Transcripción Teleconferencia de Resultados Cuarto Trimestre de 2017 Grupo EPM

Operator: Good afternoon. My name is Richard and I will be your conference operator today.

At this time, I would like to welcome everyone to the fourth quarter 2017 consolidated financial results conference call - EPM Group.

All lines have been placed on mute to prevent any background noise.

After the speaker's 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: Thanks, operator. Thank you everybody and welcome to our quarterly conference call.

This time we are going to show you the year end results for 2017.

Moving to page two. I am going to be following the presentation that is also posted on our website, on the Investor Relations tab.

I am going to talk about the relevant markets, the energy market in Colombia, the Ituango project and also the financial results for the group for 2017.

Moving to page three, in terms of the relevant events of the fourth quarter of 2017 and the events subsequent to closing, on December 13th our board approved an investment plan for EPM's parent company for the four years between 2018 and 2021, totaling COP 6.4 billion and also approved a budget of COP 14.2 billion for 2018.

Our plan is that the Ituango and Aguas Claras projects will come online during 2018 and we plan to transfer to the municipality of Medellin -in terms of what the private sector calls dividends- a total of COP 1.5 billion.

That figure includes the final payment of the Isagen proceeds that are going to be passed to the municipality.

On December 14 we finished paying the municipality the extraordinary surpluses for the year and that totaled COP 459.000 million.

At the end of December, we signed a loan agreement with IDB invest, the private sector of the International Development Bank.

From that 1 billion project we are going to use the money to finalize the Ituango project and that concludes the funding needed for Ituango.

In that transaction also participated some Caribbean pension funds, some development banks from Europe, and some Chinese banks, providing to us a diversification of sources of funding.

We announced to the market that we identified a potential business opportunity trying to acquire Gas Natural ESP, which is the domestic gas company in the Bogota area, the capital of Colombia.

It's a listed company and we are pursuing that opportunity, which announced a transaction between the target company acquired in the third Q of 2017, at the end of the third Q of 2017.

On February 23, Moody's maintained our rating but changed the outlook.

It went to negative from stable and that's aligned with the changes in the Colombian sovereign risk rating.

On February 26, the Board of Directors authorized the allocation of COP 180.000 million to continue our investment strategy in innovation and corporate business ventures through private equity funds.

We are at the five-year period of the first private equity fund and we are going to establish a second fund to invest this amount of money in total.

Moving to page four, in terms of the energy markets in the countries in which we operate I highlight a few pieces here, Colombia being the most relevant one.

The overall country demand in 2017 grew almost by 1%, a total of 0.9%.

EPM, on the bottom left, when we sum up all the operations in the country, our variation was basically flat: a 0.1 reduction in the energy we sold in Colombia and that reduction is driven mainly by the electricity distribution companies in the Northeast of the country, mainly CENS, ESSA and CHEC and also show a reduction of 1.1%.

On the other side, our core operation on the metropolitan area of Medellin and Antioquia department increased by 0.4%.

That reduction in the energy in our operation was mainly due to the comparison year.

In 2016 we had extremely high temperatures in our regions of operation and that implied much more use of air conditioning and also more use of electricity for the water distribution systems, as more pumping was needed in 2016.

It's also impacted by the slower economic growth for the regions in which we operate.

In total, we delivered 15.769 GW/h, representing 24% of the total Colombian market.

On the other side, Panama and Guatemala show healthy growth rates, with 2.9 and 2.2%.

From this, I highlight Guatemala, which was a country that suffered a significant change in the political landscape, with a change of president.

The economy was not disrupted by that major political change in Guatemala and we represented 35% and 41% of the total market in Panama and Guatemala, maintaining our position as key players in those two economies.

When we look at the bottom right, the international company showed a higher growth rate than the Colombian market and from that I highlight EEGSA in Guatemala, with 1.9% growth and ENSA in Panama with 3.4%.

When totalizing all the international operations, our energy volumes grew by 2.5%, highlighting the relevance and benefit of the international diversification of the portfolio of the company.

Moving to page five, related to the spot prices in the different countries in which we operate, the most important information here is the significant reduction in Colombia, a 62% reduction from 96 to 36 dollars per MW/h.

This is again 2016 being a very dry year with high spot prices compared to 2017, which was a moderately rainy year in which spot prices were low.

Spot prices we saw in Colombia were the lowest after 2011. We had not seen those numbers since 2011.

In Guatemala, Chile and Salvador, the prices didn’t change much.

In El Salvador it was a 14% increase, but this represents a very small fraction of our operation.

In terms of generation in actual units, our number in Colombia grew by a healthy 15.2%, reaching 15.441 GW/h during 2017, which was a normal year from the Niño or Niña condition perspective.

A slight increase in Chile with 11% and then a mild decrease in Panama, with a 1.3% reduction in our generation volumes in that country.

Moving to page six, this is part of the positive news that I have to share with you today, which is the advance of the Ituango project.

