

Q1 2012 Earnings Call

Company Participants

- Eduardo Haiama, CFO

Other Participants

- Lilyanna Yang, Analyst

Presentation

Operator

Good morning, everyone and thank you for waiting. Welcome to Equatorial Energia's First Quarter 2012 Results Conference Call.

With us 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 the Equatorial's 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's website at www.equatorialenergia.com.br where the presentation is also available. Participants may view these 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 in our website. They will be answered by the IR team after the conference is finished.

Before proceeding, let me mention that forward statements are based on the beliefs and assumptions of Equatorial's management and on information current available to the Company. They involve risk and uncertainties because they relate to future events and therefore depend on circumstances that may or may not occur.

Investors and analyst should understand the conditions related to macro-economic conditions, industry and other factors could also cause results to differ materially from those expressed in such forward-looking statements.

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

Eduardo Haiama {BIO 7279971 <GO>}

Hi. Good morning everyone. First of all I'd like to thank you all for joining us in our First Quarter conference call.

As for our 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 on our operating and financial results followed by the some updates on general Geramar (Lugelavillia). And lastly we open the Q&A session.

Before the highlights, I'd like to clarify some procedures regarding figures presented in the earnings release and in this presentation. I'd like to remind you that consolidated information reflects 100% of CEMAR, 25% of Geramar and 100% of Equatorial Solucoes which on its turn consolidates 100 % of Sol Energias figures

So moving on to slide six, we continue to post strong energy demand growth of 12.2% in this quarter. Despite this growth, energy losses fell 0.9percentage points when compared to First Quarter '011 with total losses reaching 20.7% of required energy.

Quality indicators deteriorate a little bit this quarter rose 14.9%, 3.3% in terms of DEC and FEC respectively in CEMAR. In February 2012, we conclude the acquisition of 50% of Vila Velha Termoeletricas, a pre-operating company responsible for the construction and management of a thermal plant in the state of Espirito Santo.

One thing that's -- it's not written on this slides, but I think it's also important to information, in our recent release Aneel ranking the companies -- distribution company in terms of quality indicators, and I'm really proud to announce that CEMAR was considered the second best company in the sector, according to Aneel ranking.

Moving on to slide seven, the consolidated net revenue grew 32.1% fueled by CEMAR's demand growth of 12.2%. Also as a result of this demand growth, the EBITDA reached BRL132 million or a growth of 17.9 % year-on-year. Net income came to BRL48 million in the quarter or up 40.9% year-on-year.

Consolidated investments amount to BRL118.5 million in the quarter or 47% higher than the same quarter of last year.

In 2012, Geramar concluded to raise BRL246 million from BNB and BASA, representing all long term loans needs for the Company.

Moving on to slide nine, we'll talk about interest market in CEMAR. As we can see demand growth posted a strong 12.2% across all different segments as a result of the economic growth of the state and also climate factors. In our view this growth should continue over this year, maybe not at this level. But we sure expect a very strong demand growth for 2012.

On slide 10, we show actual losses are below the regulatory targets for the first three years of the tariffs cycle. In other words in spite the markets growth, we ended First Quarter '12

with non-technical losses of low voltage markets of 15.2%. And total losses over refined energy of 20.7%.

As we have been mentioning in our press release, we believe like we should continue to post lower energy loss going forward but at the lower place.

Next on slide 11, we (can under serve) that CEMAR's quality indicators DEC and FEC rose by 14.9% and 3.3% respectively. And the main reason for that was planned halt in order to execute the Company's high CapEx program which happened simultaneously to the rainy season in Maranhao that occurs mainly in the first half of the year when amount of occurrence increase.

On slide 13, First Quarter EBITDA reached BRL133 million, or rising 17.9%, and net income grew 40.9% to BRL48 million. In this quarter there was no nonrecurring events.

On slide 14, we present our amortization scheduled for the Company process, the consolidated process amount to almost BRL1.4 billion. In our view, we have a comfortable debt amortization profile given cash flow predictability.

On slide 15, we break down Equatorial's consolidated net debt which amounted to BRL1.08 billion, actually the net regulatory assets and consolidated cash position. As a result, net debt to EBITDA was capped at 2 times. Adjust this net debt in proportion Equatorial taking CEMAR 65%, Geramar 25%.

That is shown on slide 16. We reach a net debt of BRL735 million represent 2.1 time net debt-EBITDA ratio.

Moving on to slide 17. We present our CapEx figures. Equatorial's consolidated caps amount to BRL118.5 million or 45% year-on-year. Going forward we expect CEMAR demand growth to continue to post strong figures, (in last quarter two) which expected limitation of large industrial projects in the states.

