

Q1 2021 Earnings Call

Company Participants

- Lino Lopes Cancado, Member of Board of Executive Officers
- Marcelo Campos Habibe, Chief Finance Officer and Investor Relations Officer
- Marcelo Cruz Lopes, Director Of New Business, Marketing, Gas Commercialization and Energy
- Pedro Zinner, Chief Executive Officer
- Unidentified Speaker

Other Participants

- Analyst
- Guilherme Lima
- Marcelo Sa

Presentation

Operator

Good afternoon. Thank you for waiting. Welcome to in ENEVA's Earnings Call for the First Quarter of 2021. Pedro Zinner, CEO and the other company directors are here with us today. This is being recorded. All participants are in a listen-only mode. We will then have a Q&A session. Further instructions will be given then. (Operator Instructions)

This call is being broadcast over the Internet at ri.eneva.com.br. You can also find the company's presentation there. Participants can control the slides. The replay will be available after this meeting is concluded. Webcast participants can submit questions during the Q&A session.

Before moving forward, we would like to state that future estimates and statements based -- are based on the company's beliefs as well as information currently available. Future considerations are no guarantee of future performance. They involve risks, uncertainties and assumptions because they relate to future events that depend on situations that may or may not occur. Investors must understand that general economic conditions, industry conditions, among other operational factors may affect the company's future performance. They may lead to results that will materially differ from these considerations.

Mr. Pedro Zinner has the floor now. You may proceed now sir.

Pedro Zinner {BIO 17260844 <GO>}

Good afternoon, everyone. Thank you for attending our first quarter earnings call. I hope you are all well, especially because we are facing the challenges of the pandemic. Please pay attention to disclaimer on Slide 2 before we start this call. Before we move on to Slide 3, I would like to welcome Marcelo Cruz. He joined the company early May. He is now in-charge of marketing and new business and energy sales, a major addition to the company. We're very pleased and honored to welcome him.

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On to Slide 3 now, let me talk about the highlights of the quarter. We started out the year with solid performance. Adjusted EBITDA amounted to BRL446 million, up 2.8% when compared to Q1 2020. The drivers were more variable margin in BC-2 and less expenses in operations when compared to Q1 of last year. Better performance results coupled with reduced financial expenses led us to BRL220 million net income, a 30% increase when compared to Q1 of 2020. This was yet another quarter in which we optimized our liabilities and optimizing our capital structure even further. The cash is BRL2.1 billion. Leverage is 3.3x.

We dispersed an additional BRL160 million for the BNB and BASA projects. Our cash position is strengthened for the Azulao-Jaguatirica and Parnaiba V projects. Another highlight for the quarter was the announcement of commercialization of Gaviao Belo with a volume of 6.8 billion cubic meters. That's the peak mean. We're now developing the field, we'll be submitting that to the authorities by August. I would like to point out that we are moving on with our initiatives towards the prevention and the fight to prevent the effects of the pandemic. We are now donating an oxygen production facility to the state of Roraima, up to 30 cubic meters per hour is its capacity.

In 2021, we are defining our major long-term sustainability goals. We have updated our materiality metrics. Based on the priorities, we're now redefining our long-term ESG commitments. In terms of project pipelines, I think you're all aware, we've been invited by Petrobras to be part of the negotiation phase of terms and conditions, to be part of the land projects to produce hydrocarbons. Negotiations are moving forward and the execution will be dependent upon the success of those negotiations that involve commercial aspects, as well as the regulatory agencies' approval.

I'll turn over to Marcelo Habibe. He'll be talking about market conditions as well as our financial performance.

Marcelo Campos Habibe {BIO 20367888 <GO>}

Thank you, Pedro. Good afternoon, everyone. Let me start about the energy outlook. On demand side, energy consumption kept on increasing following the trend from last year. In this first quarter, energy consumption was 3.7% more when compared to the same period last year, 1.9% when compared to before the pandemic. Economic activity is picking up and the environment has been helping, too. On the demand, we are at a critical level.

Water dams are 21% below the same period, which puts pressure in the system because we're coming towards the end of the rainy season. In order to balance the system, we had

to increase the thermoelectric dispatch as you can see, on the charts on the right. The average forecast for ENEVA based on CCEE and megawatt data indicate a strong position towards the end. The bias is that of an increase, especially in Northern Brazil.

