

Q3 2016 Earnings Call

Company Participants

- Fabiano Maia Pereira, Chief Officer for Finance and Investor Relations

Other Participants

- Carolina Carneiro, Analyst
- Kaique Vasconcellos, Analyst
- Marcelo Farin, Analyst
- Venessa Wong, Analyst
- Vinicius Canheu, Analyst

Presentation

Operator

Good afternoon, everyone. We'll now start our webcast for CEMIG results for the third quarter of 2016 with the presence of Dr. Fabiano Maia Pereira, Chief Officer for Finance and Investor Relations; Dr. Antonio Carlos Velez Braga, IR Officer; and Dr. Leonardo Magalhaes, Controller. This webcast may be accompanied [ph] by the telephone 55 (11) 2188-0155 or also on our website ri.cemig.com.br.

Now, I hand over the floor to Dr. Fabiano Maia Pereira, Chief Officer for Finance and IR.

Fabiano Maia Pereira {BIO 19066644 <GO>}

Thank you very much. Thank you, and good afternoon to all of you. Thanks for your interest on our results. Going to the third slide of our presentation with the consolidated results. We would to highlight a few points here and then we'll go for other companies that are relevant for us. Net revenue saw a 2.3% increase as compared to the same quarter 2015, EBITDA also increased 84.4%, and net profit almost 160%.

The main factor here that explains that increase in all these relevant lines is the strategy for CEMIG GT. Our strategy for sales are leveraged due to that increase in EBITDA especially shows an improvement. While you could see how much it grew in terms of the EBITDA and net debt-to-EBITDA ratio and net debt to stockholders equity plus net debt also improved well. You could see our filing in the 20-F Form with the SEC that was delayed before with the Financial Report 2016.

And the adjustment in the 2016 as for 2015 figures were quite small, but they needed to be adjusted anyway. That was something that we were depending on the adjustment of Belo Monte and as soon as we did it there, then we could do it here also at the Company.

FINAL

The main point here that was raised by Velez, we have mentioned it before a couple of times, but we should restate it. We were pretty much aware that the results beginning as from the third quarter this year would show improvement and they do show improvement and an important point is the seasonalization that we will see.

Well, now to the fourth page, results of CEMIG GT. Again net revenue, EBITDA, net profit; very substantial increases. Seasonalization in 2016 was quite the contrary to that of 2015. In 2015, we allocated more electricity in the first half and less in the second half of the year. And this year it's been exactly the opposite, a lot more energy allocated in the second half.

This strategy proved to be a winning and successful strategy. And the spot pricing in the third quarter 2016 was BRL116.01 as compared to BRL34.69 in the first quarter 2016. That was a very satisfactory strategy. If you consider that average GSF in the third quarter was around 0.8281.

Now page five and the market of CEMIG GT, you see an increase of 6.6% in the supply of electricity, especially with growing sales to regulated markets in the view of the mills or other plants that we acquired last year.

Commercial, we see this dropping 10% following the reduced economic activity. But there has been an impact too much on the revenues, because most of our long-term contracts are adjusted according to inflation and inflation in the period was around 10% as well.

And this has reversal in zero effect on our supply of electricity and we can see that it increased more than 32%. We like to comment about the debt profile of CEMIG GT. The main point here and it's not recorded in the September numbers is a rollover of BRL716 million in October 2016 and we've been working together with the banks to roll over the remainder of this debt and extending it to longer periods going beyond 2018 to adjust the time limit.

And one favorable point that is involved in our debt profile is that, given our main indexers, as you can see we have 84% in CDI and there is a forecast drop in the SELIC interest rate and we can expect to see our financial expenses going down or we can see -- Leo, you made the calculation. Yeah. In the consolidated group, with a 71% [ph] in the interest rate drives an increase of BRL90,000 or BRL90 million in our results.

And we think that's really felt on the drop in interest rates, looks very positive and we should start thinking of a strategy. At some point, we should go back to an index inflation to the Company's debt.

Moving on now to page seven, results of CEMIG Distribution. CEMIG Distribution is still suffering with the crisis and the slowing economy. Although while consumption has dropped, but it was only slight fall and part of that is also explained by other factors like the tariff flags. We're now going through a period of red flags in the tariff.

