

# **Companhia Energetica de Minas Gerais - CEMIG (CIG) Q2 2024 Earnings Call Transcript**

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**Body**

Companhia Energetica de Minas Gerais - CEMIG (CIG)

Q2 2024 Earnings Conference Call

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Company Participants

Carolina Senna - Investor Relations Superintendent

Marcio Luiz Simoes Utsch - Chair of the Board of Directors

Reynaldo Passanezi Filho - Chief Executive Officer

Fernando Passalio - Secretary of State for Economic Development, Government of Minas Gerais

Leonardo George de Magalhaes - Chief Finance and Investor Relations Officer

Marney Tadeu Antunes - Vice President of Distribution

Afonso Henriques Moreira Santos - Coordinator, Innovation and Energy Transition Committee

Marco da Camino Ancona Lopez Soligo - Vice President of Equity Holdings and Vice President of Generation and Transmission

Carlos Colombo - Chief Executive Officer, Gasmig

Iuri Mendonca - Chief Executive Officer, Cemig SIM

Cristiana Maria Fortini Pinto e Silva - Vice President of Legal Affairs

Marcus Vinicius de Castro Lobato - Head of Trading Planning and Marketing

Conference Call Participants

Bruno Amorim - Goldman Sachs

Victor Burke - JPMorgan

Daniel Travitzky - Banco Safra

Andre Sampaio - Santander

Vladimir Pinto - XP Investimentos

Presentation

Carolina Senna

Good morning, everyone. We now start our Cemig Day, the 29th Meeting with Investors. For those of you that do not know me, I am Carolina Senna, Superintendent of RI. It is a pleasure to have you all here.

I would like to greet all of you that are here with us in this agenda, and our objective is to bring to you the main initiatives of the Company. This is a special meeting. For the first time, it's being held in Sao Paulo, the Financial Center in Brazil, getting closer to the investors marketing and also bringing with us our Minas Gerais approach, the warm coffee and cheese bread, our special hospitality and meeting you anywhere. We will have a strategic meetings, networking and a unique opportunity to talk to you.

Before we go open our agenda, I would like to ask you that have your phones on mute. Our meeting also is being transmitted by Zoom and thank you all that are with us online. To open our meeting, I am glad to bring to the floor the Chair of the Board of Directors, Marcio Luiz Simoes. Please, Mr. Marcio.

Marcio Luiz Simoes Utsch

Thank you, Carol. Good morning, everyone. Well, I don't know where I should look at. But anyway, I will take 10 minutes to 15 minutes of your time, at the most, to tell you a little bit about our past and then where we are going towards.

I've been with Cemig since Governor Zema started. When he started his term, I also started, and I've been the Chair of the Board since then. When Zema was elected, Cemig's value was BRL10 billion. Yesterday, Cemig reached almost BRL36 billion. But in this period of time, in addition, we paid BRL12.7 billion in dividends.

In addition to that amount, we paid dividends in the spirit of time. The PN shares were up 394% up to yesterday and were up 437% up to yesterday. So, this was built in terms of prices throughout this period. But price is one thing, and value is something else. What we have done at Cemig was something else. It was the value.

And this past that I'm talking about, we have done some wrong things. But fortunately, we were able to score a few goals. We also took some goals, of course, that's part of life, but we were able to make it right, more times than not. So, what were the mistakes and the learnings?

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Well, we took a long time to sell our asset-light, but it didn't make sense for us. Renova also, it took us a while. It went there, it went back. So, it was a whole deal of things we had in court reorganization process. So, we know that this could be done. And we found a way to do things all over again.

So, when we look back, sometimes, we think we could have done better. But what have we done that was best? It was not even the price, because this was a consequence. But what we have done best is something that people cannot destroy. When you do something good, and then someone else comes in and does something wrong.

But the best that we have done was people's management. We have a very well aligned team and the Board. We chose Board members. All of them were hand-picked. Our Executive Board, the officers, the superintendents, all top management of Cemig, everyone is -- would deserve a score 10?

No, of course not. Of course, some of them would deserve 12 or 13. But what we made right was much more than what we made wrong. So, you cannot get this type of figures with a bad team.

I cannot know anyone that wants to be Alexander, the Average. Everyone wants to be Alexander, the Great. So, we planned wonderful things, but this planning was just executed, because we have at Cemig, people that work with excellence.

In Cemig, we have people that have been with us for a long time, intelligent, smart people that are working very well. We have new people that came in later, we have everything. So, we really put together a wonderful team that were able to deliver these results.

So, this is something that we made right. When we look at this team, I'm very happy to see that team. It's a wonderful one. It's a team that looks to the future to find out what will be our headline in the future.

So, 10 years from now, what Cemig will be. This headline is not written yet, but we can work on it right now. We just have to wait and read it in the future, so we can be prepared for that. I can think of that. Of course, this is a company that is a listed company, it's not a private company yet. So, we have all these issues related of being a state-owned company, controlled by the Minas Gerais state.

So, when the administration changes, things changes. But when I look back and think about what we can build, I'm sure that when we look ahead, there is a lot to be done. And why do I say that? Well, if we left BRL10 billion to BRL36 billion, we paid BRL12.7 billion in dividends.

We were up 394% in PN shares, 457% up ON shares. Is that the limit? No, that's not the limit. There's a lot to be done. So, we have privatizations to be done, or better, there are other companies that we can monetize, other companies that we can bring in, we can do that. We have SHPPs. Things that we can do to turn the capital allocation of Cemig more efficient, our capital allocation that will allow us to grow even more.

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So, we have a huge market at Cemig Sim, and we have to make it work. Gasmig has a large area to grow. We have here someone that just started with us in a few days, but he's very experienced, so a very experienced person that he knows the sector and he's just with us right now and we have Cemig itself. When we look at Cemig, and I always say that, well, Cemig has to be at the center of the table.

So, when something is good, it's a habit, but when something is bad, it's a vice. And it just looks like that plane that was going from Sao Paulo to Lisbon, and then there was a Russian flight attendant asking a passenger, I think, it was a Japanese passenger, his name was Manuel, which are the dinner options, yes or no, she replied, so very clear. It's a clear option, it's yes or no.

You choose dinner or not? So, this is how we go. What is your option for electric energy, yes or no? So, if you don't want to have candles at home, you need to work with Cemig.

What if it's not a captive market? People will choose Cemig. That's what we have to work for in the future, to work on these values. When it is zero of captive consumers, when everyone can choose where to buy from, like you choose your cable TV, your phone carrier, right there and then, will we be chosen? If the answer is no, it will be a defeat for this wonderful team. And I will go back. We are wonderful, but we have not been able to get there to meet the desires of the consumers.

So, I have here the secretary, the development secretary of Minas Gerais, Fernando Passalio, has just arrived. But if we, in the future have the option, and this day will come and people tell us no, that they don't want us, that team, that was wonderful, it would have been a weak team, because they could not work for Cemig to be a choice, when that choice could be made.

But just like you choose what you are going to do today, we will have to be chosen in the future. If it's not that, that will have been a defeat. Oh, we were not chosen, because we delayed home service, another defeat. We were not chosen, because we were a company that had only captive consumers and we did not have time. So, another failure. So, if we say that we have not done it because we did not have time, it's just like you're saying that you were bitten by a turtle and you did not have time to escape.

So, looking ahead, I have to think that Cemig will grow, because there are actions in the Company to plan for the future. And you, the investor in the Company, have to understand that it will be better than it is today, not only larger, but better, and also practical and immediate actions, better capital allocation, better adjustments in our investments, which are already large.

And Reynaldo is going to talk about that in his presentation. But investments that have already been done and that had never been done before. In the period that we have done it, Reynaldo has the figure. It's something huge regarding to what had been done in the past. So, these investments really will charge for them and they will be transferred to the tariffs and that's going to improve our profitability.

So, when we look ahead, there are market opportunities that we'll take in, and also structural opportunities with investments, assets, improvements that will allow the Company to be better than it is today. And what else? Well, Governor Zema, since it's his first term, he said, and this is public, he says, he said, I want to privatize him.

Again, his second term, he said it, he said the same thing. This is no news. If it is news for you, you're not updated. When we do, we from Cemig, we agree with him. If we did not agree, we would not be there. So, we would not be responsible of us. So, well, if he wants to privatize and I'm there, and I don't want it, so why would I be there?

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But all of us believe that this is a good option. That's an important movement. It depends on the controlling shareholders. The Company is a privatizing object, and the owner of that action is the State Administration.

So, this is very important for you to know. So, really there is this long-term view, you are pursuing that idea, because this is very important and it can unlock more value to the Company. And what is going to change if you have a state-owned company and a private company?

Well, if you are going to have some investments done, you have to go for a bidding process, you cannot choose your provider. I know that people that work with that and know how it is. So, you cannot choose your provider.

You work in companies, in banks, someone chooses the provider for you, so you want to change your IT system, someone will choose that for you. So, not always a lower price or is the best service, sometimes it is and great, we make a right choice. But when it is not, it's a wrong choice.

So, in a privatized company, we can choose our providers. So, you do not hire who you want to hire. You have to hire those that went through the public exam and that's fine, because they studied and they were approved in the exam, but you have to allocate the right person in the right position.

Also, sometimes, you have the same test for everyone that is in the public exam. But so if sometimes, you don't have a person that would adjust to the profile that you need. Of course, that there are a lot of things that work well, but also there are deviations. So, these are improvements to be held.

So, you also have to check what do you, would you gain any here, if I can hire my provider and what if I can hire each person for each different position? So, how agile will it be? How much is this worth? This would be there in your checklist. So, when I do this, that value unlocks and that will be reflecting the Company more than that.

And just concluding my opening speech, the alignment that we have today of Cemig and the State Administration and ANEEL, to compare the results that we have to account for. DEC, FEC, these are very good figures and they are growing, they're improving. So, we have a great improvement in the main indicators and also indicators that are important for the controlling shareholders, which is the State of Administration.

So, we are meeting the indicators, we are surpassing them. Some of the indicators are not at ANEEL, but they are very important. For instance, the receiving indicator, we receive more than what we build in the month, because we have late payments that we bring in. So, the collection results for Cemig is high, because you can pay with pics, with drums, with anything that you want, because there are a lot of ways out that, we didn't have that option before.

So, a few things improved. So, that allowed us to deal with it. So, I'm going to disconnect your electric service. So, I don't need to pay, I need to pay a specific fee to disconnect the electric power, and then I have to pay another fee to connect it again. So, now, we pay a single fee. And if the person pays the electric bill right there and then you don't even need to disconnect that service.

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Now, as far as technology goes, we did not go up a ramp. It was a huge leap. We were not up the ramp, because there were so many significant changes in client service, with APPs, with the agreements that we had to improve customer service. And you cannot measure that in ramps, you have to measure it in leaps. We left the, some of the management, proprietary systems we have now, special systems, and that improved our relationship with clients, also purchasing systems. We would purchase in a way that there was no standard, no reference of what was being acquired.

So, now, we see the different prices, the different codes, and you can have work with the competition with the best that you have available, and then you go for the best of the best, although we do have the limitations of a state-owned company. So, there are a number of improvements.

So, in the past, we were less valuable, and now we are more valuable. And so, when we look at the future, I could be talking here for more 30 minutes, so people here will say, they will go into the details about some of the topics I raised. I'm sure that is going to be the subject of the different presentations and technology, generation, transmission, human resources.

We have a lot of new things and good things to tell you that are happening in all of these areas. So, please some patience to hear it all. It's going to be a long day, but I know that you will have reasons to believe that what Cemig has done, it was that Cemig went up and is staying up.

So, when you look at Apple's, Microsoft charts, Walmart charts, anyone that you want to, there are always up and down, ups and downs. But what is important is the final resulting line, so an improvement. So, these are improvements cannot be taken down, you cannot change.

I know if the administration changes, you're going to say, okay, now I'm going to go back to calculating things manually. So, this started with us and we have made these changes and will stay with us. And we are sure that we still have the state-owned administration. And I say still, because that's not the intention of our Governor. But we might have to consider that this might not happen as soon as we wish.

And thank you very much and I hope you enjoy the day.

Carolina Senna

Thank you very much, Marcio, for your presentation, for opening our event. And so, now, I would like to bring to the floor our CEO, Reynaldo Passanezi Filho.

