

Q3 2022 Energy of Minas Gerais Co Earnings Call

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Operator- Good afternoon and welcome to Cemig's Third Quarter 2022 Earnings Conference Call. We inform you that this conference call is being recorded and will be made available at the company's IR website, where the presentation will also be available. (Operator Instructions) I'd like to turn the floor to Carolina Senna, Superintendent of Investor Relations. Carolina, you may go ahead, please.

Carolina Senna- My name is Carolina Senna, Superintendent of Investor Relations at Cemig. We are beginning the transmission of the earnings conference call pertaining to the third quarter of 2022 with the attendance of Reynaldo Passanezi Filho, CEO; Dimas Costa, Chief Commercialization Officer; and (inaudible), Chief Legal and Regulatory Officer; Leonardo George de Magalhães, CFO and IR Officer; Marney Tadeu Antunes, Chief Distribution Officer; and Thadeu Carneiro da Silva, Chief Generation and Transmission Officer. For the opening remarks, I turn the floor to our CEO, Reynaldo Passanezi Filho.

Reynaldo Passanezi - Good afternoon, Carol and everyone. Once again, it's a pleasure for us to hold this conference call, with the opportunity of discussing with all of you, another quarter of consistent and solid results that Cemig achieved. These results are consistent, they're solid and they are -- they verify the suitability of our strategy. It's a strategy of focusing in Minas and winning making investments in the activities that we know in the territory that we know, which is Minas Gerais and doing that with financial discipline, discipline when allocating funds, and at the same time, seeking the highest efficiency. So the results once again proved the success of the strategy. So we'll start with investments. I believe you can see clearly the recovery of the company's investments, investments listed here on the screen adding up to BRL 2.2 billion year-to-date in the first 9 months. So if you look at it here, it's more than 2x what the investment was in 2017 and '18. You can see that in 9 months, we've invested more than twice as much as we invested on average in 2017 and '18. So I'd say this is a clear demonstration of an acceleration of the investment program. This year we will open in the distribution area more than 40 substations with a historical average of 6%. And of course, this has an extremely positive effect of value generation by increasing our remuneration base and as a result, increase the company's revenue. Also in generation, we have approved, and there's a slide about it, another 220 megawatt beacon investment projects. So we have a program that is being implemented, it's in implementation. It shows the numbers you saw, the BRL 2.2 billion. And we have new projects already enabled and all of them with strong value generation with clients associated. So here, we're talking about the approval of 2 major projects in photovoltaic plants, Boa Esperanca, with 100

peak megawatts and Jusante with 87. And Cemig SIM in distributed generation, more than 30 peak megawatts in investments in 9 photovoltaic plants. So here, we're talking about something that is coming of an execution of more than BRL 1 billion in this generation project. So as far as investments, I think this is the message to invest with capital discipline, with the adequate allocation in distribution, transmission, distribution of natural gas and in the regulatory market with known amounts, known returns and in distributed generation and generation always with capital discipline and already linked to the destination of that power to one client or many clients who are known. So all of this is already presold that is in terms of CapEx, now in OpEx, in operational efficiency, our mantra of being below the regulatory OpEx is something we have been able to achieve since last year. We are remaining below the regulatory OpEx, and that's our commitment. Our commitment is to always be below this regulatory OpEx and distribution and in transmission, and also below regulatory losses. And all that is to guarantee an EBITDA that is above regulatory EBITDA. So the capacity to generate cash through efficiency, and this cash is then invested in projects with a strong capital discipline and that will also add value to the company. So this is the overview of the strategy, a lot of capital discipline in the allocation of CapEx, a lot of efforts for the gain of efficiencies in operations and maintenance, and this goes for distribution, transmission where we know the numbers better. And our goal was to always remain below regulatory levels. That's the same for generation. And finally, the strategy is completed with our divestment process of leaving minority shareholder position that takes too much time of our leadership and that has also consumed too much capital. So that's the strategy that's also been successful. As all of you recognized, we divested in Light and Renova, reduced the stake we had in Santo Antonio, and this process will continue. So Carol, I would say, these are my comments in the sense of reinforcing what our strategy has been and is being to focus in Minas and win with a strong capital discipline, always seeking efficiencies and focusing our efforts on activities where we understand we have competitive edge and can generate value to all shareholders and obviously, to all stakeholders, to society in the sense of a public service of highest quality. These are my opening remarks.

