4Q 2021 Earnings Results Webcast
EPM Group
Transcription

Martha Vásquez: Welcome to the EPM Group 2021 fourth quarter earnings results webcast. This event will be led by Martha Durán, Executive Vice President of Finance and Investment. My name is Martha Vásquez, and I belong to the Corporate Communications Department. I will be the moderator for this event. We are joined by the interpreter Andrés Jaramillo, who will be interpreting in English. If you wish to listen to the event in English, please click on the settings icon located in the Slides module on your screen and choose the option "English." Today we have a presentation by Martha Durán Ortiz, and at the end we will have a questions and answers session. Starting now and at any time during the presentation, please submit any questions you may have, using the questions module on your screen, so we can answer most of them during the questions and answers session. On your screen you will also find the presentation, in the module on the right, which you will be able to download. This webcast is being recorded and will be available in upcoming days at the same link for the event published on the investor web page. At this point, I hand over to Martha Durán, Executive Vice President of Finance and Investment for the EPM Group.

Martha Durán Ortiz: Good morning, everyone. Thank you very much for joining today's teleconference, in which we will share with you the consolidated results of EPM Group at year-end 2021. Today we will also be joined by Juan Carlos Castro, Financial Planning Manager, and Juan Carlos Sampedro, Capital Management Director of the EPM Finance Vice-presidency, with whom we will directly address any inquiries you may have about the Company's financial results. We will also talk about some relevant events and different corporate matters you may wish to discuss. We will start with the presentation of the most relevant events of the last quarter of 2021 and some subsequent events since that cut-off date. I will begin by reporting that in November and December, a long-term loan agreement was signed for USD 250 million with international financial institutions, as part of a debt management operation that improves the average maturity of our financial debt without increasing the current indebtedness level. We also signed two short-term loan agreements for USD 350 million with international banks to fund our investment plan and for general use.

Another relevant event in the fourth quarter was the prepayment made by EPM to BID Invest for USD 450 million, in fulfillment of a voluntary agreement between the parties, which is equivalent to the total balance of the loan taken out in December 2017. This loan was fully paid off with cash available at the Company, and it should be noted that after this payment, EPM maintains a positive liquidity level that does not affect the operation and the continuity of the required investments, both for the Ituango project and all other projects currently in progress at the Company. Regarding the Group's investments, in 2021, investments in infrastructure to improve the services we provide totaled COP 4.2 billion, of which COP 1.5 were allocated to starting up operations at Ituango.

Separately, thanks to last year's good results, this year EPM will transfer to the municipality of Medellín COP 1.8 billion, which will enable the municipality to carry out various social investment programs that are very important for the city. An important event since the end of 2021 was that last January 25 EPM received from the insurance company Mapfre payment of USD 633.8 million as indemnity from the All-Risk Construction and Installation policy for the Ituango project, in accordance with the transaction agreement we signed with the insurer in December last year. With this payment, along with the advance payments made previously by Mapfre to EPM, the total and final amount of the indemnity totaled USD 983.8 million. Thanks to this full payment by the insurers, the fiscal liability proceeding declared by the Office of the National Comptroller General was closed, which as we all know involved the contractors of the main works, the consulting consortium, and the designer.

Additionally, on March 7, the rating agency Moody's confirmed the internal scale credit rating of EPM at Baa3, and improved the outlook for negative to stable, thereby maintaining the investment grade rating we already had. In turn, on April 5, Fitch Ratings confirmed the credit ratings of EPM at the local and international scale at AAA and BB+, both with negative outlook.

Moving on to the next slide, we will report the technical and financial progress made by our Ituango project. As of February, the overall works completion rate stood at 87.3, and at present we estimate that completion is at 87.8%. In the next slide we see substantial progress in the main work fronts. In terms of technical progress, we highlight completion of the civil works of generation unit number 1, and at present all our work is focused on the installation of the electromechanical equipment. Recently the turbine wheel was installed, which is one of the main components of the turbines-generation unit, to be followed by installation of the rotor at the site in the next few weeks, to continue consolidating generation unit number 1, aimed at meeting the scheduled start-up of operations later this year. Works continue on shielding the intake tunnels, the final plugging of the right bypass tunnel and what we call the GAD (Spanish acronym for Ancillary Diversion Gallery). Lastly, we are making progress in the recovery of the south area of the machine house where units 5 to 8 will be located.

