

Transcripción Teleconferencia de Resultados Tercer Trimestre de 2017 Grupo EPM

Operator: Good afternoon. My name is Jason and I will be your conference operator today. At this time, I would like to welcome everyone to the third quarter 2017 consolidated financial results conference call EPM Group. All lines have been placed on mute to prevent any background noise. After the speaker remarks, there will be a question and answer session. Thank you for your attention.

Mr. Jorge Tabares, Executive Vice President of Corporate Finance and Investment Management of EPM Group will be the host and speaker today. Mr. Tabares, you may begin your conference.

Jorge Tabares: Good afternoon and thank you for connecting to our quarterly call.

Starting on page 3, we'll talk about the relevant facts of the quarter and subsequent to the closing. On July 12 2017, EPM finished paying the municipality of Medellin 300.000 million COP, which is the amount that was agreed for this year from income generated from the sales of Isagen shares.

On October 31, EPM placed bonds in the international capital market for 2.3 billion COP, which is equivalent to 764 million US dollars for a ten-year duration of the bonds. We placed the bonds in Colombian pesos, taking advantage of the financial conditions in the international market and the issuance received orders from investors in the United States, Europe and Latin America, including Chile, Peru and partially Colombia. The proceeds from the issue were partially used to prepay a loan with international banks maturing in 2020 from a loan that was signed with seven banks in 2015.

The transaction through which EPM acquired 100% of the shares of the Colombian company Empresas Publicas de Rionegro EP Rio was closed on November 1st. The shares were purchased for 1 COP for the shareholders, but an investment commitment from EPM equivalent to approximately 550.000 COP. All of the investment dedicated to improve the provision of the public water and sewer services in the Rionegro municipality, which is adjacent to Medellin in the east.

Finally, on November 10 the first generation unit of the Playas hydro plant went into operation. This was an important milestone in the recovery process of the plant after the incident that occurred in June of this year. The first 67 MW represent 33% of the installed capacity of the Playas plant.

Moving to page 4, on the third quarter aggregated commercial demand from the EPM group fell by 1.2% and this downward trend of the group's demand is due mainly to three reasons: the first one is the lower economic dynamic of the country and particularly in the zones where EPM has presence. Secondly, the temperature cooling after the end of El Niño phenomenon last year and a better culture of savings after the 2016 incentives granted by the government in order to mitigate the risk of rationing energy, given the shortage of water for electricity generation at the time.

We highlight that in every region of the country electricity consumption dropped until April of 2017 but then showed recovery signs in the last two months.

Lastly, it is known that EPM Group in Colombia retained its 24% market share in the electricity energy trading activity.

Internationally, the companies of EPM Group together recorded 2.3% demand growth in the third quarter of 2017. Ensa in Panama, Comegsa and Eegsa in Guatemala recorded growth rate in the period under analysis. This is 2.9, 2.1 and 2.0 respectively, basically because of these countries' stable economies.

In Comegsa, the 2.1% demand growth should be taken into account given the drop in the local energy trading. This is until April of 2016 and it included the sales of 6 MW of power with energy associated with trader CCEE SA and on the contrary, the energy sales to large users increased by 3.9% during 2017.

Continue to page 5 regarding the spot price. In Colombia, the electricity spot price fell during the third quarter of 2017 due to the neutral weather conditions and good level of aggregated volume of the SIN, the national interconnection system. The volume of the reservoirs in 2017 was better than the previous year, which was affected by El Niño phenomenon.

In Colombia, we must take into account that hydro generation represents close to 70% of the total electricity output, a fact that translates into a possibility of lower cost relative to other countries, but also into higher volatility and increased system's vulnerability to weather phenomena.

The companies of EPM Group hedged against market volatility through long-term contracting. After the tight energy situation experienced during El Niño phenomenon in the first months of last year, by mid-2016 weather conditions came back to normal bringing the market spot price down.

The latest forecast of the International Research Institute for Climate and Society (IRI) show higher probability, about 60% to 70% to move to La Niña conditions at the end of 2017 and beginning of 2018.

In Guatemala, in which the energy metrics consist of 63% energy from renewable resources, mostly water, representing 37%, the factors send price increase of the third quarter of 2017 as compared to the same period of 2016 due mainly to drier weather during 2017, a fact that increases the need of using more expensive technologies based on fuels such as coal and bunker, whose prices in the current year have reached higher volumes than in 2016.

I highlight also the situation in Panama, which is somehow different than the situation in the previous countries. The prices in the first half of 2017 were higher than those in 2016, this mainly due to the increase in international coal prices and all derivatives, which had almost doubled last year at this time, while in the third quarter of 2017 those fell in relation to the same period in 2016 due to a greater use of water resources.

