

Q1 2017 Earnings Call

Company Participants

- Adãozio de Almeida Lima, Chief Officer for Finance & IR and Member of Executive Board
- Antônio Carlos Vález Braga, Investor Relations
- Paulo Eduardo Pereira Guimarães, Head of Corporate Finance Management
- Unidentified Speaker, Analyst

Other Participants

- Lilyanna Yang, Analyst, LatAm Utilities, Oil and Gas
- Marcelo Sá, Associate Director and Analyst
- Unidentified Participant, Analyst
- Vitor Sousa, Research Analyst

Presentation

Antônio Carlos Vález Braga

Good morning, everyone. My name is Antônio Carlos Vález Braga, Investor Relations of Cemig. We'll now start our video webcast with Cemig results from First Quarter 2017 with the presence of Dr. Adãozio de Almeida Lima, Chief Officer for Finance and IR; Dr. Leonardo George De Magalhaes, Controller; and Dr. Paulo Eduardo Pereira Guimarães, Head of Corporate Finance Management. This broadcast may be followed on phones 55-11-2188-0155 or 55-11-2188-0188 and also on our site, ri.cemig.com.br.

We'll start up the presentation, we'll hand over the floor to our Chief Officer for Finance and IR, Dr. Adãozio.

Adãozio de Almeida Lima

Good morning, thank you for attending. We are here to disclose the results of the First Quarter '17. You'll see a very representative result deriving from the operations of the Cemig Group. We don't have extraordinary or recurrent effects, which demonstrates our effort of our group to increase profitability of the company, paying debt, reducing the costs of leveraging bad debt. We believe that we are following on the right path.

Well Page three brings the results for the First Quarter '17. Net revenue going up 1.8 -- 8.1%. EBITDA, an increase of more than 70% hitting BRL 1.1 billion in the First Quarter and very interesting as well, BRL 343 million from the First Quarter '16.

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The forecast that you noticed is the average spot price. In the First Quarter '17 it was more than BRL 150, whereas in the First Quarter last year, it was BRL 34. We also have the best equity method gain or the better in comparison with the two BRL 58 million, '16, negative, I mean in the First Quarter '17, it was positive in BRL 30 million.

Also, PMSO expenses were substantially lower especially on expenses from personnel. We'll see that more or in detail later on. We'll update on loans and post-employment obligations due to lower IPCA index.

Now a little bit on Page 4, talking about consolidated net revenue. Revenue went up 8.1% and the consolidated results represent also a reduction associated to lower IPCA. But it mostly comes from contracts expiring in December 2016 and also the migration from the solution -- sedative solution of the other clients and classes of consumer indicated increase. In addition to spot price being higher in the First Quarter '17 as compared to the same period '16. We also had a GSF that was also higher in this quarter than in the year before, 1.1 against 0.88 last year.

It's important to highlight the amount of energy transported leading to revenue from two's to increase by 13.2% year-on-year. Also updating our transmission indemnity balance receivable, except for CVA, we had a higher CVA. We are building and it enters as a reducer of the net revenue.

We'll comment a little bit on operational expenses, Page 5.

Antônio Carlos Vilez Braga

Yes. Good morning. On Slide #5, we'll talk about operational expenses. We can see that it was -- our stated result as compared to last year the same period, that breaking down in more detail, we can see an increase in power for (inaudible) right now and this is associated to higher trade on energy. It also has to do with the power plant that has a lot of distribution with the transfer to Parati. We should highlight BRL 32 million in this result as compared to last year, if we had subject that to inflation, there's personnel reduction. This personnel expense reduction would be even higher as we can see in the First Quarter '17, we have almost 700 fewer employees. We are reducing costs with our employees, especially through the new voluntary retirement program; this shows already results from earlier retirement last year. And right now, it's in force already another stage of this voluntary retirement program and in returns with the company, there's an effort to reduce operational costs. We could see 5 positions is BRL 243 million, there was this small reduction but also shown the -- some effort by the company to renegotiate debt in values overdue. We always demonstrate this reduction in these expenses and costs and this was the same this last quarter, which helped us achieve this much better result as compared to the last quarter or the previous quarter.

Unidentified Speaker

Good morning. About debt profile, I should highlight the concentration of debt has been the case, which we feel we would like to stress that already in this First Quarter we have

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reduced by BRL 436 million. And this has been created using our own resources. We have expectations of refinancing the debt over the year. As from June, we believe that we'll manage to achieve that due to our granted access to the capital market, even within this context of tight credits.

Paulo Eduardo Pereira Guimarães

As the government interest rate is also reduced, the SELIC. We also have a very substantial reduction in our financial expenses, 72% of that debt of ours is associated to CDI as you can see in the main indexes. As Dr. Vázquez said, we can see a reduction in this leverage and that's another point to highlight.

