REN – Redes Energéticas Nacionais
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Corporate participants

- **Rodrigo Costa** – Chairman and CEO
- **Gonçalo Morais Soares** – CFO & Executive Director
- **João Conceição** – COO & Executive Director
- **Ana Fernandes –** Head of Investor Relations

Ana Fernandes

Dear all, thank you for joining us on this Thursday afternoon to discuss REN's 2019 full year results. Even though during this [difficult] time, we're working all in separate offices, as it should be. We hope this broadcast will run as smoothly as usual. And the procedures will be the same as before. So after these opening remarks, Rodrigo will address the audience, and then Gonçalo will go through the presentation that the ones who are connected via webcast can see the screen in front of them. When Gonçalo is finished, we'll open the line for questions.

Now I'll pass the floor to Rodrigo. Rodrigo, please.

Rodrigo Costa

Hi, Ana. Hi, all. Welcome to our conference call. This is -- as Ana said, this is going to be a different one for sure.

Some of us, I think, are working from an office desk, but most probably, most of the people now are working from home. I hope you are all doing okay. These days, the chances of having people in our community sick is high. If that's the case, I wish them a quick recovery. 2 months ago, it was hard to predict that the world will turn so upside down in just a few weeks. And now, we are living a different situation.

My introduction is going to be as brief as always. I have a few notes regarding the crisis that may anticipate some of the questions about how and what are we doing. I will do also, of course, a few remarks about 2019 and of 2020. Then Gonçalo will take the lead with thepresentation before the Q&A.

Regarding REN and the ongoing crisis. I'm sharing a space with all our people very frequently. We are taking a very open attitude with our teams. My first communication was at the end of February, explaining our plans to address the situation that became far much worse than the world was anticipating. Our plans are simple and very focused. The only thing we want to do is to preserve our services delivery and protect, as much as we can, our people. The acceptance and the disciplined delivery inside the company couldn't be better. We are very in sync with the health authorities and the energy secretary of state. And everybody is doing as much as they can. So far, I would say, so good. REN, like most of the large organizations that are spread around the country, we are in high surveillance mode. We believe our plans are solid, and we trust we will be able to stand up to the challenges. Again, our people are doing a great job, and they understand that we cannot fail in our mission.

We decided to support also our communities in different areas. In coordination with the Minister of Health, like several other corporations, we are purchasing equipment for health professionals that need all the help that can be provided to them.

Regarding 2019, we will share our comments in a minute. All in all, it was a very good year. I just have a couple of highlights. We are a major player regarding the energy transition efforts. Portugal has always been a frontrunner on the renewable efforts, and the government plan is to keep leading. Last year, we already hedged a few new investments. And as the new solar and wind projects get green light, we will be able to evaluate the CapEx needed to connect them to the transport grid. We had a record year regarding the natural gas areas. Number of port LNG operations were also a record. And the weight of the terminal NG imports inflow versus the pipeline imports all contributed to record activity, as I'm saying. Our overall quality of service and efficiency remains very high. While a smaller company than most of the other world [CSOs], we remain at the top of our peers.

(inaudible) has been going through some internal social challenges that have is now to the health crisis. Our operations, Electrogas and Transemel, are doing well, and we trust the company will overcome the problems they are facing. The Chilean government is applying to the current health crisis all their available resources. Later, we will comment on the positive contributions of both business in 2019.

I know some of you are expecting more. But regarding 2020, our objective couldn't be simpler. We want to do a good job handling the actual situation with our services to the community and our people. Keep the company working on the day after to be ready to return to the normal activity as soon as possible.

Being at home, if you're not here or helping others, means we have to focus in our mission and deliver. This is a big chain in the way we do our daily work, but I think we will keep doing a great job. As time goes by, governments will announce new measures. I'm sure they will announce tax changes, new social initiatives, new ideas to support the communities. And we will have to wait to understand the new measures as the time goes by.

At the present moment, we are working hard on the next phase plans very close with the energy authorities. They are as committed as we are to recover the lost time. We believe we will be ready to deal with this uncertainty, and we will communicate when adequate.

One last comment. Our Board has been extremely supportive of the company management, and we feel very good about it. Gonçalo, if you want to start?

Gonçalo Morais Soares

Thank you very much, Rodrigo. And so if you want to start and go through the presentation.

So starting on Slide #2 and on the highlights. First of all, you can see that EBITDA came down around 1.2% to EUR 486.2 million, EUR 6 million below 2018. This is mainly due or is composed by several impacts. The main one is RAB remuneration, which dropped a little bit over EUR 11 million. I will comment a little bit more on that. And that was, I'd say, compensated partially by, one, not only the contribution of international assets, but also by the contribution of lower costs overall. And there's some one-off impacts, both negative and positive. One of them, which is negative and impacted also the full year, was the fact that in '18, we have the sale of the LPG business and accounted for EUR 4 million.

