

Cemig - Q1 2023 Earnings Call

Operator

Good afternoon, and welcome to Cemig's First Quarter 2023 Earnings Video Conference Call. We inform that this call is being recorded, and it will be available at the Company's IR website, where you will also find the Company's presentation. Should you need simultaneous interpreting, the feature is available by clicking on the globe icon where you find interpretation on the bottom of your screen. By choosing interpretation, you can then choose the language of your choice, Portuguese or English. Should you choose to follow the call in English, you can also select Mute Original Audio.

Now, I would like to turn the floor over to Carolina Senna, Investor Relations Superintendent. Please, Ms. Senna, you may proceed.

Carolina Senna

Good afternoon, everyone. I'm Carolina Senna, Cemig's Investor Relations Superintendent. We now start Cemig's first quarter 2023 earnings call and webcast with the following executives. Dimas Costa, Chief Commercial Officer; Henrique Motta Pinto, Chief Legal and Regulatory Officer; Leonardo George de Magalhaes, CFO and IR Officer; Marco da Camino Ancona Lopez Soligo, Chief Participation Officer; Marney Tadeu Antunes, Chief Distribution Officer; and Thadeu Carneiro da Silva, Chief Generation and Transmission Officer.

For the initial remarks, we would like to turn the floor over to our CFO and IR Officer,

Leonardo George de Magalhaes.

Good afternoon, everyone. Thank you very much for being here with us in this conference call for the results of the first quarter of 2023. These are great results, very positive, once again another quarter with sound results. And in this initial Slide, we have some highlights for the first quarter. The EBITDA was very good BRL2.1 billion. This is a recurring EBITDA for the Company, 8% growth in the year-on-year comparison from last year, which was already a good quarter last year, and we were able to repeat in this first quarter this very good result.

A balanced portfolio. We understand that in this quarter, the Company and its several businesses, whether Distribution, Generation, and Trading, especially these three areas with greater potential to generate cash and results, and the results were indeed positive, over BRL1.3 billion and profit 5.7% up when we compared to last year, also good quarter for last year. Therefore, this allows us to be very optimistic for the results in 2023. We'll comment more on that on the next Slide.

And the divestment of minority shareholders is an important event in this first quarter. Actually, in the second quarter, we will draw your attention to that, the tariff review for our Distribution company in May 28th and then we would like to invite analysts and shareholders that are following of the Company. As soon as we have the results for the tariff review, we will have a video conference to specifically comment on those results. You are all invited. This should happen by the end of May. And also the reduction of post-retirement liability we'll comment more on that and that did have positive effects on the Company's results.

On this Slide, we talk more about our divestments. These are divestments since 2019 up to 2023, we will go over the ones in the first quarter of 2023. Santo Antonio, we sold fully that asset. We had diluted to 15.5% to 7.5% in 2022. We did not follow the capital increase in San Antonio. And then in 2023, we concluded the complete sale of this asset to Eletrobras. So, we

have a cash of BRL55 million incoming and also in our relationship with Eletrobras and other assets that we have jointly, which is -- which are Retiro Baixo and Baguari, and we also sold those assets and here are the numbers, BRL393 million for Baguari and BRL200 million for Retiro Baixo, and those two operations also depend on some approvals, but we understand they should be concluded in the second or third quarters of this year and then the facts will be posted in our results. And these figures will be updated according to the CDI of 2023.

And even more important than the sold, we had BRL2.1 billion cash inflow in the Company. We also should highlight that thanks to these sales of assets. In order to maintain that original stake, we would have to have BRL1.9 billion of cash injected in the Company. So, this was also savings for the Company. And more than BRL2.1 billion of cash inflow, we're talking about BRL5 billion in cash savings for the Company, thanks to these divestments that are fully aligned to our strategic guidance. And when we talk to the market and – and here of course, the BRL1.1 billion in tax credits and also positive the reduction of financial guarantees, PPAs releases also to purchase energy and as we mentioned, like cash savings considering that we will no longer be injecting cash into these companies. So, the assets that pose the greater challenges with greater complexity, we now can understand that in this first quarter, we have concluded the sale of these assets that had the greatest challenges we could say.

