

Q3 2018 Earnings Call

Company Participants

- Cristiano Prado Grangeiro, Investor Relations Manager
- Marco Antonio, Technical Officer
- Marcus Pereira Aucelio, Chief Financial Officer and Investor Relations Officer
- Raul Lycurgo Leite, Chief Executive Officer and Legal and Regulatory Officer

Other Participants

- Maria Carolina Carneiro, Analyst
- Thiago Silva, Analyst

Presentation

Operator

Good morning ladies and gentlemen and welcome for waiting. We would like to welcome everyone to the Third Q Earnings Conference Call of Taesa. We would like to inform you that all participants will be in listen-mode during the presentation. After the company's remarks are completed, there will be a Q&A session. We would also like to inform that the listen mode will be during the company's presentation and then we will start the Q&A only for investors and analysts and then more instructions will be provided. (Operator Instructions)

Before proceeding let me mention that forward-looking statements about this conference call relating to business prospects and financial and operating goals that are based on the beliefs and assumptions of management of Taesa and on information currently available to the company. Forward-looking statements are not a guarantee of performance. They involve risks, uncertainties and assumptions, because they relate to future events and therefore depends on circumstances that may or may not occur. Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of Taesa and could cause those results to differ materially from those expressed in such forward-looking statements.

Now I would turn the call to Raul Lycurgo who will make his presentation. Please sir, you have the floor.

Raul Lycurgo Leite {BIO 19066621 <GO>}

Good morning. First of all, I would like to thank your participation and interest for the results of the third Q 2018. I would like to invite you to follow us in our presentation and

take part in our Q&A session at the end. Mr. Marcus Aucelio will be with us, our IR Director and Jose Ragone, Development Business Implementation.

It's important to reinforce Taesa's commitments with its strategic pillars; sustainable growth, operating efficiency and value generation for our shareholders. These pillars are part of our daily life in all the levels of the company. Our decisions always follow these pillars and through them Taesa was able to build its success story and currently it is one of the largest companies in electric power in Brazil.

In operating efficiency, we go on having very high rates of availability in up-time with a variable portion of around 1% of RAP and due to the efforts of our team to operate and maintain the assets. In terms of inorganic growth, we are in the quest for new opportunities in the Brazilian transmission market where there is through Greenfield project or through acquisition in the secondary market. In Greenfield, we will have a transmission auction, which is currently being offered for bidding, but we will certainly participate in a competitive way based in our financial disciplines and in the return to our shareholders. The auction is set for the 20th of the month in theory, but left 6 of November. This auction was included in ANEEL's agenda for their meeting and it was removed from the agenda. So we are waiting for the follow-up of this auction. But I want to reinforce that we will be participating and ready for this Greenfield auction.

In terms of acquisition, I would like to mention the Eletrobras auction participation, which was held on September 10th. We presented bids for four lots and we are waiting for the conclusion of all the stages foreseen in the invitation to bid. If we are able to get four lots, we will have an addition of 70 million RAP for the company. It's important to mention that our enterprises in construction are advancing within the forecast and we will give more detail during the presentation. I would like also like to mention the distribution in four in the nine months of this year in the amount of BRL562 million in dividend and interest on equity, again 430 million in the same period last year.

Now, I'll give the floor to our Financial Director, Marcus Aucelio and he will mention and share with you the main results of Taesa third Q.

Marcus Pereira Aucelio {BIO 19965152 <GO>}

Thank you, Raul. Good morning to all. We would like to start with the slide number two, three, where we have the main highlights in third Q 2018. Our net income in IFRS attained 267.7 million with an increase of 175% year-over-year. IGP-M was once more than the major factor for our net profit and the accumulated index was 3.1% vis-a-vis a deflation of 3% in the same period last year. This impacted directly in the restatement of revenue as well as the equity method results. In terms of our history of payments to shareholders, the distribution of BRL241 million and dividends was approved yesterday. Payments will be carried out on November 22. In terms of the regulatory results, our net revenues were 362.2 million with a decrease of 13.2% as compared to third Q 2017 due to the cut of 50% of the RAP which was foreseen in some of our concessions. For the same reason, our regulatory results were better also in 14.5% as compared to year-over-year.