In terms of net profit, debt went up almost by 3% to close to EUR 119 million, so EUR 118.9 million. That was a solid result. That came also on the back of financial results coming down. Average cost of debt continued to go down to around 2.1%. That, despite the fact that we still are paying the levy -- the full amount of the levy in 2019.

Finally, on this page, I want to point out the very positive development of CapEx and transfers throughout, and both of them increased materially to around EUR 190 million. That shows not only some specific projects that were done last year, but I'd say, a trend of increasing CapEx that we may see materializing in the coming years.

Moving on to Slide #3. You can see again the exact numbers of CapEx. So you see them that they go up by around 55%. You can also see that net debt goes up by a little bit, but is, I'd say, not stable, but it's also stabilizing if you take out the acquisition of Transemel.

Going to Slide #4 and looking at the Portuguese sovereign debt risk. So this is the curve that we've been seeing last year. So this is clearly the main thing that pushes our results down. So you can see, namely the rate in the electricity side coming down. That has an impact of around EUR 7.8 million, which makes that the RoR impact is around 2/3 of the full impact in RAB remuneration. And it's mainly coming from electricity because in both gas -- and transmission and distribution, that is not the case. You can actually see that gas distribution is pretty stable, and we will see that.
Of course, that in 2020, the rates are a little bit different now because of the special context in which we are living. 10-year Portuguese bonds was now at around 90 basis points, slightly below, slightly above. It was already at 1.5%, and it came from levels of 20, 30 basis points just before. So there was a material increase on those rates.

Going to Slide #5 and commenting a little bit about CapEx. As I said, this was a good year. It was much above our business plan estimates. And it is showing, I'd say, not only some specific construction that we did our project last year, but some might say structural improvement in CapEx that started already in 2019. In that year, the main project was Windfloat, both in CapEx and in transfers to RAB. And transfers to RAB, it accounted almost by EUR 50 million.
Even without the Windfloat project, you would see that CapEx would still be coming up more than 18%. You can see also that gas distribution continues to go up also in CapEx as we are continuing to ramp up penetration in Portgás areas. Relative and just commenting on 2020, we were expecting also a strong CapEx. Of course, the present day and the context of the virus implies some delays in construction, but we will have to see how that develops over time.

Slide #6, you can see the evolution of the regulated asset base coming down. Just to comment that, as you see, electricity without premium is already stable given the increase in CapEx last year. And Portgás continues to increase also their asset base, contrasting with the other businesses.

Moving on to Slide #7 and going a little bit more in detail on RAB remuneration. So basically, what you see is what I told you before, which is rate of return is responsible for around 2/3 of the impact, a little bit over 68%, and the RAB decline is more or less the rest. I can point out also that Portgás is stable. As you see, the small impact from rate of return is compensated by the increase in the regulated asset base. You see that in electricity comes mostly from the rate.
And in gas transmission is actually the opposite because, as you say -- as you know, last year, it was still the last year of the old remuneration for the gas assets. So in gas transmission, what you feel more that year was actually the decrease in the asset base and not so much the rate of remuneration.

So moving then to Slide #8 and 9, but I will focus on Slide #8. And I want to spend a little bit of time here talking about costs because there's some specific dynamics that I want to go into a little bit of detail because, although you are seeing costs going up, what you see is that -- and you see -- you would see in the next slide, but let's stay on Slide #8. You would see on Slide #9 that core OpEx is actually coming down to 2.8%. And that OpEx is going up because of basically 2 items in the pass-through costs, which are the ITC mechanism, which is driven by exports and imports, and that went up, and by the ERSE costs, which also went up a good bit.
So looking at our own operational costs, so core OpEx, in Slide #8. What you can see is first, and let's talk about, if you want, personnel costs first and then look at the others. Personnel costs you see here coming down or going at 0.1. This is actually unconsolidated terms the reverse because there's part of the cost that are going from Portgás to the consolidated by integrating people in our shared services.

So consolidated personnel costs are actually coming down EUR 0.6 million, around 1%. And that is driven between the normal mix of increases and a specific decrease of EUR 1.7 million because of changes of assumptions in post-employment benefits, namely the revisions of the discount rates, which had to come down as per recommendation of the actuarial consultants that we have. Okay. And that one is stable, but it's not going to be recurring on a year-on-year basis. So we have this decrease and then it should be stable from now on.