Reynaldo Passanezi Filho

Good morning. Good morning, everyone. Thank you very much for being here with us at another Cemig Day, our 29th Investors meeting.

I would like to start greeting Marcio and Fernando, our Economic Development Secretary, and thanking them for the support to all this transformation. But what Marcio just said is our daily activity, we have a Board of Directors that participates, that questions us and our will to bring in these questions and follow a transformation process.

So, what Marcio said here is just like a Board meeting, right? There is another Board member here, Afonso. He was announced Director, and he really knows the electric sector. And this is how our Board works. And Fernando and Governor Zema also encourage us to look for more. And this is what we are bringing to you. This is a story that brings management improving efficiency, also a wonderful CapEx increase and capital management and also leadership. That's what we have been working on.

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Starting with people. I will start then with Marcio's example. And just to show you what the Board works like and also to give you an example of that Board support. When I started at Cemig, there was a special specific situation, which was all the leaders, the managers and superintendents needed to go through the public examination, we could not bring anyone from the market.

And I say not market people, but people that were not working at Cemig. So, we could have officers coming from out of the Company, but all the managers and superintendents would have had to been approved in the public exam. And they can be great people, but sometimes, it's not the profile that we want for the position.

So, my idea was to turn that process more flexible. And to approve with the Board that possibility, I wanted 30% per position. So, 30% of managers and 30% of superintendents that could come out from out of the Company, that is, with no public exam.

And the Board allowed me 40%, not only 30%, 40%. So, I think that shows what we are looking in terms of transformation and what we have been adding in terms of support. We requested 30% and they gave us 40%. So, this is the essence of management.

And this is a very nice slide, because it also shows our purpose for results. I call it back to the basis. So, we'll aim at efficiency, and we'll aim a capital allocation into what we know and something that will provide us sure profitability. So, here, results. Since 2009 to 2018, the Company was in non-compliance with the regulatory parameters of operating efficiency, that is PMSO and also technical losses.

Well, the Company burned BRL15 billion over regulatory. Now, we are within the regulatory expenses. So, when we add the regulatory work, we have the capacity of generating the value according to the regulatory work. In the past, this would've disappeared, because expenses were higher.

So, add BRL15.2 billion in 10 years, you can calculate how huge it is, that adjustment. So, this is a very significant adjustment. For me, this is the back to the basics. And as Marcia said, we still have things to be done.

And I'll give you another example, a very simple example here, because here, it's an example. I don't remember exactly, but I think when I started, we have two rented buildings. If you have been to Cemig, we have a Avenida Barbacena building and another building by it, where we have a Banco Inter nowadays, both of them were leased. We returned the first one, the first building.

This was our first effort to reduce expenses, to increase efficiency and reduce expenses that reduced the rental cost. So, what did we do? Three months ago. We got our own building and we returned five floors. Today, we use 50% of the rented area we had in 2015 for the same headquarters and generating the same results, because people are still there.

So, I guess, that just gives you a pretty good idea of how it was and what we're doing, because the rent example came in two waves. We did the first reduction, then the second move, and of course, we continued to pursue opportunities to gain efficiency.

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Second, and Marcio also touched on that. We sold those assets that we knew little about and had no control over. And we are concentrating our investments in the businesses that we know in the State of Minas Gerais.

So, this number, to me, means Cemig invested in minority holdings, normally outside Minas Gerais and Cemig invested close to BRL40 billion, BRL39 billion, Light, Renova, Santo Antonio, Axxiom, Ativas, Alianca, Belo Monte, BRL39 billion. The net destruction of value, destruction of economic value, almost BRL14 billion.

When we took over, Marcio, 75% of the time. And I remember that quite well, when I took over. And Belini was going to give me the baton, he said, careful because 75% of the time is dedicated to deal with these minority holdings. Now it's down to zero. The Board is here. The management is here. Now we are a profitable company. All the problem assets, the distressed assets have been divested.

With this, we recovered BRL13 billion by divesting minority interest. So instead of spending, we have a cash recovery more than BRL13 billion. And here, we are considering sales of value, plus the capital inflow because we needed to have some cash inflows. If you follow us, Santo Antonio had a recent capital increase. Light had a lot of capital increases, Renova, in addition to some court supervised reorganizations.

Can you imagine participating in a court supervised reorganization. If you're a mixed capital company. So we divested of all of these minority interests. And since we invested a lot in minority holdings, we had to stop investing in the network. So at the time, we invested in distribution less than the depreciation. Now we are investing four times the depreciation.

So now we are executing the largest CapEx plan in our history, BRL49 billion, and BRL49 billion means 19 plus 28, okay, just to make our 2024-2028 strategic plan. It is BRL35.6 billion, right, Carol? BRL35.6 billion. But here, we are talking about from 2019 to 2028, BRL49 billion. On average, BRL5 billion per annum. So almost all of this in regulated businesses that didn't get a lot of investments for a long time. So we have the ability to invest with no risk of refusal by ANEEL.

Of course, we lost the plants Simao, Jaguara and Miranda, almost 3-giga. And now we have the financial capacity to renew the concessions of these plants. But I guess that this gives us a snapshot of what Marcio said. And we are very satisfied now because we're always seeking more. We are always pursuing more, and that's what drives us as people, as a team to always pursue more gains.

But it's about going back to the basics, being efficient, and investing in the business that we understand and that we have control all over. It's very difficult for a state-owned company to be a minority shareholder. We were some minority shareholders, together with the individuals. It's not easy. So we don't know everything, but what we know, we can do quite well, and this is what we are doing. So we are investing BRL49 billion.

We have invested already BRL13.6 billion by 2023. And here, we have the breakdown. I like a sentence that is the basic of our strategic planning, which means focusing on Minas Gerais and winning. A 100% of these investments take place in the State of Minas Gerais, which is the territory that we know.

And our controlling shareholder is the State of Minas Gerais. So I guess it makes a lot of sense. Of this amount, 80% is in regulated business. So if we add distribution, BRL33 billion, transmission, BRL5 billion, natural gas, BRL2.2 billion. So we're kind of 40 -- 80%, BRL40 billion of BRL49 billion. It's regulated sector, regulated market.

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So it's what Marcio said, we can improve service to our customers because, of course, this investment will relate to a much better quality of service. We can be a company that will be a positive instrument for the development of Minas Gerais because this attracts investments to Minas, the State of Minas. And we can improve the base and create value for the shareholders.

So this is an optimal situation to be in because we can be customer-centric. We can support the State of Minas Gerais, which obviously, is going to generate more load for us and more taxes for the Government of Minas Gerais, and all of this is the base, and the base is part of the tariff and we will be remunerated accordingly.

So this was the logic. This was the rationale. And when we were discussing this, I remember that we hired a consulting firm. They prepared some nice graphs, and there was an option, to focus on Minas and winning. And there was another option, which was try again. Why try again? Because it worked for Taesa, so we could try again. We said, no. We are not going to try again.

We don't want to be private equity. Private equity is for somebody else. We are not a private equity to have a minority shareholding. For some people this works, but not for us. That was not the best option for us. We said, no, we don't want to go that way. We want to focus on Minas and win.

So this is the investment plan. And of the BRL49 billion, we have already invested BRL13.6 billion. So we still have BRL35.6 billion, which is a '24-'28 plan. And this one piece of information that I think I should share with you. Of the BRL35.6 billion, two-thirds are already contracted. So this is an important number because as Marcio said, we are a mixed economy legal entity. But as a mixed economy legal entity sometimes we find difficulties in the bidding process.

We know sometimes it takes long. It takes long to prepare the bidding process to go through with it. So this plan is two-thirds contracted, and there's another restriction where it's not a regulated market, we will only invest if we have an associated PPE, we won't invest spot.

And together with this, and I'm talking about the investment plan, of course. Obviously, we have our trading company, which is incredibly successful. So considering the results that we showed, of those results when we lost the concessions here, we were able to create a big market for the trading company.

And this was a big goal that the company scored. We are leaders in trading and we want to continue to be leaders either in the free market or now in the retail market. And we are always customer-focused.

And this is a thing that we need to be, to take a leading role in the power market. And normally, the power market is not focused on the customer. Everyone is used to work as a monopoly, and being customer-centric is not the regular thing. So that is the plan.

Here, we bring you the results of this turnaround. Because I wanted to find a word in Portuguese, I couldn't. So, we used the word in English. It was a turnaround. Here, we got our competitors, which you know, which are the listed companies in the power sector, and look how much we gained in terms of relative share.

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Not only EBITDA increased from 3.7% to close to 8%, and as a percentage, we increased from 5.8% to 8.2%. So, we grew vis-a-vis the market. Not just that we grew compared to ourselves, of course, we did grow a lot compared to ourselves and how we were, but we also grew in market share.

Net income, 5.8%, up to 16.1% or 1.7 to 5. In EBITDA, we, a little more than, doubled and in terms of net income, three times, we grew three times, in terms of investments, 5.5 times increase from BRL954 million to BRL5.5 billion in the last 12 months, and in percentage terms, 3.8% to 8%, we more than doubled the relative share, when we compare to listed companies.

And we are not considering all power companies, just the listed ones. Just to give an idea, that we are not only growing, but we are growing faster than the average of the sector and for our bank representatives, I'd like to thank them, because the bank representatives have been supporting us a lot with the capital market, thank you.

Net debt over EBITDA, this ratio dropped from 3.2 times to 1 times net debt over EBITDA ratio, so 3.2 times to 1 times. And Cemig's rating, I think, increased six notches, six notches in this period. We are AA+, and we believe we should be AAA, so Marcio, we still need to pursue that front of being a AAA.

Again, we are satisfied, but not enough and we will achieve a AAA rating. So, I guess, this is the foundation. We are management, focused on back to the basics, being efficient, having profitable, regulated investments with a renewed team, an integrated team and here, we have the results.

I spoke a lot about Cemig, but we have here Gasmig. We have the whole management here. So, please feel free. We have Colon, Cadu here. Cadu, I don't even remember your family name. It's Carlos Eduardo Moraes, I remembered. So, at Gasmig, we're building a new gas pipeline until Divinopolis after many, many years.

So, when we look at this, a new gas pipeline after 20 years without building a new gas pipeline, we are back to investing in generation. We have centralized generation. We just opened a 90-megawatt plant, another one, with an associated customer, not spot, we have an associated PPA for many years with an investing generation.

We won an auction in transmission. We are improving and reinforcing the system, which is something that didn't happen in a long time, winning an auction. And in distribution, we have Marney to speak about this, but we have a lot, a lot of investments in substations alone, every week, no, I mean, new substations, we had 110.

I need to get an update from you Marney, because every day, we start a new substation. But when we started, we had 114. We have started 110 more. And the plan is to grow 200 substations, growing 50% the capacity.

And as Marcio mentioned, there's a team of technological transformation, which is just amazing. We wanted to have our operating system, it was our own operating system, had a system to control the operation that belonged to us. When I joined, this was getting obsolete. We had systems from the 1990s, and now, we are updating through distributed energy.

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So, we are going to be controlling for distributed generation, and not just the operational control of distribution, but we will include all the intermittent and distributed generation. So, whenever there is a new update, we can immediately update the system. So, there was a big progress, a quantum leap in terms of SAP, ADMS.

What, Marcio, you can say something. This is in relation to companies listed in the stock exchange. But all of these presentations will be available for you. But the point is, we gained market share compared to companies listed in the stock exchange. And this is what Marcio mentioned. This is the grand finale.

Before the election of Governor Zema, we were worth BRL10.6 billion in market value. On August 16, it's already more than that. But on August 16, we were worth BRL35.3 billion, including extraordinary dividends of Alianca. BRL12.7 billion in dividends paid since 2019, including additional dividends. So, we have here the common shares.

And as Marcio said, we are very excited to continue with this transformation, with the execution of the biggest CapEx plan in history, with a discipline for cost reduction and improving the quality of spending, because that's another important topic. We didn't do, for example, preventive maintenance.

Today, as part of our regulatory expenses, we can do preventive maintenance, which improves things a lot in the future. We are modernizing governance, reducing red tape. We have just hired a consulting firm to help us be more agile and have more simplicity and agility. We have a focus on the customer, with Marcio as Chairman of the Board, with everything he's done in his life with help regardless, of course, we will be 100% customer-centric.