Regarding the power generation of EPM Group, in Colombia the power generation during the third quarter of 2017 was higher than in the same period last year, 17.8% higher because during the same period of 2016 the water from hydro generation was scarce due to El Niño and because Guatape plant was unavailable between February and May.

Internationally, the condition of higher winds at the location of the Cururos plant as well as the market situation increased wind generation in Los Cururos in the first nine months of 2017, compared to the same period in the previous year, an 8.3%.

We'll move to page 6, where we can take a look at the work progress of the Ituango power project. As of September, we have a total progress of 76.6 with an accumulated investment of 7.2 billion COP to date.

Regarding the progress in the main civil works, we highlight the dams at 71% of construction, the spillway it's at 93.6% of construction and looking at the power generation equipment, the first stage, which is composed by four turbines and four generators, has the manufacture of all equipment at 100% complete and the assembly at 88% complete.

From the 25 transformers at the north area, the manufacture is at 100% and the assembly is at 99% and in the south area, which comprises phase 2 of the project, the manufacture is at 64%. The two cranes, 600 tons of total capacity, are fully operational by now.

Moving to page 7, with respect to the financing of Ituango, we have a total disbursement today equivalent to 3.6 billion COP basically from local bonds, global COP bonds, the Club Deal bond and the BNDES loan. We have yet to disburse 3.6 billion COP for the project.

On the investment plans on page 8, as of September 2017 now our investments total 2.5 billion COP. Of this total, the group invested 82% in the power business and 18% in the water business. Of these investments made so far this year, 1.2 billion have been made for the Ituango hydro plant, which will definitely contribute to the energy stability of Colombia.

Moving to page 9 on the macroeconomic scenario for the quarter of 2017 we highlight the following: GDP growth. Colombia continues showing a relatively low GDP growth with 1.3%. Panama continues growing at high rates, 5.44% as of September of 2017 and finally Guatemala, with a 2.3% relatively healthy growth rate.

The CPI when considering the last twelve months, Colombia shows a 3.97 rate, which is inside the band that the Central Bank has communicated and I'll highlight also Guatemala's CPI with a 4.36% increase in the index during the year.

Finally, well worth highlighting the exchange rate and devaluation or depreciation. In Colombia we continue seeing a relatively strong COP with a 2.13% depreciation over the first nine months of the year and also to highlight Mexico with an almost 12% depreciation of the Mexican peso over the first nine months of the year.

Moving to page 10, the summary of the financial results. As of September 30th, the consolidated revenue totaled 10.9 billion COP with a 3% drop with respect to the same period of last year, a fact that is mainly explained by lower energy prices in Colombia.

EPM parent company showed lower revenue for 392.000 million COP, followed by the Colombian power subsidiaries whose revenue fell by 62.000 million. Our operating margin as of September was 25%. This is 7 percentage points above the previous year figure. The Ebitda totaled 3.4 billion COP with an increase of 669.000 million COP or 24% with respect to last year and our Ebitda margin with a 32%. This is 7 percentage points above the figure we showed in 2016.

The comprehensive income for the period was 1.48 billion COP. This is a 23% increase to last year, explained mainly due to higher operational income for 712.000 million COP and by the reduction in cost due to the temporary situation presented by El Niño phenomenon in 2016.

The net margin stood at 14%, this is 3 percentage points above the 2016 figure. If we were to normalize for the Guatapé insurance payment, which totaled 473.000 million COP, we would have been completely recognizing the third quarter of 2016. The normalized figures will show revenues as of September of 11.4 billion. This is a drop of 4%, slightly higher than the figures shown. The comprehensive income would reach 1.3 billion. This is a variation of 24% positive and the Ebitda would have reached 2.9 billion COP, representing a variation of 22%, slightly lower than the 24% figure published. The Ebitda margin would reach 26%. This is compared to the 32% shown and the net margin would reach 12% as compared to the 14% shown.

Moving to page 11, the group's total revenue, is important to underscore the fact that Colombian accounts for 65% and the foreign subsidiaries for 35% of the revenue. EPM parent company accounted for 47%, with a drop of 392.000 million COP with a 7% drop, mainly explained by the power generation segment.

Additionally, we have 294.000 million COP indemnity from the Guatapé incident that was recognized in June of 2016. The international subsidiaries in turn accounted for 35% of the revenue, with a net increase of 178.000 million COP, which is 5% up from the same period of 2016. We would like to highlight the Panamanian subsidiary Ensa, with 133.000 million COP and this is a result of the increased dynamics of the commercial and household sectors in Panama, combined with a tight increase in 2017 versus 2016.