Carolina Senna - Thank you, Reynaldo, continuing with our presentation. I turn the floor to Leonardo George, our CFO and IR Officer.

Leonardo George de Magalhães - Thank you very much for attending our conference call with the earnings of the third quarter. Reynaldo talked about the results that we believe and understand is consistent and talking about the Cemig has always been a reference in ESG practices, ESG is in our DNA and what we want to highlight this quarter is the issue of the renewable energy certificates that we believe are important certificates that we are distributing to our clients of Cemig SIM. It's the Cemig SIM REC that certifies the renewable source of our energy and that clients of Cemig SIM receive. And this improves the reputation, the value of this green energy that we're supplying our clients. The beginning of

electrification of part of Cemig's vehicle fleet and these new investments that we're making in Jusante and in Boa Esperanca, which are in compliance with our target to invest in renewable energies. This matrix is 100% renewable today. 97% of it is hydro power, but our expected investment is to change this matrix. It's going to remain 100% renewable, but with a share of solar power and wind power in our portfolio. Now moving forward, we'll get into the first -- next slide and talk about the results directly connected to the third quarter. So the highlights are on Slide #8, where we show that we continue transferring commercialization contracts to Cemig Holding, contracts from Cemig GT. This is a strategy we released to the market a while ago that we would be in a continued process of transferring the trading contracts to Cemig Holding because we understand there's a series of benefits there, and we remain in this process. And we've generated BRL 452 million in EBITDA in the first 9 months of '22 due to the transfer of these contracts to -- from Cemig GT to Cemig Holding. Cemig GT, we understand, have achieved great results. We'll talk more about it in a while, an adjustment for the provision for doubtful receivables. So we believe the methodology is now closer to the methodology used by the market in terms of provision and asset [down]. And we have also reached 9 million consumers. We're very proud of reaching this number, always focusing on quality and agility and service. And once again, our quality are -- our quality indicators are within the regulatory standards that we can say historically are the best indicators of the company. As for Cemig GT, the positive impact of our results due to an agreement related to our investment in Santo Antonio, where the company received BRL 200 million in its cash with a profit effect of BRL 136 million. Due to a negotiation with Andrade Gutierrez, it is about best credits. This effect was very positive. And there's always the foreign exchange effects that was the highest effect in the third quarter, close to BRL 1 billion and a negative balance of BRL 68 million in the third quarter. When we get into the details of the 9 months results, we see -- we understand our results are very positive. Adjusted EBITDA when compared to the year-on-year, we see that we have almost 20% of EBITDA increase. The EBITDA of the first 9 months is higher than BRL 5 million, and net profit adjusted for nonrecurring events is also very positive, 50% increase compared to '21. And another highlights that we'd like to talk about is that the profit for the year of '21, that is the base for -- the dividends was benefited by some nonrecurring events, the recognition of the effect of the renewal of concessions, the increase and the extension of concessions due to the GSF agreement that also led to a positive effect in the results. And this year of '22, even with the provision of the tax, Pasep and Cofins on ICMS that generated an effect of BRL 1.3 billion in our results in '22. Our profit is very close so the company's cash generation ability is great, and we understand that considering the results presented until November, we're very optimistic with the year's results and our capacity to pay attractive dividends to our shareholders. On the next slide, we'll start the discussion about the quarterly results with a little bit more detail. And I'll ask Carolina to continue with the presentation with more visibility in detail on the effects that have affected the results of the third quarter of '22.