And this is very challenging cultural theme actually, because, well, I am sure that by using the strength of our brand and with us having the ability to focus on the client, we can continue to be leaders in the free and retail market. Lastly and we are going to have a presentation about that.

Because if I start talking about energy transition, well, I'll have to have another half an hour, which I believe that Brazil has unique opportunities in energy transition. We have to play a leading role and bring Minas, the State of Minas Gerais, to energy transition and attract investments to the State of Minas Gerais with innovation. So, this is the moment that we are living. As Marcio said, we have a lot to do, a lot of good things we've done, but we know that there are a lot of things that need to be done.

And I'd like to thank the presence of the Secretary of -- the State Secretary of Economic Development. And I'd like to invite him to come to the stage to tell us the standpoint of the controlling shareholder. Not just what we have done with the support of Fernando and Governor Zema, but also to hear him tell us about the future, future expectations.

Marcio mentioned here. There are many themes on the table, themes related to the controlling shareholders. So, nothing better than having the presence of the controlling shareholder, somebody who has supported us in every work front.

And for us, if we move the head with the privatization, this was public information since day one. Everyone knows we want to have an asset that is more and more valued, so that we have an opportunity to privatize the asset with a good market cap. But of course, this is exclusive responsibility of the controlling shareholders. So, I'd like to invite Secretary of Economic Development, Fernando Passalio. Fernando, thank you very much for your presence, for being here.

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Fernando Passalio

Good morning. I would like to start congratulating Cemig and the whole management here, represented by Marcio Utsch, Chairman of the Board; and Reynaldo, the CEO, for this Cemig Day, which is already a success.

We can see everyone engaged in social media and all of you attending on site. And I want to briefly say that our Governor, Romeu Zema, and the Vice Governor are very focused on what Cemig can offer in terms of development. It is now by chance that Cemig is linked to the Secretariat of Economic Development.

Everything that was said so far is investment that brings more investment. Why do I say this? From 2015 to 2018, and I'm talking about protocols of investment intent. These protocols of investment intention generated close to BRL26 billion for a four year plan. The prior administration attracted BRL26 billion in private investments from business people spread around the world who chose to invest in the State of Minas Gerais.

And this program to attract investments, in my opinion, was too small. BRL26 billion is too little for a State of the size of Minas Gerais. Governor Zema, because he was always an entrepreneur and focused on having the best public policy in the world, which is creating jobs, he required us to turn the key of the whole team and to start attracting investments at a different pace.

If they attracted BRL26 billion in four years, he said, I want to have BRL150 billion in the next four. So, he raised the bar quite a lot. And with the Romeu Zema standard of quality, we were very proactive. We put Minas Gerais in the world. Minas Gerais is still unknown. The world knows Brazil as Sao Paulo, Rio de Janeiro and Brasilia, and not so much Minas Gerais.

For us, it is a challenge to put Minas Gerais in everyone's radar. But you know it worked. This target of BRL150 billion in private investments was attained in the first two years. And we were able to close the four year plan with BRL280 billion. After 1.5 years, we're at 5.5 years of this administration, we reached BRL440 billion. As a reminder, the prior administration only attracted BRL26 million.

And these investors, one of the things they need the most is infrastructure and power infrastructure. So when we see Cemig investing both ways, but investing in a feasible way, because let's remind, let's remember that in 70 years, Cemig built 400 substations.

And now, in three years to four years, we have more than 100 additional substations built, and we will build 217. In other words, more than 50% of what was done in 70 years. And all of that in just six years. This is a daring focus and we are only those focused to win.

And this is a fortunate name. Try again never. It is to focus, to win. I think that Cemig, during a good part of its history, that it was Eletrobras. Cemig started buying assets all over Brazil. And this is not our focus. Our focus is in Minas Gerais. Doesn't make sense to buy 50% of Light in Rio de Janeiro when we have a state that requires a lot of investments whose infrastructure is kind of scrap.

And with this, we have to speak about politics. I have to say how Governor Zema is focused on the quality of management. We have here Marcio Luiz. If you Google him, you'll know who he is, if you don't know him.

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And with a CEO like Reynaldo Passanezi and a team of Vice Presidents, which are top notch, some people who really think about how to improve the public policy every day, because when you're the controlling shareholder, when you have the controlling shareholder mandate, like the Governor, we have a view that the public policy or the controlling shareholder dictates the public policy, but they're also the controlling shareholder. So, this kind of harmonization is possible.

So, we have Cemig in distribution with 9 million customers. It's a lot of customers with a very high satisfaction level, very high satisfaction level. As time goes by, as these substations are built, fewer companies are waiting to have their power connected. So, the numbers show that they get connected much faster. And this shows how Cemig has been a partner of this public policy to attract investments.

A little time ago, the government had a program called Light for Everyone. And this was an important program, because people didn't have electricity in some places in the State of Minas Gerais. And we have Light for Everyone, that was the program. And now, at a different pace, we have Three Phase Minas. Light for Everyone program was a literal program. It took electricity for everyone.

Now, Cemig has a daring program of having a Three Phase supply, the whole rural zone, more productivity for the agri-business. So, the agri-business will be able to scale up their productivity in a way that was never seen before. So, we have more substations being built, we have the Three Phase supply program, more power, and this BRL49 billion CapEx was our plan, built very responsibly and the plan that can be executed, it is executable and this is very important for the results that we're reaping now.

And it was only possible to do this by divesting those minority shareholdings outside of the state. The current administration is focused on a smaller state government. We want to have an agile state government, an administration that is as small and as optimized as possible. We will be selling minority shareholders and will be privatizing state-owned companies, so as to ensure better quality services, more accessible services to the citizens of the State of Minas Gerais, as this was the case with telephone services in Brazil, it is not, because we haven't been able to advance this discussion with the state council about transforming this company in a corporation. It is not because we haven't been able to advance so far that we are going to leave this behind. Proof of that is the numbers that we saw here.

We now have a company that is totally focused on the results. We have seen the most important indicators shown by Reynaldo. We also invested in a committee for the governance of state-owned companies. We are constantly in contact with the Chairs of the Boards of Administration. So, we do that follow-up, so that we have everything on the same page.

And here, I'm not even talking about Cemig, but rather the management of state-owned companies and how Minas Gerais state administration is focusing on the responsible management. The same thing that we have rolled out at Cemig, we are doing with all the state-owned companies of Minas Gerais.

And here, we have consolidated results. You see that from 2011 up to 2014, there is a peak of BRL5 billion up to this year. And the Labor Party Administration, you see a fluctuation in values, that's normal to see with state-owned companies, right? The tendency, the trend is to destroy the state-owned company, not to privatize them.

And now, you see under Zema's administration, the results, you can follow that up. It's here the figures are always surpassing prior management. This peak in 2012 here, it was because of an operation of a non-recurring profit. So, usually, the results are very low and these figures are already deflated.

Okay. Distributed dividends. This is really odd, really different. Here, you'll see that the prior management, prior to ours, you see the amount of dividends paid and look at how Cemig is now. It's really a milking cow in the market, right? So, Cemig is investing, is paying dividends. That it's a very attractive company to the market and still facing the challenge of being a state-owned company.

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So, you do not choose your providers. It has different owners at every four years, so you cannot choose who you're going to hire. And it is still working as if it were a private company. If you don't know, this state owns a little over 17% of Cemig. So, if you do not know, the stake is not that large.

But we have the highest number of common shares, so that's why we have the control. So, just to give you an idea of the market value, in 2011, each share was at BRL1.63. When we took over, it went up to BRL5. And now, shares are around BRL10 to BRL12. So, if you analyze the foundations of the company, if that were not a state-owned company, the price share would be skyrocketing. That is not considering dividends, you're right. But the profitability of these shares is really, really high.

These are investments that bring more investments. And that is my message. We will maintain that management, ensuring that this is a qualified management for Cemig, Gasmig, for Cemig Sim. And here we have the officers of these companies. As Reynaldo said, Cemig Sim and Gasmig are also investing.

When we took over office in 2019, a little over 500 megawatts of solar energy, and now, we have almost 9-gigawatts in Minas Gerais. That is, we are generating more than half of Itaipu power plant of solar energy just in Minas Gerais. And this is an amazing result. We are absolute leaders in Brazil and we will keep on being leaders, because we have with you know considering this, our objective of solar energy, constant investment for infrastructure and substations will help on that.

But we already have approved at ANEEL dozens of projects that will keep on placing Minas Gerais at this pole position. So there is a natural possibility here that is being transformed into an economy as economic asset for this company. So, we have pipelines in the state for gas.

And these are investments that bring more investments, this is a company that can invest. It has everything it takes to invest. This is a company that is ready for a future IPO, Gasmig, I mean, and here we have investments that I am sure will help that region where the pipelines go by to be a prosperous region. And prosperous is a word that our governor always mentions. Bring in 900 million employment positions, will attract investments and also almost one million of employment positions.

When we took over we had 8.8% of stake in our national GDP and now we have 9.5%. The 0.7% means the POE state economy. So we grew one of the Brazilian states' economy. We have grown Amapa and Rondonia together. So these -- that 0.7% is a lot. It's not easy to get there.

We went over BRL1 trillion in our GDP and when we took over it was a little bit over BRL600 billion. So, well, good wins to Minas Gerais. I wish you all a very productive event. You only have the best here to show you what we are doing and that you have a wonderful Cemig Day. Thank you.

Carolina Senna

Thank you very much, Reynaldo, for sharing with us this transformation over the years, and thank you Fernando Passalio for sharing with us the transformation of Minas Gerais State that is allowing our state to grow and also your view on the state-owned controlled assets. I have time for two questions. If you want to ask questions either to our CEO or our Secretary of Development, feel free to do so.

Daniel Travitzky

Good morning. Daniel Travitzky from Banco Safra. Thank you very much for this opportunity. I have one question to Secretary, Fernando Passalio. Mr. Secretary, thank you very much for being here. And my question is about the federalization topic from Cemig as was discussed by the federal administration and also by Zema's administration. So how are these discussions going and how the Minas Gerais administration is tackling this topic? I am Daniel Travitzky from Safra Bank.

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Fernando Passalio

Well this is a topic that was on the headlines for the past few months. This is an initiative of our Senate Representative and President, Rodrigo Pacheco, and we know that there is high debt from the controlling shareholder, and the Governor always says that the state cannot be that indebted neighbor with five BMWs in his garage.

So we have to be responsible for the public figures, and there is a deficit there, but the fiscal recovery regimen is the only option that we have. Well, still is being discussed. We don't know if we are going to have a feed or if, this is going to go, something going on in there, and we don't know what's going to come out, but we are still waiting for things to happen. But what we have today is a fiscal recovery system, which is the best option today.

The best option is always the one that we have. And we are in this fiscal recovery system and our idea is to remove this possibility and turn it into the regular system, because right now we are under an injunction and we want that to be regular.

Yes, federalization might be a way out, but after the law is approved, there is a journey that is a very long one, so that you can come out and realize, it is a public knowledge, you all know, about the Cemig's tagalongs that might discourage even from the federal administration, the sale of this asset. And really, we do not have that, second page is still being developed, and federalization will depend on the valuations if we come to that stage.

Anyway the IRF has to be approved, and if needed, we can move from that and go to Propag. And something else that we really see as a possibility is to turn Cemig into a corporation and then a hypothetic scenario.

If we would have federalization after Cemig becomes a corporation, so everything that I said here of maintaining a technical management that will be insured once in the diffuse control of the corporation, we end up having shares even with a greater value, we can discount our debt, and Cemig will keep on investing as it is investing and also promoting investments.

Carolina Senna

Thank you very much, Fernando Passalio. And now I would like to bring to the floor our CFO and IR Officer, Leonardo George de Magalhaes, and he's going to talk about our results in the second quarter.

Leonardo George de Magalhaes

Good morning, everyone. Thank you very much for being here. This is a very important moment for the company. This is the chance that we have once a year to be here with all the management of the company, RI, investments, and financial results, but we believe this is a single opportunity where we can be with you.