Throughout the year, the project made continuous and solid progress in its construction.

As of February, the total completion was at 82.3% and we have invested 2.7 billion dollars in the project.

We estimate that the first production of energy will be online in November, at the end of November, early December, 2018, as originally planned.

Just keep in mind that to deliver that energy we don’t have to be at 100% of the project because the project is set up in two phases, each one of 1.2 GW/h, GW of capacity so we have to be at around 91% at the time the project is going to be operating and delivering energy.

Significant progress in the dam construction, as of February being at 81% of completion.

The spillway is at 98% of completion and all the civil works of the powerhouse were concluded last year.

In terms of the power generation equipment, the first stage of 1.2 GW, with four power generation units, we have an overall progress of 23%.

Some turbines are at 57% and some generators are at 12.3%.

100% of the 25 transformers are already in place and the two big crane bridges that are needed to construct all the power generation equipment are operational by now.

I repeat, we expect the project is going to be online and on budget, delivering energy to the country at the end of 2018.

This is a transformational project for this company and this is very good news for us.

In terms of the financing, as mentioned, the 1 billion dollars signed in December completes our financing for the project.

We still estimate that the total cost is going to be 11.4 billion pesos.

This is the same number we put in place back in 2010, when the project was defined and given the final loans signed in December, the total financing of the project is going to be 64% debt and 36% equity.

So far, we have disbursed 1.5 billion dollars for the construction of the project and here we list some of the facilities that have been subscribed for the project, some of which are still to be disbursed.

EDC, with 135 million dollars, has yet to be disbursed.

BNDES, from Brazil, some of the money has yet to be disbursed and the BID-IIC transaction has not been disbursed at all at this point in time.

Moving to page eight, in relation to the macro scenario I point two things here basically.

One is the lower unexpected GDP growth in Colombia, with 1.8%.

In our view, this year concluded the adjustment from the oil price reduction in the international markets that had a significant impact in the Colombian economy and we are expecting the country from 2018 and forward to increase the growth rates and reach a level that is closer to 3% on the medium term.

I also highlight the revaluation of the currencies across our operations.

Chile, where we have invested more than 1.3 billion dollars, having the stronger currency, with an almost 8% revaluation during 2017.

The Colombian peso basically remained flat and when you account for 2016 and 2017, it has shown a very stable performance.

Moving to page nine, focusing on the full year financial results, this is the second message that I have to convey to you today. This year was a very solid year financially for EPM.

The total revenue for the year was 14.950 thousand million COP, showing a reduction of 6% compared to 2016. This is mainly due to lower energy prices in Colombia.

When you look at the performance metrics, the Ebitda stood at 4.7 billion COP, showing a healthy 17% increase and this being the second year in which our Ebitda has grown in two digits. In 2017, it has grown by 12% compared to 2015.

In terms of the comprehensive income, we reached 2.3 billion COP. That's an increase of 25% over the 1.8 billion delivered in 2018.

I'm going to show you in a minute some of the sources of that growth, but it's something we feel very proud of and very good results overall for the year.

When looking at the margins, on the lower right the full year Ebitda margin stood at 32% and that's a significant increase from the 27% delivered in 2016.

That 32% is more aligned with our long-term view of where the margin should be before Ituango delivers all of its energy, which will help further increase our Ebitda margins in the medium term.

Our operational margin increased also from 18 to 24% and the net margin from 12 to 16%, so 17% Ebitda growth for the year would be the highlight.

Moving to page ten, in terms of the breakdown of our operations, from the revenue perspective almost half of it came from EPM, which operates in the Medellin metropolitan area and the Antioquia state.

15% came from the Colombian power distribution subsidiaries and a total of 35% came from the international operations.

On the bottom pie is the breakdown of that 35%, so the revenue contribution, 37% of that 35% came from Guatemala, 36% from Panama, 15% from El Salvador and 10% from Chile.

Looking at the middle graphs, the 4.7 Ebitda, 62% came from EPM, and 21% came from the international operations and that figure is a fairly balanced delivery between Guatemala and Chile, and then a lower proportion Panama, with 23%.

Still Salvador and Mexico account in total for just 8% of our total Ebitda and in terms of the comprehensive income, 80% came from EPM, which delivered a very solid year, 8% from the Colombian power subsidiaries and 12% from the international operations.

Moving to page 11, when you look at the segments, if you look at the Ebitda, a more balanced year between distribution contribution and the power generation contribution, this in light of having had a normal year from the hydrology perspective.

Last year, our distribution contribution was higher, with almost 50% of the total delivery of the company.

Given the solid growth we wanted to show you on page 12, the first one is the trend of our total growth rate in terms of the Ebitda.

Since 2013, we've had a CAGR of 7.8% and this is the period during which we actually built the Ituango project that will start delivering cash flow next year for the group.

When looking at the contribution by business, generation is the one that helps the most, with 595.000 million COP and that is showing a 51% increase.

