

Q3 2019 Earnings Call

Company Participants

- Marcelo Campos Habibe, Chief Finance Officer and Investor Relations Officer
- Unidentified Speaker

Presentation

Operator

Good morning. Thank you for standing. Welcome to ENEVA's Conference Call to discuss the results regarding Third Quarter 2019. Today with us are Mr.Marcelo Habibe, Chief Financial and Investor Relations Officers and other Officers of the company and Flavia Heller, Investor Relations Manager.

We would like to inform you that this event is being recorded and that all participants will be attending the conference during the company's presentation. We will then start the Q&A session, when further instructions will be provided. (Operator Instructions). This event is also being broadcast simultaneously over the Internet via webcast and can be accessed at ri.eneva.com.br, and also on the MZiQ platform, where the respective presentation is also available. The selection of slides will be controlled by you. The replay of this event will be available soon after it is over. We would like to remind you that the webcast participants will be able to register in advance on the website questions that will be answered during the Q&A session.

Before proceeding, we would like to clarify that any forward-looking statements that may be made during this conference call regarding Eneva's business prospects, financial and operational projections and goals, constitute beliefs and premises of the company's management as well as information currently available.

Forward-looking statements are no guarantee of performance. They involve risks, uncertainties and assumptions as they refer to future events and depend on circumstances which may or may not occur. Investors should understand that general economic conditions, industry conditions and other operating factors could also affect Eneva's future performance and could lead to results that differ materially from those expressed in such forward-looking statements. We would now like to turn the floor over to Mr.Marcelo Habibe, who will start the presentation. Mr.Habibe, you may proceed, sir.

Marcelo Campos Habibe {BIO 20367888 <GO>}

Good morning, everyone and thank you for participating in our conference call regarding the results for the third quarter 2019. Before we move on, we have a message.

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Now, moving on to Slide number 3. Before we talk about the numbers, I'd like to call your attention to four recent events of extreme importance. Number one, as we won the A-6 energy auction for the Parnaíba III project, we will add another 92 megawatts or installed capacity to the Parnaíba complex, starting in 2025.

A second point has to do with the exploration of the Parnaíba Basin. In September, we purchased six additional blocks at the first cycle of permanent offers by ANP that provides continuity to our model of development, which integrates gas energy production. Another highlight was the license to build the Azulão-Jaguatirica project in the Azulão of Amazon. This is the last license we still lacked to further the Jaguatirica project. The company had already been granted a license for the wells in the Azulão field. And now for the Jaguatirica II. Civil works are on schedule and will move forward according to project. Finally, we managed to refinance Parnaíba II that profile issuing BRL 700 million and convertible debentures and the anticipated payment of the balance of that, and I'll go into detail as we move forward with the presentation.

Moving on to the next slide and talking about numbers. Specifically, we had a third quarter which was quite atypical in terms of thermoelectric dispatch, especially for the North-Northeastern area, where we had a different hydrology pattern. The first quarter in '19 had a regular hydrology, which helped us find or occupy a favorable reservoir position. And especially in the Northeastern region of Brazil, that has allowed us to reach records in energy production in that area. As for thermoelectric dispatch for the period, we reached 22% reduction. As a consequence, the amount of net energy generated by the company dropped by 23%. As a consequence, the gas consumption in the period sat at 0.59 billion cubic meters vis-a-vis 0.72 billion cubic meters in the third quarter of 2018.

On top of that the energy settled in the short-term market, with lower margins due to decrease spot prices in the period. The smaller amount of energy generated combined with the price of commodities explains the drop in Adjusted EBITDA the third quarter, which totaled BRL346 million in the period. On the other hand ENEVA closed the third quarter, with a cash position of BRL1.5 billion an increase of 73% when compared to the third quarter of last year, and a net debt EBITDA ratio of 3.1 times, and increase in the leverage level, those driven by the Parnaíba projects and Azulão-Jaguatirica project as well.

Moving on to the next Slide, you can see a breakdown of our financial performance and the EBITDA result with a lower dispatch and a drop in commodity prices which impacts our available revenue, we saw a pressure on our margins, especially Pecem and Parnaíba, which explain 81% of our EBITDA results. The balance can be explained by the lower hedging in trading results. In this quarter, we're flat whereas the capacity [ph] led to positive results.

