Q1 2016 Earnings Call

Company Participants

- Joao Procopio Campos Loures Vale, Business Development Officer
- Jose Aloise Ragone Filho, Chief Executive Officer

Other Participants

- Carolina Carneiro, Analyst

Presentation

Operator

Good afternoon, ladies and gentlemen. Welcome to Taesa's First Quarter of 2016 Results Conference Call. We would like to inform you that the presentation that will be made is available for download at www.taesa.com.br/investorrelations. We would like to inform you that participants will be in listen-only mode during the company's presentation. Afterwards, we will have a question-and-answer session for investors and analysts only, when further instructions for you to participate will be given. (Operator Instructions)

Before proceeding, we would like to clarify that forward-looking statements that might be made during this call related to the business perspectives of the company, operating and financial projections and targets are beliefs and assumptions of Taesa's management as well as information currently available to the company. Forward-looking statements are not guarantees of performance as they involve risks, uncertainties and assumptions. They refer to future events and therefore, they depend on circumstances that may or may not occur.

Investors should understand that general economic conditions, industry conditions and other operating factors may affect the future results of the company and may lead to results that differ materially from those expressed in such forward-looking statements.

Now, I would like to give the floor to Mr. Jose Ragone who will start the presentation. Please Mr. Ragone, you may proceed.

Jose Aloise Ragone Filho {BIO 16438993 <GO>}

Good afternoon, everyone. Thank you very much for your interest in our company and for being with us during this conference call to talk about the results of Taesa's first quarter of 2016. In this first quarter once again, we ratified and confirmed our strategy and the unique condition and a very specific one of our company in the sense of addressing or having the conditions to address a vigorous dividend policy and at the same time, delivering growth, exclusively based on acquisitions that bring about added value to our company.

And the second point regarding growth, this is a very positive one and we would like to mention our participation in the 013 Auction, made in -- on the last 13th in Sao Paulo, and we participated bidding for MPENZI [ph] branches and at the time, for that we -- we did not submit a bid and there was no result in that branch and we made a bid for the N and a competitor won this bid with a discount of about 13% and we (inaudible) carriers with 0% discount in the P branch. And I would like to highlight our facts towards growth supported only by opportunities that might make our business more profitable. And this was not difference in the acquisition of 29 concession we had assumed at Transco.

And talking about opportunities and growth opportunities more specifically, as we always say to you, our opportunities are evaluated and are considered by our team. And we are evaluating other opportunities as well as and it is important to highlight that the Abengoa opportunities are being considered by our team and insisting on our position with a lot of prudence very consciously, mainly due to the complexity involved in this operation. It is a very complex deal (Technical Difficulty) also the conditions of the assets involved.

Assets under construction and as you know, the work of some of them have been suspended and we are participating with our endeavors and from the technical financial viewpoint and we are allocating all these endeavors and in case, we win this bid, we are sure that we will be bringing to the company an asset portfolio, that -- such as is the case of all the figures when that were included in our concession portfolio, will necessarily add value to our company, to our Transco, so it will not be different from the previous one.

So our position that was stated before, that it's a very complex deal and we keep this in mind and we are considering this and we will preferably focus on the operational assets and we will be extremely careful in -- afterwards of -- in the due diligence phase. We will be extremely cautious, but we will not wait the possibility of a growth and we increasingly been focused on returns and in a view that will bring additional profit to our company.

And the result of the first quarter reinforces the commitment on the part of these executive roles and all the partners and our whole team in the sense of continuously improving our processes. We are always seeking this -- seeking to optimize and to bring them to develop. All our actions and all the acceleration of our assets and the results that will be mentioned by -- have filed [ph] are evidence of that.

And finally, supported by the quality of our concession and with the competence and the knowledge of the transmission business with a company that is 100% transmission.

We can affirm to you that Taesa continues and will continue to provide unique conditions to deliver the results that may allow us to continue with a strong dividend policy, but at the same time, delivering sustainable growth supported only by returns delivered by our concession portfolio.

I would like to take this opportunity also to introduce to you, Marcus Pereira Aucelio, our new CFO and Investor Relations Officer and the appointment of Aucelio was ratified during the last meeting of our Board on 27th March and he joined the company so that, together with that, we may continue to deliver the best solutions for Taesa.

And Marcus Aucelio is with me and we will continue our earnings conference call. We also have Operations Officer Marc Faria, our Business Development Officer, Joao Procopio and our Investor Relations team.

Now I would like to give the floor to Aucelio, and at the end, we'll all be available to answer your questions.

Good afternoon, everyone and I'll talk here about the results of the first quarter of the year. We can see sound consistent figures as we have been delivering in the last few years. The Company's capacity in the sense of managing operating costs has guaranteed an EBITDA margin for Taesa in the first quarter of 19.3%, which is something that we have been aiming at in the last few years since the acquisition of UNISA in 2012.

And in order to compare on a quarterly basis, both IFRS [ph] and RAP, as the regulatory EBITDA grew in line with the annual adjustment by inflation of this 2015-'16 cycle and the EBITDA variation was a little higher than the rest due to the cost reduction that we had this quarter.

The IFRS result was impacted by the accounting estimates of the financial assets as the inflationary effect started to be adjusted on a monthly basis and no longer annually since in the third quarter of 2014.

