Q3 2016 EPM Earnings Conference Call (ENGLISH)
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Corporate Speakers

- Jorge Andres Tabares; Empresas Publicas de Medellin; Executive Vice President of Corporate Finance, Risk Management, Investment

PRESENTATION

Operator: Welcome to the Q3 2016 EPM earnings conference call. My name is Richard, and I'll be your operator for today's call.

(Operator Instructions)

The host and speaker will be Mr. Jorge Andres Tabares, Executive Vice President of Corporate Finance, Risk Management, and Investment of EPM Group.

Before I leave you with your host, let me remind you to take a look at the disclaimer of today's presentation that you will find at the end of the presentation. Now I will give the floor to Mr. Tabares. You may begin.

Jorge Andres Tabares: Thank you, Operator. Good afternoon and welcome everybody. We thank you for participating in our quarterly call. I'll start on page three of the presentation we posted on the website.

On relevant events of the quarter, we had liked that Fitch ratified EPM's international rating. The bases of the rating are fundamentally the same as the previous rating. We also completed the sale of our Isagen shares, for which we received COP1.48 billion. As mentioned before from that amount, we are going to transfer to the municipality COP600,000,000 in four installments between 2016 and 2019.

We recently received TIER International award in the silver category. We're very proud about this recognition, but it's related to the quality of the service we provide and the satisfaction of our clients. EPM was second, measured against businesses with more than 500,000 customers among 32 Latin American companies, and two of our subsidiaries, [Indec Incandillo and Vesurio El Salvador] also received mentions for their quality of service in the category of less than 500,000 clients.

Moving to page four, a view of the commercial power demand in the jurisdictions we operate highlight that in Colombia the consumption has been moderated. The annual growth rate is 0.6%; this in part due to the lower economic growth in the country, which is still expected to be around 2.5%, but also because of the campaigns from the central government to reduce energy at the peak of the drought season related to El Nino. EPM participated with 24% of the commercial demand of the country.

To key countries besides Colombia, Panama and Guatemala, both show healthy growth rates of 4.1% and 5.6%. And in the three countries we operate; Panama, Salvador, and Guatemala, EPM represented between 25% and 41% of the total local market, highlighting our relevance in those three countries.

Moving to the bottom, our Colombian distribution companies, the EPM Medellin company, or Metropolitan-Area Company, the demand grew by 0.2%, while sales in the northeast of Colombia grew by 3.5% and [Essa] in the north center of Colombia grew by 1.2%. In the international companies, highlight [Ensa] growing at 4% and [Acsin] in Guatemala growing at 5.3%. So the total picture of growth in our portfolio is still material and positive.

Moving to page five, this shows a very interesting dynamic because the countries outside of Colombia, all of them show a significant reduction in the spot prices of energy between 3Q 2015 and 3Q 2016, but Chile with a 44% reduction to $53 per megawatt hour, Guatemala with a 33% reduction, and Panama with 31% reduction. Opposite to that trend in Colombia, the spot prices increased by 32% to $111 per megawatt hour, mainly associated with the drought season and El Nino phenomenon.

These quarterly figures, these Q3 figures, show a unique view in the sense that it does not include the total payment from the insurance company related to the Guatape event, and hence, some of the figures are showing a reduction that we expect will show a slight increase if the insurance payment would be included. I'll expand on that later in the presentation.

Our Colombian generation totaled 9,784 gigawatt hour in the first quarters of the year. And this shows a 7% reduction from last year, but if we were to incorporate the loss generation capacity from Guatape that was compensated by the insurance company, we will be showing a slight increase in energy generation. Much less materiality, [Curao and Bogic] showed a slight reduction associated with the climate.

In terms of hydrology and reservoirs, it's important to see this information as we come out of El Nino season. And these figures allow us to expect a normal to low price environment in the spot energy prices in Colombia. In the top chart, we are getting close to average hydrology in the country. The aggregated system in Colombia is now close to 80% of the average historical figure. With EPM recovering from a significant gap compared to the interconnected system of the rest of the country, this is because at the beginning of the year and throughout June, rains were much higher in the eastern part of the country where EPM does not have our hydro project, but in the last month-and-a-half in our areas the rains have been healthy, and hence, we recovered from the gap, which shows in the chart between the blue, which is the Colombian system, and the green line, which is the EPM system.