Bloomberg Transcript

Also you can see that it is higher than where it should be and we have been accumulating and that impacts our revenues. Another important point that should be highlighted here is the level of overcontracting of supply, which will close the year a little above 100%, 102%. That's comfortable enough.

Another important point is that, as we know, industrial clients and free clients, they kind of avoid terminating their contracts for distributors -- with distributors, because they foresee difficulty. In this quarter, we see an increase by 16% of transported energy explained by the recovery in metals and ferro-alloy sector that caused that volume to be increased.

In terms of market, we also had another important factor that contributes to explaining the drop in consumption of captive consumers of CEMIG Distribution. We had a lot of movement from captive consumers migrating to free market, especially while all this drop that we can see in industrial and commercial of the captive market of the distribution is due to this migration. In terms of our supply of electricity in millions of reals due to this drop in consumption, the drop in revenues is also an explanation and also the flag, the tariff flag, as I mentioned before.

Now going to page nine, operational costs and expenses. We saw a considerable reduction in the third quarter as compared to last year same period of around 10% without taking into consideration inflation, because if inflation is taken into consideration, this figure kind of doubles. We made an adjustment in operating efficiency. We have PDVP retirement plan, voluntary retirement plan. That number is 648 employees leaving the Company, some of them now being accounted for. This means a gain, in terms of results for next year, of some BRL20 million in presented costs. We also had an increase in provision for doubtful receivables, it's now 107.8% higher. We have already laid down a few annual plan for the Company to fight this increase in these provisions.

We have a five-year plan already approved by the Board and next year intend to almost double the figures invested in this before. And the figures we are dealing with here, given the present situation for each BRL1 that we put under this entry, we have some BRL6 as a return in revenues. This will bring considerable returns within the midterm.

As for the debt profile of CEMIG D, we don't have any more need for rolling over the debt this year. These amounts that you see here mean that we will pay that off. As we have been talking to you, our intention is to reduce our debt and unleverage the Company. And in October, we paid BRL659 million in debt; BRL175 million for 2016, BRL328 million for 2017, and for 2018 BRL155 million we paid in advance. So the main point here, a positive point if we consider the figures is that although this nominal rate is a little higher than in previous quarters, the actual figures are low and they remain low. If we consider that our revenues are pretty much indexed to inflation, then we could perhaps take a deeper look into that and stick to the actual figures and it is in actual terms where that is pretty much controllable.

Now moving to investments in slide 11. We said before that we had plans to invest in this year and we see that 72% have already been invested. The idea was to -- the plan was BRL1.024 billion. Last year we had auctions of the plant at the amount of BRL2.2 plus

billion. In Distribution, we had plan for a CapEx of almost BRL1.1 billion, almost 60% of that has been already realized.

Page 12, that is the last slide, demonstrating that from the beginning of this year or late last year, we've been talking to you about our intention, the Company's intention, to go for disinvestments to reduce the debt of the Company. And, of course, just as a side comment in this scenario we are going through, this won't happen, of course, overnight.

But we have fortunately good news about the last quarter in that regard. We had our transmission line in Chile, representing BRL180 million, back to our cash. Also monetization of Taesa, owned by CEMIG, this was very much well received by the market. We increased our liquidity of our shares and we also injected more cash into the Company as we did this disinvestment.

And finally, we also disclosed to the market as a relevant fact that Ativas Data Center was subscribed by Sonda. Right now, we're minority shareholders, because this is not part of our core business. All of these actions are in line with what we have been telling you as far as our intention to disinvest. These assets do not belong to the core business of the Company, that's why we did that.

I would like to thank everyone for their participation. This was the information we had to convey to you, and now we will move on to the Q&A session.

Questions And Answers

Operator

Ladies and gentlemen, we will now start our session for questions-and-answers. (Operator Instructions) Mr. Kaique Vasconcellos from Citibank wants to make a question.

