Q1 2015 Earnings Call

Company Participants

- Alexandre Americano, CEO
- Ricardo Levy, Financial Director and Head of Investor Relations

Presentation

Operator

Good morning and welcome to the ENEVA Conference Call to discuss the results for the First Quarter of 2015 and other matters. At this moment, participants are on listen-only mode, and later on, we'll have a question-and-answer session, and further instructions will be given. (Operator Instructions) This conference call is being recorded.

I would like to give the floor to Mr. Alexandre Americano, CEO for ENEVA. Sir, you have the floor.

Alexandre Americano {BIO 18747818 <GO>}

Good afternoon, everyone. Thank you for joining us to talk about our quarterly results, that's quarter one 2015 of ENEVA. Some of our highlights basically move on to page four in our presentation, the approval of the judiciary reorg at the company on May, 12. It has approved that 99% of creditors and 81.5% of the total credit loans held by the creditors, so that it was approved on April 30 on -- at meeting of creditors. So as a result, the debt was fully allocated in the long-term and the debt fell from BRL2.4 billion to BRL998 million [ph]. We are also expecting a capital increase with the following features.

The amount is approximately BRL3 billion, and the issue price is BRL0.15 per share. The structure is broken down into three major parts; cash contribution, the debt to equity conversion of the debt, so debt to equity conversion of approximately BRL1 billion, and the asset contribution company's investors at BRL1.3 billion. These assets are strategic assets to the company with a cash value nearly consolidate the Parnaiba Complex, Parnaiba I, III and IV. Another major aspect is BPMB states in Parnaiba 30% of the gas block. And so this is a significant highlight to supplies after quarter one.

Moving on to page five, we should remember, in December 2014, sales was associated with creditor's approval in a meeting and it was indeed approved with 98.2% of the total loans held by creditors and the amount of BRL300 million will be used to strengthen ENEVA's cash position. And the closing is underway. In addition, another important fact that was released two weeks ago, an agreement was made with gas suppliers, Parnaiba natural gas, this is an important agreement. It promotes the proportionment of operating and financial costs and expenses resulting from the TAC or the adjustment of contact between Parnaiba II and Aneel last year. We will break down these amounts.

In summary, there is a discount, the value of the gas that provided to Parnaiba and this reduction amounts to BRL141.8 million, and this will be determined until September 2016. Then we are also expecting a reimbursement at 50%, reduction of Parnaiba II fixed revenues. Again, as provided in the TAC and the sales [ph] reduction will start in 2022 until 2033 at the end -- at the final date of the PPA.

Our natural gas supply contract was also postponed in the same way as the power agreement, so it was also extended. In addition, a termination with MMX was made; there was a contract of 180 megawatt to be delivered between 2016 and 2029. There was also an important issue at stake, because the PLT [ph] was detached from the contract price and that was a significant exposure for the company. So the solution was termination between Eneva and MMX. Of course, as a result of the situation in these [ph] two companies, and this was released to the market some of that was taken at the end of April.

Another important point that should be highlighted, in mid-April there was an interruption in the PC II operation, that was some downtime, there was some efficiency in the coal burners, leading to a buildup of ash at a much higher level than expected, so downtime was needed to correct this problem. Our engineering team anticipated plans downtime also for August 2015, that was the forecast, but it was anticipated, and so that was this period of inactivity and it will be minimal. And the plant is expected to go back to its operations in the next few days and this will be rather uneventful period.

So now I'll turn the call over to Ricardo Levy, our Financial Director and Head of Investor Relations, will talk now about the economic and financial data.

Ricardo Levy {BIO 16259732 <GO>}

Thank you, Alexandre. Good afternoon, everyone. It's a pleasure to take part in our conference call, our earnings release, especially because our judiciary reorg was approved, and this is a vital stake [ph] for our economic health. Our major economic indicators, financial and economic we see on slide eight, a reduction in our net operating revenues as a result of two causes; first, first quarter of 2015 we don't have the consolidation of Pecem II numbers, because last May, as everyone knows, ENEVA sold 50% of its access, Parnaiba and that was unlike the first quarter of 2014 at the time ENEVA had 100% of this access.