Second point I want to comment is Portgás. So it is also improving. Part of it is this transfer of personnel costs that I mentioned before. Part of it is, I'd say, cost savings/synergies. We already knew that this was going to be the year that we are going to finish the consolidation of Portgás. And so although the synergies are not huge, we knew that we are going to have around EUR 1.5 million of cost savings, which is what we have. Again, we are not going to keep on decreasing Portgás costs as we did this year, but this should stay for a longer period.

Thirdly, in other costs, you see a decrease across the board. There is a decrease in O&M costs by increased efficiencies. There is a decrease in IT costs also by efficiency measures. There is the decrease of consulting costs because in '18, we have the business plan that we had some consulting costs and other issues relating to tax and other questions. So we had a decrease of EUR 1 million here, so there is cost decreases across the board.

So although I have that one-off that I mentioned in personnel costs of EUR 1.7 million in year-on-year logic, there's also some other costs, which are actually the reverse. So you have one-off costs for the Transemel acquisition, which is around EUR 1.1 million or EUR 1 million.

And you also have here something which is not one-off, but makes cost increase, and it's kind of it's not telling because you have also EUR 1 million of electricity costs that go up but are tied to an increase in activity in the terminal. So you actually have more revenues and more EBITDA because of this. But looking only at costs, it's not that they are not recurrent, but you only see part of the picture. So they are revenue related unlike others.

So taking into account all of this, what you have is a core OpEx that comes down 2.8%, personnel cost is coming down around 1%, and the other costs are coming down 4.5%. Yes, there are several one-off issues in here, so you should not expect this kind of cost decrease in the coming years. But I think it was a very good performance in terms of cost discipline and delivering on what we said we were going to do in the case of Portgás.

So Slide #9, as I said, was just -- has those 2, I'd say, costs you see there, IT mechanism and cost with us that go up significantly. Apart from that, you see that the core OpEx is actually coming down, as I just spoke about in detail. Okay.

Going to Slide #10, and so looking at full EBITDA. So the full picture is what we said. So we see asset remuneration coming down. We see a good -- you see contribution of OpEx. What you also see is the contribution of both Transemel and Electrogas. So commenting on that and building on what Rodrigo already said. So Electrogas had a good year. Revenues went up a little bit over 3%. EBITDA also a little bit below 3%. There was higher demand in terms namely of the take-or-pay contracts -- the firm contracts that we have. We have a little bit more of revenues because of some imported gas for Argentina that we also have used our pipeline in the reverse direction. So Electrogas, I'd say, pretty stable business and nothing out of the ordinary.

Transemel, the same thing. What you see here is only the 3 months, okay? The full year of Transemel was higher, was around EUR 11 million. Although you don't see that impact here, but inside those EUR 11 million, there's a couple of one-off impacts also because of the receipts of penalties in contracts.

It's not impact these numbers in any material way, but you should not take those EUR 11 million that you see in Transemel clearly as a recurrent base. That was what you should expect in a few years, but not right away. So those, as I say, are impacted here by a couple of nonrecurring impacts. Those nonrecurring impacts in Transemel in those EUR 11 million account for more or less EUR 2.5 million to EUR 2.7 million. Okay?

So I would say that international business in Chile. I think they are delivering. It's small, but it's delivering. And it's safe, and it's delivering on what we were expecting.

Just to comment on the other that you see there on Slide #10. That's basically because of a coh uple of things. One is an impact in OMIP,which is a small stake that we have participation that we have in this company. There was a change due to IFRS. Basically, the goodwill not being amortized, if you want to know the details. That has an impact of EUR 1.6 million. Nester also has a little bit better performance. And REN Telecom, although small business, also had an increase of around EUR 0.6 million in that year. So everything at that net wide has that I'd say higher-than-normal impact.

Going to Slide #11. So depreciation is nothing much. Taxes, I'd say, within what we already knew. So the sales and the rest is more or less in line. There's no surprises there.

Talking about financial results. Basically, what you see here is an improvement of 9%. This is explained basically 3 quarters by the decrease in average cost of fund, which was of around 17 basis points. You don't see that in the rounding numbers. You see 2.2 to 2.1. The exact number was 17 basis points. 1 quarter is explained by the lower average amount of gross debt, which for the full year, in average, was lower than the year before.

Moving to Slide #12 and looking at debt, and then I'll talk a little bit more about debt. What you can see is that if you take out Transemel, you would actually have a small improvement in the overall debt. So this -- you see the 2 impacts, Transemel acquisition and Transemel net debt, are actually a little bit over EUR 176 million cost of -- and you see that the debt goes up EUR 173 million. So you'll have a small decrease. You also know, and you noticed that CapEx was higher, but that is good. So you are having less decrease in net debt because you are doing more CapEx. So I think this is also a good news. Apart from that, you have still good cash flow generation.

