

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

- **Sara Piccinini** – Mediobanca
- **Gonzalo Sánchez-Bordona** - CaixaBank
- **Jorge Guimarães** - JB Capital Markets
- **Jorge Alonso** - Société Générale

Presentation

Ana Fernandes

Hello, everyone. Thank you for being here on a hot July afternoon on a Friday. You know the drill. We are joined by our CEO, Rodrigo Costa; Gonçalo, our CFO -- Gonçalo Soares will make his results presentation. And then we'll be open -- the floor for -- we'll be opening the floor for questions. We're expecting a interesting call. Rodrigo?

Rodrigo Costa

Thank you, Anna. Good afternoon and thank you for joining us for the results conference call. The quarter went smoothly from an operations perspective, and we don't have much to report other than this week announcement. I assume that we -- you probably will be still in discussing the recent acquisition and we will address that at the end, especially during the Q&A.

Starting with the results. EBITDA was in line with the market expectations, slightly below what we presented a year ago, but we must adjust the numbers of the interest rate evolution and that was normal.

As expected, we had a decline in our RAB that was partially offset by the Electrogas and Portgás contributions. And in fact, this is why we decided on the strategy we are executing. Without local growth, we are finding and execution on ways to bring us to a stable situation.

On the financial, I guess, we were able to surprise on the positive side given that the debt is lower than a year ago. The energy levies continues to penalize our net income. And in that front, no profits has been made.

The court process is moving slowly as expected, and we cannot report any news at this time. Just the fact that we keep our focus on the legal dispute and we are waiting for the next year state budget to understand how the government is planning to move forward with the tax. We still believe the progress will be made, but it's difficult to quantify at this moment.

At the operational level, we got new historical highs in wind and in photovoltaic generation. Our senior LNG terminal remains very busy. In fact, the terminal reached the highest utilization rate ever. We handle over a tanker per week during the first six months of the year. The previous record was in the first half of 2017 with 22 ships and within the same period, we have reached 33 this year.

The quarter has been a busy one for our infrastructure people. We are providing good assistance to the government agencies that is running all the renewables push. And as we said before, once the new generation projects are approved, we will be able to better understand the impact in our investment plans.

Finally, three days ago, we announced acquisitions of Transemel in Chile. The investment we are doing follows our successful experience in this market. We are already there through Electrogas. Our results encouraged us to research new opportunities and we closed this new investment this week.

The asset is very good. The deal terms were fair. The outlook is very positive. It's a modest investment, but quite important for us. The same conservative precautions were applied for investment research and decision. Now, we will have to execute under the same principles that we applied to Electrogas and Portgás projects, understand the business and that's what we do best. Priority to the operations efficiency and safety and financial discipline.

And from my side now, this is all. And I will -- Gonçalo will take the floor now. And we will -- I will return for the Q&A.

Gonçalo Morais Soares

Okay. Hello, good afternoon to you all. So as Rodrigo say, this is in terms of results, non-eventful quarter and semester, results were broadly in line with what we have expected.

EBITDA totaling EUR247.4 million, a drop of 2%. And there's a couple of items which are more timing issues that I will address a little bit later on that explains part of this drop, but most of the explanation is the lower rate and of return that we knew that were coming.

Portgás in Chile although small have been contributing positively to EBITDA, which is good. And hence, net profit came down around EUR1.8 million by 3% without any, let's say, major surprises.

Net debt continues to improve and reduce along the year versus last year. The cost of net debt is still little bit better year-on-year, but stabilizing as you can see and as we said and CapEx is pretty well underway in this year for us to beat what was our business plan interval in terms of the business plan, in terms of CapEx.

So if you look at slide number three, I'll just go over it, it's just the main numbers, nothing to comment there. So moving to slide number four. You can continue to appreciate the drop in the 10-year Portuguese bond yields. They were -- they are at extremely low level as of now. They continue to decrease.

And Mr. Draghi comments yesterday do not give us any good news in this front. So when he sees that we don't like what we see, it seems that rates maybe at low levels for a little bit longer. That being said, you can see that the reductions in the rate of return are smaller than those drops. In gas, they are at the floor. And so, I think that we were a little bit insulated and we've been able also on the funding part to try and manage these namely before but still now.

What can we see if we move to slide number five and talking a little bit about CapEx. It's as I said, CapEx is well underway this year. I think we'll be able to beat every (inaudible) before our goal that we stated in the business plan. It's still early on as you know, but I think it's a good sign that it is going up around 26% and transfers to RAB are also going up.