It's important to be here with investors. It's a very important moment for the company. We are having consistent results. It is very clear that the market is happy about the company's results, but this is very consistent for the past few years and we can seize this opportunity, and we want to talk more to you and be here available and be able to talk more about our strategy.

Let me talk about the results. Once again consistent results. The company in the last years was sometimes 5% lower than the market consensus and sometimes 5% over. This is very consistent. That makes a big difference and this allows us to have consistency and robustness in our results.

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And we have interest equity in another quarter, over BRL430 million in June, without considering the extraordinary dividends. We are among one of the main dividends payment company and with the additional dividends that we have posted in the last month, clearly this is, we are clearly the highest dividends paying company.

Also we have here BRL1.9 billion operating cash generation. We will talk more about that and in spite of results being in line, these non-recurring positive events are not neutral, they will be generating more cash to the company or they have reduced the company's risk related to some topics that were in our balance sheet, so we strengthen our situation.

We believe that the non-recurring effects, and this is a huge example, they come from actions of the management that have generated results and reduced the risk, and as a side-effect, that also improved our base for dividends, payment.

And finally investments that were posted in the tariff review, this was a very important one, we can highlight that. And further on we will be hearing the opinion of other Directors. Maybe Marco Soligo can talk about the tariff review. We doubled the base for Cemig transmission to BRL2.6 billion.

And in this quarter, we are in the process that all transmission companies that have similar basis to Cemig follow, which is to reconcile the cash flow that was approved by the approved regulator and the cash flow that we use in our projections when we invested and registered these assets in our balance sheets, in our financial statements. We think this is a fair review. All our investments have been accounted for and we do have the capacity of doing investments at a very low cost.

We have a scale and we are very optimistic and we are reconciling here to check the effects of this review and they will be accounted for in the third quarter. So we are in this work of reconciling investments, but we believe this was a very positive tariff review for the company. Then we'll talk more about transmission investments. They are very relevant with a return rate that we understand to be very attractive generating value to our shareholders.

Now, moving forward, this is our investment program. Reynaldo talked a little bit about this also Marcio and Fernando Passalio about our investments in the past few years. For investments here, you can see, we are very much in line for, we have invested in the first quarter, almost 40% of total investments for the year and we have a catch-up in other businesses.

But even with investments in generation that is lower than what was forecasted, we are confident that we might be doing investments that were higher than our target. I think we are going to reach the BRL4.4 billion. And also in transmission distributed generation, we believe that we will be meeting the forecasted for the year as well as gas and a little bit less in generation because I think part of this investment might be transferred to 2025.

But total, we should be investing close to BRL6 billion this year, very relevant when we consider our history, we used to invest, we invested BRL1 billion in 2018, now we are going to invest BRL6 billion in 2024, but when compared to last year, we see 40% higher. So the company adjusted itself to the level of investments that is much higher than what we had in the past. And as Reynaldo reminded us, part of this investment is already contracted.

Now, moving forward, here we have consolidated results for the second quarter. As we mentioned, consolidated EBITDA almost 30% higher than last year, including non-recurring items, and in line with last year, both in the net profit as well as in the EBITDA when we exclude the non-recurring effects.

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And last year, the trading company results for a lot of reasons, it was very positive. It's still positive this year, but last year, because of the convergence of factors that were positive, it brought exceptional results, allowing the non-recurring EBITDA to be close to 24 to 23, but it's good to highlight the recurring as well. So the review of profit sharing distribution, we were able to revert BRL600 million because we still already have a chance of winning BRL800 million that are provisioned in our balance sheet.

This is, also thanks to the actions you have taken, the volunteer dismissal program, almost 400 employees that enrolled in the program, that also have a very quick return in less than a year. We can have the payback of the program with the employees that are here for longer, they will receive indemnity and then when we can hire employees that are beginning their career with lower wages and here we recycle our team. It helps changing the company's culture.

We believe that this is a very important investment. Now, the issue related to PASEP, PIS, and Cofins, we have returned the BRL6 billion in fiscal gains that we had in this lawsuit, and with this refund, we were able to reconcile our updating criteria of that obligation. Therefore, reverting BRL400 million, that refers to net profit of BRL271 million.

Another non-recurring effect that is significant. There is a lawsuit that involves trading company with a large client and we are appealing, but we have provisioned in this quarter, but we did not give up. We believe that we might win it back and this is the update that can generate the cash. Cemig few years ago appealed against the criteria related to workers' legislation.

This is the workers' meal program and just now we were awarded that lawsuit. So these are neutral, they're not neutral, they are positives as well, and also they hedge because of the FX went up in the last quarter. We did see an effect in our financial statements. And remember that the company's hedge has to do with the bonds that have the final installment of BRL380 million now at the end of the year.

Now moving on costs and operating expenses. If we remove the voluntary dismissal program, our obligations were up 1.7% a year when quarterly-on-quarterly comparison lower than the inflation. And as Reynaldo mentioned here, expenses for third parties also our services are improving or increasing actually and this is our concern of really serving the clients.

We see the society now is demanding a better service and our challenge is to spend on the right place, to spend more in the maintenance operation and less in other process, in a way that the company's costs are still disciplined, growing in a disciplined fashion, with no pressure in the operating efficiency of the company and improving quality of service to clients.

And at the same time, also related to financial obligations. We have over BRL200 million expenses last year. We are working internally to reduce those. That means that with investments we are able to reduce our financial compensations because we start providing better quality services.

And then we can also decrease the fees that we pay to clients. Therefore, we were able to bring down in six months around BRL38 million in fees related to regulatory compensations and this is because of ANEEL Resolution 1000. This is important and we are continuously working in reducing these indemnity penalties. This is the cash flow of the company.

We generate a lot of cash and we have a lot of investments to be made. We generated BRL3.5 billion in this quarter, and this half of year, between BRL7 billion to BRL8 billion of annual cash generation. This is what we generate in terms of cash annually and we ended the cash with BRL3 billion in the first half of 2024, but we will be using that in our operations and investments that will be done for next month.

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This is the consolidated debt profile. This is close to one-time the EBITDA, but in a constant fashion. Now, we go to the market, we have to bring funds to the market. So we went to the market to look for resources and our distribution generates between BRL3 billion to BRL3.5 billion in cash generation annually.

So we have investments of BRL4.5 billion. That is, we are going to source funds from the market constantly. This is already increasing and it will be increasing up to the next review, close to 2.5 times in 2027.

But we believe that we are very comfortable and our objective now is to turn the debt profile more adequate. There is a more concentrated growth in '25 and '26. And we want to turn this average term of data that is more adequate to the upcoming issuances with -- and this is the company's objective.

This is Cemig's D results. With a good result, we will look at the next slide, volume of sale of energy. But we see that in regards to the prior quarter, these results were great, whether including recurring events or not, that's a good result. And there was a month here where the results included the tariff adjustments that happened in May 28, but we understand that Cemig D is at another level now.

It had an EBITDA close to BRL1 billion in 2018 and now it's an EBITDA close to BRL3 billion, BRL3.5 billion. Without considering the ramp-up that we will have in 2028 with a tariff review, this is the energy market. We grew 2.9 even with DG growing 33% and we had an improvement here of 2.9%. If we exclude DG, the market would grow more.

The Minas Gerais market is not as elastic in terms of temperature like Rio and Northeast, but even then it was a significant growth. But you can see that transported energy improved to 6%, a small reduction in the capital market. But even with the residential growing 7% and the other classes being reduced because of the competition of DG or GD and also retail market.

But even then, in a total, our market was a market that we understand that had an improvement in 3%, and even with the pressure of GD, it was a relevant growth. This is our operating efficiency. Considering non-recurring effects, it was 22% lower than regulatory one.

But even excluding non-recurring events, we had OpEx within the regulatory OpEx, 2.4%. But remember, last year the EBITDA ratio here is 10% lower than regulatory. We mentioned at the time that was temporary and our commitment was that within the year we have our EBITDA that is higher than the regulatory and that 10% gap is already down 2.4% and we believe that for the next quarters, we'll be able to have an EBITDA higher than the regulatory one as we have done in the prior year since 2021 and OpEx also under the regulatory limit.

This is a commitment and they are very important for us. We want to be within the regulatory coverages. And even being a state-owned company, we have some extra costs that private companies do not have, such as post-employment benefits. That's very specific for the company, we pay that. This brings an additional expense to the company, but even with these additional costs, they are covered by our tariffs.

Here we have Cemig GT results. Once again, last year was an exceptional year for the trading company, but even excluding the non-recurring effects, we see that the results were very close in '24 compared to '23. And last year, as we said, was the year where we had energy restriction in the Northeast, therefore we were short in the Southeast market.

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We were able to acquire energy at a very low price and that increased the margin of the trading company. In addition to that, the contracts with clients had a greater margin than this year we had already announced that to the market. And the prior year, Cemig Day, when we presented the margins for the next years, we're already showing that 2023 was an amazing number. 2024 also would be a great number, but not as in 2023. Of course, Cemig today is a trading company that when compared to the market is an outlier.

We have superior results when compared to the average of the market. Considering the company's expertise and also our characteristics of being not only a peer-trading company, but also being a generating company that allows us to have margin levels much higher than our competitors.

Here we have our EBITDA per segment and this is the beauty of being a company with a number of businesses and we'll talk about gas in the next slide, but this was a quarter that was very good for distributing company.

Generation was basically in line here. We transferred here the contracts for the trading company, which had a lower result than last year. Last year, as I just said, had an exceptional result, but we believe that 143, if we were to annualize those results, we would have a result that would be over BRL600 million, but first quarter was much higher than that.

We believe that the trading company will be delivering now results that are very positive as well. And then our Gas business, we have a worse result, 7.1%, but here there are two factors. One, the industrial market had a reduction because of a big customer of Gasmig, reducing their consumption and this affected the Gasmig revenue and the regulatory assets are off balance.

This is called compensatory parcel. It's out of the balance sheet. And last year they were able to offset that to build BRL24 million of this regulatory asset, which made the result last year to be higher, but annualizing it, the EBIT is greater than BRL900 million, which is extraordinary, a great result.

A company that is not leveraged, it is a cash cow. A company with a concession until 2053, with the whole market to be tapped into, and we are going to hear more about that, when we speak more with the VPs, the officers, and the CEOs of the different companies of the group.

Here we have the commitments. It's delivering on our commitments. This is how we are executing our strategy. I mentioned to some of you, if you access the Cemig website and if you look at 2021, the Cemig Day, our presentation in Cemig Day, if you look at our strategy and what we've achieved so far, you will clearly see that 2021 was not just lip service.

We did execute our strategy. We said that we invested in regulated assets. We said that we were going to invest in the distribution company, divest from distressed assets, where we didn't have any control, that we would get more operating efficiency, and we were able to deliver on all that.

These are the commitments achieved, the ones in progress, and the future challenges and opportunities where we included technologies for energy transition. We'll have an opportunity to speak more about this during this Cemig Day. So, to conclude, this was a quarter with very solid results for the company. We believe that we are continuously creating value for our shareholders. Thank you very much.

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Carolina Senna

Thank you, Leonardo. Now we can have a brief coffee break. Questions related to our results can be asked during the Q&A session with the whole management. So we can go back to any questions you might have. I hope you enjoy our Minas coffee. You can taste our special coffee break with Minas products. Thank you.

[Break]

We are back to continue with our agenda. Before we begin our next presentation, I would like to invite all of you to have your smartphones in the silenced mode. I'd like to invite our Vice President of Distribution of Cemig, Marney Tadeu Antunes.

Marney Tadeu Antunes

Good morning, everyone. Thank you for being here with us. We speak a little about distribution, putting it into numbers. Of course, as Dr. Reynaldo said, anything we decide to talk about, we could spend hours talking about. I'll be very brief.

Okay, so how do we operate, trying to be proficient in the largest DisCo of the country, with more than nine million consumers, 567,000 kilometers -- square kilometers of our concession area, equivalent to the size of France, bigger than Spain, with more than 20,000 people out in the field working to operate the system and how we look for operating efficiency, considering all of that.

Our first strategy was very much talked about here to be customer-centric, focus on the client. Client at the center of everything we do, optimizing revenue management, fighting losses, improving collection and reducing delinquency. I always say that for the DisCo, we have to assess losses together with delinquency, because one is related to the other.