FINAL

As expected, net margins dropped 1.3%, closing the period at 85.6%. Still it's not possible to offset all direct caps with the cost reductions, but our expenses decreased 4.4% and this shows the company's diligent in controlling all the lines of expenses and costs.

Despite having great net income with high margins, we also had a very solid gas generation with approximately BRL1.5 billion in cash with a substantial growth in the real comparison and also sequential. Net debt were close in BRL2.2 million with a reduction vis-a-vis last year and the GDP EBITDA closed at 5.5 times in the period.

In EBITDA, our company maintains its solid financial situation with robust financial indexes and this has enabled us to maintain the maximum distribution of proceeds to our shareholders. In terms of financing or CapEx, we concluded our fifth debentures issuance in June, 506 million with at a cost of IPCA of 5.9% here and this is regarding Janauba, Paraguacu projects. In September, we closed the BNB financing contract for Janauba in the amount of BRL698 million at (inaudible) plus 2% cost per year for 20 years term.

Before going or giving the floor to Cristiano, I would like to communicate to our friends who are with us today that we informed today a technical note, explaining all the differences between the two types of accounting used in the transmission industry in Brazil. We explained in this note of the effects on the results in cash flow in transmission. We also speak about the macroeconomic impact and the effects of the RAP cut in the regulatory result. In this technical note, we shared still important conclusion first, the cut of 50% of RAP in category two concessions does not impact that societies [ph] net profit, which displays them IFRS and which was the base for the distribution of proceeds and the drop in regulatory revenue in the next few years as the result of this RAP cost and this was done at the company's cash flow, but it will not impact the distribution of proceeds to shareholders. We project that you read this technical note and replace all of our IT team to share more information on that subject.

Now we give the floor to Cristiano, our IR Manager.

Thank you. And now we go to slide four. We want to say that we will mention the net revenue in IFRS with an annual growth of 87.6% the main factor here as reported was the drafting potential of the company and the financial ability as Raul and Marcus already mentioned with an expressive substantial increase of 5.49% for the year, but IGP-M, IPCA were even higher. I will speak about this further on. 3.5 million was the revenue after the Miracema project and also due to some succession events due to provisioning for the last demonstration. In our daily effort, I want to mention our daily effort to revert this situation and this was due to the 1% of RAP and this compares to the results we had last quarter.

Now going to slide five, we'd like to share with you the macro impacts and mentioning that the monetary restatement impacted this. It's interesting to realize that one year ago, we recorded lower inflation level, IGP had four months of deflation. From there on, we had a significant increase in IGP-M which we followed according to our size and this inspected the revenues in monetary restatement and this is followed us by every quarter and this quarter we mentioned 105 million and compared to 149 million in the same period last year. It's important to mention our IGP-M position and most of them is category two due to the correlation of that higher position of IGP-M and monetary restatement. And these category two assets are older and here we mentioned the category three as

well. And all of our category three projects with this monetary restatement of IGP-M will reduce it accordingly.

Depreciation and amortization in IFRS, these costs totaled 37.7% higher year-over-year. You can see in the graph that this increase was basically due to Miracema and also here. It's important to mention that the building costs, construction costs didn't affect this in IFRS, but only mentioned by the construction revenue.