Q - Kaique Vasconcellos {BIO 17317373 <GO>}

Good afternoon to all of you. Thank you for the call. About the Company cash, you talked about Taesa and Chile. What are the next steps as you see it? And also what about Santo Antonio, Belo Monte, Itaocara; perhaps you could comment a little more about that? And what about Light? Well, 2017 is the deadline, what are the other alternatives that you are envisaging?

A - Fabiano Maia Pereira {BIO 19066644 <GO>}

Well, Kaique, as for the next steps, the same way as you -- we didn't say beforehand about the assets. The same guideline is now in force. Our idea is to disinvest assets that are not part of the Company's core business and/or that involves covenants that does not generate value to the Company and we will stick to that. We have no intentions to pre-empt which exactly are the assets that we will disinvest.

As for Light, we are building. BTG Pactual is now leaving, we are buying out their equity and this reduces the cost that we incurred in that operation. And, also, let's recall that we should remember that the selling of Taesa is a source of guarantee to the FIP, which should advance that payment.

And lastly what's remaining which is two-thirds of the total operation almost, the idea is to liquidate that as soon as possible altogether. We have, by late next year, to do that and I still can't set a specific deadline at this moment.

Q - Kaique Vasconcellos {BIO 17317373 <GO>}

Thank you.

Operator

Mr. Vinicius from Credit Suisse has a question.

Q - Vinicius Canheu {BIO 6300903 <GO>}

Fabiano and Velez, good afternoon. Along the lines of the previous question, you said that instead of liquidating the FIP the quickest possible, do you mean that it is really a share or that will involve the other stockholders? Could you convey any idea on the capital gains that significantly will derive from that sale?

And if you are not going to use that money right now, what do you think will be the main use of that money raised through that sales? Are you going to advance some payments of debt as we did before?

A - Fabiano Maia Pereira {BIO 19066644 <GO>}

Thank you for your question. Well, let's see, first BTG. BTG's share was already part of the cash and we were doing that regardless of the following on. This was from early this year we organized ourselves in that direction. Then back to Brazil, Santander and Votorantim would remain in the operation. The intention is that part of the follow-on was done with the shares that we're giving as collateral. The intention is that we should advance part of the payment due to these three banks. We're still working on the best design for debt, but we should pay another one-third to those three banks and then two-thirds will remain.

Therefore, the two-thirds we expect to produce a design under which we will pay it as quickly as possible in order to avoid additional expenses. The operation is not already defined, so I cannot disclose it to you. But the intention is that we should do that as quickly as possible and we should not use all of the available time by late next year.

Q - Vinicius Canheu {BIO 6300903 <GO>}

Yes, that was clear. What about capital gains?

A - Fabiano Maia Pereira {BIO 19066644 <GO>}

Very small. According to our analysis, almost entire money will go into the cash and stay there.

Q - Vinicius Canheu {BIO 6300903 <GO>}

Okay. Thank you.

Operator

Marcelo Farin from UBS has a question.

Q - Marcelo Farin

Hi folks. Still about the rolling over of the debt, we still have BRL4 billion to roll over by late this year. How do you intend to do that? I have heard from the media that you have intention to do that in dollars, what do you think?

A - Fabiano Maia Pereira {BIO 19066644 <GO>}

Well, Marcelo, of those BRL4 billion that you are referring to, this is some over to, A, for CEMIG; B, we are paying it up, we are not rolling it over. That's a false information. In GT, 700 and so million have already being rolled over, there are only now BRL2.5 billion to roll over by next year and we've been working on that on a daily basis together with some banks in order to obtain the rolling over of that operation. We understand that a longer rolling over reducing the risk of refinancing, some investors see that risk, but we are providing while designing it, so that this new debt should fit into the debt flow and portfolio of the next years.

I still don't have the final figures, but we talk to them on a daily basis, the banks that is, and I cannot grant any information about that. But I can tell you that it's pretty much well advanced and it will be positive news to everyone concerned.

Q - Marcelo Farin

What about the debt in dollars, any comments?

A - Fabiano Maia Pereira {BIO 19066644 <GO>}

We have been studying not only that, but all the other options that could allow us to attract money from other pockets than the current ones. We are examining the possibility of an external operations or including receivables as a collateral for our debt and CEMIG Distribution has already been authorized to incur debts related to infrastructure debentures. We are checking for all of these options to relieve pressure from those channels that we use more often.