The second cause, we have less variable income in Parnaiba I as a consequence of the optimization or the use of gas for the entire complex as detailed later. Operating costs is inflated almost 18 million overstated and that was -- we want to revert and compensate for this amount in the next few months. Now as a result of regulatory change, that calculate the volume of physical guarantee, but then that was the regulator interpreted and found that this should impact our ability. And in our view, this interpretation needs correcting.

Operational expenses, a reduction of 26% compared to 2014 when you compare with the older -- considering all the measures that we're taken out to provide further details on the next few slides.

Now comparing adjusted EBITDA between these quarters was evolution over 30%, so from 57.6 million in first quarter of 2014, we moved to 77 million in the first quarter of 2015. The results for income was negative 128 million, the impact -- suffering impact from our net equity, some of our investment and which [ph] an ever that's not consolidate in the financial results -- consolidated results and that was significant.

Now on slide nine, EBITDA development. So the reflects on revenues was additional revenue from Itaqui, and then we have the variation among the quarters, that's about BRL5 million. Operating costs, we had a reduction compared to the previous quarter. In quarter four 2014 there was provision of the write off for the Amapari result and that was 37 million, and this did not occur in the first quarter 2015.

Concerning the operating expenses, there was a decrease due to a termination of IT provider contracts, and I'll provide more detail on this, because there were cost reductions involved in operations and the Holding in the next slide. And there was also the provision of bonus in the fourth quarter; it was again done in the first quarter of this year. Lastly, as I've already mentioned, we had an adjustment for availability totaling 18 million, basically Itaqui and Parnaiba I. We then see that the EBITDA developed negativity in the fourth quarter of last year, and then going up to an EBITDA to around BRL77 million in the first quarter of this year.

Going on to the next slide, you can see the operating cost developments. We had a reduction of around 16%, going from 332 million in the first quarter of last year to 270 million in the first quarter of this year. And if we consider the growth of the electricity and power generated at 9%, we see that the operating cost per growth energy was reduced by 22%. It's worth noting that all the efforts -- the results that we have been presenting concerning the expenses and the holding, we also see that -- now a reduction not only because of generating less, but because there is a higher stability in the ENEVA plants.

Going on, slide 11, now you can see the Holding figures and you see comparing to the previous period, we have developed significantly. You can see that these expenses, this means that the numbers have decreased obviously, because I talking about reducing expenses, and I'd like to highlight the first thing, which is the termination of large IT contract we had with IBM and it was very costly. And we decided to do it differently now in IT, and therefore we have reduced the cost significantly for 2015 if you compare this to last year. Because this contract was terminated in December.

There was also a headcount reduction, 40% of the cost is with headcount and what we have been doing and have communicated in the last calls, we're still doing this, we're not only reducing and cutting for the sake of cutting but for the sake of optimizing the number of employees and of the Holding of the company. So we had a reduction, which was significant, which was around 27% compared to the last 12 month. And this has resulted in a relevant number figure in BRL7 million of cost reduction in this quarter.

Other measures that were made that were not add impactful, but were significant as well, such as reducing the lease spaces in the corporate headquarters, and we have reviewed all the other agreements we have, consulting of all natures and therefore the company today has a cost structure which is much more appropriate, there is still room for improvement obviously. But the important thing is to focus on improving our processes, so that with these lean and optimized processes we're able to continue to develop and continue to reduce the headcount of the Holding and the company.

Going on to the next slide, number 12, you have the consolidated cash position for ENEVA. And it's worth noting again that it was necessary to do a very close management of that cash of the company, not only of the Holding but all of the others for obvious reason. First of all, because of the RJ [ph] issue and this was because of management per se, so we see a balance at the end of the first quarter of BRL180 million, and this is an amount that includes all the costs of the company and the cash of the Holding at that time was not above 49 million. CapEx is also highlighted, we have 39 million, basically 80%, 34 million, sorry, this is Parnaiba II because they have the cash concept. We finished the construction which was very satisfactory of Parnaiba II, and this was in November and December of 2014. And we obtained the possibility of paying the conclusion to our service providers in 2015.

Lastly, concerning cash, as Americano said, the closing of the operation of EDP is expected and it'll be take place shortly and we'll communicate this as soon as we carried out, and the same thing goes that this will impact the company's cash in 300 million positively.

