

REN – Redes Energéticas Nacionais
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Corporate participants

- **Rodrigo Costa** – Chief Executive Officer
- **Gonçalo Soares** – Chief Financial Officer
- **João Conceição** – Chief Operational Officer
- **Ana Fernandes** – Head of Investor Relations

Conference participants

- **Jorge Guimarães** - Haitong Bank S.A., Research Division - Equity Research Analyst
- **Sara Piccinini** – Mediobanca, Equity Research Analyst
- **Arthur Sitbon** – Morgan Stanley, Research Division

Presentation

Ana Fernandes

Hello, everybody. Here, we are again, another Friday, another quarter, as usual, very well surrounded by our executive team and other people here, Rodrigo Costa, our CEO; Gonçalo Soares, CFO; and João Conceição, our COO, who will all be ready to answer any questions you may have. But as usual, let's start with Rodrigo's opening remarks. Rodrigo?

Rodrigo Costa

Thank you, Ana. Welcome all to our conference call. Our results came according to the market expectations. We are performing within our plans without events that deserve any special attention.

Portgás and Electrogas investments are moving forward, operationally doing very well and financially pivoting the way we expect, as the rest of the company. Overall, EBITDA was 3.8% higher than in the first 9 months of 2017 and including the -- including in the EUR 378.4 million are the EUR 4 million profit from the sale at July of the LPG business that belong to Portgás. Financials were stable and net profit was slightly higher than in the same period of last year.

As you know, our results include the payment of the special levy on energy companies. As we speak, the government is closing the 2019 budget that may include some changes on the special tax. In a few weeks, we will know the results. We are not expecting any -- anything more negative than what it is right now. The court is late on their decisions. As you know, I was waiting for the court feedback before the summer and that didn't happen. We will see when we will have news from the court.

If we win the case, we will have the money back. If we lose, we don't have to pay fines or extra interest. Our board already discussed the topic. And we are not changing our -- changing our position. We paid the tax, and we maintain our cost disputes.

As you are aware, we had a change on the government regarding the supervision of the energy sector. Energy is now part of the Environment and Energy Transition Minister responsibilities and the New Secretary of State already announced publicly that he wants to approve our long-term investment plan that got a positive review from the energy regulator. And those are good news. It's obvious to us that the best on the renewable energy generation will keep moving forward, and it will be a priority for the future.

We keep working on the economic and technical studies for the submarine cable connection with Morocco Kingdom, and it will be necessary few more months before we can anticipate both government decisions. We stick to our strategic plan. We are working on evaluating different opportunities for investments, but that will take some time, and it -- and we will not make any concessions. We want to make sure, we make a very good use of our resources, and we deliver on the results we commit to.

All in all, we remain quite enthusiastic about the perform -- our performance and the future. Gonçalo will now share with us our results overview. Gonçalo?

Gonçalo Morais Soares

Thank you, Rodrigo. Hi, hello, everybody, good afternoon. And so on the 9 months results we have on this year, what we could tell is that we are slightly ahead of what we have in budget and what we have, therefore, on the business plan.

So in the 9 months, our EBITDA is growing around 4%, 3.8% precisely, and net profit around 2%. This EBITDA increase is driven mainly, as you know, by the integration of Portgás, and we'll talk a little bit more about that by also the first being still below and you know that this is always true until the last quarter and by the sale of the LPG business.

And on the financial performance side, we are slightly better despite the fact that we have more debt because our cost of debt has also continue to come down, but we continue to have a very negative effect of the extraordinary levy on our account.

And just a reminder, and as you saw on October, S&P upgraded us, again, I think. Although this has, as you may imagine, limited impact on the cost of debt, is very rewarding to see that they -- that the rating agency's belief in our work. Yet, it reinforces the solid position that we have of being the best rated company in Portugal.

And Page #3 is just the main numbers that you have.

I would probably skip that and go straight to Slide #4. What you see here is the evolution of the 10-year Portuguese bonds. You see the trailing evolution. You see that on -- it has a trend of coming down. And on '17, you see that the

average bond yield was around 3.43%. And from October to September of this year, it was 1.87%. So this is the story of this year's rate and which continue to impact on the negative side the remuneration of the assets and have a limited impact during this year in interest costs because we anticipate that this drop in interest costs were lower in the previous year. So this, of course, has made that the base RoR of electricity came down from 6.3% to 5.2% and gas also from the low 6s to the mid-5, 5.5% to 5.8%.