These were several projects that some of them were waiting for specific licensing and some of them have a slight delays at the end of this. So these are things that were brought into the regulated asset base at the beginning of the year. And that if you want [Joao] can give you a little bit more color on what they are. But I'd say that things are, I'd say, pretty well, in line with what we expected. We even have a small delay on the distribution part in gas, but I think that when the year ends we'll be delivering on the CapEx that we told you that we would.

Unfortunately, and you see that on slide number six, and despite this fact, this is a year of pressure in terms of our drop. We know this. I think this will be less -- you will see a little bit less RAB at the end of the year, but of course, this is what we knew when we also acquired some other assets, we knew that this was the pressure that was coming, okay?

Let me just point out the increase in Portgás, which is the only asset that is increasing at expected level, even a little bit better. The regulated asset base versus what was our objective.

Slide number seven, you put the two together. So you see evolution of assets and evolution of rates. In the transmission business, you see that both are a little bit elements of pressure, so there is the declining RoR and the declining asset base. But this was completely expected.

In Portgás, you see that the ability to increase the regulated asset base allows us to compensate for the decrease in RoR. So I'd say that this is what you were also expecting. And so no news here.

Moving into cost and slides eight and nine, and starting with slide eight. So I'd say that you see here, cost pretty flat on the quarter. And I'm not going to go, but if you see them on the next, you see also that core OpEx is growing around 0.8%. But let me give you a couple of -- give you a couple of comments on our costs are behaving.

In terms of external supplies, as in previous quarters, there is in the Joao can give you a little bit more of color of this also. There is an exceptional activity in the terminal. And so this translates into electricity costs, which have a relation to revenue. So part of this external cost around EUR1.3 million relate to this. And so they are actually costs that have a margin, but you don't see it here.

The second thing that I wanted to comment and namely on the personnel cost is that this have two -- I'd say two things that you have to be aware. The first one is that there's a little bit of a transfer of course between Portgás and the transmission business because as you -- as we've told you, we concentrated certain functions in our shared services areas, so there's a little bit of transfer around EUR200,000 to EUR300,000 from Portgás to the [trans]. Not the transmission business but to what appears here under the transmission business, okay?

The second thing is that there was a change in accounting in terms of how you recognize the extra salaries you pay in vacation time. We recognized everything already in the month of June. It's completing a timing issue, so at the end of the year, you will not see an increase of personnel because of this, but in the middle of the year, you see around that EUR750,000 increase. So there is around EUR1 million of personnel that is increasing here on this red line, which is mostly timing issue. Headcount is at 690 and is well -- is actually a little bit below what we expect.

In Portgás, I think there's a lot of impact, but a big part of this is relating to subsoil occupational levies occupational average that have decreased, that are lower. And so you see them here in Portgás. Parts have to do with the cost from the LPG business that are not here. Parts have to do with personnel issue that I told you that came to the transmission side. And part of it is just the fact that they really did decrease cost along the way, okay?

Bear in mind that the cost that I referred to the subsoil are completely passed through because we pass them to the consumer. So they are shown here. So either increase or decrease. For us, it's complete irrelevant, but it's important for you when you see that change in cost to understand that, okay?

You see that in slide number nine, you see that on the cost, which before core OpEx, there's a lot of them that are stable, but there's a lot of them namely the subsoil that is decreasing because of that. The ITC mechanisms has more to do with exports and imports of electricity, which if you are curious, Joao can also give you a little bit of color later on because there's been a lot of -- I'm giving him a lot of things to comment.

The mechanism has more to do with exports and imports of electricity, which if you are curious, Ron can also give you a little bit of color little on because there's been a lot of -- I'm giving him a lot of things to comment.

So if you moving to slide number 10, you just have the summary. So this is what we saw. So you see this dynamic of asset remuneration. And then this dynamic of OpEx contribution but with actually given what I told you is actually slightly positive, it's negative because of this timing issues.

And then you have this positive effect both of Portgás and you also have a positive impact of Electrogas. Electrogas, although small, this year is going pretty well. EBITDA locally is growing around 15%. This is mainly driven because of the increase in interruptible contracts and reasoned by the imports of gas from Argentina, and that has led that the contribution to REN is now at midyear close to EUR4 million, which is almost 30% percent year-on-year increase versus last year. So it is small, but it is going in the right direction.

Moving to slide 11 and commenting a little bit. So G&A nothing in particular to comment. Relating to taxes, Rodrigo already mentioned that we don't have any major news on the special levy. The only good thing is that because assets went down, the special levy also went down a little bit. So nothing to add, the rest are completely in line with our expectation in terms of effective tax rate.

