Because if we proceed -- if you proceed to that type of selling, you should go through a meeting, perhaps, a shareholders meeting? Are the numbers are based on your partial or total selling of Light?

Thank you for your question. This is a decision that hasn't been made yet, it will depend on the offers that we'll start to get after this round. And Cemig took the decision of reducing its stake at Light. And the simpler solution would be just to sell this stake together with our partners (inaudible) and others. That would be simpler and easier. But we have other options. But we are now awaiting for -- awaiting nonbinding offers before we take a decision. The way we would do that also will depend on the response we get on that.

And what about the deadline for that? The time frame?

A - Unidentified Speaker

We expect, by late September, we'll have received these offers. And we should have a further tenure for coming to a decision.

Q - Unidentified Participant

Still this year?

A - Unidentified Speaker

Yes, for sure, for sure. Somehow, we get the proposals, the bids, we will proceed to go for a decision on how to conduct that process.

Operator

(Operator Instructions) We then close this Q&A session. I would like now to hand over the floor to Ant nio Carlos V lez Braga, Investor Relations Officer of Cemig. Please, Dr. Velez, could you proceed?

A - Ant nio Carlos V lez Braga

Thank you. I would like to thank everyone for their participation and watched our -- and listening to our call for results. Again, stressing that we are firm in our commitment to restricting the capital of Cemig so that we will recover our full quality of credit to the best possible level, as indicated by our history. We have been advancing firmly. And we will have further announcements ahead of important conclusions. Thank you. Good afternoon to all.

Operator

Cemig's video webcast with the results on the Second Quarter 2017 is now closed. I thank you all for participating. And have a nice afternoon.

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