Aegea Saneamento e Participações S.A.
2Q21 Results
August 12, 2021

Operator:

Good afternoon. Welcome to the conference call of Aegea Saneamento e Participações to discuss the results for the 2Q21.

With us today are Radames Casseb, Chief Executive Officer of Aegea; André Pires, Chief Financial and Investor Relations Officer; and Rogério Tavares, Vice-President of Institutional Relations.

We inform that today's event is being recorded and that all participants will be on a listen-only mode during the presentation. After the presentation, we will start the Q&A session for analysts and investors, when further instructions will be given. If you require assistance during the call, please request help from the operator by pressing *0.

The event is also being live streamed over the Internet with audio and the slide deck on the address www.ri.aegea.com.br/en. Live access to the audio and slides is also possible via tablets and smartphones with iOS or Android systems. A recording of this event will be available soon after its conclusion for a period of one week.

Before proceeding, we would like to clarify that any statements may be made during the conference call relating to the business prospects of Aegea, as well as to its operational and financial forecasts and targets, represent the beliefs and assumptions of the Company's management, and are based on information currently available. Forward-looking statements are not guarantees of future performance. These statements involve risks, uncertainties and assumptions, given that they refer to future events and as such depend on circumstances that may or may not occur. Analysts and investors should understand that conditions of the general economy and of the industry, as well as other operating factors may also affect the future performance of Aegea and cause results to differ materially from those expressed in these forward-looking statements.

I would now hand the call over to Mr. André Pires, CFO of Aegea, who will begin the presentation. Please, Mr. André, you may begin.

André Pires:

Thank you. Good morning, everyone. Welcome to another presentation of Aegea's results.

In the 2Q21, Aegea delivered another period of very positive results. On slide five, you can see the highlights, as is net revenues, which grew by 27.7% on the same quarter of 2020, to R$690 million, while EBITDA grew by 27%, to R$398 million.

The 2Q was also a period of consolidating the structures that will support Aegea's growth patch, which means taking basic sanitation, health and quality of life for the people we serve.

If you have been following, in July, the entry of Itausa as a shareholder was concluded, following the acquisition of 8.3% of the common shares held by Equipav for R$1.1 billion. Also concluded in the period was the capital injections by shareholders via the issuance of new common and preferred shares, which came to R$3.6 billion.

We also carried out a capital raise operation at Águas Guariroba, our most mature asset, with the entry of an indirect minority shareholder, which subscribed to preferred shares corresponding to an indirect equity interest of 32.08% for R$550 million.

So, in all, we are talking about capital injections of R$4.5 billion that will help to take quality basic sanitation to 9.8 million people in the cities in the state of Rio de Janeiro through our newest concession, Águas do Rio, which will be responsible for water distribution and for sewage collection and treatment in the region comprising blocks 1 and 4 of the CEDAE auction.

Turning now to slide number six, the SPVs Águas do Rio 1 and 4 signed their concession contracts yesterday, August 11. One of the attributions of our operations here at Aegea is what we call Health Ambassadors, which in short means caring for the people and the environment through an operational model supported by the pillars of operating efficiency and synergy gains.

And Rio de Janeiro will be no different, where we will work to launch a new cycle in basic sanitation to help resolve the historical deficits related to a lack of investments in the sector, work to recover the Guandu River basin, which is an important basin, Rodrigo de Freitas Lake and Guanabara basin.

Another important material was the startup of operations at Ambiental MS Pantanal, which is a concessionaire responsible for sewage collection and treatment services in 68 cities in the state of Mato Grosso do Sul, serving 1.8 million people.

Another highlight was the publication in May 10 of the Aegea's sustainability annual report, in which we describe our financial and operational results, and our positioning on ESG topics, reaffirming our commitment and transparency with all stakeholders.

I want to close the highlights by saying that Aegea works directly to resolve the severe basic sanitation deficit in our country, and consequently better health and dignity. We have a solid business platform, and continue to analyze all potential investment opportunities in the segment.

I will now present our operation and financial results, starting on slide number eight with the operating performance. The numbers of households we serve expanded b 29.3% in relation to the 2Q20, to 3.8 million households. Contributing to this expansion was the startup of Ambiental Metro Sul, Ambiental Cariacica, and Ambiental MS Pantanal, and also the organic expansion of other concessionaires. This expansion had a positive impact on billed volume, which grew by 23.1% versus the same quarter last year. In the year-to-date, billed volume grew by 18.4% year on year.