Going to slide seven. We only mentioned the cost on PMSO; personnel, material outsourcing and other expenses and here like Marcus mentioned in the beginning we have a 14.1% increase year-over-year and basically we see a decrease practically in all the cost lines. Here we have 12.7% reduction in this cost line mainly what we mentioned in last Q2 due to a recession from the current hiring regime. And here we are anticipating the recession to have this social security benefit and also the capitalization from the assets being built. This over offset the general revenues costs. Here we have 2.4% decrease due to lower expenses with travel and here on three quarters -- as compared three quarters in '17 and this is due to BRL0.07 [ph] --

Operator

Ladies and gentlemen, please remain connected. Taesa's conference call will resume in an instance.

Cristiano Prado Grangeiro {BIO 20213891 <GO>}

Going back to the explanations on slide seven, the reduction here of 2.4% due to lower expenses with traveling and surveillance and here is the results compared and here in this reduction of 2.4 million and this has been generating savings to the company.

In slide eight, we speak about the equity method under IFRS with a very positive result for the company and in this quarter, we had an expressive growth due to the increase in IGP-M and which impacted all the invested jointly. Naturally without mentioning IGP, we had higher results increase in the revenues from the monetary statement of financial assets and decrease in the financial results due to the payment of the second issuance of EATE and ESTE debentures in October last year and the drop in CDI.

The financial results here on slide nine show a 63.1% total, more than increase against 47.7% in 3Q '17. This is also due to the monetary restatements and the difference in the IPCA and also due to the increase in IPCA during compared method. Interest, a decrease due to the lower growth stating the excess CDI and the credit agreement negotiation and the lower CDI.

Slide 10. We conclude the presentation of IFRS. I want to delve here, but it's important to see that it's clear here. The net income growth due to the growth in net income and also in the equity method here and due to the IPCA. Now, regulatory net revenues, the operating revenue was 462.1 million and with a decrease of 13.2% in net revenue last year. Here you have 3.2%, 13.2%, these were due to the concessions of Novatrans, GTESA, TSN

and NTE, which reached the 16th year of operation in this year and in the cycles 2018 and 2019. PV and others here, others had a decrease of 3.9 million in the variable portion explained, but the reversion of provisions of past events. It's very clear to see these notes here, the main impacts and we can see this clearly in the graph.

The regulatory EBITDA also dropped naturally. We see here in this slide the EBITDA decrease, which impacted the net result, which was offset, but improvement in our costs and the margin here, which was 85.6% and the managerial regulatory EBITDA with a margin of 86.6%.

Slide 13. We speak about the profile of debt amortization. Here we have in the 3Q 2018, 380.3 million and 82% of the debt is impacted by IPCA and the remaining by CDI and our cash position here it's almost BRL1.5 billion net debt over EBITDA and also with the operating cash generation in this quarter. Consequently, net debt obtained 2.2 billion and the improving 3.5% against the previous quarter. The ratio here, net debt to EBITDA is 1.5% more and average debt maturity, 3.2 years.

Now I'd like to speak about the projects under construction on slide 14. We see here that we have eight projects under construction with the BRL5 billion in investments, RAP 584, CapEx stays at 3,164. All the projects and getting into important financial aspects of each, you see here in the graph, but I will mention some important stages up to the moment.

Slide 15, now the last slide. You will see that last June we acquired a preliminary license for EDTE. In September we had some advancements and SUDAM's tax benefit for Miracema, preliminary license at Janauba and we concluded that BNB financing agreement for also for Janauba and with a very attractive rate and also in September, we were able to obtain preliminary license for ERB1, 230 kV. In last month, October, we also got preliminary licenses for Aimores and Paraguacu and all these projects in a very positive ongoing.

(inaudible) we are here at your service to inform more details on them. Now, we put ourselves at your disposal as we said for any other information.

Well, thank you very much. Now, we will start Q&A session only for investors and analysts.

Questions And Answers

Operator

(Operator Instructions) Ms. Carolina Carneiro from Credit Suisse has a question.