Unidentified Speaker

Thank you, Paulo. Now let's say we talk about results from Cemig GT. Some of them we have commented on. Net revenue by Cemig GT is BRL 1.667 million, which means more than 19% increase. EBITDA also reflects that and also net profit. EBITDA almost 94% increase, BRL 610 million in the First Quarter. And the net profit substantially increased as well, BRL 185 million. In contrast with this minus BRL 61 million of the First Quarter '16. So increased revenues arising from the greatest exposure of supply available to spot market where the spot price is also better. Better equity method gain also is still negative at minus BRL 25 million in the First Quarter '17. But even so, many millions better if we compare that to the First Quarter '16 when it was negative, minus BRL 150 million.

Also data of transmission indemnity balance receivable, we have that as -- in association with reduced IPCA index. And also, the transmission revenue 26% higher in association with refurbishment and improvements of lines.

Paulo Eduardo Pereira Guimarães

Well the Cemig GT debt profile is in harmony with what we've said before. It will be favored by the further decrease expected for the interest rates. And you can see that CVI at 84% will be greatly impacted by the debt interest reduction. Also leverage indicators similar to what we saw before in this First Quarter 2017 and with our expected cost or reductions in cost and refinancing of debt and reduction of the debt through initiatives proposed by the administration even it is tend to be even better over the next quarters.

Unidentified Speaker

Okay, Paulo. Thank you. Now Slide #9, we'll talk about a little bit about Cemig distributions. Cemig distribution with an EBITDA of up 37%, more than almost 38% coming from negative net profit in the First Quarter '16, reaching 49% in the positive territory in this First Quarter '17. We should highlight the Cemig D concessions areas consumption. Initially we can see that it has dropped 2.3% in its captive market. But the free market in that barge is very relevant towards this migration to the free market when comparing the 2 periods. We can see that the selling of energy and the Cemig D concessions area it was transported sort of free, both free and captive markets, there was this 0.7% increase in the selling of energy after all. Captive market down 2.3% as we've

said and transported energy to 3 clients a 5.5% increase yearly, substantially. This represented an increase in revenue by more than 12%. So we can see there's a net revenue increase.

Another important contribution for our EBITDA is on -- in association with reduced expense in personnel, they're almost 12% year-on-year. As we said in Cemig distribution, the number of staff is much higher and the impact of return into voluntary retirement plans are even greater. And hence there's much stronger improvement on Cemig D's results. This arises from as I said the voluntary retirement plan 2016. And there is now another stage of this program imports that we'll have also a very beneficial impacts on our company. Also a lower expense on provision for Deloitte.

As for Cemig D's debt profile, I can highlight the signs of recovery. Leverage is still high but there is this positive trend now. And so it has been said, long-term debt shows recovery and representative results. I can highlight a lower share of CDI among the main indexes for Cemig D.

Now for cash flow. BRL 1 billion, almost, BRL 842 million. But still comfortable considering the need in long term. It indicates a total of BRL 1.7 billion available, cash. As I've said we have made efforts to reduce parts of booking debt and from the cash -- from operations in our effort to manage our funds, we can see the results of these efforts to a dip in debt. Here our net cash is BRL 868 million -- no, from operations, BRL 528 million, then we reduced the financing. And investments were also lower. It was a quarter where we generated more EBITDA and reduced our indebtedness. Hence, it was very positive, very positive cash generation as the figures here show.

This is the data we were prepared to disclose, with regards to the First Quarter '17. And now we'll move to the Q&A session.

Questions And Answers

Operator

(Operator Instructions) Mr. Marcelo SÃ; from UBS has a question.

Q - Marcelo SÃ;

I have a question related to Light debt. We have requested a Furlong of binary, secondary perhaps. But this was not voted due to lack of a quorum. I would like to understand if you have more detail on that because this has been suspended but perhaps if you may give us more information about that. I would be thankful.

A - Unidentified Speaker

Marcelo, that's all right. The operation is underway. Yes. While there is this corporate announcement. Just 1 minute, we'll be back. Okay, it's over now. Yes. We have this loudspeaker system in the company with some corporate announcements. And it's over now. So that blend with Light is part of our agenda, it should happen over the next month,

even so because it's part of our -- this investment strategy. So it remains the follow-on primary and secondary. And it should happen in the upcoming months. Thank you.

Q - Marcelo SÃ;

Do you have any idea of the gigahertz for primary, secondary? Could you say anything about it?

A - Unidentified Speaker

Marcelo, we are still -- we have the approved decision from Cemig's governance to go on with the follow-on. But the size depends on factors which we don't have definition about. How much for a question, for example, of assets to reduce the debt significantly. So strategically, the path has been laid, it's been defined in our relationship with Light.

Q - Marcelo SÃ;

But -- yes, if you could probably give a little more detail. If you talk about issuing a bond for BRL 1 billion. But would you try to issue that bond? Do you have any position on your share or stake at Taesa. Do you intend to sell that too?