In the next slide we see the amount invested in the project as of December, which totaled COP 15.8 billion, and during this year we expect to invest COP 1.8 billion in the project. As I mentioned, with these works we expect to ensure the start-up of commercial operation of the first two generation units in the second half of this year.

Moving on to a different topic, in the next slide we see the Group's commercial demand for electric power. The high demand figures starting in April last year in some countries reflect the effect of comparing against the low base in the same periods in 2020, when demand dropped sharply due to the adverse effects of the pandemic produced by COVID. In Colombia, the full-year commercial demand for electricity in 2021 was 74,117 GWh, which represents an increase of 5.2% compared to 2020. Regarding Central America, in Guatemala electricity consumption grew by 8.4%, equivalent to demand of 11,952 GWh for the full year of 2021. Panama also grew by 7% compared to the previous year, equivalent to 10,930 GWh. And in El Salvador, the growth rate was also 10.4% compared to the same period last year.

Specifically, at the EPM Group companies, the Group's aggregate commercial demand in Colombia increased by a highly significant 41.1% for the full year, and it should be noted that excluding the Afinia affiliate, growth in demand would have been only 6%. Please recall that Afinia began operations as part of our Group in October 2020. In combination, the Group's overseas companies reported an overall 8.4% increase in demand in 2021. We should highlight Comegsa in Guatemala, which displayed highly favorable growth in demand of 15.4%, and EEGSA, which covers the regulated market, with growth of 5%. ENSA, in Panama, also displayed strong growth in the period of 8.1%. And lastly, demand at DELSUR, in El Salvador, continues to recover with substantial growth of 13.2%, which is above the overall national average growth rate of 10.4%.

In the next slide, we see the behavior of spot prices at year-end 2021. In Colombia, the 2021 cumulative average spot price for electricity decreased by 41.2% due to strong rainfall in the reservoirs connected to the National Interconnected System and lower use of thermal power plants. In the case of Guatemala, the 2021 cumulative spot price increased by 54%. in Panama, cumulative prices for the year increased by 52.2% compared to 2020, mainly because (...) Panama was influenced by lower use of hydroelectric sources, which produced an increase in the marginal cost in the energy exchange. In El Salvador rainfall levels were lower, which led to greater use of thermal energy with higher fuel prices, which has been reflected in a 42.4% increase of the spot price.

Regarding the EPM Group's generation, in Colombia, total generation by the Group during 2021 was 19.5% greater compared to 2020, mainly thanks to the contribution of hydraulic plants. Generation at the Bonyic plant in Panama also increased thanks to higher rainfall levels compared to the same period in 2020.

At this point, before moving on to the next slide, I would like to remind you that you can send any questions you have using the module available on your screen, in order to answer all your inquiries at the end of the presentation.

Now we will turn to the macroeconomic scenarios of the different countries where the Group is present. During 2021, GDP of the countries where the group is present continued to recover at a higher rate, thanks to their growth potential, improved internal demand, dismantling of the restrictions established during the pandemic produced by COVID and the achievements and progress made by the countries in their vaccination campaigns. Panama and Chile, for example, posted very high growth rates of 15.3% in Panama and 11.7% in Chile, followed by Colombia, with a 10.6% growth rate. Regarding inflation, an upward trend was observed, above the goals and targets set by the different central banks, in Colombia, Mexico, Chile and El Salvador, and to a lesser extent in Guatemala and Panama. Regarding exchange rates, Mexico, Colombia, and Chile experienced currency depreciations at year-end, which was much more accentuated in Colombia and Chile, as a result of current social and political situations. In Guatemala, the Quetzal appreciated.