In the bottom chart, when we look at the aggregated reservoir evolution, we show that EPM and the total Colombian system are very close now and close to 70%. This is as of October. In the last figure, the EPM system is close to 70%, while the Colombian system is close to 64% total reservoir useful volume. And this put us in line with EPM typical year. So with this, we expect that we're going to see 2016 with an average volume of water in our reservoirs and have us prepared to generate throughout 2017 without problems. We do expect that the first quarter will include La Nina phenomenon, and that will lower the spot energy prices on average for 2017.

Moving to page seven; wanted to show you the total water consumption for the EPM portfolio. EPM sold 146 millions of cubic meters of water, and that represents a 1.6% decrease from last year. That is mainly explained by the water savings campaigns that were implemented in Colombia in Q1 as the Nino season was becoming critical from the rainfall perspective. Otherwise in the smaller operations in Colombia, the growth is quite healthy, highlighting average [rejanales] with 5%, and [Iwasthemalamba] with 3%.

Looking at the international operation; in [Alasqua] and [Tofagasta], the regulated clients consume 29 million cubic meters of water, and that's 1% above the 2015 figures. Most importantly, the unregulated customers are showing a 17% increase, which is quite important because that underpins the strategy of the acquired company was to provide a top quality service to our regulated customers, but also aiming to grow the unregulated clients, mostly mining companies.

Most important product of all by far, which is Ituango, continues showing a significant increase. The total progress of the project as of October is 60.2%. There is a typo in the chart we posted online, which reads 54.4%. The figure is 60% as of October, 60.2%. The total CapEx invested in the project is $5.1 billion. In the year, we have invested more than COP900 billion. We are at 41% of the dam completion. We just completed the southern area excavations, and the spillway is now at 75% of progress. The relevance of this important degree of progress is that we're getting close to a situation in the project in which the unexpected events are less common, and that is the civil works and the installation of the equipment. I also should highlight that some of the equipment is already on location, diminishing the risk of logistics and transportation of the big pieces of equipment.

Moving to page nine, we wanted to provide you a highlight of the financing of the project which is frequently asked. As most of you may know, the financing strategy is 60% debt, 40% equity. And so far we have either contracted or are in advanced stages of contracting 48% of the needs for the project, which is COP5.5 billion from which we have [disgorged] to-date 57% of the money; so we still have about COP1 billion to disperse. COP2 billion to disperse from the project; more than COP2 billion to disperse.

On the bottom of the page, we are in negotiation, in advanced stages with Inter-American Development Bank for $550 million, 42 [Ango]. We expect some internal approvals by the Inter-American Development Bank in the next couple of months and finalize all the documentations to signature in the first half of 2017.

Looking at page 10, the macro scenario, I highlight three points. Colombia keeps showing high inflation, although it has moderated over the last couple of months. Year to date the CPI has reached 5.26%, and the last 12 months as of October, which is the figure just released, shows 6.48%. That's lower than 7.27% figure as of September as included in the page.

Both Colombia and Chile currencies keep showing important re-appreciation of 8.5% and 6.8%. On the opposite, Mexico is showing some de-appreciation of the currency by 12%, mostly related to the US political campaign and the investors' expectations on Mexico impact.

Moving to page 11, I focused on the January to September figures. The total revenue was COP11.2 billion, with growth of 14%; the EBITDA amounted to COP2.8 billion and showing a decrease of 7%. If we were to increase the expected revenue from the Guatape insurance claim, the EBITDA will be 1% lower than 2015. The EBITDA margins are also showing some impact from the Guatepe incident. The EBITDA margin is showing 25% for the first nine months. We expect that the full year 2016 figure is going to be pretty much in line with total figure for 2015. And in terms of net margin, we are showing an increase of 2% due to operational results.

Moving to page 12; showing the composition of the revenues, EBITDA and income, EPM represented 49% of the total revenues for the first nine months of the year. I highlight also that the international power subsidiary represented 29%, and the Colombian power subsidiary 16%. The EBITDA picture on the right, top right, shows that of the $2.8 billion of EBITDA, EPM represented 51%. The power subsidiary represented 19% and 16% for the Colombian and international energy subsidiaries. And I highlight that the international water subsidiary represents 7% of the EBITDA generated by the group.