A - Unidentified Speaker

Marcelo, let's start from the end of your question. We have this investment program as we announced in the upcoming weeks in operations and investments that are not part of our core business, we'll recover there. And the stakes, subsidiaries that are not too relevant for a conglomerate or which are not under our control, that Taesa case for example. It's all tied, controlled lock. We'll give you more detail about that in the upcoming weeks. About the bonds, we -- for 22 years we hadn't gone to the market to do any such moves. We presented to the European and U.S. market. We left growth investors with a lot of information about our company. And we are due to go back, as you said, we should go back to that early June or mid-June in order to really get that going. But the first intention of this road show was to introduce our company to them. The next move will be to really attract that capital.

Operator

(inaudible) from Revel Financing would like to make a question.

Q - Unidentified Participant

Good morning, to all. I'd like to know whether you could give us an update about the situation of the 3 hydro plants. And if you could disclose the partner involved in the auction for granting of concession of those plants?

A - Unidentified Speaker

We are undergoing intensive negotiations with the Central Government on that matter. We have information from the government themselves, that there will be a position of measure restructuring the entire sector. So we are awaiting for that definition to decide

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what to do about those 3 plants. And this is expected to bring greater -- great relief not only to Cemig. But the entire power sector in our country. Several investors want to participate with us in this auction for the 3 plants. We want 4 of them Miranda, Jaguará, (inaudible) and Volta Grande, 4 plants. We are judicially disputing only the 3 first because we think we are entitled to automatic renewal of the grant. We expect the government then to come out with this position of measure to decide. Well we have several investors volunteering. Some of them through pools, some alone and we'll choose the best according to our interests. This operation should -- is expected to be very profitable because the day after the auction cash is already being generated. And 4 wonderful assets and this is perhaps the main strategic point for us this year. Perhaps this should be a solution for our (inaudible) plant.

Operator

(Operator Instructions) Vitor Sousa from Brasil Plural has a question.

Q - Vitor Sousa

My doubt is about the -- this investment on the Santo Antônio plant. Any updates could be given to us on that thing?

A - Unidentified Speaker

Vitor. This is one of the assets we have put to sale. We have already negotiated and it's still ongoing, the negotiation, with the perspective buyer and investor. But it's relevant for the closure of that negotiation. But no further details. But at any moment now we can come out publicly and announce that the sale was done.

Operator

Lilyanna Yang from HSBC has a question.

Q - Lilyanna Yang {BIO 14003234 <GO>}

My question is still about the Jaguará Emborcação plant. And maybe it was entitled to compensation in that case. What's the value of that compensation, the amount? And what about this provisional measure? I understand that this extension of contract will then benefit. Do you expect the provisional measure by the government to, provision [ph] anything about Miranda, São Simão differently from the other plants?

A - Unidentified Speaker

No, Lilyanna, we don't have any details about the provisional measure so far but it will be applicable to the entire sector whatever that is. We want only -- Cemig has those rights over the -- those plants. But other players also have about other assets. The non-depreciated assets, we expect that provisional measure to indicate the methodology, the amount, the value and the way to pay it because the conceiving power has not been clear in that regard up to now. So depending on the government, they offer 0 to you. Sorry, I don't think so. There's consensus in the energy market that there are assets from being generators that have not been totally depreciated. So there is a need for indemnification,

yes. Recent assets that are not depreciated as part of the concession contract. It's made clear that we are entitled to some revenue according to the calculation. It's BRL 1 billion for the 3 plants, the accounting value, the book value right now. But we understand that the company is entitled to something above that BRL 1 billion. So expect in the second semester to have that amount defined. But we expect it to be even higher due to our contract.

Q - Lilyanna Yang {BIO 14003234 <GO>}

Would you try to intervene and interdict with auction right now?

A - Unidentified Speaker

Yes, our legal suit is still underway. We are convinced that the plant belongs to us. It has been donated to us in 1997. And it said that we have another 20 years, the right to use that asset. The contract is very clear about it. And the constitution says that what has been -- what's in contract is above and supersedes the legislation. So we understand that we still go for negotiations with the federal government. But we have no doubt that this land belongs to us.

Operator

(Operator Instructions) Now we close the Q&A session. I'll now hand over the floor to Dr. AdÃ©zio de Almeida Lima, Chief Officer for Finance and IR, for his final comments.

A - AdÃ©zio de Almeida Lima

Again, I -- thank you for attending. I'd like to highlight a few points, especially reductions in expenses, almost 700 employees have been retired from the company last year. And we have a very favorable outlook for further adhesion to the voluntary program. Also the assets, the cash generation of the company having being able to pay for our current expenses. And our main goal is the -- is and remains this investments. Thank you, to all.

So the video webcast were the results for the First Quarter '17 of Cemig is now closed. We thank everyone for participating. Have a nice afternoon.

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