In the next slide we will review the financial results at year-end 2021. The Group's consolidated revenues totaled COP 25.2 billion, with an impressive increase of 28%, equivalent to COP 5.4 billion more than the previous year. This is basically explained by the good performance of the parent company and the affiliates. Here it is important to mention Afinia, which, as I mentioned earlier, was included in the Group in October 2020. The EPM Parent Company contributed COP 1.3 billion, mainly because of the strong performance of its distribution, generation, and gas businesses. DELSUR, in El Salvador, also reported higher consumption. At ESSA greater energy volumes were commercialized. CENS also posted higher consumption. At the affiliates of Aguas Nacionales, a retroactive adjustment was made under the interconnection contract. At ADASA, also due to higher consumption in the unregulated market for the mining sector.

On their part, consolidated costs and expenses totaled COP 19.5 billion, up 25% compared to the previous year, which as I have mentioned also includes the incorporation of Afinia in the Group. The operating margin as of December was 23%, an improvement compared to the 21% reported in 2020. EBITDA totaled COP 7.4 billion, up 29% compared to the previous year. And the EBITDA margin was 30%, also very similar to that reported in 2020. Comprehensive income for the period totaled COP 3.2 billion and the net margin was 13%, in which we highlight the increase in revenues of COP 5.4 billion and, as I already mentioned, an increase in costs and expenses for COP 3.8 billion. The gain from currency exchange differences was COP 353,000 million, and the income tax expense was COP 576,000 million. Financial expenses also decreased by COP 167,000 million. With this we conclude our presentation of the main financial figures.

Moving on to the next slide, here we see the results of the affiliates, both local and international. Regarding the Group's revenues, we highlight the importance of the the operations in Colombia, which contributed 73% of total revenues, while the international branches accounted for the remaining 27%. The EPM Parent Company contributed 44%, explained, as I mentioned earlier, mainly by the distribution businesses, higher electricity sales, in generation also from greater sales to the unregulated market and in the spot market, and the gas business also with higher sales to thermal power plants. In turn, the local energy affiliates contributed 28%, reporting an 87% increase, mainly due to the inclusion of Afinia in the Group. The international affiliates contributed 27% of the revenues and reported a net increase of 9% compared to the same period last year. Here we should highlight the growth of some affiliates, such as in Guatemala, Comegsa, EEGSA, whose growth is mainly associated with higher rates during the period. DELSUR, in El Salvador, from higher consumption by the industrial sector associated with the economic recovery. And in Chile, ADASA, from higher consumption in the unregulated market for mining companies, as I already mentioned, and more customers in the regulated market. The remaining 1% is from the water and sanitation affiliates in Colombia, which also posted a 25% increase, particularly in Aguas Nacionales with an increase of COP 146,000 million.

Regarding EBIDTA, the Group companies in Colombia contributed 81%, and the foreign companies, 19%. The EPM Parent Company contributed 59% of total EBITDA, with an increase of COP 958,000 million, equivalent to a 27% increase compared to last year. The Colombian electricity affiliates contributed 22%, of which I highlight the growth at ESSA. The international affiliates contributed 19% of the Group's total EBITDA. Now we can move on to the next slide, which displays the same results but from the perspective of segments. Here we highlight that electric power services accounted for 85% of the Group's revenues and 82% of EBITDA.

In revenues, the distribution and generation segments stand out, accounting for 64% and 20%, respectively, and gas with a 5% share of revenues and a 2% share of EBITDA. Water and sanitation services represented 10% of the Group's revenue and 16% of EBIDTA.

In the next slide we have a graphic representation of the behavior of EBITDA at each Group company. On the horizontal axis we see the EBITDA margin, and on the vertical axis the change in EBITDA. These red lines represent the Group average for each variable, and the circles represent the size of EBITDA at each of our companies. We can see the positive contribution of the EPM Parent Company of almost COP 1 billion, and from among the local electricity affiliates, we highlight the growth of ESSA, CENS, and EDEQ, which were above the Group's average change in EBITDA, which was 29%, and CHEC, whose EBITDA margin was above the Group's average, which was 30%.