On Slide #5, you can see CapEx. CapEx, I can tell you although we're slightly below what we had last year, we knew and we told you when we presented the business plan that this will be a lower year in terms of CapEx versus what we have in the average of the business plan. That being said, I can tell you that we are on track to be slightly better than we anticipated. And I think that in relation to CapEx and transfers to RAB, we should be slightly ahead of what we have in the business plan. And so I'd say nothing major to comment on this yet. And Portgás already at around EUR 14 million in terms of CapEx and posted EUR 12 million in terms of transfers to RAB and everything is I'd say going according to plan.

On Slide #6, you just see the RAB in terms of the different buckets of the assets. And it's as usual the same dynamic, electricity without premium and natural gas coming down, and electricity with premium going up a little bit, and Portgás having a lot on a year-on-year basis.

On Slide #7, you can see how this breaks into the remuneration of the different assets. And you see that in electricity, it basically would be an impact of the change in the rate of return. As I said, it comes down from 7.08% to 5.92% in assets with premium. And this represents most of the drop of almost EUR 20 million that we have in electricity. So completely normal, completely within our expectation.

Natural gas. Same kind of -- sorry, so it's basically an impact of the rate of return. Although, in the case of Portgás, we see still have a little bit of growth of RAB, compensate a little bit further, but it's mostly a negative impact derived by the rates of return. So I'd say nothing very different there also.

Moving to Slide #8 into OpEx. You see that, overall cost come down or go up 15%. This is again basically because of the inclusion of Portgás. If we exclude it, total cost would come down by 4%.

If you go to the next slide, which is you will decompose full OpEx. You see that apart from the personnel costs that are in the middle, core OpEx is going up EUR 10 million, 15%. What we can tell you is that if we excluded Portgás and -- the core OpEx costs, which are the ones that we control more directly and that are the ones that are mostly within the cap, not all of them, but most of them are within the cap, are coming down around 2%. Hence, the cost separately of Portgás are actually coming down a little bit more than those 2%.

Again and to remind you, as you -- and then João may add a little bit more on how the transition and the integration of Portgás is going along during the Q&A, but everything is going okay. But this was not the year that we expected to have any major or any cost savings. We know that synergies are very limited. As we've always told you, there is some cost savings that they are not to be -- you will not see them still in the account of this year.

So on slide #10, you can see the full impact in terms of EBITDA. So EBITDA is going up by 3.8%, but this is the dynamic data shows. So assets remuneration is coming down. Portgás being avid, so that more or less compensates.

OpEx contribution now is very positive. I'd say that this will as the year goes by diminish a little bit in terms of the year-on-year logic.

If we look below EBITDA on Slide #11, again, there is nothing very strange about depreciation. It's just the Portgás integration. Apart from that, I'd say nothing very out of the ordinary. In terms of financial results, as I told you and we'll see a little bit better in the next 5 years dynamic of debt going up, despite the fact that it goes up less than it shoots. So it has actually decreased since the year-end and we'll see that. Hence, the cost of debt slightly coming down, but not as much as it's used to because we already anticipated a drop in terms of cost. We did our refinancing at the beginning of the year. And so along the year, as we have seen, the cost has been very stable at this 2.3% that we've seen in the last year quarter.

Tax are, basically, very similar to last year. Effective tax rate results the levies around 26%, 27%, very similar to the one last year, so not very different. If you put the levy, it will go up to around 39%.

On Slide #12, you see the evolution of debt. You see that debt is actually coming down EUR 112 million. And this is the story that we knew was going to happen. We knew that positive cash flow generation given that CapEx is coming down a little bit would be very positive. And you also know and it's in the footnote that part of this is derived from the evolution of tariff deficits. You have to be mindful that this evolution of tariff deficits. It's not always in the, I'd say, positive direction as it was. It's something that fluctuate. And so in this year, as it was last year, it has been. And I think we've been recuperating and it has been a positive impact. It may be that next year, it's the other way around. That being said, the trend of having positive cash flow on a recurrence basis, I'd say is still there, okay?

Looking at Slide #13 and how net profit evolves. This all adds up to net profit going up around 2% with the logic of EBITDA going up and below EBITDA because of that depreciation is coming down.

So in terms of final remarks, as Rodrigo said, we are very much within what we said. And I think that we have compensated the lower assets remuneration with Portgás and the sale of the LPG business. And we are doing -- actually, things are going according to plan. I do want to make a remark to you that the evolutions you see here on this quarter on a year-on-year basis are going to change a little bit on the last quarter. As you know, last year, Portgás was already consolidated in the next quarter. So when you see here net income going up in the third quarter and EBITDA going up in the third quarter. These trends on a year-on-year basis, on a full year basis will be less and will become in the lower range, driven basically by the fact that within these first 9 months, Portgás was having on a year-over-year basis and in the last year, you will not see that impact, but you will still see the negative impact of the assets remuneration.