Now still in our investment program, a program of BRL5.4 billion for 2023. Last year, we invested BRL3.6 billion, and as you can see in this Slide, is much higher than the Company's average in the past few years. And we start the year with an investment of almost BRL800 million. And this is larger than what we were able to do in the first quarter of the past year.

So, the Company understands that it has adapted already to this new volume of investments. So, BRL750 million is much higher than what we had in the first quarter of 2022. And we are confident we here have relevant investments, especially for some Cemig Sim and Generation. And they should be happening, especially in the second half of 2023. But we believe that most of these investments should be concluded this year,- and these are profitable investments, then they will generate value for shareholders.

This is our ESG commitment that the Company is sustainable in this operation, 100% of its renewable matrix. We are in all relevant indexes in terms of sustainability, both nationally and internationally. And I draw your attention here to 1.3 million families that are enrolled in our social tariff program, that is a relevant figure and it is growing over time. And here we have a relevant social effect, a positive impact also in the delinquency reduction in the companies. So, we were able to bring down the electric bill for companies that have a lower income and that has a great social impact, and also financially, default or delinquency is very relevant for us and we get better results this way.

Now, moving on, I'll go into the results here. The main facts or highlights, we have a new health care plan, thanks to the restatement of that liability and some employees moved towards this plan where we did not provide that benefit to the enrolled employees for a healthcare insurance when this employee leaves the Company. And the initial effect was BRL57 million. And we are optimistic we believe we will see positive effects on the Company's balance sheet, thanks to this strategy to create this new healthcare plan. And this is the initial effect. Although when I understand, it already shows the initial delivery that we have been promising to the market to reduce the post-retirement liabilities that the Company has. And thanks to this number of actions that the Company is adopting, we are discussing this topic with the unions, with the employees of the Company. This is an initial effect, as I said it is relevant.

That efficiency and costs goes through the restatement of our healthcare plans and pension plans. And we understand we already have the first positive effect on the Company's balance

sheet. We transferred third-party contracts to Cemig -- from Cemig GT to Cemig H. And that is a positive impact, an average of BRL243 million in the first quarter from our trading Company. In the holding, it has tax efficiency, and therefore we can see clearly the results here. And these are really amazing results. And it was a great assertiveness for the Company to read the market correctly. And the strategy here really is to have the right analysis of pricing of energy in the future.

Now for Cemig D, we believe that we had a very significant growth 3.1%, when we compare the first quarter of '23 to the first quarter of '22. Even with the migration to distributed generation, that represents already 8.1% of total volume in our concession. This is going to be reviewed and adjusted in the market. But it was an important result in this first quarter in the year when we compare to the same quarter of last year. So, probably one of the largest market growth in the distribution market in the country in this first -- in the first quarter of 2023.

For Cemig GT, we had the effects of that, because of the mark-to-market of Euro bond and a positive effect of first '23 of BRL60 million and a positive effects in the first Q of '22 a gain of BRL255 million, but it's also under a radar, the liability management and the renegotiation of our debt, because of the FX exposure.

Now, I will talk about the consolidated results of some of our main businesses and I will turn to Carolina.

Carolina Senna

Hello, everyone. And thank you. So, starting with the initial results for the consolidated ones here, we have a recurring result for the EBITDA of 8.1%. We had lower amounts non-recurring this quarter, which was the sale of interest in Santo Antonio, we already talked about that. The restatement of the post-employment liabilities with the health care plan. And now, so the bidding that we'll hold for some SHPPs, that did affect the results and affects exposure every quarter, that affects our net income, and in 2022, the impact was positive. And we also had a positive effect on 2023, but a lower amount was because of the FX change.

When we look at net profit, and we removed the Euro bond factor, with a result of 5.7% positive, and as Leonardo mentioned, these are important results, showing the performance of the Company's initiatives and bringing results to analysts and investors and shareholders and as we mentioned, the commercialization, the trading activity, we started the migration to Cemig Holding - so BRL243 million left Cemig GT and are under Cemig H, our controlling Company and the consolidated results because of consolidating issues.