Now going to Slide number 4, with the variation of our net revenue IFRS and as I said before, the IFRS result was impacted by the change in the accounting estimate and comparing only the monthly recognition by inflation in the first quarter of 2016, the impact was BRL158 million, where in the first quarter as of 2015, the impact was of BRL98 million. So you see that there is a 60 million difference, which was a big variation that we presented.

Now going to Slide number 5, regulatory EBITDA of the first quarter. As you can see, EBITDA went up 6.7% and EBITDA margin 90.3 and this is very important, because in transmission companies, after the implementation of IFRS, regulatory EBITDA became the performance indicator of the company, both financial and operating. So both in the consolidated and managerial was due to the adjustment of the RAP, besides the managerial one. Having had some benefits because (inaudible) thus EBITDA is at -- EBITDA margin was 19.3% and the managerial one was 19.5%.

Now going to Page number 6, would be history of EBITDA and the EBITDA margins, both regulatory and managerial. We can see that since the acquisition of 100% of UNISA in the third quarter of 2012, the operating efficiency based on the cost reduction and the operation and maintenance by our own people, evidently capacity grew as value to the assets acquired, will be investable, maintaining the EBITDA margin at the level of 90%.

And on Page Number 7, net income of the first quarter of 2016, grew [ph] up 26%. So it was a change in the accounting estimate in the recognition of revenues that impacted revenues and of course, the IFRS net income result. So the increase of the EBITDA and equity income were driven by the same reason and besides, in equity income, there was a reduction in payment of charges of ETAU and Brasnorte, and ETSE which is one of the concessions of TBE, also was started up and tax incentives went down because in the first quarter of 2015, as we renewed the incentive of four concessions related to 2014. There was a big impact on the first quarter of '15, and this did not occur in the first quarter of 2016. So these were the impacts on the 2016 first quarter net income IFRS.

And on the last slide Page number 8, it talks about the company's indebtedness. So we are always trying to look for balanced capital structures and with a long debt amortization profile. This is what we always seek, we have no dollar denominated debt. This is part of the company's strategy once the 100% of our revenues are in reals and from the fourth quarter of 2015 to the first quarter of 2016, net debt went from 3.2 billion to 3 billion in this quarter.

Our debt basically indexed to the IPCA and CDI, with a term of 18% of our debt, the short one and a capital structure 61%. Shareholders' equity at 39%, net debt as subsequent event. Surplus cash was used for the payment of BRL323 billion in dividends referring to the 2015 results. So we had a payment of 91% of our net income as dividend always seeking to give a good return to our shareholders as Ragone mentioned during his opening remarks.

Now, we would like to open for questions.

Questions And Answers

Operator

Thank you very much. We will start now the question-and-answer session for investors and analysts. (Operator Instructions)

Q - Carolina Carneiro

This is Carolina Carneiro from Santander Bank. This is (inaudible). Good afternoon. You started with the call talking about growth and more specifically about Abengoa that you would be interested in this acquisition and this asset, and that you are analyzing this asset, but you also said that the acquisition would only occur if you will sure that an adequate return could happen.

What kind of change would have to happen in order to make this asset attractive to you? Do you believe that there is a possibility of postponing the concession contract or some other regulatory contract or extension of contracts in order to offset possible losses coming from a delay in the construction? And if this is not possible, what kind of alternative do you have to make this project become interesting for your acquisition of the same kind [ph]?

A - Joao Procopio Campos Loures Vale {BIO 18054226 <GO>}

This is Joao Procopio, Development Officer of Taesa. Ragone mentioned this at the beginning of this call, because we have been entering quite often questions from analysts, what happened (inaudible). Abengoa has two kinds of assets as you know, one operational and second one construction assets or Greenfield.

In our evaluation, the operational assets without the construction risk could become a very good deal for Taesa. More directly answering your questions, the non-operational assets, the ones that are under construction and that the construction was stopped, there was a lot of complexity there in our evaluation with the revenue that is given to these assets. It would be -- currently, it would be very difficult to be able to close any kind of deal according to Taesa's profitability parameters.

However, we continue to analyze and we believe that an operation would only be feasible if we have an extension of the term for construction and also a rebalancing. So that the revenue from these assets could go back to the levels of the current auctions. Then we would be interested. The regulator has not come to a conclusion or a solution. We believe this could happen and it is based on this expectation that we continue to study the Abengoa assets.

So the conclusion is the following. You have to separate the operational assets from the non-operational assets, so each one will have a different evaluation and a different treatment on the part of Taesa.

Q - Carolina Carneiro

Okay, thank you.

Operator

(Operator Instructions) Thank you very much. As there are no more questions, I would like to give the floor back to Mr. Jose Ragone for his closing remarks. Mr. Ragone, you have the floor.

A - Jose Aloise Ragone Filho {BIO 16438993 <GO>}

On behalf of the Taesa team and 100% committed to the best practices and in operations that might incentivize the acceleration of our assets and also with the discipline that is evident by our history of expansion, be it regarding the Greenfield opportunities or in the secondary market, that support our growth. We thank you very much for your presence in this call and we expect to see you all when we disclose the results of the second quarter that will certainly be in line with the results presented today. Thank you very much.

Operator

Thank you. Taesa's conference call about the results of the first quarter of 2016 is closed. Please disconnect your lines now. Thank you.