So with this, I conclude my remarks, and we open the floor to any questions that you may have. Thank you very much.

Q&A

Sara Piccinini

I have a few. So the first one is on the next regulatory review for gas that is going to happen this year. If you have any expectation on where the regulator could make some changes? Or if you feel stability for this review and just to have a sense of your expectation? And also if you can please remind us the timing of the review, so the timing of the next proposal and the final decision? The second question is on the CapEx. Do you feel comfortable with the level of EUR 130 million for this year? And also, we have seen on the press, the government commitment on a floating wind farming in Portugal. How much of this project could give you more upside on CapEx? And another question is on consolidation opportunity. If you could please remind us, which consolidation opportunities would you consider if you have any update on the renewal for some concession in electricity distribution in Portugal?

João Faria Conceição

Hello, Sara. This is João Conceição speaking. Regarding the first question on the new regulation for natural gas, actually start by second part, which is the timing. Well, typical -- what is officially that the regulator needs to do their proposal by the 15 of April of next year. And then it makes the final approval of all the variables and the new regulatory period by the 15 of June. Typically, our regulator makes a public consultation on the major guidelines for the new regulation, but there is no official date. They can do it quite in advance. They can do it closer to this 15 of April. So this is -- we are expecting this public consultation to happen most likely in the beginning of 2019. Regarding your first part of the question in terms of change or stability, honestly, our expectations is that the regulatory framework is not going to change significantly. So we are expecting the -- for the major issues to be stable, of course, adjusting the variable -- the regulatory variables to the current situation on -- in the financial market. But apart from that, we are not expecting major changes in what we have today.

Gonçalo Morais Soares

Regarding CapEx, particularly, we said in the Capital Markets Day that this year, CapEx should be a little bit below the average that you have on -- within the business plan on a full year basis and should be closer. And when we spoke at the Capital Markets Day, we said that it should be closer to the -- to a EUR 100 million mark. We actually think that the year is going a little bit better than anticipated. It should be higher than that. I would not assume that which is that number that you say, which is I'd say close to where the average of the business plan will be, okay? Rodrigo?

Rodrigo Costa

Okay. On the -- on your last question, you know -- and somehow we have the same type of comment every time we talk about future, whatever is the local opportunities outside, we don't know anything yet that where we can work and think about the -- that the near-term future. Then we don't have anything really to say at the moment. We are expecting people to decide on the rules of the tenders. We are far from knowing what's going to be the final solution and only after that we will be able to look into that. For the moment, we don't want to speculate at all because we made no decision yet even if we -- with how much enthusiasm we're going to look for those. Outside, we keep working. I always like to remember internally and externally that it took us like 6 or 7 years to get to the opportunities we end up doing, catching. And we are not expecting this time to wait for another 6 or 7 years. We -- hopefully, it's going to be much sooner and inside our strategic plan guidelines. But whenever we have something that time to share, we will.

Jorge Guimarães

I have three. Firstly, regarding new projects in Portugal. If we assume that in 2, 3 years' time, the government objectives of 1-gigawatt of new solar capacities installed, how much that could represent for you in terms of new required investment? Secondly, can you provide us with a target for net debt in the end of this year -- of 2019 -- in '18, I mean? And finally, and may be this is probably the most important one. There were recently some proposals linking the evolution -- future evolution of special energy tax to the evolution of electricity system debt. In that sense, firstly, would you -- what would be your view about such system debt ending by 2022, 2023? Do you agree or not, or do you believe it makes sense such horizon? And secondly, if that is the case, would you expect sales to end in a more or less simultaneous time table with this electricity system debt?

João Faria Conceição

Regarding your first question, these bets on solar depends on many variables and depends if other type of technology are to be faced off or if they have to be kept in the system. However, in the nutshell, directly links to solar penetration or new solar projects penetration. We foresee the development of some over the lines and some substation in the next 4 years to come. And with a total CapEx around between EUR 70 million to EUR 80 million.

Jorge Guimarães

Sorry for an add on. Are those EUR 70 million or EUR 80 million in your current investment plan?

João Faria Conceição

Yes. Yes, they are.

Gonçalo Morais Soares

So relative to your second question, the -- easier answer. It should -- the net debt, in general, it should be not very far from where it is right now. So it's at around EUR 2.640 billion, EUR 2.6 billion. It should be around that, plus EUR 10 million, minus EUR 10 million. It should not to vary a lot around the value that it is right now.