Now moving forward, consolidating operating costs and expenses. This is the performance of our costs. We had a growth of 12.3% affected mainly by personnel, the wages adjustments force, and maybe the database is in November, that's when we adjust by the inflation. When we compare the first quarter of '23 to '22, that's where we see the impact of the cost increase. And also third parties - outsource services, we did have an increase because the result here, it is because of more preventive maintenance that we already talked about that. And these costs tend to be higher.

Now because we are increasing our assets base. When we look at the investments that we have already made in 2022, that we're growing when you compare them to prior years and we -- what we have forecasted for 2023. We are investing in our asset base for the Distribution company and therefore we will have more preventive maintenance, and now so we will have

to maintain equipment to monitor clients and also increase the number of collection agencies -- agents.

Now, our consolidated cash flow, a strong cash generation for the Company BRL1.6 billion in cash generation. We are still having the tax credits that are being reimbursed to consumers in the next cycle with a tariff review and in May 28th, we'll still have a remaining amount. They are to be returned to be reimbursed to consumers. Also payments of loan financing and debentures of BRL444 million, and the divestment activity what we have already done in the quarter or investment activities BRL738 million, and we ended with a significant cash of BRL3.1 billion and that supports our investment program.

This is our debt profile. As Leonardo mentioned, we already worked -- we had two different movements of liability management related to Euro bond. But in 2024, we have a large amount of that in the maturity and we are working on this high wall that we have for 2024. Our leverage is below 1, but we understand that this low leverage will guarantee the success of our program, our investment program.

As we have shown in the second Slide, we believe that we'll have more than BRL5 billion investment for 2023. And we in terms of ratings, you can see Fitch's ratings and S&P, AA+ and Moody's AA.

For Cemig D, results that recurring growth in EBITDA. That is very good for the Distribution company. We still have clients that are migrating to GD and just in this quarter we had 8.1%. I will show you further on how the breakdown is for consumers. But even with this migration, with this loss of some clients from Captive to GD, we have this increase in 13.1% in our recurring EBITDA. Net income, there was a drop there, because 2023 we had a lower financial revenue with the fines in the energy and Itaipu monetary correction.

This is Cemig D, energy market we have grown 3.1%. You can see that transported or carried energy has increased. Also, we had an increase in the residential area. As I mentioned 8.1% of the total energy consumed for Cemig's concession today has already migrated to distributed generation energy. And it's important to say that these investments are allowing us to grow in the market, whether by free clients with the increase of the transported energy or because of captive clients.

As far as losses are concerned, we are within the tariff coverage related to regulatory losses. This is a commitment that we have with the market so that we continue meeting that number. We keep that number of inspections. Just this first quarter, we had 119,000 client inspections. We are replacing obsolete meters. We already replaced 97,000. And we believe we will be able to replace 6,000 of them in the year. We are replacing conventional meters by smart ones. And we also had the disconnection of 1,900 of illegal connections. And this will allow us to keep complying with the regulatory limit. And that is something that is a commitment for us, very important.

Now for delinquency. And this is important to show you how important the digital channels are for Cemig's collections. Our Instant Payment Methods PIX is growing. And we have a number of collection possibilities here. They have lower costs for the economy and our collection rates are very close to 99% or 100%, it's 99.75%. This is a guarantee of our methods. And as I said, especially because we are using these digital means. Delinquency, when we look at it, there was a reduction. If we started the comparison at 2020, the Company developed some initiatives to bring down delinquency. And we see here that 2023 compared to the first quarter of 2022, we had a significant reduction in delinquency, thanks to these collection activities improvement and also the improvement in accounting rules and evolution of the criteria

collection using machine learning. All of that is allowing us to bring down our delinquency and get to a significant number.