If I do not disconnect and I start collecting from customers, we'll reduce losses, we'll be very effective in collection, but there will be a lot of fraud. So these two topics are interrelated and we have to be doing well in both indicators, increase operating efficiency, applying innovative and technological solutions such as digitalization of all of our systems.

And as established in our strategic plan, we need to induce the development of the State of Minas Gerais, increasing market size. In addition to improving the quality of what we already have, we have to be able to connect new customers to the grid.

BRL23 billion for the 2024-2028 period, BRL23 billion in investments and some numbers. 404 substations will end 2028 with 615, 19,000 kilometers of lines in 2018. By 2028, 21,950 kilometers of lines. And we have 3,500 kilometers of 69 kV made of wood. And we'll replace all of them by towers, increasing the level of voltage to 138, in other words, improving reliability and quality of the power.

Distribution network 551,000 kilometers in 2018. By 2028, 577,000 kilometers. And there's also the three-phase power, that's another program. Transformer capacity from 10,000 MVAs to 16,000 MVAs.

The substations are running at the same proportion of voltage and three-phase network, 130,000 increasing to 165,000 will reduce the single-phase networks. We'll close the alligator's mouth, as we say it, and municipalities with dual voltage supply, 667 municipalities increasing to 774 municipalities. All of the municipalities with dual voltage supply.

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There's an opportunity to rebalance load in an automatic way. In some municipalities that are small, sometimes they spend two or three days with a power outage. Because, we have a power outage due to storms, poor weather and landslides, problems in the bridges. So, we have to have dual-voltage supply and digitalization, so that we can reallocate the municipalities automatically. This will increase quality, customer satisfaction, and of course, the sale of power.

Smart meters will end with 1,785,000 smart meters. This will help us a lot in operating efficiency. I think to highlight is in addition to the advantages of customers being able to monitor their consumption and so on and so forth, we can reconnect customers online remotely.

If they pay the bill, I can reconnect them as soon as they request a reconnection. And of course, we can disconnect them remotely. If they don't pay, we'll get an order to disconnect them and they're disconnected. This will allow us to reduce our delinquency even further.

Distributed generation connections 152 units of mini DG. Mini DG to remind you is 75 kilowatts up until 75 kilowatts it is micro. So we'll end with 2,800 of mini DG. 377,000 micro DGs. 700,000 customers today benefit from some kind of DG and it is important to say there is a market loss, as was mentioned before. But we have actions to maintain a big market.

And we'll talk about energy transition to supply the agribusiness of Minas Gerais state. This is a big opportunity that we are envisioning. Talking about operating efficiency, which is our ultimate goal. First, delinquency, in the BRAD methodology that we follow and we benchmark with other companies, we are among the best companies of the country. We are in the top three with a ratio of 2.3 in -- 2.4 actually in 2024. And we can reduce delinquency with a single focus to how people use that 13th salary. We have a strategy for that. And our collection increases in the month of December. So in December of 2024, there will be a further reduction of delinquency.

And here we have our ARFA. Our Collection Building Index. In 2021, we increased to 98%, 99%. In some months we did better than 100% collection. And this allowed us to have a gain from '21 to '24 of BRL3.4 billion. Of course, there's a big strategy behind all this, so that we can improve our billing -- our revenue.

I would also like to speak about losses. Give me a minute, please. Losses, we are doing well within an acceptable limit. Loss is 10.85. In regulatory losses, in the last 12 months, we got to the range and we were able to be lower than the regulatory losses. We have to look for technology inspection and have strategy to achieve the target of losses.

Here, in June of 2024, there was an increase. And I can assure you that what increase here was not losses, but rather what we did not bill because we changed the billing calendar, given the adjustment we had in the month of May. So, there is this increase, they will be reducing by December. In December, we'll be within regulatory losses and this is our strategy.

Another example of operating efficiency is our revenue and collection and where the channels our customers use to pay their bills, we looked for lottery houses in more places. We developed new technologies such as PIX payment. This first column in June of '24, 26.2%, that's PIX payment.

In 2022, it was 7.6% and now it's 26.2%. We were the first company to accept payment via PIX. We worked faster to pull the trigger. Now we are 26.2%. In lottery houses, the light green, 42.6%. Now down to 26%. Why am I mentioning the lottery houses, because that's the most expensive revenue, BRL1.45 per bill that we collected. With PIX payment, BRL0.02.

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So make no mistake, this improved -- amount collected improved from BRL0.96 on average, now down to BRL0.64. So we get paid in any way on any channel. In one of our last insights, it is normal that companies do not pay a minimum amount. If it doesn't reach BRL30, they don't pay the bill, they pay the next month. The goal sometimes, and in this sometimes, reduces the amount collected.

Yes. What? What did you say? Actually, reduces the tariff. So, for this, we -- for these bills, we include a QR code and then they end up paying the minimum amount. This is one of the strategies that we adopted to reduce our average cost.

A big challenge we have is DEC. Reliability of power supply. This is a challenge. And why do we call it a challenge? Because we need to complete our plan of 200 substations to reduce DEC. Because we had a lot of features with more than 1,500 kilometers. Can you imagine running that kind of line when there is a power outage? It takes a long time. Sometimes we don't find the problem.

We have to inspect the whole line. Now we are adding automations in the system, such as the reclosers and we are working to reduce the size of the circuits. So in addition of being able to connect more customers, we improve the quality of power supply. But to do this, to build all of these substations, we needed to look for new models of substations. So we can build them faster. And this is why we have CESI and isolated gas power to allow us to do this in the timeframe.

But let me explain, DEC. 18.15 global DEC. This is DEC received by customers. So companies only talk about the regulatory portion of the light green hours is what is perceived by the customer. Because this is what our CEO demands. It is the customer at the center of all of our actions. What is their perception? So we are working to reduce overall DEC. Of course, always keeping an eye on the regulatory DEC. And we are doing quite well.

Another interesting point is the middle chart. So, let me explain. ANEEL, doesn't want the average general DEC. So what is this? At the center of BH, we have a DEC of four hours. But if you go at the extremes of the state, DEC is 40 or zero hours. And the customers pay the same tariff. Of course, customers will not be happy. Because DEC should be the same quality everywhere. But we know. We know how difficult it is to supply the rural zones. And that's why we need network automation.

So ANEEL established that by the end of 2024, 58% of our sets have to have a certain quality of DEC. And, in June of 2024, we achieved 61%. So this is BCA DEC. We are working according to our plan. The percentage of concessions of areas compliant with regulatory DEC.

In TMI, we are talking about 40,000 kilometers that we will be cleaning this year. We could go around the globe one time. It's huge. And of course, all of this will favor DEC. Another important data is that, in Minas Gerais, we have a lot of rural zones.

So we are sorting DEC, the average time of occurrences, we are sorting between urban and rural. In this chart, we can see that the average outer time was 10 hours, dropped to 9.31. And we'll get down to 9.12 hours or urban TMI 5.02 down to 4.29. So specific management to serve the rural zone.

And as was mentioned here, I think the Secretary of State mentioned, we had very -- we used to have very little preventive maintenance just in urban areas. Not us. We have a program called 100% inspection. In six years, we will be inspecting and executing maintenance across the network.

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This will help us improve the quality of service and the quality of supply. Here speaking a little about the DGs. DG units installed capacity 3.69 gigawatts installed for Cemig and we will have another 7 giga by 2027. So this is all signed contracts with customers. And these are DG 1. There is -- there are those benefits of the test.

So all of these clients, customers will be connected. We have the installed capacity, 12% of Brazil's installed capacity of DGs. Of course, the mini DGs were reduced. But the micro DGs continue, particularly with the new ANEEL Resolution 1098, which sets forth a fast track, which is connecting quickly, powers of up to 7.5 kilowatts.

7.5 kilowatt is a household with 1000 kilowatts a hour depending on the location, sunlight, the position of the roof facing the sun. So this will continue. So that micros will continue to be at an accelerated pace. But the mini DGs will be reducing given that the market is also growing.

This market, well, like I said in the beginning, we had regional hubs and this is an opportunity to serve the Minas Gerais agribusiness. We are doing some specific work here in these regions. We have already identified opportunities of exchanging diesel by electricity because we believe that's how energy transition begins. The customer needs to start their transition.

Later on, we'll have a speaker talking about this, but this shows the potential we already have and the projects that we are working on. BRL2.45 billion worth of expansion to serve these agribusiness hubs and contributing to the sustainability of the planet. So this market is where we want to grow. So we can fight the reduction in DG. So we have a possibility of keeping and growing our market.

We also heard about the Three Phase program. We had 6,000 kilometers built by June 2024. You see, our rural network is very single phase. 300,000 kilometers in single phase? This does not allow farmers to develop their business. They just do survival agriculture, not agribusiness.

Within a Three Phase Program in Minas will allow for that migration and we'll help them so that they can have a better power quality. Single phase causes a lot of imbalance and this causes some interruptions.

Our Mais Energia Program, this has been mentioned in 200 substations that we will be building. And here we have the official opening of the 100th substation that delivered just now in Pampulha Belo Horizonte with the presence of the Governor, Vice Governor, Secretary, Passalio. This was the 100th substation delivered. We have 110 substations already built.

And this is where I'll stop, within the time that had allotted to me. Thank you very much.

Carolina Senna

Thank you, Marney, for the presentation. We have time for two questions related to concession and distribution. Please state your name and where you work.

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Victor Burke

I'm with JP Morgan, Viktor. A question about this transition from single to three phase. The question is, will you have a write-off of assets? Perhaps these assets are not 100% depreciated. If there is a quick replacement, you'll have to write-off assets from the regulatory standpoint. How are you analyzing this, the progress of three phase supply?

Marney Tadeu Antunes

Well, this is an interesting question. This includes cables, isolators. We can understand that these networks since they are more than 25 years old, many of them, they are already depreciated. So we will not have that issue.

Also in overall planning, one of the items is to look for the most depreciated networks because that's where we have the most interruptions, given the deterioration of the lamp holes and all the equipment. So it's all under control.

Victor Burke

Okay, thank you.

Afonso Henriques Moreira Santos

Unfortunately, we cannot hear the question. I think this is an important point. Our average depreciation reduced to quite a lot. Indeed, our average depreciation reduced. And I think Leo presented this four times our reintegration quota. So we are working to eliminate those networks that are all those assets that are totally differentiated. Thank you.

Carolina Senna

Thank you, Afonso. Any further questions? All right, if we don't have any more questions, then thank you, Marney, for your explanation, for your presentation regarding everything we are doing in the DisCo. And I'd like to invite on stage a Member of the Board of Directors, Coordinator of the Innovation and Energy Transition Committee, Professor Afonso Santos.

Afonso Henriques Moreira Santos

Let me check my watch. Everyone says I speak too much and I do speak too much. So I can see very young people in the audience and I feel in the academia. I'm Professor of the Federal University. I've been an Advisor to Light for several companies. And I'm -- I've been a Board Member of Cemig for four years. I'd like to thank Reynaldo for the invitation to speak.

It's a funny thing, I feel nervous. I didn't expect that, but I hope to be at ease. So as a Board Member, no one told me to speak about the good things and avoid the bad things. I will tell you my view with the Board as an Independent Board Member. And that's why I was invited to join the Board.

So let's speak about Energy Transition. The Energy Transition and Innovation Committee has been established a year ago. I was with Reynaldo. We were having dinner and discussing a place to discuss this, and Marcio accepted it. I'm the Coordinator of this Committee. We meet monthly. Some regular and some extraordinary meetings.

And during that period, we invited relevant players in the Energy sector, also from aboard to speak with us, to bring us the new things and their opinions. For example [indiscernible] Skeen, Andre Clark from Siemens. From EDP International, sometimes online, sometimes on-site. [indiscernible] is a great name in Energy Transition of the International EDP. And this has been great interaction because it's creating a culture of Energy Transition.

But what is Energy Transition? What is Cemig's role on Energy Transition? We have to understand what Energy Transition is all about. Energy Transition, in my opinion, is a lot more than what we are talking about today. It starts with the first oil crisis in 1973. That's where Energy Transition began.

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It started with a big world crisis that promoted renewable energies. That's where it all started. That's where the technology began. We don't have a problem of having solar power, wind power, biomass, because we started technology development 50 years ago.

