Q1 2012 Earnings Call

Company Participants

- Corporate Participant
- Luiz Fernando Rolla, Chief Officer for Finance and Investor Relations

Other Participants

- Analyst
- Vinicius Canheu
- Vladimir Pinto

Presentation

Corporate Participant

Good afternoon everyone. My name is --. I am the Corporate Governance Manager of Cemig. At this time, we would begin our video webcast and the teleconference to publicize Cemig's results for the First Quarter 2012. With the presence of Dr. Djalma de Morais, CEO and Mr. Fernando Rolla, our CFO.

The webcast can be followed on the phone 5511-4688-6341 and also on the Internet on our website, the Investor Relations http://ri.cemig.com.br for those who have any trouble accessing the dynamic presentation. We inform you that our site has a PDF presentation available.

To begin the presentation, we give the floor to our Chief Financial Offier, Dr. Luiz Fernando Rolla.

Luiz Fernando Rolla {BIO 1852035 <GO>}

Good afternoon, every one. It is with great pleasure that we will begin this video webcast to present the results of the first quarter 2012. We're going to do it in a slightly different manner as traditionally we do. The first part will be practically a conversation between myself and Dr. Djalma, our CEO about these results approximately 15 minutes, in which we will be progressing about those results.

I cannot fail to mention our disclaimer, which as usual we will be talking about investments and therefore we need to have this page on display. Our results which is summarized on this slide. Naturally, we've had always a positive result. Djalma you see that the growth was quite strong. What do you attribute these results to.

Corporate Participant

Good afternoon, ladies and gentlemen. And they have nervous, very nervous results share as markets going down and nothing better than positive effects that our company has presented in recent years and especially of late. Very were positive facts in order to give a boost of enthusiasm in a complex difficult time we're going through at the international level.

Our net income had 15% growth, our EBITda 11% and our net income 20%. As you have seen in the recent years with my presence here, there are very few exceptions to our performance, very close to this if not the same as this. Our indicators grow aligned to our growth strategy. Our EBITda from 1.4 billion sustained by balanced portfolio of all the businesses in our company. EBITda growth and net income growth show the asset quality and operational efficiency of the company. Our lower risk portfolio ensures good results even with the slowing economic growth.

This less risk structure naturally reflects the results very often every quarter as you mentioned in the last years has been very positive and it adds a factors, which is essential to our company which is the predictability of our cash flow, correct.

First, we have always made ourselves feasible through assets that add value. We used our transparent assets. And what's most important after all, our strategy is that of a balance in investments. Our good balance and our assets, you have observed. Our growth in transmission, we have acquired more than a year ago the first part of Abengoa asset, recently the second half of the second part of these assets. We're just waiting for a new approval.

In the area of generations, about one and a half years, two years ago, we began our interest in Belo Monte. All of these assets have well balanced way shown as that we are on the right path. We have recently acquired part of gas distribution in one of this three São Paulo segments. Only in the distribution asset have we had, we're still in the search. You have observed we have a few recursions as you can see through the press, the analysis of our distribution assets, but this is probably the single point where there is a little imbalance in our actions to try to balance out our assets.

This model reinforces our efficiency position and the Cemig strategy, the quality of credit and the financials solidity give access to front end and new opportunities. Mr. President, we in the recent years have made our growth through a strategic plan which was approved by our stockholders and this master plan has led us to the situation which we enjoy today, one of leadership in the process of consolidation in this industry. And this process is still going to unfold in the next years. In the future years, how do you see this growth process through acquisitions.

It has proven to be very correct. We you may have followed that, we have reached a few years ago, a market value of approximately 31 billion. This is a very enviable position here in Latin America. A very outstanding one, I cannot fail to forget our companions are present here, our superintendents, our managerial staff which always aims, its main objective is consolidation. We are indeed leaders in this sector. In this industry we are at a privileged situation in the market.

However, the most important thing Dr. Rolla for our managers and our Board of Directors is to keep this position, to keep as a leader in consolidation and to keep situation of exceptional efficiency in first line situation in our market that is our investors has to trust that we have reached the certain standard and we're going to work to keep ourselves on that same level.

