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CMIG4.SA - Q1 2018 Companhia Energetica de Minas Gerais CEMIG  
Earnings Call

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## CORPORATE PARTICIPANTS

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**Maurício Fernandes Leonardo** *Companhia Energética de Minas Gerais - Chief Officer for Finance & IR and Member of Executive Board*

**Paulo Eduardo Pereira Guimarães**

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**Marcelo Sá** *UBS Investment Bank, Research Division - Associate Director and Analyst*

**Vinicius Tsubone** *HSBC, Research Division - Analyst of Latam Utilities, Oil & Gas*

## PRESENTATION

**Antônio Carlos Vélez Braga**

Good afternoon, everyone. My name is Antônio Vélez, Investor Relations Officer of Cemig. We'll now start our video webcast for financial results relative to the first quarter 2018 with the presences of our Chief Officer for Finance and IR, Maurício Fernandes Leonardo Júnior; our Chief Officer for Business Development, Daniel Faria Costa; Chief Officer for Distribution and Commerce, Ronaldo Abreu; Head of Corporate Finance, Eduardo Pereira Guimarães.

This webcast may be followed through telephone numbers 55-1-121-880-155 or 55-1-121-880-188, also through our website at [ri.cemig.com.br](http://ri.cemig.com.br).

For his [first half duration], we hand over the floor to our Chief Officer for Finance and Investor Relations, Mr. Maurício Fernandes.

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**Maurício Fernandes Leonardo** - *Companhia Energética de Minas Gerais - Chief Officer for Finance & IR and Member of Executive Board*

Good afternoon. I'd like to begin by thanking you for having time to follow up on our results. We have the pleasure to show you the results of our first quarter '18. We tried to incorporate the feedback provided by you in our presentation deck and important for us to improve our management processes and also conveying information to you in a way that is more understandable to you and also easier to follow on us.

Mr. Vélez will coordinate, who will show the highlights and will contribute at different moment. We have several chief officers here, and they are available to your questions.

Thank you. Let's begin by reading Slide #3. I will skip the disclaimer. We are going straight to the highlights of consolidated results. A very robust BRL 465 million of net profit in the quarter and more than 35% growth year-on-year. EBITDA cash flow operational, over BRL 1 billion, rather strong as well. We are already showing improved operational efficiency gains especially deriving from our voluntary disconnection program, retirement program, and that's down BRL 49 million over last year. Also, efforts to reduce borrowing costs that reduce the large amount of debt, and that meant some BRL 171 million in costs, borrowing costs.

Equity gain contributed BRL 57 million in the first quarter, and 2 important points. Perhaps, going beyond the results and challenges is the acknowledgment by the markets with regards to our improvement in credit quality. For example, Fitch upgraded our rating, national rating, by 3 notches, investment-grade. And as for the global rating, we have been upgraded 1 notch. At the same time, Fitch, as you know, reduced the rating of Brazil altogether, but we were improved one more notch. Standard & Poor's also upgraded us 1 notch in Brazilian scale, and we achieved investment-grade with them as well.

We keep our focus on the execution of the divestment program, as we'll talk to you about in more detail later on during this presentation.



And now to Slide #4, which should highlight our net debt -- or net profits rather increased by 35.9%. All the items here contributed to the improvements in the quarter from revenues, PMSO, other expenses, financial results and so on.

The noncontrolled costs are neutral, as you know, and they are just complicated as they are. And Cemig D have a major contribution in the things of really improving the results of the company on these terms.

Slide 5. We talk a little bit about electricity market. We are opening up here both the billed market and the Cemig GT market. The key information here is that by the figures, we can see that the economy is now in the upswing with the increases by 3% in transported electricity and the captive market in all lines of consumption.

Also, migrating free clients in Cemig D. Captive markets has slight reduction only. But it's neutral in the medium term for the distributor. And more than 8% increase -- 8.5% increase in the concession area, consumption very strongly reacting positively. We can say that the first quarter last year, we feel good count on Jaguará, Miranda and Volta Grande hydroelectric plants. Well, Volta Grande entered late February. We reduced 30% of Cemig GT's total power offtake, meaning some 700 megawatts. But with our very big efforts, we managed to improve our markets so that, that reduction is only 4% in that Cemig GT's market.