On to slide 5 now. Net revenue was 1.3% above the number of the same quarter last year. We had an increase in average dispatch, more energy production based on that hydrological situation. But part of it was not met because of the maintenance in Parnaíba II that started out on February 5. It received the CVU, but we have to reimburse the system that is PLD based. Last generation unit that was because of the preventive maintenance of Itaipu that was concluded on April 13. This major overhaul takes place every 35,000 hours of operation. We revise or we refurbish the generator and the turbines. We have a positive inflation index into national commodity, which is the natural gas and coal on top of the exchange rate.

On to the next slide, financial performance is next. The adjusted EBITDA growth in first quarter of '20 to '21 showed an increase of 2.8%. That increase was driven by fewer upstream operations, since there was no seismic campaign and increase of variable margins for Pecém II, especially because of the mismatch of the CPU and the average coal cost. Gas generation, the variable margin was negatively impacted by an increase in lease contracts for up to -- for the upstream because of an increase in CVU in the first quarter.

This effect is offset in the Parnaíba complex and the consolidated. The EBITDA was negatively impacted by the energy purchases to offset the cell positions we had in the first quarter. On to Slide 7, the cash flow amounted to BRL629 million, higher EBITDA, a positive impact of working capital. Total disbursements reached BRL423 million for Parnaíba V and Azulão-Jaguatirica projects. In late March, consolidated cash was BRL2.1 billion, an increase for the quarter, confirming a solid cash position to support the expansion phase of the company.

Liquidity, next. Just like Pedro said, we collected BRL160 million, BRL112 from the Nordeste Bank for Parnaíba V and BRL48 from the Bank of Amazonas for the Azulão-Jaguatirica project from the Nordeste Banco, we have reached BRL535 million, a total contract of BRL843 million. At BASA, the position is BRL898 million up to now. The total contract is BRL1 billion. When we take into account the disbursements as the projects move on and not including the future cash generation, our position would reach BRL2.5 billion. A very comfortable position for the allocated caps -- CapEx of these two projects that amount to BRL600 million.

The capital structure is next. It remains robust. We keep on improving it continuously to reduce costs and to expand our debt profile. The debt -- net debt and EBITDA is 3.3x. For the year, we have reduced the cost of the debt and we expanded their profile. The debt indices are connected to our revenue. So there are no mismatches of indices that would generate an unfavorable condition for the company. Our debt profile is a long-term amortization, more than 60% will mature after 2025. It's a very comfortable position as -- vis-a-vis the company liquidity.

Lino will be talking about our investments in detail. Thank you.

Lino Lopes Cancado {BIO 20167891 <GO>}

Good afternoon, everyone. Let me talk about the investments now. 80% of the company CapEx for the first quarter was allocated to Parnaiba V and Azulao-Jaguatirica projects. In Itaqui, we had a scheduled maintenance, just like Habibe mentioned, to maintain the turbines and the generator as to the gas plants. BRL43 million in expenses for Parnaiba I. We replaced the parts, fixed some parts and they're back in the company's inventory. BRL40 million -- 77% of those BRL40 million was allocated to field development, mainly Gaviao Preto, the gas pipe is being built. The remainder was allocated for the exploratory campaign that will ramp up as of the second half of this year.

Onto Slide 11. This is an overview of the company's projects under construction. In Azulao, just like we said in previous quarters, we have just received all the equipment as to the cryogenic. Of the 34 cryoboxes, we had received 33. The last one is being delivered now in May. The tanks, the trailers and all the other pieces of equipment have been delivered. And we're now on to the commissioning phase. In the second quarter of this year, we'll be commissioned the gas treatment and liquefaction, so we'll be loading the first cryogenic trailers for the Jaguatirica mill between May and June of this year.

In Jaguatirica, we're now concluding the cryogenic portion, storage tanks, the isotanks have been received and assembled in progress. We are assembling the piping and piping support. The generation, the thermal power plant per se, we have completed most of the heavy assembly phase and we're now building the fine piping and the instruments structure. The plant will be operational in the fourth quarter of this year. And ANEEL, the regulatory agency is analyzing a 120 day grace period submitted in August of last year and we're expecting their reply now in May.

For Paranaiba V, the generator and the turbine has been or have been installed in the steam. The boilers have been assembled in and we're moving forward in the cooling tower assembly. All the equipment has been delivered to the construction site. No critical equipment is pending. It will be operational in the first quarter of next year, that's the goal.