As you have mentioned Mr. President, the value of Cemig's is market value reaching 31 billion represents the recognition of stockholders that this strategy is one that really has led Cemig to an outstanding position, a position of an enviable even at international level. Do you think that the pillars of such a growth have been fully recognized by investors, that is are disciplined or investors, investment in our financial solidity which guarantees that our growth, the market is actually the owner of this decision, we are in a privilege position. But I have everyday and always together with the Board of Direction with our superintendents say that it's necessary for us to keep the situation, it is necessary for us to make every effort, joint efforts, to keep ourselves in this position, the investor expects this from us and I'm sure you can bet on it.

And so I would like to continue being a favorite by you confidence. Our position is, the reported one for us, the position that we had expected to reach this position of respect in the market up to 2020 and we have anticipated that 2012, but only to reach there, but to keep ourselves there. And this is our great objective at present. I would tell you, I have some other commitments. I would like now to leave Dr. Rolla taking care of our objective, our conversation here.

Thank you very much. I'll take a leave. Thank you for your participation. I'll see you in a while.

We are going to continue our presentation here. Already with our strategic vision already Dr. -- our CEO we found them important to participate so as to give you the right the strategic tone that our company has been given to its growth in latest years.

Our CEO has emphasized very adequately that the acquisitions that are being sort after are the loans of have to do with our assets, that have to do with productivity gains corresponding to the scale, the joint scale of the acquisition and the assets and that is reflected very clearly. And a acquisition that Taesa has made. Taesa has evolved its financial results in recent years has been very positive this quarter. You saw on last Friday conference call of Taesa that it had a profit though was 33% larger than the first quarter 2011. It represents today 16%, transmission is 16% of the consolidated results. You know that our strategic plan talks about ratio of about 20%, which guarantees us business portfolio that is well balanced and produces that which our CEO has emphasized as being vital for the company, which is a predictable long-term cash flow, a cash flow that suffers -- undergoes very few oscillations from quarter-to-quarter as you're going to see in the in the next slides.

One other pillar of our strategy is trading of energy electricity. This activity has brought very good results for CEMIG, the strategies that will have the consistent opening of the free market where we have market share around 25%. It is again a position of leadership, which represents exactly the success of this, our strategy, the one that we implemented. We are today holding partnerships with such customers, so as to give them the enough generation capacity so they can expand their own businesses. We have an average growth over 6%, showing again the correctness of our strategy. CEMIG has then one of the three largest winners of this market of sales of energy.

The distribution of electricity, we have given focus looking for our operational efficiency. We've been investing large amounts of money not only in Cemig D but also in Light, so that the operational efficiency of these two companies increased substantially. Today, we have scale where our network has reached surpassing 500,000 kilometers, which represents the longest, the largest network in Latin America in the single company. We provide electricity to millions something around 30,668 gigawatthours that we actually distribute to our customers.

We have a few challenges in the distribution area, especially because of the mega events that are going to take place in the next two to four years. And these events naturally represent challenges that the company understands is necessary to prove its qualification as an efficient operator of distribution networks of electricity.

Our programs, all of them are underway. Our investment programs and our distributor are proceeding consistently and adequately. So as to reach the operational level that is quite high when we have those events occurring. Naturally we have the challenge of 2013 of the tariff cycle. We are doing this latest years, we have had very transparent and open discussion with our regulating agency, the regulator which established a very modern standards and rules that are going to bring about a few consequences for the operation of the distribution assets.

Cemig together would like have become very active in the composition of alternatives to the regulators understanding the essence of such regulation and try to obtain the best possible gains when the tariff revision comes up. Now the evaluation of the company has been very efficient. We have a risk ranking of A and almost every of A and AA by the best regulation agencies whether mode or standard, poor, all of these companies have brought their evaluation, very positive evaluation about Cemig and about its credit quality. This comes of exactly from one of the pillars that our CEO has highlighted, the predictable cash flow.