Moving on, we see a more detail about the revenues. If we talk about volume on the next slide, Slide number 6, we see that dispatch in third quarter of this year as I mentioned reached 82% as compared to 99% last year in the same quarter. So that impacted our energy rate generation and dropped [ph] of 22%, last year, all our plants were dispatched throughout the third quarter, this year we only had Parnaíba II connected for the full

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quarter and the others were dispatching only in late August. The flip side of that was a lower consumption of gas at 18% when compared to previous year.

Moving on to Slide number 7, and the other important point was the sharp drop in coal prices, our main component to calculate expenses in our coal generating plants. The third quarter of '19, we would pay a price for that, it around \$7 per tones, and now we see price of coal dropping and then that caused a mismatch between our in -- our stock, our inventory and our sales prices that impacted the margins for our coal operations and that can be seen, in the chart in third quarter of 2018 that mismatched. In fact between prices was positive generating in the same quarter of last year, a positive difference. With affected devaluation that we saw when we compared quarter-on-quarter, additionally, as for the gas generation the development revenue for Parnaiba I also dropped given a drop in the indexing indicator.

Moving on to the next Slide, we see the company's operating cash flow which totaled BRL335.9 million. Out of that generation BRL286.7 million were reinvested, BRL94.5 million in Parnaiba V, BRL135.7 million in Azulao-Jaguatiricaa. We also paid BRL165.7 million as for our financial obligations, having said that, the company closed the quarter with a consolidated cash position of BRL1.5 billion an increase of 73%. Vis-a-vis [ph] the third quarter of last year.

Moving on to Slide number 9, we talked about our investments, which totaled BRL360 million in the quarter with a highlight for the two projects Parnaiba V and Azulao-Jaguatirica, which are both under construction and accounts for 70% of investments in the period. As for Parnaiba V, we have concluded basic engineering projects, and we are working in terms of providing the concrete basis for the foundation. And for Azulao-Jaguatirica, we have finalized the land works, in Azulao, we started probing and leveling the land and we are concluding the vegetal suppression in the surrounding area. As for the gas plants, we have finished the replacement of parts and we are preparing for the scheduled maintenance for Parnaiba III and the revamp of Parnaiba IV. As for the coal plants, we started the preventive maintenance of Pecem II and the upgrade of the turbines. We concluded the exploration rails for exploratory wells.

As you can see on Slide number 13 -- on the next slide, we see the pictures the status of Parnaiba V and other plants quite in line with our schedule.

On Slide number 11, some pictures of the Azulao field where we are now drilling for oil for wells. On Slide number 12, we see the evolution of the project and the state of Roraima for the thermal plant of Jaguatirica II land works, earth [ph] well drilling and so on.

Moving on to Slide number 13, we're going to be talking about the company's capital structure. The company closed the quarter with a consolidated debt of BRL15.4 billion and leverage cost of that debt to-date stood at 8.6 with an average thermal 4.2 years. If we extract BRL1.5 billion in cash, our net debt closed at BRL3.9 billion, with given to a ratio of 3.1 times net debt EBITDA. The chart in the bottom part of the slide shows that there is no maturation and the short-term, showing that our amortization schedule is quite comfortable from the company's standpoint.

Moving on to Slide number 14. In October, we concluded the refinancing of our debt for Paranaíba II, we issued BRL750 million of a simple debentures series. The issuance took 3 series at a weighted price of CDI plus 1.5% a year and duration of 4.6 years. The resources we've raised of about BRL465 million -- plus the BRL465 million we had in cash, we prepaid the most expensive debt we have, which led to a savings in interest rate of around BRL60 million a year.

So on top of reducing, interest rates will have more free cash to invest in the company's growth to speed up and leverage the company. We have also contributed to a good way, better practice in terms of cash management, because Paranaíba II generates significant cash level. But because of the dividend flow that we expect, we would only have that available in four to five years. So this was an important leverage in terms of management of our assets vis-a-vis what we have in our cash. This was a very important initiative in terms of debt management. We started when we swapped debt for the holding it back in March, which will add to a savings of around BRL25 million a year, in terms of interest rates.

That concludes our presentation. I'll now remain available for question-and-answer. Thank you.

(Question And Answer)

Operator

Thank you, we will now start the Q&A session for investors and analysts. (Operator Instructions). Thank you. If there are no questions, I will turn the call over to the company for the final considerations.

Unidentified Speaker

Thank you very much for attending our conference call. Have a good day. And we will see you in the fourth quarter's presentation.

Operator

Thank you. ENEVA's conference call is over. Have a good day. Thank you.

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