Transcript – 2Q2019 EPM Group Financial Results Conference Call

Operator: Good afternoon. My name is Sylvia and I will be your conference operator today. At this time, I would like to welcome everyone to the second quarter 2019 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: Welcome everybody to our quarterly conference call of the second quarter of 2019. Please follow the presentation posted.

The agenda includes relevant events during the quarter on the energy market and our operation, financial results and an update on both the Ituango project and our divestment plan.

On page three, on July 11th we placed bonds on the international capital market for a total of USD 1.382 million in a combination of US dollars and Colombian pesos. This transaction allowed us to optimize the portfolio of debt without increasing our debt balance and enabled us to move the average life of our debt portfolio in 1.8 years. Now, the most relevant debt maturities between 2020 and 2022 were moved out to 2027 and 2029.

On Ituango, we reached two important milestones. We finalized the dam to designed height, which is 435 meters above sea level on July 19th.

Also, on July 26th the alert level managed by the National Risk and Disaster Management System was lowered to orange and with that we were able to activate the return plan to their homes for the evacuated families. At this point, most of the families have been relocated to their original homes.

In the ISA divestment plan, we sold the first stage equivalent to COP 133,000 million and the second stage of the sale process began on July 29th.

We also published to initiate the sale of our Gasoriente stake.

On page four, on the energy market we saw very solid growth in the overall market in the major business in which we operate with 12.2% growth in Colombia, reaching 35.184 GW/H in the total market, Panama growing at 4.9% and Guatemala growing at 3.4%. Very healthy growth.

In terms of our participation, we were 23% of the Colombian market, 34 and 41% respect to the other Panama and Guatemala markets.

On the bottom left, you see our volumes of energy delivered to our clients. On the residential market or regulated market, we are growing. The decrease that we are showing here in the EPM market with a 7% decrease corresponds to one particular client which we sold energy last year to but we didn't sell in the non-regulated market.

If we account for that decrease, the variation of the total portfolio in the Colombian operation was -3.5 percentage points.

On the international operations, we delivered growth across the board with a combined variation of 2.8% increase. In the total EPM Group, we delivered 12,999 GW/h to our clients with a slight negative variation of 0.9%. Again, this driven by the non-regulated market with one particular client.

On page six, given the increase on the oil prices, the spot price has shown significant increases in the countries which rely on hydrocarbon for the energy matrix. Guatemala saw a 38% increase; Panama a 22% increase; and Salvador, a 5.7% increase. Colombia showed also a significant increase of 70% with the spot price during the first half of 2019 averaging USD 70 per MW/h.

In terms of our generation, we produced 3.653 GW/h during the first semester of 2019 with a decrease of 0.5%.

In Chile, the total production was reduced slightly by 2 GW/h and given the lack of rainfall and water availability, the total generation from Bonyic reduced from 34 to 16 GW/h. All the figures shown here correspond to the semester, so we apologize for having "quarters" in the legends.

Moving to page six, the macro scenario with some changes here. The Consumer Price Index variation is pretty much under control across the jurisdictions, and the exchange rate up to June still showed revaluation of the currencies across the board. Currently, the situation has changed in July and August given the international volatility and the trade tensions that have taken place between the US and China.

On page seven, we continue delivering a significant Capex program. In the semester, we invested COP 454,000 million in Ituango. In the parent company, excluding Ituango, we invested COP 431,000 and we maintained a level of COP 194,000 in the international subsidiaries, and in the Colombian power subsidiaries, 144.

I'll also highlight the COP 45,000 million in the wastewater treatment plant Aguas Claras, which leads us close to the end of the construction of this power plant. In total, USD 1.3 billion from which 70% correspond to the power business, and 30% to the water business.

On page eight, very solid financial results. Looking at the half-of-year numbers, the Ebitda is showing a 16% increase based on 12% revenue growth and that leads to a 29% increase on the comprehensive income, reaching COP 1.3 billion.

On the margins, we are showing a significant increase. On the Ebitda margin, we have increased 34%, which is the highest we have seen for a few years now. Operational margin of 26.3% and net margins of 15.5%. All of this is showing the combination of positive performance on the revenue side, and cost control so the measures that we have implemented after the Ituango contingency continue delivering improvements in the margins.

On page nine, you see the composition by different jurisdictions. A slight increase to 36% of the contribution from the international operations. In terms of revenue, it leads to 21% contribution on the Ebitda.

There is a total Ebitda of COP 3.9 billion and this is a 16% increase over the first semester of 2018.

Panama leads the contribution from the international operations with 38%, Guatemala 30% and then Chile with 21%.

On page ten, the distribution business is the one contributing the most during the semester with 62% of the revenue and 43% of the Ebitda.

Generation delivered 21% of the total revenues, and then expanded 34% of the Ebitda contribution.

On page 11, we show here the positive results across most of the portfolio. As mentioned before, DECA is delivering [inaudible] performance associated with the renewal that we had in that country last year, and we are exploring options to optimize that business and return it to growth and improve profitability.

ADASA is also showing a decrease in the Ebitda. This is a non-recurring event and basically associated with a phenomenon of [inaudible] that goes to the stabilization plant that has had a negative impact while it is reducing the amount of water we can produce or [inaudible] on the operations in order to control and treat that.

HET, our hydro plant in Panama, is also showing a significant decrease, which is relatively a material asset in our portfolio, and this is related to the lack of rainfall and water availability.

The rest of the portfolio is showing good growth rates, again, averaging a 16% increase.

On page 12, these two charts showing the last 12 months as of June. We have an 8.2 CAGR over 2016 in our Ebitda, which is key highlight of our financial performance and one that summarizes the responsible management of the assets across the portfolio.