Moving on now to slide number nine, showing our financial performance, net operating revenues in the quarter grew by 27.7% year on year, to R$690 million, and year-to-date it grew by 19.3%, to R$1.336 billion.

Supporting this growth was the increase in billed volume, the tariff increases and the higher government payments under the PPPs, especially the PPP Ambiental, following the construction of 57.9 km of sewage network in the last quarter. Gross revenue in the last 12 months reached R$2.7 billion.

Let us go now to slide number ten, which covers costs and expenses. Costs and expenses registered a year-on-year increase of 28.4% in the 2Q, and 22.7% in the 1H, excluding the nonrecurring impacts of PIS/COFINS tax credits at Manaus, which occurred in the 1Q20.

The most important factor pressuring these cost increases was the startup of operations at PPPs Ambiental Metrosul, Ambiental Cariacica and Ambiental MS Pantanal. The bridge chart on the lower left of the slide shows the main items that influence expenses, with the impacts from the startup of the new PPPs, as I mentioned earlier.

Slide number 11 shows the key metrics of our operating efficiency. The water loss rate continues to decline, reflecting our efforts to reduce physical and commercial losses. The reduction in connection cuts over recent quarters, as show in the chart on the lower left of the slide, reflects the cuts during the pandemic, but at the end of the 2Q, we are already resuming this initiative in certain areas.

Connection cuts are part of our strategy for renegotiating past due amounts, and ultimately tend to be reflected in a decline in the delinquency rate.

Meanwhile, the delinquency rate rose in relation to the 2Q20, pressured by the rise in credit losses, which is mainly to the revision of the calculation metric for the present value adjustments of accounts receivable, which generated a reduction in the measurement of pace of credit losses, and had a positive impact in the 2Q20.

In any case, the important thing from our perspective is that delinquency rates in the 2Q remains at levels that we consider comfortable.

Moving on to slide number 12, talking about EBITDA and net income, EBITDA in the quarter grew by 27.2% year-on-year, to R$398 million, driven by the higher net revenue and the startup of Ambiental Metrosul and Ambiental Cariacica. As a result, EBITDA margin ended the period at 57.7%.

In the 1H21, EBITDA grew by 16.7% year on year, to R$750 million, excluding the nonrecurring impacts from the PIS/COFINS tax credits in Manaus. EBITDA growth also benefited from the higher net revenues, and the startup of the new PPPs in the period. EBITDA margin ended the 1H at 56.2%.

Net income in the 2Q was R$126.9 million, growing by 9.9% year on year. In the year to date, net income came to R$222.6 million, representing growth of 5.2% versus the same period of last year, after, again, excluding the nonrecurring impacts from the PIS/COFINS tax credits at Manaus, which occurred in the 1Q20.

Moving on now to slide number 13, showing the operating cash flow generation before CAPEX of R$255.5 million in the quarter, in line with the same quarter of 2020, and of R$466.7 million in the 1H21, which was supported by revenue growth despite the higher costs.

CAPEX in the 12 months to the 2Q, accumulative, came to R$531 million, down R$82 million from the prior year period, reflecting our strategy to preserve cash due to the pandemic and postpone nonpriority or nonmandatory projects, which have no impact on results in the long term. However, compared to the 1Q21, CAPEX in the last 12 months increased by R$58.6 million, signaling a recovery in the Company's level of investments.

Moving on now to slide number 15, talking about our indebtedness and our capital structure, we ended the 1H with net debt of R$3.9 billion representing an increase of 2% on the 1H20.

And, as in the last quarter, we maintained a robust cash position, which ended the 2Q at R$3.1 billion, reflecting our funding and cash position strategies to weather, the impacts of the pandemic, and to lay the groundwork for growth projects. Our leverage ratio based on net debt to EBITDA ended the period at 2.87x, basically stable from a year earlier. The chart on the lower right shows how most of our liabilities are indexed for the CDI rate.

Now on slide number 16, which shows our debt maturity profile, you can see that 91.6% of our maturities are concentrated in the long term, and our average debt terms remain comfortable at 3.6 year.

It is also important to highlight that our cash position corresponds to 4.8x our short-term liabilities, which is aligned with our cash preservation strategy.