And support this growth scenario we are securing a strong CapEx plan for 2011/2012 period to increase installed capacity and improve the quality of service provide to its clients.

On slide 19, we highlight the acquisition of 50% of Vila Velha, (SPE), thermal generation projects under study, locate in the state of Espirito Santo. And we also -- we mention again the Geramar has already fully contracted its all -- its long term loans represent BRL246 million, as a result Geramar has amortized as of today 100% of its bridge loans.

Well with that, that concludes my presentation. We can begin our Q&A session. Thank you.

Questions And Answers

Operator

Excuse me, ladies and gentlemen. we will now begin the question-and-answer session. (Operators Instructions). And our first question comes from Ms. Lilyanna Yang with UBS.

Q - Lilyanna Yang {BIO 14003234 <GO>}

Hi, thank you for the call. I'd like to see your view about the (testing steps) that have already come out (in the heat) of the proposal for (funds there) your (inaudible) which made them concession of (coals). How do you see the testing steps impacting your -- the cash flow going forward? I know you're a little bit far from it on (mid) last -- mid next year of which you can give us some color that'd be great, thank you.

A - Eduardo Haiama {BIO 7279971 <GO>}

Sorry, Lilyanna, we couldn't hear well, but your questions regarding how (inaudible) tariff review would reflect in our expectation of next year's tariff review for CEMAR?

Q - Lilyanna Yang {BIO 14003234 <GO>}

Most certainly, that's it.

A - Eduardo Haiama {BIO 7279971 <GO>}

Okay, well in our view given that this methodology is quite straight forward, we would be quite surprised if you have any different implementation of the way Aneel, let's say, use the methodology to acquire us figures.

We believe like the main thing regarding next year's tariff review for us is to be sure that that all the CapEx we're implementing today we're going to be considering (indirect). And for that we are doing a very big effort to be sure that we do it in a very consistent way so that the physical and the money, they go together in a way that we can show to Aneel what we are doing is really there in the way that Aneel requires other companies to present.

So that's -- that would be one thing that we are looking, not only from today, but since 2009 we had this goal of being sure that our work ethics is really consistent in the way we implementing.

The second (inaudible) believe like it's what importance for (inaudible) and that would reflect in our case how the judge will deal with the WAC that Aneel wants to capture the benefits from (Sudenny) from the WAC in our view.

We should win in the end. But we are not sure that by 2013 we going to be able to reverse. We believe so. And we are working hard with (Arag) and Arag is, I believe like doing a very good job, to be sure there are no other companies have this effect in the tariff review.

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The third thing is quite important. And I believe like in the case of (Quest) was quite clear and also probably in the others. There are -- the way the methodology was set is in a way that really I believe it captures some characteristics of regions such as the Northeast and North of Brazil that has strong growth but also this growth comes with a large number of users and also very high CapEx that increase this type of the concession (briefed).

And I believe that was clearly in terms of how we should expect the regulatory OPEC should if over a time for this regions that in our view was not really capture in the former methodology. And in this case given that we believe like we increase the productivity in CEMAR, going forward we should benefit from this changing methodology to really show that the productivity is producing results.

The third thing I believe is also important regarding Quest in -- I believe like that was (inaudible) was mentioning before, the methodologies is quite simple today. So that we do have many less let's say variable to work on and I believe like we can really focus on what's really important to drive value and also to increase the chance of having let's say a good tariff review.

So in the sense our focus that we would have set since 2009, I believe like -- really be a good one given that CapEx is really important to provide a very good service to our clients that the ranking I was mentioning that Aneel just released on Monday showing that CEMAR on Aneel's view is considered to be the second best concessionaire in Brazil.

I believe all these efforts that we having been made since 2009, in the end considering this tariff review methodology that was applied consistently with the methodology that Aneel approved in the case of (inaudible). I believe like all this should benefit our tariff review for next year. I don't know if that answer you question.

Q - Lilyanna Yang {BIO 14003234 <GO>}

Yes it does, thank you.

Operator

(Operators Instructions). This concludes today's question-and-answer session. I would like to invite Mr. Eduardo to proceed with his closing statements. Please go ahead sir.

A - Eduardo Haiama {BIO 7279971 <GO>}

Well sum up, we would like to reinforce our commitment delivering a (differentiated) -- appreciation for our shareholders for exceptional financial and operating results. We'd also like to highlight (adherence) in the highest level of transparency in corporate governance and reassure that both me and our investors relations team are available to help you should you have any further questions.

Thank you, all again for taking part in our First Quarter '12 conference call and have a good day.

Bloomberg Transcript

Operator

That does conclude the Equatorial Energia's 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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