In terms of financial results, you see this improvement of EUR0.5 million. This is actually going down around EUR1.5 million. Again, there is a timing issue here because last year, the dividend from Mozambique was already received in June, this time it was not. And so there is more or less EUR1 million versus last year that we have left here.

So the reality of the financial cost is that they went down around EUR1.5 million and this is on [land side] the result of the reduction of the rate, which is very small by now. So we are kind of stabilizing in this low 2%. It is also the result, and you can see that on slide number 12, all the reduction of net debt that we have been continuing. So net debt have decreased more significantly in the first quarter. In the second quarter as you know, we pay the dividends. And so the next two quarters, except for the fact of this M&A transaction that we did, the next quarters will also be cash flow positive. So you'd probably end up at the end of the year reducing in line with what we have told you we'd be reducing around EUR50 million or EUR75 million versus '18 year-end. But because of the acquisition (inaudible) is a bit different.

So moving to slide number 13. This is, I'd say, the summary of everything else. Nothing to explain. So this decrease of EUR1.8 million, again, if you put this into context and you consider those couple of timing issues that I told you about, it will actually be more on the flattish side and on decreasing 3%.

So final remark on slide 14 and then waiting to comment on that rest. So pretty, I'd say, good and solid results in terms of financials, continue to manage well on the operating side, continue to manage well the levy -- I'm sorry, the financial cost. And both Portgás and Electrogas are contributing positively.

And just the final word. I'm not going to talk a lot because I leave that to the Q&A. But we did announced this acquisition of Transemel. This is completely within what we have told you that we would be doing in our business

plan. We said that we are going to continue to do this disciplined growth outside of Portugal. This is what we have done.

We waited '18 to integrate Portugal well. That's job was done. And so we now are able to capture an additional I'd say incremental growth opportunity in Chile, which is a market that we know a little bit better by now.

But let me -- let us see what specific questions you have about that. So thank you very much, and we're open for any questions you have.

Q&A

Sara Piccinini

I have a quite a few questions on the deal, so I'll maybe start from some then I can follow up later. So on this acquisition in Chile, I guess, this will be fully consolidated. So if you can help us giving some other details, such as maybe the EBITDA and also net income contribution? And also maybe the cost of that -- of this acquisition so we can calculate the attrition. And then if you can, again, give us an indication about the accretion of this deal? So this would be the first question. If you can help us to calculate the EPS accretion.

Then the second question is on the significant EBITDA growth that you have indicated. So cash flow -- EBITDA is going to increase 35% until 2023. So what justifies this growth? And this can be sustainable in the long term, what is your expectation of the EBITDA growing in the long term?

And then about the CapEx. You have said that this asset has already a CapEx plan of EUR60 million until 2023, how this CapEx will this distributed through the years? Thank you.

Gonçalo Morais Soares

(Technical difficulty) is this -- hello? This was on mute, I was already answering. So let me start with the last question on the CapEx plan. So I'm not going to give you exact numbers but I'd say if you want a ballpark figure around two quarters of that -- three quarters of the CapEx is going to be done in '19 and '20 and then the remainder, the other quarter is going to be done in '21 and '22. So that's more or less, that's more or less the logic, okay?

So in terms of the EBITDA growth that you mentioned. So there is the, I'd say growth, an EBITDA growth, which is this '18 to '19 and that is driven by several things. It's driven, one, specifically by some CapEx that is being concluded this year, okay? And secondly because there's some revenues and that derived from past regulatory adjustments before that. So that explains most of that difference.

From then onwards, it's mostly related to the fact that we are investing in the company, okay? Yes, we are completely -- we are going to fully consolidate the company so you have a good idea of what the EBITDA accretion can be in

terms of the company. So I think that on that front, you can already have a way of calculating what kind of impact that we'll have on the company, okay?

And in terms of the accretion, it's a little bit more difficult to answer you, but what we see is that it does have a positive accretion in the first few years in the terms of net income of, I'd say, of between 2% and 3%. So I'd say that -- and I can give you a little bit more of detail to each one of you about this, but that's, I would say, the main -- the main thing I would say.

Gonzalo Sánchez-Bordona

Just couple of questions on this transaction too on my side. I think in the presentation, you referred that there was some expectations on some auctions to be held in Chile for more transmission lines so something like that in the next few months or years? I just wanted to understand what kind of visibility you have on those? And if you believe you would be able to add incremental growth on this transaction with that?

And also just wanted to understand as my second question on what -- how this fits within the investment plan that you have in the strategic plans? So is this all that you're doing internationally or are you planning to do anymore transactions? So what's your view on this regard? Thank you.