On to Slide 12 and then 13, this is a picture report of these projects. Paranaiba V on Slide 13, the top picture on the left, that's the condenser being positioned below the steam turbine. And the picture below it, shows it in the correct position. On the top 2 pictures on your right, that's the pre-assembly or the low pressure hood. That's what we call the low pressure hood on ground and the picture below we have the high pressure, intermediate pressure turbine positioned at the base.

Slide 14. We can see the setup of the boilers. Here you can see when we installing the chimney parts, but the boiler is already 100% assembled. And you can see the part at the very top of the boiler. After we remove the scaffolding from the chimney's thermal insulation, we also continued to assemble the rest. As for boiler 21, we are also assembling the platforms, the damper. And on boiler 22, we are hoisting the third section of the chimney. And right now, we are assembling the cover beans and the main platforms around the boilers. So we are at the very end step of setting up the boilers.

Slide 15. From the left to the right hand side, the first one is the clarified water tank. We already conducted some leaking tests and next we have the picture of the cooling tower of this plant with 12 cells. And we are now assembling the last cell (inaudible) will be done in the third quarter of 2021.

Slide now 16, let's see Azulao. And next let's move to Slide 17. So from the upper left-hand side, moving towards the right hand side, first we have an aerial view of the PTP, a 100% already concluded. We are just awaiting for the ANP approval for exploring the wells. Next on the right, we have the condensate tanks. And then, at the bottom, we can see the loading station of the trailers. We are already finishing this part of this construction works. We also have the gas treatment separator vessels. And finally, on the low right hand side, water tanks to fight fires. They have already been assembled and commissioned.

Slide number 18. Here we have the self-generation part. So 80 megawatt, that will provide energy to other plants. On the left-hand side, you can see just an overview of this generation unit. On the right-hand side, we are already inside this facility. You can see the caterpillar generators and engines. On the lower hand -- left-hand side there exchanger heater devices. On the right, the fuel oil, and lubricant tanks. So when we don't have gases.

Now let's move to Slide# 19 about Azulao. On the upper left-hand side, we can see the filters for wind power in order to purify gasses before they go into the liquefaction parts. And then we have the different modules to continue the process. On the right-hand side, we have the storage tanks and the cryogenic pipeline. On the lower left-hand side, another overview with NGL tanks. So they allow us to store gases for 3 days of operations. And on the right hand side, we can see the steel pipeline that allows us to finally load the trailers.

Slide#20, these are pictures of the trailers that will transport the production from Azulao. So 108 trailers were delivered, 90 Manaus, 8 in transit and 10 at our supplier plant in the southern part of Brazil. The last 2 trailers will be delivered at the beginning of the third quarter, totaling 110 trailers as we have in our contract. The pictures show the trailers when we were running the leak test of each one of them.

Now let's move towards Jaguatirica II. This is the first picture giving us an overview of this plant. So this plant was entirely built, so to speak. Now we have other pieces of equipment already installed, they are being now undergoing the interconnection phase. The Slide# 22, first picture on the left-hand side, we can see the air cooler condenser. The piece of equipment in which we'll condense steam coming from the steam turbine. So the cooling tower and the heat exchange is done using the same piece of equipment. That's why it's called air color condenser. On the right-hand side, we can see the different buildings. We have the control room, a common area and the entrance.

Slide number 23. Here is the electrical building, where we have the entire electric connections and also the electrical operation dashboard. Most of the wire have already been connected to the control panel. And on the right-hand side, we have Jaguatirica substation in May of 2021.

Now Slide 24, we have a close-up of the water treatment tank. On the left-hand side, we can see the mineralized storage -- the mineralized water storage. And on the right-hand side is the unloading station. And in the background, we can see the general storage tanks, natural gas tanks so that we can operate at a maximum efficiency.

So this is the update on our construction works. Now I'd like to turn it over to Zinner for his final remarks.

Pedro Zinner {BIO 17260844 <GO>}

Thank you, very much Lino. I believe that very important to mention that considering the global pandemic and the economic disruption that we keep focus in the long-term results with maximizing, optimizing our capital allocation. And our long-term plans drives our competences and allows us to perform new activities. I am sure we are right in the 5 goals we have established for 2021, expanding our exploration portfolio in different parts of Brazil. Concluding Parnaíba III, Azulão-Jaguatirica project's expanding our business models, along our gas to power value chain. We are enhancing our marketing and commercialization strategies. And we stay committed towards a more sustainable future. I'd like also to highlight that we are pursuing our goal, which is to provide a stable, cleaner and more accessible energy to our society, maximizing also value to our shareholders and stakeholders.