Transmission is showing a 79% increase, reaching almost 100.000 million COP and this capturing the sustained contribution from the Nueva Esperanza project put on line at the end of 2016 and also the Bello-Guayabal-Ancon project, which was the second major transmission project of the company, which was put on line in 2017.

Basically flat delivery for the distribution business, with a 2% reduction.

A 48% reduction in our gas Ebitda contribution and this is, as we normalize by the 2016 year, in which the gas business was able to commercialize and make some money out of the high gas prices in Colombia during the drought season, in which the thermal generators were using gas to supply the energy.

Finally, the water business shows a 39% increase, contributing with 144.000 million COP. Of the almost 700.000 million COP, it represented a 17% increase at the group level.

On page 13, we show you which companies are showing the biggest growth in the Ebitda and on the axis we show the actual Ebitda margin for each one of the companies.

The red cross is the average for the group, so the margin is 32% and the variation of the Ebitda is 17%.

From this one I highlight Adasa, which under the aerial of the circle is the actual Ebitda in pesos.

Adasa has the highest Ebitda margin between the big companies of the group and it's growing above the average by 24% during 2017 its Ebitda.

EPM also showing a very healthy growth during the year and I go back to the bottom left with Cururos, which is our small plan in Chile, which did not have a good year last year, as the prices at which it delivers energy were significantly low throughout the year.

Moving to page 14, our equity grew by 5%, reaching 20.8 billion COP.

The liabilities increased by 14% and this proportion between the increase in the equity and the liabilities is because we continued investing at a very healthy rate during the year and that also is reflected in the 10% increase in our asset base, reaching 47 billion COP.

The assets' CAGR for the same period (2013-2017) is 6.1%, demonstrating our growth strategy.

On this, I highlight that in 2015, when you add the increase from almost 36 to 42, that's the year when we acquired Adasa in Chile and the rest of the growth is mostly supported by the organic Capex portfolio delivery.

The debt ratios at the end of the year, the total debt ratio was 56%.

The financial debt was 38% and our Ebitda to financial expenses closed the year at 5.49%.

The long-term to Ebitda ratio stood at 3.43% at the end of the year, coming in line with our desired long-term view of being at or below 3.5 times.

In the bottom right you see how we are now being aligned below 3.5% almost throughout the year, as we told the market and expected to be.

On page 15, our total debt profile. We ended up the year with a debt portfolio of almost 17.000 million COP.

Focusing on the bottom of the page, in 2018 we don't expect much maturities. We do have a peak of maturity in 2019, from which I highlight the 500 million dollars of the US denominated international bond and a transaction in local currency in Chile in Adasa, with 1.3 billion COP.

From that peak, we are already working on the Adasa to do a partial or total roll over of that debt using the local capital markets in Chile and we continue to monitor market conditions in terms of our potential liability management operation for the 2019 bond.

From this graph, I also highlight the 2027 maturity, which is the 2.3 billion COP bond that we issued back in October, 2017.

In terms of the sources, it shows how we diversified our funding base over the last three years.

We have local bonds just presenting 15% of the total debt portfolio.

The global COP bonds with 27% and the US bond with 13%.

The international banks showing a 21% contribution.

Almost half of it is due to the Adasa transaction of 400 million US equivalent from the local Chilean banks.

The average term of the debt was 5.86 years at the end of 2017 and from the total portfolio only 16% was US denominated after we included the hedging so we started 2018 with a relatively low exposure in US dollars and that was the plan because throughout the year we expect to disburse many of the facilities that we have signed and that will help us fund all the organic Capex commitments that we have across our portfolio.

That is our planned presentation. I encourage you to make any questions you may have.

If you cannot come up with a question now, just feel free to come back to us through our Investor Relations website or contact.

With that, operator, I pass it to you, so we can open it for questions.

Operator: At this time, I would like to remind everyone that in order to ask a question, please press * and 1 on your telephone keypad.

If you would like to withdraw your question, press the # key or pause for just a moment to compile the Q&A roster.

At this time, we are going to reply the questions first from the audio conference and then the questions from the web.

Standing by for questions.

As a reminder, for any questions on the line press * and then 1 on your touchtone phone.

Jorge Tabares: I'll just buy some time for potential questions. Just want to highlight again that Ituango made solid progress throughout the year.

We are standing here less than eight months away from starting production of energy in Ituango.

The financial results were very solid, with a 17% Ebitda increase.

We came back in line with our debt to Ebitda target of 3.5. We came up at 3.43% and we continue to invest very heavily across our portfolio, which made a total increase throughout the year and that's also what we plan to have in 2018.

Back to you, operator.

Operator: Once again, for any questions on the line press * and 1 on your touchtone phone.

At this time we have no further questions.

Jorge Tabares: Ok. Thank you very much and again, thank you for attending the conference call.

We hope to talk to you again in a quarter.

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