With regard to operational expenses, Slide 6. PMSO had a substantial reduction, 6.7% drop. In addition, we saw a reduction in several provisions, highlighting employment-law cases provisions, amounting to BRL 46 million and other provisions for losses on investments. That's the case of Light stakes and Santo Antônio stakes. Those grew only slightly while in the case of Santo Antônio, we even saw a reduction of BRL 43 million. That explains altogether the improvement in operational expenses. And with the exception of outsourced services, all the others that showed some increase like purchased energy, basic transmission network and gas, they are explained by the natural processes of the company.

Now on Slide 7. Cemig GT results, as I have anticipated, there is a slight drop in net revenues, 6.7%, but it's a small drop, as I said. If we compare -- if we take into consideration the 30% reduction in the assured energy that we have at the time last year. Thanks to our efforts to cut down expenses and also because the debt of company was minimized and also reduction of Selic interest rates, we have this BRL 350 million in the results.

Slide #8. Cemig D distribution results also came in very favorably. Reduction in contribution margin by 1.8% (sic) [8.1%] in revenues after the costs of merchandise, expenses with transmission, basic network and so on. This is the reduction that we, basically, deriving from the negative adjustment that we saw last year of about some 10% in average for the tariffs in supply and also reduction of 40% in the TUSD -- and the TUSD tariff charge reduced 40% that impacted the revenues. In spite of the PMSO substantial reduction by BRL 19 million, that was not enough to offset that large debt. Anyway, our net results in Cemig D distribution was benefited from the reduction in the cost of debt, the borrowing costs, and also with a lower Selic rate, interest rates, that's BRL 58 million lower in the first quarter '18.

Now, I'd like to hand over the floor to Paulo Eduardo. So he will talk to us about the debt profile of the company.

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### **Paulo Eduardo Pereira Guimarães**

Thank you, Vélez, and good afternoon all of you attending the conference. About Cemig's debt profile, I think this slide shows pretty much the substantial work that we conducted last year as we rolled over the debt and lengthened the amortization timetable. We have more than doubled the average tenor for our debt. And as you can see here, this goes well into the next years, with no substantial growth in debt profile that would lead us to having any concern.

In 2017, we had already reduced, and this first quarter, we have paid off another BRL 700 million of the debt. And that contributed a lot to the liquidity of the company.

This timetable is comparable with our cash generation, but even so, we will keep on reducing net debt with the funds deriving from the divestment program and just the way we see -- we can reduce the risk perception of the company and also reducing then also even further the costs of the debt. As you can see leverage indexes, investors are -- seem to be stable, and they should be coming down over the years as our debt is reduced.



And for the next page, Cemig GT, we can see that this -- of those maturing debt, we have some BRL 500 million already in our cash to proceed to the payment. And we have no major concerns about the remaining of the debt for the remainder of this year, given the cash that we expect to keep raising.

I'd like to highlight this 42% of GT index to the dollar, but that's not a source of concern because we have contracted a hedging operation last year and that the FX -- within a given exchange variation band. And that we have (inaudible). In nominal terms also, we have been benefited by the decreased Selic rates and the other indexes are also stable.

Perfil of Cemig D, we can see -- next page, we can see that our commitment for the remainder of the year are very slight. And we have issued promissory notes, and that meant rolling over the debt. We have raised funds in order to cover the debt that were maturing. And this would be the highlights for debt, but later on, we can go back to the issue of the acknowledgment by rating agencies in the case of our improved liquidity.

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### Antônio Carlos Vélez Braga

Thank you, Paulo, for the information and explanation.

Moving on to Slide #12, investments. This is the investment program of the company for 2018. As you know, Cemig GT, itself, was just small investment, just BRL 54 million. Also, talk about the transmission and also capital injections in terms of this investment by Cemig GT. Basically, it has to be -- it has to do with the reinforcement, improvements that means almost immediate return of investment (inaudible) Active returns and less captive investment. There's no competition. It's a great investment that we can do in this transmission to base its revenues. As for capital injections plan for this year, it includes Aliança Norte and Amazonia, the sub holdings of Belo Monte, amounting to some BRL 190 million; also Guanhões and some small investment of BRL 5 million for Itaocara. The transmission, we always have a big investment program that it will become remuneration as in the case of our upcoming tariff revision.

So the overall program amounts to BRL 1.6 billion, a little more. From this, in the first quarter, we have already realized almost BRL 270 million.