This solid cash flow which renews itself every year and adds considerable sums of money, so that the company continues growing in a sustainable way and in a perfectly healthy way. Today our indicators or performers, or financial performance are the best possible ones. We e are within the standards established by our by-laws and from maybe we can go beyond one of them, someone them, but we have negotiated, we always negotiate that with our stockholders. But in general, the performance has been such as to maintain this credit quality at the level that we have obtained thus far.

Naturally, the extension has not led to excessive debt. This debt also has been contained in any indicators within our strategic plan, has resulted in very speedy growth. Once aligned with the ability of our balance to finance this growth, we have used very intelligent smart structures that have given us growth beyond that speed, which will naturally would do our own financial capacity, we would be able to do.

So today, with our structures in place and our growth vehicles, we have an issuer growth for our next -- in further near future, we have dashboard of our debts in the next slide. Today we're positioned in order to enjoy the policy reduction of the interest rates by the federal government because 52% of our debt is indexed to CDI. Therefore, with a decline in -- this rate we will be capturing a considerable gains as you can see already happened in the first quarter. We obtained cost of debt around 6% a real. The main cause of that, the average real cost of debt shows the adequateness of the strategy of the indexation by CDI. We're trying to elongate this plan.

As you can see, according to our schedule we have a short-term concentration, 3.5 years average. But, we have already taken a few measures at the end of last, so as to find instruments that may elongate this profile, extend this profile. Through the debentures market, we have been to get up significant parcel of resources over seven years time and sometimes, even 10 years. So our indicators naturally are well within what I mentioned before on the credit quality that really can rank us just AA and any of the companies that we have under our direct management.

Just to mention, the interest coverage by EBITda is more than four times our consolidated, but also the great, the operational companies that we operate. The net debt over EBITDA today has a performance of 2.4 times showing that Cemig is an under leveraged company and you see the operational, you see they are even in better condition than 2.3 times Cemig GT, or even below two times of that showing that even though the debt has grown up a little in this quarter because of the acquisition debt by Taesa to finance one more acquisition. And in brief, we are going to be well below the threshold established by our Board.

Now the matter of the debt is extremely strategic for us as a fraction of the fact that it guarantees our growth. I couldn't also fail to maintain our commitment to sustainability, we reassert this commitment to generate our economic financial results respecting also the limit of environmental and social impact of our projects and the companies that we operate. The concern with our community which might be as amplified by the management, and the management would like in this search for needy communities to quality service to these communities showing the commitment that we have to -- with the sustainability of our Group.

From now on, let us focus on the results proper, now the first quarter. This first quarter results as we has seen has been extremely positive. We have reached net income of 631 million representing a 20% growth relative to the same period of last year, considering that the year of 2011 was not exactly a year of growth in Brazil. But even then as a function of our growth strategy with the addition of more assets to our management, we've been able to reach such a good performance as you can see.

The EBITDA also had a 1.4 billion performance in terms of reals which is again a performance rich, very company can boast with the 11% growth and also with the growth of our operational, and revenues over R$4 billion close to 15% as you can see. So, there has been a very good performance and we'd like to show that in the next slide. This is the consolidated results. So, in order to understand any variation in these figures, we'll have go deep into the operational companies and because of that then to understand those results and the variations.

Let us begin with the sales volume. The consolidated sales volume of our companies and the Group. They had very good performance as you can see that we grew by 4% in all, reaching 18,619 gigawatt hour, which is an extremely positive performance for the Group, which is a very good growth of 4% in a year when we had sort of little weak economic performance as a whole but in the commercial sector and residential sector, we had growth this first quarter as you well know. We should not have great growth of our GDP, but the sales volume has shown to be pretty good performance as well.

The Cemig GT has a growth even greater than 4%. Its performance was very strong in 2012, the first quarter reaching then 8% with special mission of the free customer growth. We not only maintained our share in the market, but we are also enlarging it. And so, we have reduced the service to the regulator market and then we have increased free customer service. This keeps us in a leading position. And the participation in a free market is about two-thirds of the total electricity sold to final consumers and intermediaries.