Carolina Senna - Well, thank you, Leonardo. So moving on in the specific results of the third quarter. We continue to see the effect of the migration of the trading activity to Cemig A. The presentation is consolidated, but we always have this highlight to remind you, especially when we get into the Cemig GT slides, and looking at the items that affected the results, the nonrecurring items still have a positive effect in '21 with the reagreement of GSF. So excluding these effects, we can see that we had an increase in cash generation of 4.6% and recurring net income of 56%. As for the company's operational costs and expenses, when we compare quarter to quarter, we see an increase of 15.2%, especially related to post-employment due to the actuarial report that is annual. So this retirement benefits effect is recurring, and it has been increasing our cost and expenses. This is an important item for the company, which we have already addressed in the life insurance side, and we're working to address the other items that are part of this retirement benefits, the health plan and Plan A of the company's retirees. We also had an increase in personnel expenses. Our salary adjustment in -- at Cemig occurs in November. So November '21, we had the effect of 11.08% in the salary adjustment. And this increase affects the cost of '22. And we also had a onetime off increase in cost for investments in 2021. We also had an increase of BRL 55 million in third-party services that we say it's an important expense because it brings revenue to the company. Since the increase in this expense occurred due to greater investments in the quality of services provided, we are implementing the IBM system consolidated in all of the company's communication channels, which will bring improvement in communication with our clients as well as the expansion of the collection agents. Now for our consolidated cash flow, we can consider the company's operating cash generation was of nearly BRL 6 billion. This is extremely important for the moment we are able to deliver a robust -- the company's robust investment program as we released to the market in '21. We are talking about BRL 22 billion in investments in the state of Minas Gerais. We also had, during the year, the restitution of PIS and Cofins and the tariffs, payment of dividends and payment of loans without mentioning that or stressing what we mentioned before, with investment of BRL 2.3 billion in 2022 alone. So even with all these taxes, we're closing the cash in the quarter close to BRL 5 billion showing the company's robust cash generation, which will contribute to deliver our investment program. Now as for our debt profile, we can see that the company's leverage has been decreasing since 2018. Our leverage is below 1 time in the 9 months of '22, even with the increase of the cost of debt and remembering that we have euro bonds maturing in '24. So when we look at our debt profile, we already had the liability management in 2021 with a buyback of BRL 500 million. So there's BRL 1 billion maturing in '24, and we have already informed the markets that we intend to have another liability management process by 2023 with another buyback of BRL 500 million. So we're keeping track of the opportunities in the market to continue with our liability management. As for the results of Cemig D, specifically, this quarter, we already have an average increase of 8.8% of the tariffs, Cemig distribution results. Adjustment is in May, but there was a delay this year. So we do not see any effect of this adjustment in the third -- second quarter. The effect is all coming up now in the third quarter. It's important to highlight that looking at Cemig D's results, recurring, we had an increase in cash generation of 9.8%. Even with the loss to