Now operating efficiency. This is something else that we have been able to achieve. And it's crucial for us, it's to be within the regulatory limits for OpEx and EBITDA. So, what I have -- have covered in my tariff is BRL1.05 billion, and I -- 12.2% more efficient. So, my OpEx has BRL931 million, and on the EBITDA side, my performance is 8% of the regulatory EBITDA. These are achievements that the Company is really focused in achieving.

Now Cemig GT results. And we look here and we see a reduction in the EBITDA and in our profit. But since we started the migration of the trading activity to Cemig H, part of that EBITDA was displaced. So, it is important to see that. When I move back with this displacement, if I analyze the first quarter of 2023, and we have BRL243 million under Cemig H, our controlling Company. Therefore, if I would bring that EBITDA back to Cemig GT, I would have reached an EBITDA in the quarter of BRL1.03 billion.

So, in an initial analysis, it looks like there was an operational inefficiency in Cemig GT. But that's the other way around. We are short for 2023. We did have opportunities in our trading activity and here we show efficiency with this activity and not profit. In addition to this displacement of this change to Cemig H, we also have the FX effect and in 2022, we had a positive effect that was higher than in 2023, which also helped it to this reduction of 25% in the IFRS net profit and in the recurring numbers, recurring net profit 6.6% negative.

Now the Cemig GT highlights. We are going to have an auction to sell 15 SHPPs and the minimum value of BRL48.2 million, it makes a lot of sense for the Company's strategic planning. We'll look for the optimization of our asset portfolio and also best capital allocation. And we are still focused on Minas. This year we'll have an important transmission auction over 6,184 kilometers of transmission lines with an investment of up to BRL15.8 billion. And six of the nine lots are going to be in Minas Gerais territory. The Company will analyze the lots that makes more sense according to our strategic planning, and will be participating in this auction with 100% Cemig GT.

This is Gasmig's results. We have already consolidated Gasmig's results in our consolidated results. And our EBITDA was up 41.2%. And that is thanks to a better price of the gas molecule, we had a margin increase which has contributed to this growth and a net profit of 76.4%.

And now, I will turn the floor to Leonardo and he will end with this final Slide, so that we can open with a Q&A, stressing our commitments with the market and investors.

Leonardo George de Magalhães

Well, this is something that we bring to you in all the quarters. This is something that we brought in 2021, our strategic thinking in our last Cemig Day. We're trusted as a strategic planning, our strategy. And we are being very much coherent. We are meeting everything that we promised. So, operating efficiency, EBITDA over the regulatory EBITDA. Our losses are under the regulatory limits. We have a good liability management. We reduced our debt from BRL1.5 billion to BRL755 million. And we expect that we can reduce even more our FX exposure by the end of the year. And also we are stressing our Cemig GT investment program. It is strengthening. And we believe it has a great social impact and for the economy also, we are offering more energy to the State. And these are also investments that will provide the right return, as we understand it.

Now in progress divestment of non-strategic assets, we already mentioned. The most complex ones have already been completed, it's achieved, but we still have a few assets that because of our strategy, it would make sense for the Company to divest them. We started seeing results of the restructuring of post-retirement benefit plans. And we believe that in the next quarters, we'll see better results. And we also we're making a relevant investment this year in digital transformation, IT and renewable generation sources.

And for future challenges and opportunities, thinking about our sustainability, we will have a growth in retail electricity sales. We are prepared and we continue preparing ourselves to be able to cater to this market, and to have a relevant role as we have in the free market. We are the largest trader for the end consumers in Brazil and we expect it to have this relevant stake for retail electricity sales. And also we have renewals of concessions on oil and also other plants that we will renew the concessions following the electric sector framework, that allows us to renew these assets under given conditions. This is it.

In summary, this has been a great quarter. And we are available to take questions that you might have on topics that should need a greater highlight or that if you have any other questions that you would like us to answer.

Operator

We'll now start the Q&A session. Please ask all your questions at once, we -- and then wait for the Company's answer. To ask questions, please send them via the Q&A icon on the bottom part of your screen. We'll call your name so that you can ask the question live. At that moment, a request to enable your microphone will pop up on your screen. If you do not wish to ask your question live, please let us know in the Q&A question and then the operator will ask the question out loud by reading it.