And this reflects our strategy as I said, our policy, our trading policy, our sales policy which have brought extremely positive results even in the period when we had a price of electricity reduced because of the excess power on a market. But even then, we've been able to through our sales policy to keep very reasonable growth.

And what has to do with the Cemig D, we had a decline of sales and this decline results basically from with the addition of sales to industrial consumers which was quite significant, because of the migration of park of those consumers to the free market. You saw that the free market has grown reasonably well in the quarter. And we had this reduction in the regulated market. If we abstain from this growth, you can see that we would have a growth around total 2%, taken of the CCEE growth we would have growth of 1%, but considering the position that we enjoy today of growth of our GDP, we can say that this performance is again shown as positive to CMIG as a whole.

Now consolidated net revenue gross very strongly, as you can see as a result of the -- especially of the sale to final consumers. This sales to final consumers grew by R$516 million in 2012 this first quarter as compared to the first quarter 2011 helped by the supplement that the supplier that has a very good growth because of the growth of our PLD, PLD in the last two months presents growth indices that is quite strong, and which resulted in this revenue growth in terms of our net revenue. You'll see that we had very strong performance in a quarter, and what has to do with the operational expenses is consolidated, we have to understand. This we'll have to investigate company-by-company and you have access to all that information not only on our website, but on the site of our alighted companies, -- and TAESA. You can see that there was not a very expressive cost increase in any of the items, but the most relevant our cost items, but this represents that we have absorbed maybe a growth of the inflation in the period. We had some changes that we have made to the recognition of some expenses, which resulted in a few increases.

As you can see, as was the growth of purchased energy expenses which comes naturally from higher activity of sales, both of Cemig GT. In Cemig D, we had an increase of load, so in high PLD. And this reflected in our expenses.

Consolidated EBITda, shows again the same balance that we're looking for. We have shown this growth, this strong growth today, the generation has surpassed 50%, the 50% mark. And this comparative to transmission, which is reached 14% as we have mentioned and the other businesses, distribution in other region 27%. Today, generation are actually locomotive as were, has justified its name and added great portions of generation of resources for Cemig, the performance as you can see.

In Cemig GT of our EBITda was very strong. And this chart here, you can see that in the first quarter 2012, we have reached a R$ 682 million to in a total of 1 billion -- represented 40% of the total interest. All of the assets responded positively with special mention to TAESA, which had very strong performance, TBE following this growth, the two together reached to 12% of the total of Cemig, which represents a very positive performance.

As usual, this is the best slide in the presentation. It shows the cash flow statements, very robust and comfortable cash flow. We are now reflecting exactly that which IFRS prescribes -- Our stock has value. If we added that value, we would already going beyond R$3 billion cash at the end of the quarter, which shows that Cemig the in the second quarter could add approximately R$1 billion of cash coming from these activities, especially operational activities. As you can see, reaching R$938 million. And all those growing, all those solid and all those predictable coming from the contracts, our long-term contracts that we display not only in the generation segment, but also in the segment of our transmission.

These factors are extremely positive for Cemig which guarantee to us this long-term growth. And for that reason we can invest large amounts of money in the expansion of our assets and our network and our ability to, generation capacity has been large continuously following our growth strategy, which is naturally added more performance, future performance, not only it has to do with the net income growth, but also in our cash generation.

Today Cemig, we can say very shortly that Cemig is of global investment choice given the magnitude of its assets and the share size of its revenue, and specially because of its market value. As our CEO has stressed at the beginning of the presentation, reaching R$31 billion in terms of market value, very few companies have this level, have reached this level. And we have some other values that shall be recognized by our investors in the future, which is going to take us to even higher levels of confidence by the market. And we are sure that the strategy that the company has adopted is a successful one. It aims at adding value to a lot of stockholders. And with that we deliver every quarter the results that are naturally desired by our stockholders.

These were the slides that we would like to show preliminary to you. And naturally we are as usual open to questions in the next minutes, a few minutes. I'll try yo cover those topics which we were not adequately approached by our presentation Therefore, let us begin the Q&A session.