At the international affiliates, we highlight ADASA, TICSA and HET, whose EBITDA margin was above the Group's average. Grupo DECA, DELSUR and ENSA grew strongly, and they contributed significantly to the Group's EBITDA. In the next slide we see the evolution of EBITDA from January 2020 to December 31, 2021, with an increase of COP 1.6 billion, which represents growth of 29%. This behavior was similar in almost all the business lines, as we can see in the graph, explained mainly by distribution with COP 1 billion and growth of 43%, thanks to greater demand following the pandemic and adjustments to the rate scheme. Generation also made a substantial contribution for COP 555,000 million, up 29%, in which the greatest contributor is the EPM Parent Company. This is compared to 2020, when operating commercial costs were higher due to low reservoir levels because of the El Niño phenomenon that took place that year. And gas, to a lesser extent, COP 53,000 million, equivalent to a 41% increase. Since 2018, EBITDA has grown at an average annual rate of 9%, as we can see over the years.

The next slide displays our balance sheet, with total equity of COP 28.7 billion, up 6%, basically due to the combined effect of the greater comprehensive income for the period and a reduction in accrual of surpluses to the Municipality of Medellín for almost COP 1.4 billion, and dividends paid during the period. Liabilities totaled COP 39 billion, an increase of COP 2.3 billion or 6% compared to the previous year, basically due to an increase in financial debt for COP 1.2 billion. The indebtedness and the valuations associated with exchange rates, provisions, and contingent liabilities for COP 342,000 million, as well as payments of taxes, contributions and levies for COP 103,000 million. The Group's assets totaled COP 67.7 billion, up 6% compared to the previous year, and at year-end 2021 the Group's cash stood at COP 3.6 billion. Regarding debt and coverage ratios, we should highlight that the Group's total indebtedness was 58%, very similar to that reported in 2020; the EBITDA to Financial Expenses ratio was 6.18 times and the Total Long-Term Debt to EBITDA ratio was 3.36, which is lower than the 3.5 times target, and the Net Debt to EBITDA ratio was 2.8 times.

The next slide provides more details on the Group's infrastructure investments. As I mentioned at the beginning of the presentation, the infrastructure investments made at December 31 totaled COP 4.2 billion, of which 79% were in the electricity business and 21% in the water business. The investments in Ituango obviously stand out, which accounted for 36% of the total, as well as the investments of the EPM Parent Company, which accounted for 28%. On their part, the international affiliates accounted for 14%, among which we should highlight those by the affiliates in Chile, with 34%, Panama and Guatemala with 30% each and El Salvador with 6%. Regarding Capex in the 2022-2025 period, we expect to invest a total of COP 18.3 billion, of which 85% will be in the electric power business, and the remainder in the water business, and specifically in 2022, we expect to invest a total of COP 6.4 billion, of which 86% will be invested in Colombia, 5% in Guatemala, 5% in Chile, 3% in Panama and 1% in El Salvador. And in Colombia these investments in 2022 will be highly concentrated in our Parent Company, in Ituango and in Afinia.
And now in this last slide we have the profile of the Group's financial debt, whose balance was COP 25.8 billion. Per funding type, 14% of the debt is local, 24% is external debt denominated in Colombian pesos, and 62% is external debt in other currencies. Of the Group's total debt, 73% is held by the EPM Parent Company and at the end of the last quarter of 2021 the year-to-date balance of exchange rate hedges was USD 1,604 million. Regarding the maturities profile, as you can see in the previous graph, the average term is six years and we have substantial maturities coming up in 2024, 2027, 2029 and 2031. Well, with this debt profile slide I conclude my presentation and hand over to Martha Vázquez, our moderator, to begin the questions and answers session.

Martha Vázquez: Thank you, Martha, as you mentioned, we will now begin the questions and answers session. We remind you that if you have not input your questions yet, you can still do so in the questions module available on your screen. The Executive Vice President of Finance and Investment, Martha Durán, will also be joined by: Juan Carlos Sampedro, Capital Management Director, and the Financial Planning Manager, Juan Carlos Castro, who will answer the inquiries you have submitted through the website. So, I will start out with the first question we received in the module, which is: "Once the first two units come on stream, do you plan to change the construction group?".