So now let's move to the Q&A session.

Questions And Answers

Operator

(Question And Answer)

Thank you. So let's start with the Q&A session for investors and analysts. (Operator Instructions) Our first question, webcast. Guilherme Lima, Santander.

Q - Guilherme Lima {BIO 16417177 <GO>}

Good morning. Can you please add some color on strategies to develop gas marketing? And which will be the steps to develop on this specific topic. Thank you.

A - Marcelo Cruz Lopes {BIO 21075922 <GO>}

Good afternoon. This is Marcelo Cruz. First of all, thank you very much for your question. Just as Pedro mentioned at the very beginning, I joined Eneva's team this month, and one of our major goals is to establish monetization strategies. We have been successful in developing new fields, and at the same time monetizing these fields.

And now we understand it's time for us to sell both in the regulated market as well as selling to end clients. And we can use a different business model for achieving that such

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as a small scale. This is a very important step that needs to be adopted. Many strategies are being developed right now and the major goal is to provide the best energy solution to our clients.

We know, we can be very competitive. I think it's just too early to discuss the next steps. But right now, we are studying some potential solutions and we hope to be able to share them with you later on. Marcelo, if you allow me, I believe that going beyond the selling gas and energy, we position ourselves as a company that provides solutions. So we have established a client portfolio, and now our goal is to understand their needs, logistics, marginal costs, best way also in terms of engineering to better serve those clients. And we hope to announce our first client soon. But right now we are undergoing the planning and discussion phase together with our potential clients. Thank you.

Operator

Next question, Marcelo Sa from Itau.

Q - Marcelo Sa {BIO 16454581 <GO>}

Hello, everyone. Thank you very much for taking my question. Can you please elaborate on Udoco [ph] process? Do you have any updates or do you have any expectations or any estimates regarding Petrobras' definition or decision rather?

A - Marcelo Campos Habibe {BIO 20367888 <GO>}

Thank you very much, Marcelo. As Pedro mentioned, we are discussing with Petrobras right now, I'd say that the negotiation process is doing very well. The conversation, the dialogue has been very positive. But as you know, the reason NDA agreement signed by both parties and that's why we cannot review more than this, but we are very optimistic. We don't have any date set for that. Petrobras is working with a highly competent team, working hard.

But I think you already know that there is also, they are also undergoing disbursement right now or divestiture rather with laying Petrobras' portfolio. And that certainly has impact on Petrobras and Petrobras' teams. But as a message, I can share is to save that we are optimistic, as soon as the negotiation progress, and once we have a signed agreement then we will certainly disclose that to the market, discussing the characteristics of this plan and also to mitigate I understand the anxiety of our investors.

Q - Marcelo Sa {BIO 16454581 <GO>}

Thank you, Habibe. This week there was a report issued by Congressman, Nascimento in the report suggests inclusion of TPP's but in a flexible manner. So I'd like to hear more about that. Does that make sense? Or how do you see that?

A - Unidentified Speaker

Marcelo, thank you very much. We are assessing that report, and obviously there are pros and cons when it comes to cost, energy, investment, to-date we don't have a position that

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we can announce. But obviously this type of planning also has its pros, but let's wait a little bit more so that we can also disclose anything about this issue. Okay. Thank you so much.

Operator

Next question, Diego from Monte Capital [ph].

Q - Analyst

Good afternoon. Can you please elaborate on the responsibility waiver at ANEEL? And what's the impact if you're not successful on your request?

A - Unidentified Speaker

Good morning. With regard to the responsibility waiver, we started working on that in August of 2020. We already have a technical report now we are waiting for the approval by the top management. And as soon as we have that, we will also announce that to the market.

Operator

(Operator Instructions) If there are no further questions, I'd like to turn it over to the company management for their final remarks.

A - Unidentified Speaker

Once again, I'd like to thank you all for joining us. And I hope that you join us again in our next quarter earnings call. Thank you very much.

Operator

Thank you very much. ENEVA's conference call is now -- has come to an end now. Thank you, have a great afternoon.

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