And it's interesting that Pro Alco program came soon after. It was a government program. We're proud of it. We talk about ethanol, we see bio-distillers spread all over Brazil and this is practically 50 years old.

But all of that was not born because of price or business as usual. We always have to have a driver, a geopolitical motivation driving the transition. And this is not in Brazil. In 1978, we had the PURPA, the US utilities line the US that created the compulsory purchase of renewable power or qualified cogeneration.

Never in Brazil did we have a compulsory purchase of power. In Europe, we had, in Europe in the year 2000 and in 1978, the most capitalist country in the world had the PURPA law. This was important for renewable power. That's where Enron, Duke and all of these came to existence. And they were very important for the free energy market.

Then we had the second oil crisis, consolidating that Chernobyl's accident led to denuclearization, which was then reinforced with the Fukushima accident in 2011. But Europe, Germany in particular, played a fundamental role, starting to denuclearize their system, which ended last year.

They started setting apart their nuclear power plants. Nobody believed that they would do it, but they did. So they started driving solar power, wind power in Europe. And in that movement, Germany introduced a new fact. Hydrogen as a way to store energy, as a way to regulate power variations.

In Brazil, in 1995, we had Law 9074, creating the market for renewables, providing incentives. It started with a 100% discount, the cost went down to 50%. And this became a fundamental factor for what we have today as the wind power market. We speak a lot of subsidies in DG, but no one has more subsidies than the wind power plants, because they still have that 50% discount, practically regardless of their scale.

And we are now living in the Ukraine war that is bringing and will continue to bring impressive transformations. Everyone thought that this was going to bring a huge crisis in Europe because of the lack of gas of Nord Stream.

And so Europe overcame the problem. It was quite impressive. With renewable power, with energy efficiency, with liquefied net natural gas and with stored natural gas, it was an impressive transition, which I have been following up close. And they brought new technologies with all that.

So transition, well, what we are living now, and I didn't mention this before, I didn't comment on a very important point, which is in 1990, we had the first IPCC report that starts bringing a new view to Energy Transition. They started talking about Energy Transition in terms of survival and because of the climate challenge.

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So what are the challenges and opportunities that we see? We have a tradition of thinking about fuel and electricity. That's how our energy matrix is built, that's how we look at the market.

But, in truth, there is a new factor now, hydrogen. And I'll be speaking more about it. But looking at fuel, normally the whole world structure is based on oil. Used to be coal, now it's oil. The IMF published a document some years ago, talking about the amount of subsidies going to the oil industry.

So in addition to this structural reliance, political reliance that we find hard to fight in terms of the subsidies, what is the challenge that we have to replace fuel, fossil fuels? It's a huge challenge, not so much because of technology, and it has been proven, we have an abundance of sources, not only in Brazil, which is huge, but in Europe as well.

They have hydrogen because it is one way for them to be energy independent, particularly based in this -- in Southern Europe, the Mediterranean region, that can supply the whole of Europe.

We have difficulty in fuels regarding transport. You might be wondering, what do you mean? Transporting fuel is easy. We have the gas pipelines, but it's a difficulty in replacing that network. That's why I say it's an average challenge.

How will we replace those? How can I introduce new fuel? How can I introduce biomethane, which is a fad now in Brazil? How will I introduce it in the grid? How can I introduce hydrogen? It's an even bigger challenge in Europe is working on that. They already have some market and technology solutions, but look interesting.

But the main challenge in replacing fuel lines in the final use. How do we replace charcoal in the steel industry? Brazil used vegetable coal in the steel industry, but this percentage is reducing because coal from Colombia and some logistic facilities have bring -- have brought coal at a reasonable price. And our share of charcoal is reducing. The last steel mill has severity in the State of Maranhao became carbon zero.

But this is the biggest challenge in my view. We have to look at the use. We have to consider decarbonization in terms of use, in terms of transport, in terms of the industry or agriculture, where we have an extremely high carbon footprint.

Electricity production, like I said, has no challenges except some marginal modernizations. We do have difficulty in transporting the energy, but when it's electricity, it's easier to do. We have to build transmission lines. But how can we bring electricity to a car? It's battery-powered. So it's a challenge how to transform electricity into something transportable. This is a big challenge.

Once again, electricity, and how this is going to go into the steel industry, and Cemig has a great potential, not only potential, but it has a great installed capacity. And the market visions correspond to 60% to 65% of steel being provided and supplied. We could say in 2035, it will come from recycling and this is a great market for the energy companies because it will be by induction of other technologies. So we would be a very electrified steel market.

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We can also think about hydrogen electrolysis to replace coal or charcoal and this is something that is very much discussed about. And as I said, hydrogen is the link between fuel and electricity. You can transform natural gas into electricity. You can transform charcoal into electricity, but you cannot do the other way around.

With hydrogen, you can. With hydrogen, you have an unified energy market for you that are from the financial market, that makes a huge difference. We will have an energy integration among the markets. We will be able to migrate throughout the markets.

Hydrogen has this important role, but it is inefficient. I'm not looking about energy inefficiency right now. If that were the case, we would not have an alternate current in the beginning.

We're looking for efficacy right now, bringing it to the use of where I want, when I want, and for whom I want, and hydrogen will do that, and we'll be mitigating these changes. Okay, very well. When it's going to happen, you asked me, I don't know, no one can say it right now. But this is the promise that we have, and we have to be on it.

When Marney talked here, I'm very happy about it, and I talk as a Board Member, but also consumer in Minas Gerais and a citizen of the state. The revolution that we see happening in the electric networks of Cemig is really amazing. First, because this network was not being worked on as we already said.

Second, because it's also following really modern standards, not only in the hard area, but also in the soft area. Director Milani is leading a Digital Transformation process that is extraordinary in this company. You cannot have Energy Transition without a prepared network and I'm not the one that was saying it.

The International Energy Agency last year was talking about the threats on Energy Transitions and threats are lack of network. There are 3,000 gigawatts waiting to be connected in the world. What's happening in Cemig is no different from any other problem anywhere in the world.

Obviously, this is a network company, a number of non-depreciated assets that need to be remunerated. So we do have a huge capacity to go into and it depends on network, not only expansion, but also updating it. This is the greatest challenge.

Our distribution network was outdated totally, and we're not able to manage the different energy resources and now we are preparing ourselves, as Reynaldo said, to do it by hiring Schneider system to manage all the modern and dispersed energy resources.

So distribution network states, if there is no network, we will not meet our decarbonization target regarding to the higher global temperatures. If we do not have the decarbonization, we might have to go back to using charcoal or gas, well needed actions. Of course, it all depends on investment.

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But this is very important that it can be applied to DG. We have an old regulation. All of us know that I was a Director at ANEEL. I participated in the regulation for years. They have been talking about a new regulation for the electric sector. For how long this has been going on at ANEEL, it never happens, therefore, we need a new regulation that is able to capture that and allocate it in the best way possible.

I'm not against incentives. As I told you, we had incentives in the US, in Europe, all of -- everyone does it, but the matter is a more reasonable allocation that will allow the market to be balanced. This is the main issue here. We are investing BRL30 billion in network, BRL30 billion.

That would be how much? $30 billion, $6 billion and something. And we're talking here about a demand of $600 billion of investments and network, not only in generation, but also a transformation, but strongly in transmission.

And here we have something that is very important -- important topic. We need supply chains that are safe and COVID showed how frail our supply chains are and we also need expert workforce. There is no qualified labor in the market and if our pension at Cemig is not faster, it is because we do not have qualified labor.

After the pandemic, it was chaotic, but now it's more or less balanced now, but it could have been, it could be much, much better. This is a great challenge, very well. Well, Energy Transition, this one that we are living through now, it means decarbonization and the best way to decarbonize is by using electricity.

We may use biofuels, we may have other possibilities here, but electrification is the way to go. This is a notable market to be worked on and that's what we have to focus, and production, as I said, challenges will be there, but this is not a huge challenge. We may produce abundant energy here.

Do you know how much in the 2022 auction, A minus 4? How many projects or the number of the amount of power registered at ATE, 75,000 megawatts, not including DG. So there's a surplus of energy. There is a surplus of energy potential for transport. Yes, for this one we do need a great change. And here, I mean, transmission and distribution.

We do need a huge change here. That's what we are trying to do at Cemig and that's what our executive management is leading the process, which is the digitization, so that we can have the integration, the integralization of the energy resources. And what I mean by that is, it's not me the distributing company, and you with your DG. No, we have to work in an integrated fashion, operating transmission generation, operating storage.

With that, we will be able to decentralize it. The A&S model was very nice, it lasted, but it is time to decentralize. And the distributing company needs to have the relevant role in the new operation, which is called Distribution System Operators.

We will have to have that and the main challenge, well, before that, change in the process, as I said, this is crucial, and this is the difference between energy efficiency, which is something marginal, something that will happen and improve over time and we have to turn into effectiveness.

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Sometimes I even have a lower power yield with energy, but I have efficacy, effectiveness, I can get the better product, I can generate the way I want. So this is the difference that we have to work on. And storage is a huge challenge because we have the intermittent aspect of the renewable sources.

We have, with intermittents, and we have only two ways to go, either store or we module consumption, which has always a thing forgotten in Brazil. In the meantime, the EOS manages a law since the 80s, so we also have to work on this. See that distributing companies in general, they have a reactive position.

It's very common to see that in the transition process. Sometimes they do have an opportunistic position. Sometimes from participant point of view and very much proactive in the intention a lot of the time.

So now let's look at our own point of view. There is a reactive example, which is the case of DGs, worldwide distributing companies were reactive in Brazil, 8,300 megawatts of DG last year. The wind, 4.9, solar utility scale for a 1,000. Really, you can understand, we lost control.

You do not need BNDES loans, you do not need project finance, you do not have anything to open, it's another world, and this will only grow if we have network as I mentioned. And this is the challenge that we have ahead. There's no use of being against DG. We have to be against the regulation we have right now which is archaic.

But we have to understand that the sun will rise, we cannot be against that guy that drank too much and that doesn't want to -- does not want the day to shine and rise. So the opportunistic position for Cemig and Marcus gave me these charts.

Well, the same thing that is happening to DG happened with incentive-based generation with a discount, same reaction. Marcus is representing DMS here and the trading arm. He knows that, but we were able to turn that into business.

So now our trading company is the one that is in the best position in incentive-based energy in Brazil. We have around 1,700 megawatts hour in our portfolio, right. Average megawatts, right. It's not hours, it's megawatt average, of course, and this is very interesting to see.

Wind has received so much subsidies that all trading companies will position themselves in the wind and solar have some room here, just as the same Cemig positioned itself regarding the certificates. This is not a Brazilian culture, but today we already have a relevant market. Cemig has not only the I-REC, but also the Cemig REC.

The certificates, right, by the government, and it is in the market. So this is an opportunistic position like I call it. Well, if that is going to happen, let's make the best use of it and we did, and the trading company results show that. This is a study we ran our group in Itajuba. This was for irrigation, actually, for the Agricultural National Confederation and we talked about Minas Gerais, where do you see the greatest load?

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Well, it is a metro region of Belo Horizonte, right, and the second one, probably the South of Minas Gerais or maybe Juiz de For a or the Steel Valley, but no, the second one is the region of Unai or Paracatu. So it is just as energy-dense as the metro area of Belo Horizonte. And here I'm not considering high-voltage consumers.

I'm getting the mass of consumers, just working with the average and low voltages. Look at how this -- the load is denser in that region, so when we go to the right chart, you see the cause and the explanation and the explanation is irrigation. And an irrigation that not only is a fact, but it also grows consistently, in a very clear fashion in Minas Gerais.

Now, leaving this region here, which borders Goias and going into San Francisco Valley, it is a fact and, with environmental crisis, with the global climate crisis, irrigation will become more and more important. And this is what I call the participative position, that is Cemig's position.

We found this fact, and as part of the investment of Cemig Three Phase, but also it opened in a specific area to bring in this client, which is Cemig Agro. Well, when I turn diesel engine irrigation to electric engine irrigation, we have 10 to 15 times lower emissions of GHG.