Martha Durán Ortiz: Well, on this topic, I should first mention that in December last year we signed an 11-month contract extension with the construction consortium, and the basic objective of this extension was to guarantee the completion of units 1 and 2, which was always the plan. And to ensure the continuity of the project, we opened a bidding process, which began on April 1, and 11 companies have already registered for this bidding process. So, we expect this process to end with the selection of the firm that will complete, conclude, or continue our project. The terms of this bidding process state that the deadline for proponents to submit bids is June 23, at which time an assessment will be carried out to select the company to be awarded. As I mentioned, the importance of this bidding process is that it will ensure the completion and construction of units 5 through 8. I should also mention that the contractors, participants of the consortium, are among the 10 bidders that are participating in the process, which means they may also participate in the process and could continue with the project's construction.

Martha Vázquez: The second question we have received is: "Is the first-generation unit of Hidroituango still scheduled to begin operations in July 2022?"

Martha Durán Ortiz: Yes, according to our current timetable, which has been approved, and based on information available to date, the first unit is scheduled to being operations in July. However, based on the progress of the works in recent months, we are reviewing the timetable, and if any changes should arise, well, we would report them, but as I said, to date our official information is that the timetable is still to begin operations of the first unit in July, the second in October, but these works are very complex, with many sides, and they depend on numerous factors. So, the timetable is set… and we are reviewing it. And our commitment is that if any changes should arise, we will report them in a timely manner. And I should mention that our commitment to deliver our first firm energy obligations is in November, so we are confident that we will be able to fulfill our obligations in November based on the timetable we currently have in place.

Martha Vázquez: We have received a third question, which is: "What is the status of the sale of UNE by EPM?".

Martha Durán Ortiz: Well, this year we expect... We have resumed the process and we still have the intention of selling UNE for different reasons, for not retaining control, because it is not a strategic asset for us, because we want to focus on the businesses we provide, so for this reason our intention remains to sell. The first debate in the First Commission of the City Council is currently scheduled for next Friday. So, we are waiting until then to be able to continue with the process.

Martha Vázquez: So, our fourth question is: "How is the Afinia investment going?"

Martha Durán Ortiz: Well, we have had the Afinia investment for over a year, about a year and a half, and I think the overall balance is positive. With the investments and the changes, we have made we have improved service conditions. For example, we have managed to improve the overall collections percentage from 75% to 84%. The losses indicator, which is a key driver for value, has also been a major challenge. It was initially at 35% and is now at 28%. We also had good year-end results, with revenues of COP 3.8 billion, positive EBITDA of COP 167,000 million, as well as a profit of COP 329,000 million. We still have major challenges in terms of achieving our planned goals, and we will have to make major investments in upcoming years to continue along this path. But overall, the community has received us very well, and we are confident that we will be able to meet the challenges we face there.

Martha Vázquez: The fifth question is: "What are the key dates at Ituango? Testing, start up."

Martha Durán Ortiz: If you want… Who can help me out with this question? Juan Carlos Sampedro will help us with this answer.

Juan Carlos Sampedro: Well, the main work fronts related to starting up the project basically refer to the installation of equipment for the units 1 and 2, which Martha already described in detail. Basically, once the rotor is installed, which is one of the last elements of units 1 and 2, which are already at the site and soon the specific installation will begin. Another relevant topic on the current work fronts is related to shielding of the intake tunnel, which is in progress with an Italian company that specializes in this process, and which has already been working at the site for several months and making good progress on this front.

Another important milestone is the underwater works that enable cleaning out the mesh in the intake area and some repairs to this mesh, which is also necessary for starting up operations. I would highlight these three fronts as the main milestones for starting up the operations on schedule. Regarding the matter of the original bypass tunnels, it should be noted that the right bypass tunnel, which to date remains plugged for natural causes, is in the process of being plugged, with substantial progress already made we have installed the plastic spheres that are part of plug 1, then we will have the pre-plug 2 in concrete, and then the final plug-in concrete. We expect to complete this process, I refer to this plugging, in the first quarter of 2023.

Martha Vázquez: The next question is: "What is the expected long-term debt to EBITDA level?".

Martha Durán Ortiz: Well, our long-term goal is to return to a debt to EBITDA ratio of less than 3.5 times, and I believe we are well on course in this regard. In 2022 our target is an estimated debt to EBITDA ratio of approximately 3.1 times, and from then on, in upcoming years, to maintain it at that level. This is like the expectation we have and on which we are focused.