Let me talk to you -- since I'm talking about debt, let me talk to you a little bit about liquidity. I think it's important. So we have at the end of the year around EUR 1.1 billion of liquidity. Okay. And this was more or less EUR 1 million of undrawn lines and around EUR 100 million of short-term banking facilities. This is actually now a little bit higher. So we concluded the finalization of an additional loan with Baylor of around EUR 90 million. So full liquidity is around EUR 1.2 billion. So that is more or less 2.5 years of liquidity as of now. And considering that part of the refinancing this year is along with the large Portuguese bank, which is, let's say, certain to be extended at least 1 year, that would increase the liquidity over 2 years. So our expectation now is that we only have to go to market to maintain the more than 2-year liquidity profile that we consider important to maintain in around midyear of next year. So this is the type of situation where it pays off to be conservative.

There is no exposure whatsoever to volume risk. So we don't have any exposure to volume risk at all in terms of electricity demand. And there is no exposure -- actually, I was going to say, there is no exposure to interest rate. There is positive exposure to interest rate in the sense that if rates go up a little bit, we actually benefit marginally in the net income after that.

So in 2020, we have some refinancing. We have a bond refinancing in October. That's already covered by credit facility that we did in 2019. We have that loan from that one bank, which is basically certain to be refinanced. And then we have other several small loans. So we are in an extremely comfortable position in terms of liquidity.

We feel that this is a business that given its strong predictability in terms of cash flow, namely of revenues, since they are all regulated, is, I'd say, a very strong point in terms when things are a little bit more volatile in the market.

If you have further questions on this, I'm happy to answer to them in the Q&A.

So moving to Slide #13 on net profit. It's basically concluding what I've said before. So maybe that comes down, but it's compensated by what is [the low] EBITDA. So ending that with this increase of around EUR 3 million or close to 3% in net profit for the company.

So going to Slide #14, and as concluding remarks, I think that we have a solid result last year. I think although there are some one-off issues in -- or impact in costs, there was a strong cost discipline.

There is a very positive development in terms of CapEx. There is good development in terms of the impact of the assets from outside Portugal. And so we keep focused on delivering on what we have in the business plan and maintaining investment-grade and maintaining our conservative profile.

Let me pass just to Rodrigo before the Q&A for a comment that he wants to make.

Rodrigo Costa

Okay. Well, thank you, Gonçalo. I think today, we went a little bit deeper in the explanation of the numbers. The objective is to try to anticipate most of the questions you have.

And I just want to make a quick remark. We are now evaluating what will be the solution for our general shareholder meeting. We – the plan is to do it in early May as usual. We are going to follow the -- we discussed this at the Board. We are going to follow the recommendations for a telematic general shareholder meeting. We are working on the details. We will try not to postpone at all the meeting. We have no reasons to believe that we will benefit from any delay and just -- this is the plan. And of course, we will -- you will know about it, and we will announce it soon.

And now we can go to the Q&A. I'm here with Gonçalo, with João Conceição also and ready to take the questions.

Q&A

Sara Piccinini - Mediobanca - Analyst

Maybe just some to integrate. So the first one is on the coronavirus implication of the business. (inaudible) explained very well. The operations are ongoing, and then you continue to provide the supply. Is it possible maybe to quantify how much could be the delay on CapEx that could be on 2020, a percentage of CapEx maybe that could be delayed? And also if this is related to new renewable options if they are on all. So any indication on how much (inaudible)? That would be very helpful. And also if the government or companies decides suspend the collecting of electricity bills, if this may imply an increase in the tariff deficit, and therefore, a delay also in the reduction in the tariff deficit that the regulator is expecting? So this will be the first question. The second is on the Chilean operations. So you explained very well that first on Transemel, this year, there were some one-off and maybe the next year. So just -- sorry, an indication if Transemel is still in line with the expectations that you provided or is doing better than your expectation -- the targets that you gave in July? And also the same on Electrogas. Last year, we have about EUR 6 million. This year, it's reporting EUR 10 million. Can we assume on Electrogas that it will report recurrent EUR 10 million of contribution?

And finally, on the special energy levy. If it's possible to understand if the government, the commission is still discussing on it, when we could have an update on the possible reduction in the tax?