Rodrigo Costa

So Gonzalo, I can give some color. The information that was there was also to explain to you that Chile is a growth market and that there is growth coming. As of now, we are completely focused on this company that we acquired. And our concern is going to be integrating [well], the company and understanding this. So this is not our priorities now.

It is good that you are investing in the country where there are recurring growth opportunities. So that was more of a point. It will not take away anything from the fact that this is not now going to be our main focus, it's to concentrate in terms of -- to concentrate in terms of the integration of this.

The opportunity in this -- this opportunity to grow, they are completely public. So they are published by the Chilean government that with a lot of time have put [something] information on what's the new project in terms of electricity are going to be. So we all know, and everybody -- that's all of the Chilean market knows exactly when and we know in this case, I don't know if it's September or October, when they are going to come and next year it's going to be -- again, so they have this normal, I'd say, process of putting out information which is completely public. We can give you -- we can send you the link for you if you want to go and check but that was more the point of the thing.

Apart from it, it's completely, I'd say, that this is what is fitting completely. So we did this, this investment is completely within the envelope that we said. And now we are not concentrating on anything else apart from the fact that we want to integrate the company, and that's it. So we like to do things in steps, we like to do things in a safe way, in a conservative and this is what we want to do now. Thank you, Gonzalo.

Jorge Guimarães

I have four. Firstly, can you -- do you have any idea of this solar auctions that are being held in Portugal these days? Do we already have some expectations about the potential impact on the CapEx? This would be the first one. Second, are there any developments about the project of interconnection with Morocco? Thirdly, these investments in Chile, could they mean that you are -- and inorganic growth opportunities will be completely directed for an investment, meaning no longer interested in electricity, low voltage concessions in Portugal? And finally, if you allow me, what would be the cost of debt that you are considering for these 2% to 3% EPS accretion?

João Faria Conceição

Hi, good afternoon, this is João Conceição speaking. For your first question on the solar auction, well, the information we have that we can share is the same as you can find in the press because the auction is still ongoing. So it's going to be finished today. There is lots of competition on this auction and what we have seen so far is that the prices are being quite aggressive. The prices that are being offered by the bidders.

Regarding your question specific on the impact on the CapEx, the specific auction today has not an impact on what we have already foreseen. What will have an impact, of course, is going to be the plan until 2030 and the new auctions that the government has announced that it wants to launch in the near future. Those will definitely need some increase in our CapEx plan. We are just finalizing the analysis. This is not yet public, but it's going to have a positive impact on our CapEx.

Jorge Guimarães

You have no idea of any metric of CapEx per megawatt or something like that?

João Conceição

We don't have that -- that figures yet so far completely [defined].

Rodrigo Costa

Okay. Regarding Morocco, as we always been saying, this is a project that it's in the hands of the government of both countries. There is a study being developed. We don't have any feedback for the moment on the results of that size, and that's going to be the moment that when they finished the study, that will trigger, I'd say, the political discussions between the two countries. And the decision if they will or not go ahead with the project. We are doing our job. The study is being moving.

But we -- for the moment, we still -- this is an area where we always have -- there is a possibility, but the governments are the ones who need to decide. We don't have it as part of our, let's say, budgets for the coming years. But if, of course, we have an opportunity to develop the projects, we are very interested and we will.

Regarding Chile, as Gonçalo already explained, in Chile, this project fits perfectly in what we said we want to do. In our perspective, this is the right type of geography. Regulation is predictable. The country economy is quite solid. The political system also very mature. And we decided to start with Electrogas a couple of years ago. The experience has

been very positive. Being there helps to track other opportunities. We found this one. We submitted our offer, we won. And now we want to make it work.

As we said before, we're not looking now into doing something in the coming months. The future is the future, we don't know what's going to happen. Because the key priority now, as we said, is making sure we take control of the asset, we keep doing a good job with the asset. We have a very good resources here to help on that. And I'm sure we will do a great job.

Regarding added opportunities for growth. Portugal, the opportunities are extremely limited and especially the ones that we can really look in to. And at the moment, we have -- you referred the low voltage concessions, nobody knows when the tender will be launched, the terms of the tender. We tend to be very, very focused on what we do and we don't get distracted easily. We have no plans for the moment to go after other opportunities. This is where we are.

We did Electrogas, we did with Portgás, we keep doing a fantastic job in Portugal. Portugal remains 97% of what we do. That's why we have our focus. It's a very solid business. And we don't see nothing that should change that. And that's how we operate.

Gonçalo?

Gonçalo Morais Soares

Relating to that funding question that you asked, I'd say that it's in -- funding use is done in normal, I'd say, market conditions. The idea we have is to fund this now through Portugal first midterm until we have then and we'll look into the chance to finance this locally with non-recourse instruments. But now it's going to be funded through Portugal. I'd say it's normal kind of cost of funding of, I don't know, 70 to 100 bps off what is normal market reference rate.