Q - Maria Carolina Carneiro {BIO 16342681 <GO>}

Good morning to all. Thank you for the call. My question is on the bidding of the auction which took place on December 20 and I would like to understand, what do you understand, how do you understand this removal from the agenda and does this have anything to do with the lot at Paraguacu that went over its term or do you think that there is a motivation related to the regulatory act regarding the ceiling price of the auction or

was it that caused by the walking [ph] system of the auction? Can we wait something similar to what we saw in the last auction in terms of the return for these other losses? Thank you.

A - Raul Lycurgo Leite {BIO 19066621 <GO>}

Good morning, Carolina. Thank you for your question. Well, on our side, we do not have any explanation for the removal from the agenda of this auction and maybe next week, we will have already some information and maybe they will include it in the bidding process or we think that it could be a situation similar to what we saw in the last auction. So we don't know exactly what will happen, but certainly some adjustments from then on. The bidding process foresee, we would not expect to see any changes in these, but we have to wait a few weeks to see ANEEL's position on the auction.

Q - Maria Carolina Carneiro {BIO 16342681 <GO>}

Thank you very much. I would like to repeat one question. In terms of these financing lines that you and other companies are getting from BNB and they are quite attractive. But I would like to know what's the size of the portfolio that have and can we expect to see the lines that you have already finished building, will you be looking for financing for them or just to make use of this rate that is quite interesting. Well, this is just to give me an idea of the available resources size.

A - Marco Antonio {BIO 20783873 <GO>}

Well, good morning, Carol. This is Marco Antonio. Well, BNB credit lines are a result of the (inaudible). There is something around 13 million and I think that they made available one line for one line of credit for electricity power overall. In our assessments we will have to wait the government to take off to see their positioning with us, these financing with subsidies. We are working now with what we have to have in this line and we want to have the contract already executed like happened in Janauba, but we already had executed contracts in the conditions that they were signed executive. We are working with this financing line believing that we have Aimores, Paraguacu, also in these area of (inaudible) for the insightful for these financing and we are thinking on how to take these financing offer, but we think that we will still have time to signed with BNB for these concessions if we define that we will want financing with BNB.

Operator

(Operator Instructions) Mr. Thiago Silva from Santander has a question.

Q - Thiago Silva {BIO 17655676 <GO>}

Good morning. Thank you for the call. I have a question regarding the fiscal incentive. I would like to have an overview from you on this. Renewal, if you have already filed the request and which are the lines at full benefit from this if it happens?

A - Marcus Pereira Aucelio {BIO 19965152 <GO>}

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This is Marcus Aucelio. In terms of the fiscal incentive and benefits, we already filed for fiscal benefits for Miracema, Janauba, Aimores, and Paraguacu and we had the results on the incentive for Miracema and our prospect is that the Janauba is about to be published to have the benefit published and I also believe that by the end of December, we will also have Paraguacu and Aimores. So this was submitted file since May and I would suppose that these are in the finishing moment of the analysis. So we believe that these incentives will be approved by the competent institutions.

Q - Thiago Silva {BIO 17655676 <GO>}

Well, thank you very much then. To make it clear, you hope that all of them -- you expect all of them to be renewed?

A - Marcus Pereira Aucelio {BIO 19965152 <GO>}

Well, we filed the request for new projects, which is Aimores, Paraguacu, Miracema and Janauba, the four are the new projects. And besides, we have two renewals. So we believe that the four projects will have the benefits renewed by December 2018.

Q - Thiago Silva {BIO 17655676 <GO>}

Well, thank you. Clear.

Operator

(Operator Instructions) Thank you. Provided there are no more questions, I will turn over to Mr. Raul Lycurgo for final considerations. The floor is yours sir.

A - Raul Lycurgo Leite {BIO 19066621 <GO>}

On behalf of all of Taesa's team, I would like to thank you all for participating in this conference call and I also want to thank our over 500 workers and thank you for your efforts in our results. Your efforts have dual impacted our results. Thank you all and have a nice day. Thank you.

Operator

This concludes today's Taesa earnings conference call. You may disconnect your lines at this time.

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