Questions And Answers

Operator

Ladies and gentlemen, we shall now begin the question-and-answer session. [Operator Instructions]. And our first question comes from Mr. Marcus Bravz.

Q - Analyst

Good afternoon everyone. Thank you for your call. I would like to ask you two questions, three questions looking prospectively. Two questions about the future and one about the presentation. About the future, Cemig in the last interaction with the market has talked much about it's natural gas business, gas was mentioned during the presentation now. Now, I would like to listen -- to hear you about the exploratory gas campaign in Gasmig? And if you have set some specific date to talk specifically about this prospection campaign and the integration of Gasmig into Brazilian? Is that part of your plans?

Second question real quickly about CapEx. On page 21, in 2014 you have a CapEx distribution of 88 million for 2014 and one for 2012 of 2 billion. Do you see a risk in this CapEx for 2012 sort of sliding away and left for laid after the tariff revision?

A - Luiz Fernando Rolla {BIO 1852035 <GO>}

Well, thank you for your question, Marcus. Naturally we seek growth alternatives within our business portfolio. The natural gas seems to us in the next five years the segment that what we understand is the one that has the highest potential. We are going to grow due to the fact that there is already a significant demand for natural gas in the State of Minnesota and we need only -- today we supply 3 million cubic meters of gas to our distributor through our contracts with Petrobras and there we can reach, we can serve in the next five years of repressed demand somewhere around 18 million to 20 million cubic meters per day. These values are pretty significant. They are going to naturally to demand a growth, a very strong investment in the upcoming years not only in the development of the network of distribution of natural gas, but also in the - of gas in those blocks where we are permitted.

As you know a few years ago we in partnership with the investors, we were able to obtained a concession of prospection of gas in the San Francisco River Basin and to other parts in Brazil end by year and in the Potiguar Basin, but especially in the State of Minas Gerais, an the San Francisco region we have very good prospects because the drilling that has already been made by other, that have already been made by other investors were very positive in our quite promising what has to do the production of natural gas. If there is availability of natural gas of course we willing to trigger the necessary investments in order to utilize this gas, to take it to our final question We have many other opportunities to use this gas for thermal generation. The thermal generation is going to have a relevant role in the supply of electricity in the future in this country, because of the hydroelectric plants are being build without reservoirs and this is going to demand the stabilization of this supply by means of thermal generation. So this is a very good perspective. We are going through geological studies which are probably going to take up the year 2012. At - drill operations we'll begin 2013.

This is the outlook for this investment.

Q - Analyst

And with respect to any possibility of publicizing, some information about geological studies. Now, drilling would begin in '13. But can the market know something about the geological surveys in 2012?

A - Luiz Fernando Rolla {BIO 1852035 <GO>}

We still do not have any information that can be publicized, because they are all preliminary, but as soon as we have some figure in which the accuracy of such information can guarantee to us that we are not going to publicize something that would be a new speculation. We would do that. We have every interest showing the community of investors or the outlooks for this gas and industry. But for the time being unfortunately we cannot really talk about any information, because we don't have such information. That's where the CapEx of the distribution of course we have good growth challenge of delivering. In 2012 a value over R$12 billion, because of the commitments that we have made to the regulator in the last cycle.

We intend to deliver value very close to that. Very likely the execution our investment program is subjected to manufacturers, which may result in a delay maybe into delivery of those projects, but I can assure you that by the end of the year we will be very close to this value that you see. What you saw in the first quarter is seasonal and does not represent the growth, the pace of growth that we're going to give to this investment program in the upcoming quarters, but certainly we're going to be delivering something around those R$2 billion. Thank you.

Operator

We have a question from Vladimir Pinto from Bradesco.

Q - Vladimir Pinto {BIO 1554020 <GO>}

Good afternoon. I have actually two questions. One, just an update about the situation of CRC. What about those negotiations in the State of Minnesota, just to understand we had two years of extraordinary dividends. Do you have any -- is there any forecast or anything about that?