Martha Vázquez: Well, we continue with the questions. We remind you that you may input your questions in the questions module you will find on your screen. The next question is… "How do you see the upcoming presidential elections and the effect it may have on the industry?"

Martha Durán Ortiz: Well, yes, this is a very important time for the future of our country. How do we see it? Well, the Colombian public utilities sector is heavily regulated, through a stable arrangement that has been maturing over the years. We have a public utilities law, Law 142 and Law 143 of 1994. We have had this regulatory framework for 30 years, which has provided us stability, and we do not expect major changes in the general principles of our public utilities sector. And any substantial change that a new administration may want to make would have to go through Congress and the Senate, so we do not see any imminent direct risk that would affect our industry and our company.

Martha Vázquez: We will move on to the next question, which is: "Given the expectation of a negative cash flow in 2022, how is the Company considering refinancing the debt maturities?"

Martha Durán Ortiz: Well, to cover our cash flow requirements in 2022, as we have always done, we constantly monitor all financing sources available, with local commercial banks, international commercial banks, development banks, and the local and international capital markets. So, as I said, we are monitoring, and we could eventually carry out authorization processes in accordance with applicable regulations to ensure financing. Maybe Juan Carlos Sampedro would like to add something.

Juan Carlos Sampedro: Yes, regarding the expiration of debt terms, 2022 is not a year with substantial maturities for the Company's cash flow, which basically affect the Parent Company with the expiration of amortizations of bank loans, and a few minor maturities, maybe on old issuances in the local market. Regarding some affiliates, in 2023 we have an expiration date at the affiliate ENSA, in Panama. We are already monitoring the possibility of engaging in a transaction for this expiration, which is for a total of USD 100 million. In any case, we are currently engaging in some financing transactions, one of them with a development bank in the amount of approximately USD 200 million, in the negotiation and structuring phase, and with international commercial banks we are negotiating a transaction for up to USD 700 million, which, as I mentioned, is in the negotiation phase. We have credit lines pending disbursements with the bank BNDES from Brazil to finance equipment for the Ituango project for USD 41 million, as well as some credit lines with local banks that we can quickly draw on, if necessary, but we see nothing imminent in this regard at present given the Company's high liquidity levels.

Martha Vázquez: OK, we will move on to the next question, which is: "What is the estimation for EBITDA revenues from electric power sales once the eight units of the Hidroituango project begin to operate?"

Martha Durán Ortiz: Once the eight planned units at Ituango begin commercial operations, an average of 13,500 GWh per year will be generated, which is estimated to produce starting in 2025 net commercial revenues of between COP 1.5 and COP 2 billion per year. This will obviously depend on the conditions and prices of the market, but this is our current estimate.

Martha Vázquez: We will move on to the next question, which is: "Are the materials and machinery required to complete the first stage of the project at the site, or are any relevant shipments pending that could be affected or delayed by restrictions in global logistics?"

Martha Durán Ortiz: No, we do not see any risk, as all the materials, equipment, and everything else we need to complete the first stage is mostly already at the site, mainly to ensure the startup of units 1 and 2. For example, recently, some of the works currently in progress are underwater works, which required bringing equipment, a large number of units, from Netherlands. And although the transportation was a bit complex, we did not find any restrictions that would prevent or that could affect the timetable for project performance. In other words, we are taking all the precautions and doing everything with sufficient lead times. And as I said, most of the equipment and materials are already at the site, there in Hidroituango.

Martha Vázquez: Well, with this last question we end this Q&A session, so I once again hand over to the Executive Vice-president of Finance and Investment, Martha Durán Ortiz, for her final words.

Martha Durán Ortiz: Well, thank you all for your questions, and we hope to have fulfilled your expectations, as always providing clear and timely information. And we look forward to seeing you in a few months to talk about our progress and relevant events in 2022. Thank you.

Martha Vázquez: We remind you that if you wish to listen to this conference again, you can enter the EPM web page, where in a few days it will be available at www.epm.com.co, in the investors section. We thank you all very much for listening and wish you a lovely rest of the day. Thank you.