In the Colombian power subsidiaries, on the other hand, which accounted for 16%, this is 3% down from last year. Among these subsidiaries, ESSA fell by 33.000 million COP. This is, as explained before, due to the lower power generation of the Termobarranca plant, which was connected to the interconnected system during El Niño phenomenon last year, but also because of a 22 GW/h decline in energy trading, CHEC on the other part fell by 23.000 million COP due to the smaller sales in the power generation segment, given that Termodorada and its generation plant had not been dispatched in 2017. As to the Ebitda, the group's Colombian companies accounted for 78% and the foreign companies for 22%. EPM parent company accounted for 61% of the Ebitda, with an increase of 598.000 million COP, which is 37% more than last year. This is mainly to the contribution of the power generation segment, with 538.000 million COP and the power distribution segment with 11.000 million COP.

The Colombian power subsidiaries accounted for 17%, with 20% growth respect to last year. This is due to the increased cost of the commercial operation during the first quarter of 2016 of Termobarranca and Termodorada thermal plants, in order to meet the effects of El Niño phenomenon. The international subsidiaries accounted for 22% of the group's Ebitda. It's 8% up on the same period last year.

Moving to page 12, the results by segment, the energy services accounted for 85% of the group's revenue and 81% of the Ebitda during the first nine months of the year. In revenue, the power distribution and generation segments stood out with 63 and 20% participation respectively. Water supply services accounted for 6% of the group's revenue, 10% of the Ebitda and 7% of net income.

Regarding the balance sheet on page 13, the equity stood at 19.9 billion COP, increasing 1%. This is due to the combined effect of the period's higher earnings minus the recognition of the surpluses of the municipality of Medellin. 1.1 billion have been paid as of September, out of the total of 1.3 billion COP that are to be paid to the municipality in 2017. The liability stood at 25.3 billion COP, increasing by 9% from last year. This is mainly explained by the surplus payable of 504.000 million COP and net disbursements of loans by 1.1 billion COP.

The total assets at the group level amounted to 45 billion, which is increasing 5% over the figure of last year. Regarding the ratios, we would like to highlight that the total debt to total assets increased 1 percentage points with respect to 2016. As of the debt covered as ratio Ebitda to financial expenses were 5.54 times and long-term debt to Ebitda was 3.37 times better than the 4.39 figure as of September of 2016 and 0.13% under the internal goal of 3.5 times.

Moving to page 14 and before opening to Q&A session, take a look at the debt profile. Debt of the EPM Group totaled 16.1 billion COP. Regarding financing source, 23% of debt corresponds to domestic debt, 14% to peso-denominated foreign debt and 63% to foreign debt in other currencies. Of EPM's total debt, 73% belongs to EPM parent company.

I highlight that at the quarter's close we accumulated foreign exchange financial hedges totaling 751 million dollars.

Through maturities, EPM parent company holds the international bonds issued maturing 2019, 2021 and 2024. On years 2019 and 2020, the maturities correspond to loans with international banks. This is the ADASA loan with Scotia Bank and Banco del Estado for 408 million US dollars and EPM's Club Deal with a billion dollars of maturity. These values are continuously analyzed, taking into account all other alternatives in order to adjust to needs and comply with the strategic objectives of EPM Group. In that sense and as a relevant event mentioned already, subsequently at the quarter closed we issued an international bond paper on October 31, which was already mentioned. The proceeds from this bond issuance were used to prepay the Club Deal loan partially and thanks to this issuance we were able to perform an important debt management operation which will allow us to improve the maturity profile and the average life of our debt portfolio. In addition, our debt composition

in Colombian pesos will be increased, which will allow us to reduce EPM's exposure to denominated debt, thereby minimizing the impact on the currency risk.

Again, thank you for attending our conference call and now operator I'll open for questions.

Operator: Thank you Mr. Tabares. The question and answer session will be led by Mr. Juan Carlos Sampedro, Head of Debt and Capital Markets.

At this time, I would like to remind everyone in order to ask a question, simply press * and then number 1 on your telephone keypad. If you would like to withdraw your question, press the pound key.

At this time, we're going to reply the questions first from the audioconference and then questions from the web.

As a reminder, in order to ask a question please press * and then 1 on your telephone keypad. We are receiving questions through the webcast as well.

Once again, if you have a question please press * and then 1 on your telephone keypad and also you can make your questions through the webcast.

We have no questions at this time. This concludes today's conference call. Thank you for participating. You may now disconnect.