Yeah, I'm sticking up to my time. Well, so we have here something that is not going to generate carbon credits to Cemig, but it is crucial for the Energy Transition. Well, in the proactive position, we have a number of things happening and not as a relevant fashion yet, but we have the hydrogen center developed in Itajuba, which had the participation of Cemig, also there was ANEEL innovation program for green hydrogen and Cemig, I think, submitted three projects and then you can ask us with more details.

This is a challenging project because it demands an off-taker, which is very difficult. The guys from hydrogen say, well, bring me an off-taker and I will give you the world. This is the challenge. And the focus also on large transition clients and Dimas in his area are getting prepared for that. He brought someone that used to work at Usiminas to analyze this does make us an important factor for this transition.

And also we have the Serra da Saudade project. Marney can go into that. We are going to use here batteries and the effective use of distribution. It's not an R&D, it's an N minus 1 of support in that region, where we have irrigation development and the project is going very strong.

There are regions in which we will be adding batteries powered by solar energy and we will be catering clients and the large client that irrigates fruit. And maybe in the Minas Gerais triangle, which is the fruit region, it's Unai. Yeah, this is a fruit region, this area. They work with Unai irrigation for efficiency and they are going -- and Cemig is going to install solar generation with batteries to serve them.

Well, I lost myself in the slide. That's not here. But to conclude there is or there was a larger development of solar energy in Minas Gerais, this north region here, more or less in Janauba.

There was a large concentration of solar energy and there's no network, whether the base network or our own capacity for distribution in high voltages. So how can we move forward here? This is one of the ways of working with a large storage.

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And that large storage maybe could be a reversible plant associated to Itapeva's plant. Itapeva is Cemig's plant and we could build 365 megawatts plant and I could remove 0.1% from the reservoir and have a mega battery of 2,000 megawatts that would allow a solar expansion in this region of 7,000 or 8,000 megawatts.

This would be disruptive and this may happen and it only depends on regulations that is on the hands of ANEEL, depends on government initiatives, and it can be an amazing opportunity for Cemig.

This is what I had to bring to you. Thank you all very much.

Carolina Senna

Thank you Afonso for sharing with us your point of view as a Board Member and also your professor point of view about Cemig's initiatives. Well, I would like to, before I bring our Executive Management to the floor to the Q&A, I would like to know if you have any questions.

So I would like to bring to the floor to start the Q&A session, our CEO, Reynaldo Passanezi Filho also Gasmig CEO, Carlos Colombo; Iuri Mendonca, Cemig SIM's President; also our CFO and IR Officer, Leonardo George de Magalhaes; our Distribution VP, Marney Tadeu Antunes; our VP for Transmission and VP in Participation, Marco da Camino Soligo; Dr. Cristiana Fortini, our Legal VP and representing our trading area, Marcus Vinicius Lobato.

So if you have questions related to the company representatives that are here on the floor, do raise your hand and we'll take the microphone to you. But I will start with a question here and then I'll open the floor to the audience. Just a minute here so that everyone comes up to the floor. Very well.

Question-and-Answer Session

A - Carolina Senna

I will start with a question. We recently concluded the sale of Alianca, we shared that with you with the market, on August 13th. The conclusion was announced. So the question is for Marco Soligo, about the Taesa sale. We received questions and about the process, does it still make sense for the company to divest that asset, considering the fluid dividends that we received from the company?

Marco da Camino Ancona Lopez Soligo

Good morning, everyone. It is an honor to be here talking to you. The company has a strategic planning and the strategic plan is annually reviewed. Taesa sale is in this strategic planning. Therefore, we are working to sell it, to dispose of it, and to meet what is determined in our strategic planning and that's it. That's what I can tell you. Thank you.

Carolina Senna

Another question before I open to the general audience. I would like to introduce to you Carlos Colombo, our new CEO for Gasmig. And I have a question to you, Carlos. Today, you are Gasmig CEO and also you are the CEO of the Board of Directors, and you have been also been the CEO of the gas company in Rio Grande do Sul. So what can we expect from your management ahead of this asset right now?

Carlos Colombo

Good morning, everyone. It's a pleasure to be here. This is my first Cemig Day and I hope it is the first of many. If I were to summarize it, this is something that Reynaldo and Marcio have already mentioned, but we are here focused on the client's, the customer-centricity and this is a challenge that we have. I could talk about it in different segments. Of course, we wish to expand our network in other areas of the state, really bringing in more clients and also working on the existing network, focusing in our residential and commercial clients. That is where we find the [indiscernible] of our margin. It is a significant margin. That's a great challenge. But this is what we aim to do, to focus our clients so that we can expand our network and increase the number of consumers.

Carolina Senna

Thank you very much, Carlos. Next question is for Iuri Mendonca, Cemig SIM's CEO. So last year the company aimed to grow via M&A and your current growth project is by Greenfield strategies or are we going to continue with our M&A strategy? If you can talk a little bit more about the growth of Cemig SIM and what we can expect for the next years and what you can tell to the market?

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Iuri Mendonca

Well, good afternoon. Yeah, Cemig SIM in 2019, had that vision of public and private and we had a review in the strategy later on and so we show the integrity of our assets. We have Greenfield projects. We have 159 megawatts peak in the field and our objective is to reach 600 megawatts in the peak. Obviously, the market provides opportunities. We are also analyzing brownfields. Last year, we had an acquisition of 6.5 megawatts peak in an operation that started last year. So our growth has diversified, but we want to focus Minas Gerais reaching 600 megawatts peak up to 2027.

Carolina Senna

Next question for Dr. Cristiana Fortini. In this results for the second quarter, you all could see that we were successful in the reversal process for taxes and we have other amount already provisioned regarding the same topic. If you can share with us what is the success expectation that we have and what we have going on regarding this taxes topic? Just to add in this growth moment, we reached an operation of 224 megawatts peak, but also with the leasing power for assets, third-party assets, so that we could grow. It ends up contributing to the ecosystem of DG. And remember that minor GD is complementary to GDE and this Marney talked about this and micro GD is 78% of the market and mean is 22%, and I use my example here. I have self-consumption at home, but I do not generate the full capacity that I need. So I also have minor DG in the complementary vision. So this is the idea, the complementary understanding, complementary vision, not replacing a strategy here.

Cristiana Maria Fortini Pinto e Silva

Good morning, everyone. Actually, the legal area aims to foster the main businesses in the company and to try to obtain more efficacy gains and agility in businesses, and so everything that we can in a way add to the company's life or daily life and that will allow the strategic planning to be consolidated and that can turn a company into more agile one is in the expectations that the company has, along with its legal area, which is very much active. We celebrated that victory and we have other perspectives to be winners in other segments that will allow the company to be more agile.

Carolina Senna

And before turning to the audience, the last question is for Marcus Vinicius. So we always ask about supply and demand and the margins. We have an amazing result in 2023. Our results in the trading company for 2024 is really great. So what can we expect in the future? So, Marcus Vinicius, here is the slide so that you can talk maybe a little bit about our balance sheet and our results and what we can expect in terms of opportunities.

Marcus Vinicius de Castro Lobato

Very well, good morning, Carol. Good morning, everyone, and thank you for the question. Well, these results are, thanks to our volume of sales, that is increasing. We see that for '25, we even have a higher volume in '24 itself. And of course the different margins between purchase and selling prices. 2023 was an exceptional year. There was a combination of long-term strategies and opportunities in the short-term, our long-term strategies to have positions that we can bring to the market for clients in the long-term contracts. But we are always paying attention to the short-term movements. And this is what happened in 2023. We were able to arbitrate movements that were in the market. These opportunities are not recurring as they have been in 2023. So what we expect for the long-term, yes, is a reduction when compared to '23, but going back to normal levels and this is expected amount for the next years. Of course, there are moments where the results go up or go down, but it is a very interesting value for this year. And about our balance sheet, as you can see there today, we have our sales positions for '25 and '26 already contracted. And we are a little bit long for these years and because of an expectation of increasing prices from now to up to the next month, so we have been able to get the energy that is needed for the serving '25, '26, and '27.

Carolina Senna

If you have a question. Please raise your hand.

Bruno Amorim

Thank you. I'm Bruno Amorim with Goldman Sachs. I have a question about the distribution business. I'd like to hear from you, what is the strategy to monetize this whole investment that you're expecting for the coming years in the distribution business, your cost today is close to the regulatory level. I'd like to understand if you think there's any room for cost reduction and what are the other drivers you see to outperform the regulatory EBITDA and deliver an ROIC above the regulatory one. Thank you.

Reynaldo Passanezi Filho

Well, we are quite okay regarding including this whole investment in the regulatory base. And as we said here, the base is very much depreciated. For many, many years we invested less than depreciation. What we have today is a unique opportunity to modernize the grid and to add 100% to the regulatory base. And I think that Afonso put this really well, despite the loss of load given distributed generation, disconnection we've been having with the rural by replacing diesel oil in irrigation has offered us stable load. When you look at the load, I think, we are going to lose the load and increase tariff to consumers. But when we look, our load has been increasing a little less than 100%, of course, because part of it is in DG. But when we look at the rural areas, it's impressive the number of situations we still see running on diesel oil. When I have the Three Phase supply, I will connect them and I will allow for this replacement of diesel oil. And if you remember the comment by the Secretary, Minas increased our share in the GDP from 8.8% to 9.5% of GDP. So Minas Gerais as a state is growing more. So from the strict standpoint, I have a lot of peace of mind regarding including this investment in the base. Our last tariff review had zero disallowance. So I believe that this should happen again. And I understand that Minas state is growing more than the country, and we are bringing load by these replacements, particularly in the rural areas. And this theme that Afonso mentioned storage and batteries. That's a theme that is not in this strategic plan. But we will need to move forward in terms of this topic of power storage to deal with intermittence. And the DisCos should play an important role in the operation. And this is a topic that we'll have to discuss at the regulatory level, because it's an additional amount to this one, but which in my opinion creates a lot of value to society because it helps decarbonization. I can replace the thermal power plants by batteries and the batteries will be fed by wind, solar, DG power, not just using thermal power plants. From the standpoint of regulatory efficiency, I believe that we clearly have a goal of minimizing our losses. And I think that there's room for us to be below the regulatory target. And regarding PMSO, here's what I can say. We have to be very careful about the quality of spending. I don't want to have a PMSO absurdly below regulatory and detriment of the spending. The spending has to be well done. This was mentioned here. We were able to meet the regulatory levels, including preventive maintenance, which we didn't used to have. So the potential we have, the greater potential we have of PMSO. An I try to have a joke here. Let's see. This is related to legal liabilities. If we speak about post-employment. If we solve that, there's going to be a huge gain. It's a structural solution regarding post-employment. And that the joke here is that Cemig has a unique characteristic, which is the quote, unquote skeletons part is positive. So all of a sudden we find the provision that is reversed. So we don't have just skeletons or negative surprises that will destroy value. We have a number of positive surprises. We were able to solve the life insurance theme. We have just reversed a provision. Every now and then there are some bad ones as Leo mentioned. We lost the lawsuit in the area of trading. But we have a lot of positive things and you just have to look at the size. There is a big room for these structural topics to help us. And I know this is a probability, but the probability that we'll solve these issues is very high. It's probable in legalese.

Marney Tadeu Antunes

Let me add to that. Our investments. When we invest in a different technology, for instance, we review with our specific department the risks of disallowance. Serra da Saudade, for example, was mentioned here. The distribution company will have its first solar power mill and we'll have energy accumulator. We did the work with Roberta in regulatory, we consulted with NAL to see the risk of disallowance of that kind of typology. So we have a committee that meets monthly to evaluate all of these points.

Unidentified Company Representative

An additional comment to add to what Reynaldo and Marney mentioned. If we look at the success story of DisCos in Brazil, the players who are admired. Well, these are companies that invested in operating efficiency and did a lot of investments. Cemig, we mentioned before, in prior years, had a strategic option of investing less in distribution and investing in businesses outside Minas. Now we are catching up and this brings a number of positive effects. In addition to the natural market, growth was mentioned here. We have the demand to serve irrigation. This is a market that Cemig will be able to serve with these investments. And there are some byproducts of this investment. We can reduce operating cost. One example, we can invest in smart meters. We don't have to send somebody to disconnect the customer. We can disconnect or reconnect customers remotely. So that's a cost reduction when we can invest more, another positive, we reduce the value of financial compensations. We reduced those by 30 million this year vis-a-vis last year. And a good part comes from these investments we're making that will also contribute to reduce the level of fines and financial compensations that the company has to pay to customers. When we put it all together, market growth, greater regulatory coverage. You can clearly spend more with operation and maintenance because we're expanding the grid at the network. We will have a great gain of scale when we can keep the other costs under discipline. So all of these gains that the company has direct and indirect alike resulting from these investments will bring Cemig D to a whole new level of efficiency.