Q - Marcelo Farin

Another -- last question about the competition for those three plants. Any possibility of really arriving at an agreement with the government on those three plants?

A - Fabiano Maia Pereira {BIO 19066644 <GO>}

Well, no news about it. But I can tell you that we still have the levels of conversation with the government and we believe that we will arrive at a positive solution both for the government and for the Company. (inaudible) is the same, conversations are ongoing but it's more of the same. It takes longer than we would wish for, but we understand that the final outcome will be positive for both parties, I believe.

Q - Marcelo Farin

Thank you.

Operator

Ms. Venessa from Bloomberg would like to make a question.

Q - Venessa Wong {BIO 19240404 <GO>}

Good afternoon. I would like to understand about Light a little bit more. Equatorial is being in negotiations, I would like to know how it stands and who else is running for it?

A - Fabiano Maia Pereira {BIO 19066644 <GO>}

About these market speculations, what we have been saying, Venessa, and I'll repeat it now is that CEMIG has no intention, whatsoever, to disinvest that asset. Light is the vehicle for growth in distribution for our Company and in our planning we will stick with them and we stay there. What we have said to you more than once is that we have this stockholding restructuring. We're leaving off some equityholders, Pactual and some others, for the end of the year and then we'll proceed to restructuring. I have no information on that negotiation that you refer to and that's all I have to say. Any other point?

Q - Venessa Wong {BIO 19240404 <GO>}

No, thank you.

Operator

Carolina Carneiro from Santander has a question.

Q - Carolina Carneiro

Questions about distributor. Across we saw accrued figures we saw in the last few years and we have been keeping track of the movements into distribution. I'd like to have some update with regard to the data that you expected from GT on contracts, third-party services. How this all is progressing? And also estimate in investments for CEMIG Distribution 2017, if you please could provide me with an estimate so that we can work on those figures for next year? Thank you.

A - Fabiano Maia Pereira {BIO 19066644 <GO>}

FINAL

Carolina, this is Fabiano. I will take. Well, with regards to operating expenses, what we have been developing in-house and this has not been approved by the Board of Administration, that involves 18 different initiatives. The most relevant are the restructuring of purchase and supplies especially purchase of services.

We do have made some -- we have some -- we do have some estimates on savings, but it's not convenient at this moment to give you figures. Perhaps when the figures are more solid, we can communicate them to you. Also PDVP, we had one late last year and another now. This resulted in a 10% decrease in our own workforce and these people that are leaving will generate next-year [ph] some BRL200 million in avoided costs. We also have initiatives in terms of meritocracy, profit sharing, deliveries -- more explicit deliveries of our employees. We have this major design for a shared service center.

We had that idea for some time now and we decide to execute that. That's generating a great deal of synergy. We had already taken some steps toward that, but now they've become more explicit. And I think these are the most important points.

Also, you said -- you asked about investments. Well, investment of CEMIG Distribution, what happened was this. Early this year, before the review, we hold it back a little bit in order to control the cash flow of the Company better. We had a little more reduced value in the first half and now it's been accelerating. This half of the year we'll get much closer to the target we had disclosed to you. And in 2017, the number should be around or little - - slightly above 2016, because we have some works, regulatory works are required to get delivered due to our understanding with ANEEL. We have this universal provision of rural works, this will be slightly above what we saw in 2016.

Q - Carolina Carneiro

It helps a lot. Thank you.

Operator

We now close the Q&A session. I'd like to hand the floor over to the Chief Officer for Finance and Investor Relations, Dr. Fabiano Maia Pereira, for his final considerations, please.

A - Fabiano Maia Pereira {BIO 19066644 <GO>}

Well, I would like -- yes, I would like to thank you for participation. We remain at your disposal for any queries that you may still have. Good afternoon to all of you, and thanks a lot.

Operator

The webcast with CEMIG results for the third quarter 2016 is now closed. We thank you all for the participation, and have a nice afternoon.

FINAL

This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP. © COPYRIGHT 2022, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.

Bloomberg Transcript