Slide 13 now. It shows cash generation. It's going very strong. We have reduced our debt and paid off some debts. We started from cash, a little above BRL 1 billion, and if we consider securities, we also had some BRL 2 billion -- yes, we had BRL 2 billion in December last year. And then we have the results in the provision, another items that do not affect cash. We paid the interest in the period on the loans. Well, we bought energy that have already been delivered, and we should pay it in the first quarter this year. That's why we have this reduction of almost BRL 720 million, that's for suppliers. And also there was some taxes to be paid, and this implies a reduction of liabilities. BRL 110 million that was what remains for us for shares of subscription. We completed that in March this year. Also, for the financing, we focused on paying off the debt that were maturing, that meant BRL 723 million for loans and debentures.

And for investments, the way we can consider the securities, then we reduce that investment. It appears as a redemption of financial investments. And this was a very strong quarter in terms of operational cash flow, and we focused on paying debts. And even so, we remained with a very robust cash flow of more than BRL 420 million availability, altogether, goes above BRL 800 million.

Now, let's talk about the improvements in credit quality. As for credit quality, it's obvious that the result of all the actions that the board has been taking. The most expressive of them is the Fitch Ratings and it's especially pleasing to see their acknowledgment. As we have discussed with you, we have been acknowledged by -- our efforts have been acknowledged by important players in the market, (inaudible) Fitch and Standard & Poor's and Moody's. They are all acknowledging that with their ratings. These results that we consider are very good results in the first quarter. It's not -- they are not a result of seasonal effects, but they are the beginnings of some results. They are the fruits of an alignment of the company with the minority shareholders and employees and the alignment of strategy and what really matters for Cemig D.

Why am I saying that? Because in our interactions with the market, it has importance of us discussing that and making it even more clear, now that Cemig has reached -- or has solved its liquidity situation, they are not -- some of you could think, "Oh, so there's no more need for divestment." No. This is an important pillar, but it's one among the others. What does it keep important? Why is it so important to build divestment? As we can see from the perception of risks from the market and the rating agencies, we could say that we are celebrating our achievements, what we acquire



from those, fully pleased as well as accommodated because of that, these results from operational performance and also divestments. Hence important of keeping divestments. They are happening, and they will keep on happening, perhaps with a greater emphasis at the first month that we considered the importance of liquidity. And from now on, the divestments, we will reserve even greater attention from us.

It's important to highlight that we are about to have this tariff review. That's very important for Cemig D. But it's not by chance. When that lag happens, we set up -- we are not pleased, then we set up [board meetings] twice a week, and we discuss all the efforts. And they did their homework. And in parallel, actions plans were set up for future improvements to be achieved. It hasn't stopped here. We still expect even greater improvements in that regard for some years, reducing the full -- achieving higher levels of satisfaction amount of clientele. You see that we launched important plants, but the reduction was less than 4% in available energy. So that showed the capacity we had to go for the market and to make up for that. And Cemig GT, reference, the benchmark for intermediating electric, electricity in the market. And on supply, we have those internal and external credit market already sending out to us some pretty good, positive signs. We have over BRL 400 million in Cemig GT involving first-rate banks. That's a clear sign of acknowledgment by the market of our efforts, and we expect to have further opportunities to bring to you every quarter even the results.

Some examples of our divestments. Cemig Telecom will be the next ball to play. By the end of this month, we should be announcing the auction proceeding. We have incorporated already Cemig Telecom. So it's much simpler process. There won't be a long, long time to get the auction being launched and the process being wrapped up. We could see here that we have negotiations ongoing with the Taesa or a combination of (inaudible) of other players.

About Santo Antônio, negotiations are being discussed, together with the Chinese group. This process shouldn't take too long either. It is either a go or a no-go. But that's a pretty acceptable timeframe. These are things that we'd like to give the you, saying that the divestment program keeps (inaudible) Cemig. There should be no doubt about it.

I'd also like to again stress that it was the real pleasure to us to welcome you in our meeting with the markets at the Cemig D and Cemig GT in the upcoming event of late May and again discuss anything that you wish pertaining to our business.

With that, perhaps, we could open up for questions, and statutory officers, executive officers are here to respond to your questions.

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## QUESTIONS AND ANSWERS

### **Antônio Carlos Vélez Braga**

Thank you. We will now start our Q&A session. (Operator Instructions)

Andrea Sampaio from Santander would like to make a question.