Reynaldo Passanezi Filho

And let me build on what our board members said. Infrastructure is essential for Energy Transition. We just saw this 600 billion to be invested per annum in network. We're talking about irrigation. But if I tell you that Brazil will lead Energy Transition and that we will attract data centers to Brazil, forget it. We need a lot of network for that. You know that today we have problems at A&S. So it shows that we need to invest in the network. In addition to the network being depreciated, we need the grid, we need the network to ensure quality and resilience. And to me, that's what gives me peace of mind that we won't have disallowance. And indeed, if we get the United States, they have a lot of data centers, and data centers are disproportional, they are life changing. And we've been working on that to be able to mention Brazil, to have Brazil seen as a locus for Energy Transition. If those who need clean energy come along with us, we'll need the network. And that's why we're investing upfront. We are leaving the network ready and on our end, we're also trying to attract more. But of course, this requires public policies. And I particularly see this as an extremely positive possibility for Brazil, an opportunity. Questions?

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Victor Burke

Victor with JPMorgan. Thank you for taking my question. My question is about generation. What has been the strategy followed by the company in renewing some concessions, Nova Ponte among them? What are the options on the table now? And what is your preference today?

Reynaldo Passanezi Filho

Your name?

Victor Burke

Victor.

Reynaldo Passanezi Filho

Okay, Victor. So the company is interested in three mills or power plants, actually, and this renewal work is done together with the federal government and the Ministry of Mines and Energy. There is always this dialogue with the ministry. The company has expressed its interest in maintaining the plants and in a regulatory way you can do this by renewing the concessions by quota. The company explained our demands that would allow us to do this. We could keep the plants, privatizing them, keeping 49% stake, but it really depends on approvals by shareholder's meetings, and the company is not working with that scenario or we could build a different solution with the federal government that would allow the company to keep the concessions. We are working to keep them. And we are talking with a granting power for this to happen. Would you like to add to that?

Unidentified Company Representative

Well, you see, there are four ways. One that we don't want to follow, which is fighting for them in an auction. We don't want that. I think that the past example is an example we do not want to repeat. So the first is renewing the concession by quota. And we sent the right messages, the official communications to the ministry. We expressed our interest in renewing by quota. And there are the two other possibilities, which are to keep 49% of the SPEs and sell 51% stake. We would keep 49% minority interest, calculating the rent bonus. And or if there is a change in the ownership structure of the parent company. If we change the ownership structure of the parent company, well, that does not depend on us. We had Secretary Passalio here, you have asked them questions. This could happen. And in this case, we would have guarantee of renewal, automatic renewal. Actually not automatic renewal. We would have to pay a concession bonus. But we would have to consider that compared to quotas, what is best. Perhaps I shouldn't spend any more money, keep it out of the free market and put it in the regulated market. The important thing, an important point is that we are following all of the steps. We send all of the communications in the right time. So now we have all of the options. We can renew concessions by quota, we can renew the SPE or we can renew if there is a change in the ownership structure of the parent company. What we do not want is to take part in the auction if it comes to that.

Carolina Senna

Yes.

Unidentified Analyst

Congratulations [indiscernible]. And I would like to understand what is the strategic view for the gas business looking at the mid to long-term, because we have seen some companies like Copel divesting in that area. They sold Compagas. And I would like to know, how does this complement the company's portfolio strategy and also considering sustainability, because Copel divested from Compagas based on the assumption that this was dirtying their energy matrix. So that's my question. What is the strategic view for Gasmig in Cemig's portfolio in the coming years?

Reynaldo Passanezi Filho

Well, our view is that Carlos will remain with us for many, many years. That's an indirect answer to your question. Well, number one, we cannot sell it, unlike Copel. Perhaps that's the first restriction. The constitution of the State of Minas Gerais does not allow privatization of electricity, gas and sanitation. The constitution even includes natural gas or gas distribution. I don't know exactly the wording, but there is a restriction in our constitution regarding that. And as part of strategic planning, we have an opportunity to have an IPO that means an IPO would preserving the control of the company. And we see that there are many possible synergies in the free market, DG, natural gas and trading. So we see as positive the synergy among the three businesses of the group. And I am a lot less negative regarding decarbonization and of course with a lot of respect for Copel, but it is a transition and natural gas replaces other fuels which are much more polluting than natural gas.

Unidentified Company Representative

If I may add. Of course, there is Copel's way or their journey, but we had the opposite. Energisa, they joined as gas and they participated in the distribution companies in the northeast. So I believe that there are many possible paths to be followed. It is important to remember that Gasmig is a distribution company, a network company. By chance, it distributes natural gas. It could also distribute other things like biomethane, green hydrogen. We have to be agnostic regarding how things can develop in Brazil. I think that this opens up a number of options for Cemig in the future so that the company can use us as a partner in this Energy Transition. Although the Energy Transition started back in the 1970s, we are still at incipient points in terms of the developments of biomethane, green hydrogen, biodiesel and many other options. I guess that this opens a lot of options to Gasmig.

Carolina Senna

Thank you. Another question.

Daniel Travitzky

I am Daniel Travitzky with Safra Bank. I'd like to ask a question about capital allocation considering that the company today has a leverage net debt over EBITDA ratio of one-time. You have been paying dividends in a recurring fashion. I just want to understand, how do you imagine that this will unfold in the future? What would be the projects that could require more? There was a question about renewal in the generation concession. Do you have any idea of how much you would have to mobilize in terms of capital for this project? In other words, how do you see the leverage of the company in capital allocation looking forward? Thank you.

Unidentified Company Representative

Thank you for the question. As Reynaldo and others showed have a big investment plan. This year, 6 billion. But when we imagine the 2024 to 2028 of 35 billion, we are talking about 7 billion to 8 billion investments. So the company has a lot of leverage now, but constantly we'll have to be going to the capital markets -- to the capital market to be able to fund these investments. So with this, our leverage, and we're talking about a ramp up of our leverage getting, as I mentioned before close to 2.5 by 2027, which we believe is a leverage that will grow sustainably. But at the same time, we won't be sacrificing remuneration to our shareholders. When we compare Cemig with other players in the sector, Cemig is at a unique position because we're positioned to make a lot of investments in the regulated market with leverage growing in a soft way getting to 2.5 by 2027, which will allow the company to take part in an M&A or a business opportunity, because we'll have room in our balance sheet for that at the same time paying good dividends to our shareholders. We believe that this is a winning strategy for the company. It's a unique moment for the company compared with other players. Some players are adding a lot of value, making a lot of investments, but with a higher leverage level than Cemig. Now we invest in the regulated market and the regulated system. So the company will be able to make investments at moments of imbalance in the free market, investing in the regulated market, maintaining leverage, growing softly, gradually and adequately remunerating the shareholders. And then you ask, will we have extraordinary dividend payout in the future at this moment? Like I said, I've told you before, our Board of Directors today will give -- they give a guidance for the company first to grow in a sustainable fashion. But perhaps in the future, depending on the investments, of course, the company will consider dividends, but the regular dividends of the company already placed the company as one of the biggest payers of dividends in comparison with other players in the market. Reynaldo?

Reynaldo Passanezi Filho

No, extra comments, perhaps say that if we divest and we have an extraordinary profit, of course, this will change this policy, just as we have always done with the case of Alianca.

Unidentified Analyst

Hello. Good afternoon. My name is Rafael [indiscernible] with BO Investment. I'd like to ask a question about the energy balance. Question to Marcus Vinicius. You drew my attention, your energy balance from April to now. In April, you have a short position of 230 average meg. And now in the presentation for August, you have longer the 138 for 2025, 168 for 2026. How come this happened? How can you explain it? How are you seeing all this?

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Marcus Vinicius de Castro Lobato

Thank you, Rafael for the question. Well, you see, like I said, our result depends on long-term actions and short-term actions observing market movements so we can have better margins, but also to protect the company. The beginning of this year, we had pressure on market prices and we had risk limits or thresholds that need to be met. So we kept observing that. As the year went by, we thought it would be better to close those positions and to be a little long for the coming years because we expect to have some results of these positions in the foreseeable future because we expect prices to perhaps increase a little bit more until September, October, but after that, it's the unknown. So it's all about risk management and take advantage of this ascending moment of the market. We thought it would be safer to reverse that. Thank you.

Carolina Senna

Other questions? Yes.

Andre Sampaio

Andre with Santander. Still on energy balance, if you could speak about this long position, do you see any more room, any need to purchase more energy to protect not only from the short position you had before, but also from GSF? And I have a second question about distribution.

Marcus Vinicius de Castro Lobato

Yeah, of course, we are observing both the position of the trading portfolio and also exposure of the generation company. So in 2025, this position is being built. Observing these two points, today, we have a slightly more pessimistic view of GSF. So we did some energy purchase for that. When we're observing, perhaps we might have to expand that regarding GSF for next year.

Andre Sampaio

Now, moving to distribution, going back to the question asked by Bruno regarding CapEx. In the renewal of the new concessions, I know that this does not have a direct impact on you. But there was a discussion about including the investments in the RAB and some companies interpreting to include RAB for quality. Could this have an impact on old concessions, old contracts?

Marcus Vinicius de Castro Lobato

Are you discussing this regarding the regulatory asset base RAB?

Andre Sampaio

Yes.

Marcus Vinicius de Castro Lobato

We are evaluating this and we have a consulting firm helping us with that to see whether it would make sense to join this new contract because our renewal have been done together with other distribution companies that have had their renewals, we are evaluating the advantages of joining this new contract format.

Vladimir Pinto

I'm Vladimir with XP. My question is in distribution. You mentioned smart meters. There's a perk of 1.8 million of those smart meters. What is the expectation by the end of the plan? And you mentioned that you can disconnect, but do you have any integrated strategy, for example, of closing a neighborhood, a city or region to have a totally automated grid for that region, city or neighborhood?

Reynaldo Passanezi Filho

Yes, we do have some strategies, for example, replacing the obsolete meters. But not all obsolete meters will be replaced by smart meters because of the communication difficulty. So we will limit a neighborhood to set up a communication network and we work with that strategy. Let me give you an example. We were going -- for us to put smart meters in buildings it's hard. So if there's an obsolete meter, normally all meters are kind of getting obsolete, so we exchange all of them. This is recommended. It's happening all over Brazil. Given the difficulty to access the meters in the buildings. The buildings are now replacing the doormen by electronic control of entrance, so it's hard to have access to the meters. So we go to these buildings and we replace all of the meters by smart ones. In some places, we still install regular meters. Today we have 400,000 smart meters. By 2028 that's when we will get to 1,800,000 smart meters. Today, we are the distribution company with the most smart meters already installed.

Unidentified Analyst

I am Bruno Rivera with [indiscernible] Research. Speaking about transmission and looking forward, how much do you believe you need to invest in reinforcement and improvements in terms of the potential, in addition to what you already have in approved investments?

Unidentified Company Representative

Well, thank you for the question. We have an investment of BRL3.5 billion from 2023 to 2027 for improvements and reinforcements. Reinforcements and improvements are a good business. They bring us a reasonable return on the investment and we work according to what is published. We immediately start a bidding process, as mentioned by Reynaldo, Afonso. We must do because we are a public company. So the bidding process takes more time. When we have the authorizations published, we make the reinforcements and the associated improvements. We don't make any investment if the amount of the investment is more than what was published in the requirement and the request. So in that case, we bring it to discussion. We just approved an investment of almost BRL400 million. The company has millions of depreciated assets and the lack of investment that happened in distribution in recent years also happened in the segment of transmission and also in the segment of generation. So as well not to mention that we are still catching up in these two segments.

Carolina Senna

Have another question? No. We are closing the Q&A session. We end the 29th Cemig Investors Day and I thank you all very much for spending your time with us today whether here in person or online. And I would like to invite you all to a delicious lunch.

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