When looking at the different businesses, distribution and generation stand out with contributions to the Ebitda, increase of 12% over the last 12 months, with a COP 234,000 million from distribution and 147,000 from the generation business, which reflects and 8% increase.

On page 13, our asset base is showing a 6% increase, reflecting the heavy Capex program that we are implementing and increase the liabilities by 9%, some of which [inaudible] to build the cash position. We have reached at the end of June an equivalent to COP 3.16 billion. Again, this is cash at hand at the end of the quarter.

The total long-term debt to Ebitda shows a 3.92 and when incorporating the cash position and calculate the net debt to Ebitda, that figure shows a 3.44 times, which is below the 3.5, which is our long-term target.

Our assets are growing at 6.6%, given the significant Capex program we are implementing.

On page 14, as of June, which is before the liability management operation that we executed in the international capital markets, we're showing USD 22 billion of debt, with an average maturity of 5.4 and this is clearly liability management operations and we see a significant peak in 2021 and also more than USD 2 billion of debt maturity in 2020.

On the next page, we are showing the post-closing transaction, the liability management. The main effect was increasing the average term of our debt portfolio from 5.4 years to 7.2 years and reducing the amount of debt maturing between now and 2022, from 43% of the total debt to 22% of the total debt.

Another important consequence of the liability management operation is that it enabled us to prepay our bank loans with international banks, which implies that we have freed some of the potential resources that we could get from the international banks in the future.

Moving to page 16, on Ituango we see a relatively up-to-date picture of the dam so it is now at the total height, which means that the cars now can go to the top of the dam and do not have to drive all along the downside part of the dam. That gives security to the project and safety to the population, reducing the time to get to the Ituango town.

We continue working on the main front, [inaudible] the right tunnel. We are in the final stages of plugging or installing the pre plug of the auxiliary diversion tunnel, which is an operation that we expect to finalize within the next month also and we have made significant progress in the setup to start filling the hollow caverns between intake wells one and two, in an operation that we expect will take us all the way to the first water of 2020.

We continue cleaning up the powerhouse and the main caverns, including the transformed cavern, to enable the recovery and the repair needed. We have almost finalized the stabilization of the access tunnel to the powerhouse, having found positive evolution on the last 200 meters of that tunnel, which we just recently were able to access.

In that section, we discovered that there is no real detachment, so the tunnel remains mostly intact and the operation to recover is just removing the material that was accumulated there.

Also, we finalized part of the stabilization of the eroded material that was on the north part of the powerhouse and now one of the main tasks that we have in front of us is the stabilization of the buttress between surge tank one and the second generation unit, which is an activity that will take about six months from now.

The day of entry into operation remains the same, with the first power unit coming into operation in 2021 and then the two other power units for half of the project will be put into operation between February and November 2022.

We continue making progress in stabilizing and doing the repairs and getting ready to do the major task of removing equipment from the powerhouse and then installing back equipment.

Moving to page 18, no changes in the estimated cost of the project. Up to June, we have invested COP 881,000 million into the project and a slight variation also in the amounts accrued up to June, which now reach COP 608,000 million with no significant surprises at any of the items of investment or expenses related to the contingency.

On page 19, the same numbers that we have shown you before with a 33% expected increase into the project.

On page 20, we have received money already from the insurance companies, from third-party liability, and we will continue receiving money as we spent money on the process with third parties.

On page 21, we believe we're getting close to the definition of coverage from the reinsurance company. We basically ended up the exchange of information and we have been communicated by them that they are finalizing their analysis to reach a conclusion.

In the case of getting a positive resolution, we expect to be getting money during 2019 from the insurance companies associated with the money that we have already spent into the project.

Finally, in terms of divestment plans, a general message that we have grew significantly in all three work fronts. We are about to launch the second phase of ADASA with a short lease. We are about to get binding offers in the second round on the short list on Cururos and we are about to launch the second phase of the ISA shares.

We still expect to close all these three transactions during 2019 and ADASA being the only one closing in the first quarter of 2020.

Lastly, we have prepared for you positive results, probably from Ituango, and probably on the divestment plan.

With that, I'll open it to questions. Operator, you can take questions.

Operator: At this time, I would like to remind everyone in order to ask a question, simply press * then the number 1 on your telephone keypad. If you would like to withdraw your question, press the # key. We will pause for just a moment to compile the Q&A roster.

We are going to reply the questions first from the audio conference and then questions from the web.

As a reminder, if you would like to ask a question, simply press * then the number 1 on your telephone keypad.

We have a question from the web. With the two milestones achieved in Ituango, would you say that the main risks of the project are mitigated?

Jorge Tabares: Thanks. We have continuously reduced the risk for the third parties and the population downstream.

Clearly, this was an important event, as we now have the total height of the dam. That gives us confidence for many decades going forward, and with all the measurements we are taking and all the monitoring we also feel quite confident about the minimum risk to populations downstream.

The major tasks in front of us are mostly engineering challenges that do not represent a significant risk component or exposure to the project. We have a lot of work to do, but mostly are engineering related.

Operator: We have another question from the web. How were changes of requirements with the recent liability management operation in the international capital market?

Jorge Tabares: Thank you. This is a transaction we are proud of because it shows the extensive communication we have with the international investment community and the level of appetite we found on July 11th was quite positive.

Effectively, this reduces the demand for cash over the next few years and if we incorporate the cash at hand and the available credit line, we now can say that we do not need to go back to the financial community for most part of the first half of 2020, even before some unexpected [inaudible] divestments go lower than expected.

Operator: There are no further questions at this time. Mr. Tabares, do you have any closing remarks?

Jorge Tabares: No. We will continue communicating any evolution as soon as it happens and we appreciate your participation in the call.

Operator: This concludes today's conference. You may now disconnect.