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### **Andre Sampaio** - *Santander Investment Securities Inc., Research Division - Research Analyst*

I have 2 questions. During the comments on the results, you referred to the new value for the negotiation of contracts with Santo Antônio. Would you have more details about that? Also, I'd like to understand the performance under Other in that diagram. We saw interesting reduction. Can you comment on that?

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### **Maurício Fernandes Leonardo** - *Companhia Energética de Minas Gerais - Chief Officer for Finance & IR and Member of Executive Board*

Yes. And the revenues from our negotiations with Santo Antônio, that's within the scope of MSFD. That was a reduction that was interesting both to Cemig resolutions and Santo Antônio. It comes in as revenue now because this is no longer an expense from now on. We'll review the CVA that we still have to collect. As for Other here, it's in a very pulverized setting, but we can provide perhaps more information. I'd like to understand

whether this will be recurrent or nonrecurrent, not very specific. No, nothing specific about that right now. Then yes, the cost will be considered at that magnitude. Yes, indeed.

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**Operator**

Mr. Vinicius from HSBC has a question.

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**Vinicius Tsubone** - *HSBC, Research Division - Analyst of Latam Utilities, Oil & Gas*

I have 2 questions about divestment. What's the strategy for Light? Is the process still open-ended? About Santo Antônio, negotiations have been resumed. I would like to know about your expectations on when it should be completed. Also, a question about cost reduction. I would like to know how much you expect to have in terms of the cost reduction with the increase that have adhered to the retirement program, early retirement program. I would like also to know the cost and term of this current operation.

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**Maurício Fernandes Leonardo** - *Companhia Energética de Minas Gerais - Chief Officer for Finance & IR and Member of Executive Board*

Thank you, Vinicius. I Would like to ask our Chief Officer for Business Development to talk about divestments.

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**Daniel Faria Costa** - *Companhia Energética de Minas Gerais - Chief Trading Officer & Member of Executive Board*

Vinicius, thank you for your question. According to what Maurício said, divestment is and remains a priority of Cemig. We are still working very strongly on the assets that we listed. As for Light, negotiations are still going. Forecast for completion within schedule. And now there is this visibility of energy and distribution, given the ElectroPaulo event that favors and may even speed up our selling process. A strategy already announced of selling the control over that keeps on going with even more positive outlook. Santo Antônio negotiations have been reviewed very strongly, full fledged. And that fiscal guarantees of 96 megawatts have been solved. The (inaudible) 88 megawatts, meaning BRL 1 billion in valuation -- part of valuation in terms of what have been adjusted between negotiators. This should be completed by July. Shareholders still see that as a priority. There are challenges still, of course, to be overcome. But this has been characterized as a priority by Cemig and the other shareholders that complete 51%. Did I say July? No. The transaction -- the negotiation process is planned to have been completed by the end of this semester.

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**Maurício Fernandes Leonardo** - *Companhia Energética de Minas Gerais - Chief Officer for Finance & IR and Member of Executive Board*

Thank you, Vinicius. As for your other questions, the early retirement program that Cemig has been developing in recent years is the minimum -- legal minimum. As the employee really disconnect from the company, he is entitled to 3 months of payment and other benefits. That generates 1 year payback. It depends a lot on the date of the retirement. But we can assume that the reduction can be fully seen as from next year in our figures despite we have seen 175 employees this year, as shown in our slide. This has been already a significant number because in '16, '17, we remember 2,000 adherence, and we will update with new admissions to the program. As for expenses, that's it. And as for the debt, promissory notes that have been issued in May into distribution amounted to BRL 400 million maturity 18 months, (inaudible) 51% of [CVI] (inaudible) 18-month term. Thank you.

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**Operator**

(Operator Instructions)

Marcelo Sa from UBS Bank has a question.



**Marcelo Sá** - *UBS Investment Bank, Research Division - Associate Director and Analyst*

I want to make some questions about Light and other specific government [state] assets. There was a proposal of changing the statutes, which would say in practice that new shares could be issued for Light strongly on that day. But then that was denied, and they wanted -- they said they wanted a follow-on. What has been decided about that? The articles of incorporation will be changed or not? And is this -- if it's not completed anyway, will they proceed to have a follow-on to reduce capital [increase trend] like from becoming, for example, state-owned company? That's my first question.