I wanted to -- actually to clarify one thing, which I don't know if some of you are going to [check] or not, but we saw that in some of the reports published, there was a little bit of confusion, in terms of the price, because the price that we put out is the equity price, it is price for the shares, the amount that we all refer to, the \$167 million.

There is not a very large amount of debt, but there is some debt. So there is around \$25 million of debt, \$24.9 million to be precise. So the EV is \$192.4 million. I just wanted to clarify that, because I didn't want to mislead anybody, in terms of multiples or anything. We saw that perhaps there was not complete clarity in all -- in everybody about that. So I just wanted to take the opportunity to make that crystal clear, okay? Thank you.

Jorge Alonso

Just to understand, so now what you had said about the equity [and the debt]. So if we add the EV you paid plus \$60 million CapEx you will invest in order to get around \$14 million EBITDA by 2023, that means that you're about to [pay in] 16 times still EV/EBITDA in 2023. It looks a little bit high unless you are missing something about the future growth on EBITDA due to the tariffs or the CapEx expected there or because the remaining useful life is really, really long. And then can justify such a big multiple even still in 2023, just be sure I'm not missing here nothing.

Gonçalo Morais Soares

No, you are not missing anything. The issue of being high or not is because you are also comparing this to Europe, which has a lot of differences, when you look at Chile. So I would -- I would say that the main one is growth, but let me start to tell you about, so regulatory stability, regulation in Chile.

Typically, when you do a [green seal], you get a rate which is set for 20 years, so that is something which is a little bit different. And then after the 20 years, it's a four-year cycle, but it's very different. The second thing out of there isn't compared to Portugal. It has a slightly better country risk, but it's far away. So for us, we view it in a different way, but in terms of valuation, it is what it is.

But third, I would defer the high growth of this, so you say -- you are completely saying is correct. So when you compare to transactions made in Chile, this is, I'd say, the lower, compared to comparables in the market. The only one that is below 20 times was actually a minority stake that was bought so time ago.

So there is a lot of explanation. The rates of returns are difficult to compare, so when you want to try to make that comparison, it's not easy. It's a different scheme, the feeling we have, and that's why we also made the acquisition, is that they are slightly higher than they are here. And it is exactly why, and that is what we need to have, is a slightly higher rate to justify the fact that we are investing abroad.

But the main explanation, I'd say, is the fact that in this case you are almost doubling the asset base, not doubling, but increasing materially the asset base. So we do not see the EV multiple as high. As I say, we see it in inline and actually below.

They are -- they are different worlds and different risks, and it's very difficult for you to compare the EVs. It is when you do the DCF, and you do those calculations that you have to take into account, that. And we are convinced because we did that, that this is value accretive operation for our shareholders.

Last thing that I wanted to say, in terms of regulation, is that this is a perpetual concession unlike most of the ones that you compare to here. So there's a lot of small details that explain why multiples tend to be higher than that, which does not mean that they are high. They are higher, okay? I hope I helped.

Sara Piccinini

Again, sorry on the accretion. When you talk about the 2% to 3%, is this already in 2020 or it's an average for the period of 2020, '23? Because if I see the EBITDA growing [so much], I would expect more accretion going forward rather than in the short term. So if you can just justify that.

And then the second question is on the impact on net debt that you expect in 2020. Is this meaningful? How much is the impact on that net debt to EBITDA that we should expect in 2020? Thank you.

Gonçalo Morais Soares

Yes, you are right. You are right that when I told you those 2% to 3%, they start on -- it's something that starts already in 2020. As you move in time, in our model, we actually have accretions which are higher than those -- that range, okay?

In terms of accretion of net debt to EBITDA, we are in the, I'd say, 0.3 -- 0.2 to 0.3 range of increase in terms going forward. So it's not completely stable, but I'm not going to give you, but I'd say that they are ballpark in that figure.

Who we were, as always, not [always] very mindful. Although we may not all agree, we are always very mindful of two things, on one side of the profitability of the asset or returns and also the impact it has in terms of accretion of results. And on the other side, we are also very mindful as always on the impact it has in terms of credit metrics, as this is a core objective of ours us to maintain as investment grade and to maintain the level that we have currently. Thank you.

Ana Fernandes

Okay. So if there are no further questions, I guess I'll have a lot of words after this call is over.

I'll be waiting for your personal questions. If not, have a great weekend. Thank you. Bye.

Rodrigo Costa

Good vacation --