With that, we conclude our presentation and will now open the question and answers session. Thank you.

Participant, VTB Capital (via webcast):

Would you please give an overview on structuring of the deal on CEDAE, especially on debt side? Any plans for primary market?

André Pires:

Thanks for your question. Basically, going through the process of how we structure ourselves to participate in the auction, we basically created two SPVs in a co-control type of structure. So, in the equity side, Aegea joined forces with our own shareholders, which participated on the capital of the two SPVs. That structure allowed Aegea to not consolidate, obviously, this structure into our balance sheet, a balance sheet of a co-control type of structure.

And the two SPVs, in addition to receiving capital infusion from these four shareholders, again, Aegea itself, Equipav, GIC and Itausa, these two SPVs also issued a bridge loan to debentures that we issued through a syndicate of 11 banks, which obviously, in the months to come, will be refinanced to a much longer-term type of facility.

So, it was basically a deal at the level of the SPVs, while Aegea would have participation below 50%, to basically determine the non-consolidation strategy at this point.

I am not sure about the question related to any plans for primary markets. If we are talking about equity or potential of Aegea or the SPVs going to the be equity market, this is not a decision that we have taken at this point, there are no discussions on that as of yet, but there is always a possibility.

And again, we expect the SPV, which are now formally named Águas do Rio, to come to the market in the future in order to refinance this bridge loan that I mentioned in the beginning.

Jocelyn Jensen (via webcast):

Do you plan to refinance the 2024 bonds with a new issuance in the short term?

André Pires:

Jocelyn, thanks for the question. Yes, our intention is to is to refinance our bond. We believe that we are going to have a window for the next 6 to 12 months to do so. This is a decision that we have not taken as of yet, but the intention is to refinance.

As you know, the bond will start to be callable in October of this year, and potentially, throughout the end of the year, beginning of next year, we would consider eventually come back to the market and refinance it, if it makes sense and is part of our liquidity management strategy.

Participant, VTB Capital (via capital):

I am talking about debt in primary markets, especially Euro bonds and green bonds for financing CEDAE's project. And can you give a bit more color on the evolution of delinquency rate LTM in 2Q21?

André Pires:

On the first part of your question, if we intend to go to the market with Águas do Rio financial needs, the answer is yes. We are starting to evaluate the alternatives for the refinancing of the bridge loans that we took for the auction. One of the alternatives is a project bond, eventually.

Clearly, the issue of green bonds is part of our strategy. As you know, we have a lot of indicators that are related to this, a lot of KPIs related to ESG on the environmental side, and also on the social side, which would allow us to access this market when the time comes. So, it is part of our strategy, and we are now starting to evaluate the alternatives.

The second part of your question, about the evolution of delinquency rate on the 2Q, basically, there are three main issues that explain this slight increase. First one is the change in the calculation methodology of the rates. That specifically increases the rate.

The second factor is the pandemic. The third wave of the pandemic, which in the end is taking longer to come to an end, especially in some of the areas that we operate, although, and then it is the third reason, we are starting to see some the possibility of starting to cut connections as a way to renegotiate debts.

Since the beginning of the pandemic, there were decrees all over the country, basically not allowing the utility companies to cut connections until there was a recovery in the pandemic. Now, with the pandemic coming to an end, we are starting to see this possibly coming back again. And with that, it is an important strategy to renegotiate past due debt, and with that, obviously, the delinquency ratio should come back to the levels pre-pandemic.

Operator:

Thank you. The question and answers session for Aegea's analysts and investors is now closed. With no more questions, let us go to Mr. André for his closing remarks. Mr. André, you may begin.

André Pires:

Thank you again. Our shareholders, investors and market as a whole are accompanying this special moment for Aegea with the structuring of our largest concession, Águas do Rio.

And I leave here, as a closing message, our special thanks to the Aegea team, the so-called professionals who go above and beyond for their efforts and obstinate dedication they make every day to ensure that our Company continues to deliver excellence and gets these new concessions up and running. Together, we will continue to work towards universal access to basic sanitation in our country, while creating value for our shareholders and stakeholders.

Thank you, everyone. And I am looking forward to seeing you all back in the next block. Thank you very much. Have a good day.

Operator:

Aegea thanks everyone for participating in today's events. The conference call is now concluded. Thank you, and have a great day.

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