On page 13, we have some information on our consolidated debt. We have not had significant changes in debt balance, but I highlight that in this quarter there was three points to highlight. The first one we have finished rolling the debt of the operation of Parnaiba II, III and Itaqui and Pecem II, and the only one left is Parnaiba II, and in 45 days we'll have acquisition and the negotiations are advanced with BNDES, IPCA [ph] and Itau, who are the creditors of this financing.

Another point, which is the impact of the reorg plan. As we've said, the impact cited by Americano, the impacts will be felt on the second half, and therefore we'll see the financial expenses associated to 40% of the total debt of the Holding, and this will also see around 60% reduction because of future convergence of debt into equity or a discount or recap in 20%.

Lastly, the last comment we have, concerning our debt structure concern the consolidation of the insurance and fines in this period. As you have seen in the balance statement that we published yesterday, there was a report of the Pricewaterhouse Auditores, there was a note referring to the non-accounting of BRL191 million, concerning the financial results, that means financial expenses concerning the debt of the company. On the same note, the independent auditor acknowledges that as soon as the reorg is approved, this will result in the -- availability of the financial burdens of the company, concerning that debt.

The company therefore decided not to book an account these interest in the first quarter of 2015, because we would have to do the revision in the second quarter of 2015. This means that the results of the company will be reduced by 191 million now, instead of 120 million as we presented, it would total 320 million negative, knowing that we would have wave a positive results of this same 191 million, because the plan is already approved when the results were published. So this is what I wanted to clarify. And we are turning -- that the results of the company now, on latest (inaudible) the reality because of the approval of the increase in equity.

Moving on now report of the operating performance, you can see that slide 15. So the plans at the best historic fall, late of availability in February, since the beginning of last year until the present, it was consistent in Itaqui, 96% in February and then the results to date 88% in terms of availability. As for costs, there was a reduction BRL20 per megawatt hour that the unit cost generation, costs have increased 6.6% and additional growth generation was 18%. So the cost decrease for gross energy or power generated.

When you look at the adjusted EBITDA, we had 9.7 million and we then adjust to 24.6 million in EBITDA in 2015. In Itaqui plant, we have 9.3 million of this availability charge; we're trying to review this. And we have adjusted in our statement, the comparison between the EBITDA margins of this plant.

Now moving on, on slide 16, Pecem II. The result is rather stable; the plant is more mature than other plants. So the availability results that -- in the first quarter 89%. This result was compromised by a downtime of six days at the end of the day for furnace maintenance and transportation of ash. This preventive downtime is not related to the comment made by Mr. Americano, April 13, which is just a compensation of the overhaul that's planned for the second half of 2015. For this reason, the EBITDA was BRL54 million and that's the same level as compared to the last quarter of 2014.

Slide 17, Parnaiba I and then Parnaiba III later. First Parnaiba I, we should remember that Parnaiba II contributes to Parnaiba I, it is an operation of coal, replacing operation with all the disclosure that was released. Because of the signing of the TAC or adjustment of contracts and the operation model of Parnaiba I and II.

The second comment that's the earnings analysis, again optimizing the use of gas or the entire complex. So taking into account all these variables, operating costs decreased 2% and the gross power generated increased 6%, EBITDA of the quarter ended at 57 million as compared to 66 million in quarter four of 2014, that's a 3% reduction. And then Parnaiba I, like Itaqui has won 8.5 million and then 9.3 in Itaqui, that 17.8 million in total on unavailability, this is being questioned and challenged with the regulator for discussing this point.

Now on slide 18, Parnaiba III performance levels, that's satisfactory. So in Q1 2015, the cumulative availability is 16%. If you look at the last six months, the availability is higher than 90%. And as a result, the operation is consistent, stable, satisfactory. We finished the quarter with 17 million compared to 13 million in quarter four 2014.

So this is the end of our brief presentation. We thank everyone, and now I'll turn the call over to the moderator for the Q&A session.

Questions And Answers

Operator

Ladies and gentlemen, we will now start the question-and-answer session. (Operator Instructions) We now have finalized the question-and-answer session. I will give the floor to Mr. Alexandre Americano for his final remarks.

A - Alexandre Americano {BIO 18747818 <GO>}

Well, thank you all for listening. Have a good afternoon today.

Operator

The teleconference for ENEVA is now closed. I would like to thank you all for your attention and have a nice day.