Rodrigo Costa

On the last one, as I said on the beginning, the government is still working on the rules. They want for the -- the way they will change or not, say in the coming years. And I think it's better to wait to see what will be the decisions and then we will be able to comment. What you said, it's what people are saying, it's true. They say that they are relating the end of the tax with the end of the electricity deficit. But for the moment, the topic is so complex, I think we should wait and see what is going to be the decision. As I always say, what we have today, it's -- that we have a tax that we believe it - - we shouldn't have, it's not properly set. We are disputing the decision on the court. We decided to pay because we just believe it's better even financially for us to do it that way. Other people have a different opinion. We prefer to focus totally in our -- we want to spend our time within the scope of our operations. And in the end of the day, as I said, if there is some change, we will be -- it will be beneficial to us if it is beneficial to others. And if -- in the end, the story is more negative, it will have a negative impact in all of us. I'm positive regarding the future. I think this tax one way or the other will have to end. And regarding REN, as I said before, it doesn't make sense what we have today, but we leave it to the lawyers to dispute that with the government, we prefer that way.

Sara Piccinini

I have a follow up. So you're looking for external opportunities that depending on the sites, it will be financed through debt or another capital increase. I just would like to know which is the level of net debt to EBITDA that you think is a roof above which you will go again to the market instead of using debt to finance the acquisition?

Rodrigo Costa

Sara, I don't think we can really comment on what you just said because we have, as Gonçalo said, we have our strategic plan. We provide good data and good guidance on what we want to do and how we want to do it. You mentioned capital increase, we never mentioned any capital increase. We said that we can go up to a certain amount of investment in the following 3, 4 years. And this is where we are. I don't know what if Gonçalo wants to point on with anything else.

Gonçalo Morais Soares

I'm just telling what I can add is that we have strong commitment with our investment-grade rating and we have strong commitments with rating agencies. And with them, on how the metrics are going to evolve in the next few years. Our business plan is coherent with these metrics that we've made with them. And that's the most important thing, mostly, are things related to liquidity that we have to have, to the evolution of our FFO/net debt. These are the things that we not only define in our business plan, but given what the commitments that we establish with the rating agencies and with the discussions that we have with them. So it's more relating to these and really the net debt yielding or whatever. There's a myriad of things that we talk with them, namely these 2 that I have told you. Okay?

Sara Piccinini

Just to reiterate that you put the investment-grade on -- as a priority before going for acquisitions?

Rodrigo Costa

Always.

Arthur Sitbon

I would just have two. The first one, could you guide on net debt for -- at the end of the year? And the second one would be, could you comment on where consensus stands for the year? It's at EUR 114 million of net income for 2018. And this implies almost 10% decrease versus last year, while as of 9 months, net income is up. So I was wondering if you could comment on that, please.

Gonçalo Morais Soares

I can comment on both. So although we don't give a lot of guidance. Relative to the first one, I already answered, but perhaps you were not in the call. So what I said is that net debt should be around a little bit up or down from where we are currently. So net debt that we have at the end of third quarter should not be radically different from what we should have at the end of the year. So relative to your question and I'm not going to give you specific guidance, what you have to bear in mind is what I spoke out during the presentation, which is last year, Portgás was already consolidated in the last quarter. That means that, that consolidation in the first 9 months have a positive impact year-on-year. That's our counterweight to the negative impact of the decrease of rates in terms of assets remuneration. But in the last quarter, you will still have the negative impact of the rates coming down as they should, but you will not have this positive year-on-year impact of Portgás. It is this impact that makes the fact that then you see things positive now, but they will become less positive and even negative in the last quarter and in a full year basis because of this. So if you

do this calculation, you should see more or less that it should go to numbers, perhaps closer to where you are seeing in terms of consensus. I think consensus, you're seeing this effect that I'm talking to you about. Okay?

Ana Fernandes

Arthur, if you look at the consensus we have on our website, we're very comfortable with the average for EBITDA. And for net income, the median is also a good number taking into consent that we are not here -- people were not thinking about the profit from LPG -- from the LPG sale.

So if there are no further questions, thank you very much. Have a great weekend.

Rodrigo Costa

Last call of the year. It's the last call of the year.

Ana Fernandes

Yes, it's the last call of the year. I mean, you know where to find me

Rodrigo Costa

Too early to wish Merry Christmas but.

Ana Fernandes

Yes. So if you have any questions, you know where to find me. And in the meantime, have a great weekend. Thank you.