Rodrigo Costa

Hello, Sarah. This is Rodrigo Costa speaking. Regarding your first question on the impact of the coronavirus. So step by step. On the operation, what operation is concerned in security of supply, we didn't have until now any impact at all whatsoever. Of course, this situation has impacted our ongoing -- indiscernible] CapEx, like you mentioned. But to be fully (inaudible), it's still too early to make any kind of estimation of how much is going to be the delay because, first, we are still in the first part of the year. So normally, this is when our work start to ramp up. Secondly, because there is impact on our providers that we need to assess and to see what's going to be the overall came out.

What concerns to the delay is due to the impact on the tariff deficit. This is -- depends on the decisions that regulate will take. Until now, I mean, there is -- what we have seen is some reduction in terms of consumption. It's still again too soon to quantify if this reduction is just -- it's going to be this figure or it's going to increase or it's going to stay constant. So it's still too soon to see if -- or to assess if the impact is going to be on tariff deficit or on tariff deviations, which are 2 thing -- 2 completely different things.

Of course, if you have less volume this year or less consumption, we will have a tariff deviation because the forecasts were not accounting for this reduction. But this is going to be recovered in 2 years' time according to the current regulatory model. Another story is if the regulator decides any kind of measures that impact the tariff deficit. But again, REN is not affected by the tariff deficits until now. So overall, we are trying to have all our operations going in what concerns to security of supply. And so far, we have managed to do so. The rest we will have to wait a little bit to see what the impacts will be. Thank you.

Gonçalo Morais Soares

So relating to Chile, your question. Yes, I think they are both broadly in line. So both Electrogas and Transemel are broadly in line. The transition process of Transemel is ongoing. Of course, the situation of no travel maybe a little bit of challenge, but I think it's, I'd say, it's not material at this stage.

The situation in the country, politically, they have a referendum scheduled for April given the situation now. I don't know what's going to happen, but I think that now it was also, I'd say, pretty much expected. And so I'd say that the companies both are doing well.

You were saying in relation to Electrogas. So Electrogas contribution last year was closer to EUR 7 million in the net income of REN. So I'd say that this is the number that it has been. So the year before, it was 6.6%, so I'd say that between 6.5%, so it's around this number.

So in 1 year, you may have a little bit more. In 1 year, a little bit less, but they are, I'd say, completely within the expectation that we have.

What we would expect is that Transemel, without those one-off impacts that I explained to you, would continue to grow as they are deploying the CapEx plan that they have to deploy in Chile. So they are -- things in Chile are moving ahead. And so as of now, they are continuing to develop the CapEx that they need to do. Rodrigo?

Rodrigo Costa

Okay. Thanks, Gonçalo. Regarding the sales, well, this is a little bit early to try to guess what will be the timing for decisions. I think the sales at the moment is the smallest of the problems of this government or any government, then we will have to wait and see if there is any change of plans.

Regarding the, let's say, the midterm, short term, I still feel quite confident about the endgame. The endgame is going to be that the sale will go away. Now the question is depending on how all the situation will impact the country. And then if we will see some change in the very near term, maybe. But as I said is we don't try to get what the governments will decide. We will wait for the decisions. On the positive side, for sure, we are expecting that nothing will be changed on the midterm. And that's, I think, is good news. We'll see.

Jorge Guimarães - JB Capital Markets - Analyst

Most of my questions have been answered, but still a follow-up on this sales question. And actually, I believe the doubt about the evolution of the tariff deficit or tariff debt is exactly related to the uncertainty about sales. And in such sense, if now we end up with a larger tariff deficit or tariff debt in Portugal, would you still expect the same faster convergence to 0 in the midterm or just a simple delay in the path to 0 sales.

Rodrigo Costa

Thank you, Jorge. I have to repeat what I said. We have to wait for the decision-makers to come out with something here. This is – the sales -- the tariff deficit, the -- let's say, the most optimistic plans were to be 0 by 2022. Some people said 2023. You have a little bit of all kind of guesses. At the moment, what we know is we have a big situation going on. I'm sure the governments will have to take many decisions, and I think sales will come out sooner or later. But we need to wait. To be honest, at the moment, although, of course, we would like say to go away right now, it will not go away right now. We knew that before. We will have to wait a little bit more to understand what's going to be the full impact of the situation. And what you said is true. It's -- everything is related, and we will be here to deal with the solution that will come up.

I think if we don't have more question, we will -- we finish the call. We really appreciate your time. We know that this is very difficult to participate in all the calls now because everybody is doing the same thing we do. And as I've said in the beginning, and Ana and Gonçalo and João, we wish you the best for you and for your people, for your friends, for your families. And we'll keep being very focused on managing the business. And I'm sure, Ana will be available to take any other questions you may have. Thank you. Good afternoon.

Ana Fernandes

Yes. If you want to call me right away, you know you can. Thank you.

Rodrigo Costa

Thank you.