Questions And Answers

Carolina Senna

So, we will now let's start the Q&A session. I have the first question and I will ask to Marco Soligo to answer. The question is about the divestment entities. How are the negotiations with ISA that has the rights for purchasing into?

Marco da Camino Ancona Lopez Soligo

Hello, Carolina. Hello, everyone. Good afternoon. We are talking not only with ISA, but also with the market. Everyone knows that the Company wants to divest and that participation in that stake and we are working on it to finalize the process. So, we are having great conversations with ISA. We have a positive relationship with our partner, and we have an open channel to talk everything we want about this topic. That's what I can tell you right now.

Carolina Senna

Thank you very much, Marco Soligo. So, now let's continue with the Q&A session. The next question is for Thadeu, our Chief Generation and Transmission Officer, and it comes from Thiago an Investor. Good afternoon, everyone. What is Cemig's perspectives for transmission auctions this year? Several lots are in Minas Gerais state. Are you going to be aggressive there? And are you going to be more conservative there?

Thadeu Carneiro da Silva

Good afternoon, everyone. Can you hear me well?

Carolina Senna

Yes, we can hear you well.

Thadeu Carneiro da Silva

Yes, first thank you for this question. Yes, we are going to participate and we are going to be very competitive in the transmission auctions this year. Obviously, to guarantee the minimum return that our shareholders require, but we are not going to go crazy. We are going to work with a lot of synergies so that we can be awarded with these lots. We have as an objective at least one lot that in this auction that is going to happen in June 30th.

Carolina Senna

Thank you very much, Thadeu. And the next question is for our CFO, Leonardo. Can you comment if you're expecting new reversals in the post-retirement issue for Cemig regarding the health care plan? How was the migration of your current employees?

And also second question for you. We saw good result in Gasmig's EBITDA this quarter. Do you expect that to be recurring further on? And this question is from Julia, sell-side analyst, from Santander.

Leonardo George de Magalhães

Hello, Julia. Thank you for your question. About the post-retirement benefits, we understand that in an initial migration, that we allow the current employees to enroll that they could accept this new health care plan. Approximately one-third of the employees accepted this migration and this effect is posted in our balance sheet. We believe the company will adopt new actions so that we can keep reducing this cost. We believe that this new plan makes a lot of sense to employees and also makes sense for the Company. I think it is a win-win situation.

So, we expect that in the future, because of other actions that the Company will take, we will be able to reduce these costs, both for current employees, but then also actions that we are developing to invite the employees that were retired here from the Company to join a sustainable plan that makes sense and that reduces the post-retirement benefit for the Company, but also provides a good assistance for those that migrate to that plan. As mentioned, the migration for now one-third of the current employees, but we expected that this is going to be even more relevant in the near future.

Now, about Gasmig's EBITDA, really was a very positive growth in the market close to 4%, but also growth in the 15% in the molecule price adjustment, Gasmig could have BRL250 million in EBITDA in the first quarter of 2023. We are very optimistic about Gasmig's results. Of course, we cannot say that we will multiply that by four, but we understand it is relevant and we expect the Gasmig to have relevant results to grow its operations this year, and because also of these adjustments that we just mentioned.

Carolina Senna

We no longer have questions. So, I will turn the floor back to our CFO and IR Officer, for the final remarks.

Leonardo George de Magalhães

That's great, Carolina. I would like to thank you again for being with us in this conference call. It is a very positive result. We are optimistic about 2023. We always tell you quarter after-quarter that we are delivering sound results to the market and even our valuation, and now the appreciation of our shares show the trust that the investors have in the Company. Our IR area is available to talk to investors, to take your questions in case they were not answered in this call. Good afternoon. Thank you very much and have a nice weekend. Thank you.

Operator

Cemig's first quarter 2023 video conference call has ended. Investor Relations Superintendent is available to take further questions if you need so.