A - Corporate Participant

Well, thank you, Vladimir. You have asked an interesting question. Naturally, CRC, we have a schedule that we're trying to meet. This schedule aims at obtaining the approval by the Senate -- the execution the prepayment of the CRC contract with the state by the end of July. This is the date that we have agreed upon with the state. And very likely we're going to be concluding all the bureaucratic process to obtain such an approval and then liquidation of this contract.

As you know, this contract is going to be paid up with resources being captured by the government of the state on the international market. And this needs the approval by the federal agencies and federal organs. And after this approval process is concluded, then we will proceed until we do the final liquidation.

Now, most of the resources are going to be used for our own expansion. In some of the cases, we have even part of the reduction of our debt. But as we should have some financial gain from the operation, this will reflect upon net income and within the dividend policy to pay 50% of the net income, we should have an addition there in what has to do with the 2012. So already answering your question.

We're going to try and utilize those resources in our own expansion. We want these resources to continue generating cash for Cemig. We have been receiving somewhere around R$100 million per year from the state. And naturally, we're going to try and apply those resources to give us higher value so that we can continue paying the dividends to our stockholders. Now, as for extraordinary dividends, it is circumstantial. If there is any availability of resources we can pay extraordinary dividends, but that shall depend upon the success of our expansion policy through acquisitions.

And if are not successful -- and if we have with the existence of a very robust cash, you see, it's over R$3 billion by the end of the year. We should have pressure in order to pay extraordinary dividends. But this is circumstantial, and we're going to make this decision at the end of the year jointly with the shareholders.

Thank you.

Operator

[Operator Instructions]. We have a question coming from Mr. Vinicius Canheu from Credit Suisse.

Q - Vinicius Canheu {BIO 6300903 <GO>}

Good afternoon, everyone. Thank you for your call. And the cost cutting that formed of R$ 600 million per year, I would like to know how the company intends to reach this potential cost reduction and how long can we expect so that the program is concluded? And I would like to know if you can talk about it, if this is part of the adjustments that are going to take place this year?

A - Corporate Participant

Thank you, Vinicius for your question. That is very important to us, because the answer which I was searching for the operational efficiency as part of our growth strategy as you saw. We have region performance better than the other companies in the industry. So we are going to look these results in the next years. We have already designed all the initiatives that are going to result in this extra gain I will probably say, R$ 600 million in the next three years. These gains have everything to do with the third revision.

The first day of revision is going to pose and the distributors in general. And we anticipated ourselves of the pressure in we are already implementing initiatives that are going to bring us effective results by 2012 alreadyand throughout 2013 and '14.

We intend in 2014 to capture that volume that was publicized. We have several areas in which we've been striving to get improvements as a function of the cost pressure. We on the several areas in which we are striving to the improvements we have one hand have cost being inflated and on the other we're trying to review and revise processes in order to make up for the growth because of inflation. Both of the minimum wages and the amount of our ability of the labor which results in highest wages. All of these initiatives are the non-availability of results in higher wages. Al of these initiatives of a great number from number and we practically all of the companies are engaged in such a process of looking for better efficiency resulting in those for in those gains that we mission.

Q - Analyst

Thank you very much.

A - Corporate Participant

Well, I am going to thank you.

Operator

We have now closed the question-and-answer session. And we now give the floor to Dr. Luiz Fernando Rolla, for his final remarks.

A - Luiz Fernando Rolla {BIO 1852035 <GO>}

I would like to thank you for your attention in this there with the as the CEO has mentioned which is not a is actually quite liberty in the stock market as you see a substantial fall and practically every spectrum of the stock exchanges, dollar going over 2 reals. over R$2 per dollar, therefore is not an easy there and for I have to thank you twice for your presence.

I'd like to remind you at every month we're we are going to have our event in the annual meeting with the analysts and investors. This meeting where generally we renewed our communication with the market through a guidance. As what concerned and was we are going to revise our guidance and already reflected all of our the growth that we had in the recent years and future outlooks. This meeting is going to be very interesting, and I invite all you who want to participate in this event because of the novelties we should be to the market.

But once in the express my thanks, and wish you a a good day. Thank you very much.