GD and in this third quarter, we're closing at 6.1% of revenue loss due to the migration of captive clients to GD and in net income, excluding nonrecurring events, we have a recurring net income, growing 16% and within the effects and adjustments in this quarter, or the highlight of the adjustment of the PECLD methodology and the tax provision for the indemnity for time of service. As for the energy market for Cemig D, we can see that it remained flat quarter-on-quarter with a growth of transport and migration of captive clients to the free market and within captive, the reduction was biggest in the rural customers, but many of them migrated to commercial due to a reclassification of the registration head forth by ANEEL. As I mentioned before, GD impacts our distributor. We are closing the 9 months of the year at 6.1% of our market and even with this loss to GD, Cemig D continues to deliver relevant results for the Cemig Group. As Reynaldo mentioned, since 2020, we've been able to remain within regulatory limits considering regulatory EBITDA, regulatory OpEx. In 2021, we were also within the regulatory loss threshold, and this is very important, the commitment the company has with the market and with consumers. So by remaining within the regulatory limits, in addition to avoiding the loss of cash, we improved service provision. Since we carry out more inspections, we replaced conventional meters with smart meters, regularize illegal connections. All of these initiatives have helped us meet these limits for energy losses to remain within this regulatory targets set forth by ANEEL. As for delinquency, that's another very important topic at Cemig E distribution. We like to point the collection via digital channels. The digital channels have been growing in the company significantly. This change in the collection mix already represented until the third quarter of 2022, almost BRL 6 million in savings, especially the growth of PIX, P-I-X and automatic debit payment, our collection index of the accounts that we call ARFA remains very close to 100%. And on the delinquency fighting projects, we had 2 important points this quarter. The change in the accounting criteria, but most importantly, it's the reinforcement that we have in the collection tools. So with that, we are able to reduce this expense for the company. As we also mentioned, we are within all of the regulatory targets for Cemig D. We're below regulatory OpEx, above the regulatory EBITDA and also within limits in losses and as you can see, this is a commitment that our management has taken and is delivering, which brings excellent returns and improvements for the company. Moving to Cemig GT's earning results. When we look at the recurring results, we see a drop of 9.2%. But the third quarter, we had some effects that contributed to this drop, and a lot of them is the migration of Cemig GT's activities to Cemig H. This migration started in 2021. And in the third quarter of 2022, BRL 249 million were transferred in this from the trading activity to Cemig H and looking at the process to see a growth. So within nonrecurring activities that impacted this, we talked about it because H was also affected, which is the re-agreement of the hydrology risk in 2021. And when we look at the side of income, we also have the FX effect. Now this next slide, we have information about Gasmig. Gasmig Cemig consolidates 100% of its results, and we can see a reduction in cash generation in 2022, but most of it too to the smaller thermal dispatch from 2022 when compared to the 2 thermal power plants that Gasmig owns. So when we look at the Gasmig's results, it has been delivering solid results. We always share that Gasmig's recurring EBITDA annually is of around BRL 600 million. And this decrease

in 2021, as we saw, it was the poor hydrology year until the second quarter. So there was a higher thermal dispatch, and there was a higher demand for cubic meters of gas. But the recurring results continue to perform more than expected. And now for this next slide, I'll turn the floor to Leonardo George where we have the commitments that we made, and we like to reinforce it with the market.

Leonardo George de Magalhães - Thank you, Carol. So it's the last slide. As we can see, Gasmig, even with the reduction of power distribution, is still a good result. And here on this slide, we always like to present the commitments that we've made with our investors and stakeholders on the evolution of the company's management. We have the commitments that have already been met, such as Cemig remaining within the main efficiency regulatory indicators, financial efficiency and quality of the service that we provide to our clients. And partially met is divestment in nonstrategic assets. We've been able to divest at Light and Renova. We reduced our share in Santo Antonio. We understand that those assets -- most of this target has already been met and restructuring of the retirement benefit plan, we are halfway through the restructuring process. So in the short to medium term, we expect to present you with good news about the effect that this will have in our P&L. Digital transformation and technology investments, the highlight being our agreement with IBM that's already having positive effect in the quality of the service we provide to our clients. And the ongoing commitments are the renewal of concessions, that's something we follow very closely. We're attentive to the possibilities related to the renewal of our concessions, the (inaudible) have appointed the 2 largest ones. Our investment in generation of renewable sources, wind and solar, that's part of our strategy. And the retail trading aspect and the opening of the energy market in Brazil, where Cemig understands that there is an opportunity for value generation. That's what happened in the opening of the free market in the 1990s. And here, we believe it's another opportunity that Cemig has. And we're keeping an eye on it so that we can generate synergies and continue with our trading activities to be able to make the most of the opportunities when this market opens. So that's basically what we had to present a summarized earnings of the third quarter. We understand that, as we said, the results have been very consistent, and we are now available to take any questions that you may have about the earnings results and the company's operations. We will now begin the questions and answer session.

QUESTIONS AND ANSWERS

Operator - So our first question, Andre Sampaio, sell-side analyst, Santander.