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**Maurício Fernandes Leonardo** - *Companhia Energética de Minas Gerais - Chief Officer for Finance & IR and Member of Executive Board*

Thank you, Marcelo. As for Light, when that discussion popped up with the increase in updated capital, this came along with a series of other proposals of adjustment, not just the increase of authorized capital. The meeting has been suspended by 22 May. And by then shareholders at Cemig will deliberate about that. But the message here is no moves such as a change in the articles of incorporation. And Light be taken in this regard with -- to our intention of selling majority of shares, stock holding of Light. We still believe that this is a good moment to exit the company. We are talking with our legal -- advisers. We've been working on this sale process, benefiting from this favorable moment, best moment to move out. And that's what we still think. The put option solution is one we could agree that our funds nowadays to cover any such need, it's different from 2017 in that regard. Well, that process is not simple to happen. Even if Cemig exercised the option and regained those shares, but there are also other market mechanisms to prevent that from happening. We are very -- following that very closely, and we are strongly working on the selling process that we are and watch out for any factor that could prevent our selling to happen this year.

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**Marcelo Sá** - *UBS Investment Bank, Research Division - Associate Director and Analyst*

Marcelo, well, there was an expectation that, any moment, you wouldn't get some bank offers, but that didn't happen. But we heard that one of the proposals you got was of the whole company, and another was just a distributor. Given that good moment, as you mentioned, in the market, do you -- are you focusing on the distributor more especially or are you thinking of selling the entire company?

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**Maurício Fernandes Leonardo** - *Companhia Energética de Minas Gerais - Chief Officer for Finance & IR and Member of Executive Board*

Going back to what you said, I'll rephrase what I said in our other -- I'll be even strongly rephrase what Daniel said. As for capitalization as it is in the Articles of Incorporation, forget about it. It doesn't exist. First, it won't happen. The meeting will happen on the 22nd, but I could be very objective here in saying to you, forget it. It won't happen. This, in any primary, secondary fashion, that won't happen. We will keep on doing what they have been doing and discussing in our meetings with transparency and objective. Again, that won't happen. As for your your put option, just erase it. That's not a problem. Write it out. That's not a problem for the company. If, by November, by any -- let's take the worst scenario. If we sold just 3% of the shares in the market, that option would be done with. So some things may dip, and it's not a problem at all. Simply, the proposal must be good, and it must take Light to a different threshold as we expect. Two things, fundings, we're not going to dilapidate our equity. That shouldn't be (inaudible) we don't want to sell. We want to sell indeed. No doubt about it. Just to say that we have no price list, not preconceptions about, oh, let's have this go-forward distribution, maximizing results. Well, if that's the case, why not? But just so to reinforce, this is our stand of divestment but without any pressures, frequencies, ideas. The increase in authorized capital secure that topic once and for all. Any change in the Articles of Incorporation to make the selling possible or augmented, that will be done. But a complete change that will obey the (inaudible) as it therefore, the selling. The selling process involves someone who makes an offer and the other party accepting that offer, in addition to other condition. Until that doesn't happen, the negotiation can't be concluded. All the alternatives are being considered for -- in that regard. Good way be sell it, just the distribution? Well, why not? But let's be practical about it. That window of opportunity won't be left open indefinitely. New target, the goal is to complete that first year. And if we have any possibility that could be bringing even better results, well, I think it won't happen within the timeframe we have. But how much would we expect until we get more elaborate proposals, meeting the CBM, the current exchange commission on deadlines? Well, we keep on talking to potential buyers, and our goal is to complete that process sometime this year according to the timetable originally established. About Santo Antônio. Well, the payment for the breaking down in park cash or as an extra account, giving -- taking into consideration contingencies, that would make sense to you as a business model. Well, this negotiation is complex. It involves several partners and



associates and different circumstances. And we cannot preempt anything as regard at this point, except that's different. That shouldn't be an interest on the buyer and the seller. Thank you.

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## Operator

(Operator Instructions)

Now we close our Q&A session. I would like to hand it over to Maurício Fernandes Leonardo Júnior, our Chief Officer for Finance And Investment Relations.

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## **Maurício Fernandes Leonardo** - *Companhia Energética de Minas Gerais - Chief Officer for Finance & IR and Member of Executive Board*

Again, thank you for your contribution and interaction. It's very important because it keeps us evolving. I would like to restate my invitation for this 29th of May. You should come in our Investors day in Tuesday, and we can talk more about our business. So this webcast is now closed. Would like to thank you all for participating, and good afternoon.

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