Moving to page 13, viewing by business line, this chart highlighted diversification of the portfolio and how power and distribution helped a lot to reduce the volatility of the results as could have happened if we were only in the energy generation business in Colombia. And we're seeing how 61% of the revenue came from power distribution, 52% of the EBITDA, and 49% of the comprehensive income. The water business increased its share on the EBITDA delivery, mainly associated with the results that we are receiving from [Awaldenta Augusta] in Chile.

Moving to page 14, wanted to show you last 12 months' view. And these last 12 months I have to emphasize that include the full Nino phenomenon, which occurred mainly in the last quarter of 2015 and the first quarter of 2016. So to some extent, this figure is as bad as you are going to see for a while from EPM.

The last 12 months, the revenue was up by 10%, mainly associated with the energy crisis in Colombia. The EBITDA down by 6% at $3.4 billion. Again, if we were to normalize by the insurance claim, the EBITDA will be reducing by less than 2%. And the comprehensive income for the period is growing 27%. Composition between business lines does not change much from the previous chart.

Looking at the balance sheet; showing healthy growth on the asset side of 2%. The equity is growing by 3%, and the liability is growing by 1%. From ranges on financial debt, the total debt increase is likely to 55%, financial debt from 36% to 37%, and most importantly, the debt-to-EBITDA ratio, which was 4.39 at the end of September. What we are seeing over the last few months is that we are recovering from a 5.0 debt-to-EBITDA figure by midyear, and we still expect that we're going to come online to the 3.5, which is our commitment in the first half of 2017. First half of 2017, 3.5 debt-to-EBITDA is our expectation. The end of year figure will be below 3.7 is our estimate.

Looking at the investments in page 17, the Ituango investment reached COP922 million, almost a billion invested in Ituango so far. The parent company invested almost COP600 million. In Aguas Tratadas, we invested COP223 million. The international subsidiaries, COP415 million. I should clarify that the chart shows full-year 2015 in dark green and the first nine months of the year in light green. To that extent, the figures are not fully comparable so you don't get confused by that. But the chart aims to highlight also the diversification of our investment sources, or investment targets. Different businesses and different countries, of course, with the most important one being Ituango. January to September, we have invested COP2.4 billion.

Our debt profile; total debt as of September 30 was COP15 billion. No significant change in the composition, but I do highlight that we now have 59% of the portfolio of our debt in COP either because it's originally our Colombian peso debt, or because we already hedged and converted to pesos -- US dollar denominated debt. So our exposure to US dollar is just 26%, and the revenue in US dollars that the Group has is between 15% and 18%.

So I want to point to the 2017 debt service profile from the COP1.5 billion, the green bar on the bottom left, we are close to extend the maturity of COP1.2 billion, and with that our cash needs to service debt during 2017 will be pretty much covered. [However], as maturity of the debt portfolio is 5.74 years, and when you look at 2019, 2020 and 2121, just in keep in mind that at the end of 2018 we'll have Ituango online.

And after the close of the quarter, as mentioned before, we are about to finalize the adjustment on the claims settlement with the insurance companies. We expect at this point that we're going to receive $156 million of total indemnification. And with that, the deductible and the impact, the non-insured impact will be COP222 million, which is pretty much in line with the figure we have mentioned before. We subscribe a $200 million loan facility with the Corporacion Andina DE Fomento Caf, or an 18 year loan with five-year grace period. We have 24 months to disburse that amount, and so far we have not disbursed that money at all.

With that, I want to just highlight the three points. The EPM Group still growing healthy. We're making significant investments. The portfolio -- the main investment -- and in general, the investment portfolio is being developed on plan. The results are also showing growth and we expect that the full 2016 years are going to be both on the net income and the EBITDA growth are going to be two digits growth rates. And our debt-to-EBITDA is still higher than what we want it to be, but it's in the trend of getting in line with the 3.5; we expect that to happen within the next six to eight months.

With that, I want to open it for questions. We'll be glad to answer any questions or clarification that you may have.

Operator: (Operator Instructions)

Jorge Andres Tabares: We invite you to make any following questions to our investor relations contact. Happy to expand or clarify any of the information provided, and an updated version of the presentation we just went through will be posted on the website.

Operator: And at this time, I see we have no questions in the queue.

Jorge Andres Tabares: Thank you again for the participation. Thank you, Operator. And we'll be talking to you if you need us or, if anything, on the next quarter.

Operator: Thank you, ladies and gentlemen. This concludes today's conference. Thank you for participating. You may now disconnect.