Andre Sampaio (Santander)- I have 2 questions. The first about the level of leverage that really has decreased quickly, and I'd like to hear from you if we

could expect an increase in terms of payment of dividend, with this spaces going to be used for the growth in the investment plan? And the second question about the time line of what still has to be sorted. So we have the divestment process, and the solution of the retirement liabilities. If you can talk a little bit about the time line for these 2 items.

Leonardo George de Magalhães - Andre, thank you for your questions. About your first question, our strategy, we understand that we have a robust investment program for the coming years, as we believe most of them in the first years are investments within regulation in our distribution and transmission concessions, and we understand that the way for us to fund these investments in a sustainable way, maintaining our leverage close to our policy, that would be 2x our EBITDA. We understand that maintaining this policy of 50% of payout is the best option. So we understand that if we maintain the dividend payout of 50% as we have in our bylaws, where the important investments we're making in renewable energies in Cemig D and the transmission concession, we allow leverage to remain at levels we believe are adequate and this dividend that last year was close to 8.5%, the dividend yield. We believe this is adequate to properly remunerate our investors. So we understand that the strategy makes sense, investments that generate revenue, that create value, maintaining leverage in proper levels and paying dividends, 50% of payout. We believe it won't be more than that. That's not what we're planning. More than 50% of payout, we understand, but the 50% is adequate. About the time line, when we're going to present the results of the retirement benefit issues, we've been talking a lot about this for a while, but there are structural aspects that involve discussions with consultants, legal discussions with unions that represent the interests of active and retired employees. So this process takes some time. But just as we did in '21, we have already reverted the balance and the issues about life insurance, we paid 50% of the costs for retired employees that has already brought a positive result. In 2023, we believe we'll also have positive results related to the pension plan, migrating their participation in a new plan. We believe this is important. By the end of '23, we believe we'll be able to present these results. In our P&L and the retirement benefits involving pension plans, we believe that in 2023, we will start presenting positive results. Of course, it depends on how the negotiations go, but we understand that we have reason to be optimistic. So that next year, we'll start to see positive results already. As for divestments, as we mentioned before, some assets where we had more difficulty selling, we were able to sell such as Renova and Light. Now we have Taesa that we manifested interest in selling for a while. And we also expect that in the next year, we can accelerate this process. But it's hard to give you a forecast of when this is going to happen. But now we're talking about capital reallocation. The Taesa is a very relevant asset. It's a very good asset, a company with a great reputation in the market. And if we have the opportunity to sell those assets and reallocate the capital for our new investments, we understand that it makes sense, and it is within our strategy, although there is difficulty defining it now about a time line for this process, considering all the specificities involved in the sale of an asset of this size. I don't know if Reynaldo has anything to add, but

I understand that these are our basic assumptions on these topics.

Reynaldo Passanezi - I think that's it Leo. M&A -- M&A is not something that we can anticipate. But the fact is that all these assets, the decision to divest is public.

Andre Sampaio - Excellent.

Operator (Operator Instructions) If there are no further questions, we close the Q&A session, and I'll turn the floor to the company's CFO and IRO, Leonardo George de Magalhães.

Leonardo George de Magalhães - I would like to thank you all for your participation at our event. Once again, we understand our results have been good, and we are optimistic with the company's future. We understand that quarter-on-quarter, the company is delivering its commitments to the market. We expect that we will soon be able to hold our Cemig Day. We're defining the date and the conclusion of the strategic plan. We'll be able to talk about this strategic plan to the market in detail, seeking to show the market with clarity what our objectives are. We understand that in these past few years, we've been able to deliver a lot of our targets and commitments, and we're optimistic that we'll continue to do so in coming years. And for that, we understand that Cemig Day is an important day. It's -- when we'll be able to talk closer to the investors, all of the company's leadership, and we will soon be able to announce this date, and we would like to count with your presence there. Thank you once again for your participation in our earnings call.

Operator - Cemig's Third Quarter of 2022's conference call is now closed. The Investor Relations department remains available to answer any doubts and questions you may have. Thank you to all participants. Have a great afternoon.
