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Q3 2020 Infraestructura Energetica Nova SAB de CV Earnings Call

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PRESENTATION

Operator

Ladies and gentlemen, good morning, and thank you for standing by. Welcome to IEnova Third Quarter 2020 Earnings Conference Call (Operator Instructions) I will now hand the conference over to your speaker today, Mr. Miguel Osio. Please go ahead, sir.

Luis Miguel Buch Osio *Infraestructura Energética Nova, S.A.B. de C.V. - Director of IR and Merge & Acquisitions*

Thank you. Good morning. Thank you for joining us. Today, we will be discussing IEnova's third quarter 2020 financial results. A live webcast of this teleconference and slide presentation is available on our website in the Investor Relations section. In the presentation, you will find our disclosure statement.

The forward-looking statements contained in the presentation speak only as of today, October 22, 2020, and the company does not assume any obligation to update or revise any of these forward-looking statements in the future. With us today on the call are several members of our management team. Tania Ortiz, Chief Executive Officer; Carlos Ruiz, Chairman; Carlos Mauer, Chief Financial Officer; and Roberto Rubio, Vice President and Controller.

Please turn to Page 3 of the presentation provided on our website, and I will turn the call over to Carlos.

Carlos Ruiz Sacristan *Infraestructura Energética Nova, S.A.B. de C.V. - Chairman of the Board & Executive President*

Thank you. Good morning, everyone, and thank you for joining today to our call. I hope you and your families continue to be safe and in good health.

As we have discussed in our calls, we reacted quickly and proactively to the sanitary contingency. This enabled us since the early stage of the pandemic to ensure the health and safety of our employees, maintain safe and reliable operations and notwithstanding adverse circumstances continue to provide strong financial results and support to the communities where we operate.

Before passing the call over to Tania, I want to give a warm welcome and congratulate Carlos Mauer in his new role as CFO of IEnova and wish Nelly the best of luck in her new role as Head of investor relations for Sempra.

I'm sure that Carlos will bring new ideas to the table and continue to successfully execute our financial strategy. With that, I will pass the call -- I will pass it over to Tania.

Tania Ortíz Mena López Negrete *Infraestructura Energética Nova, S.A.B. de C.V. - CEO & Director*

Thank you, Carlos. Good morning. I hope everyone continues to do well and safe. I would like to start today's call by announcing that we achieved solid financial results. This allows us to remain on track to reach our adjusted EBITDA guidance for this year, which once again reflects the exceptional resilience of our company. Additionally, we are always seeking to optimize our capital structure by extending our debt maturity, improving liquidity, lowering our cost of debt, among others.

Please turn to Page 4, so I can talk about a recent accomplishment related to our balance sheet. In September, we issued our second international debt issuance for US\$800 million due in 2051 with a 4.75% coupon. This is a lower trade of a 30-year bond for a private energy corporate issuer in Latin America. This transaction confirms investor confidence in our company even in this challenging time.

This was Carlos Mauer's first transactions as our new CFO. Carlos has worked for the Sempra Energy family of company for more than 18 years. I would like to give him a very warm welcome. I know his leadership will be very valuable to IEnova. And of course, I wish Nelly the best of luck and success in this new chapter of her career.

Now let me provide an update related to ECA. Right after our last earnings call, we received a request for arbitration from Shell regarding the existing storage contract. We've recently learned that Gazprom intends to join this arbitration process. We believe that their claims are unfounded and inadmissible and we will seek to dismiss them.

Regarding our liquefaction project, last Sunday, the community of Ensenada endorsed our project, reflecting the positive public opinion that we have built through our long-standing presence and commitment with the region. We continue to work closely with the federal government to obtain the export permit and be able to declare and have final investment decision shortly. We will inform the market as soon as we have more information.

Finally, at our Guaymas-El Oro pipeline, we signed a new 6-month extension agreement with CFE. We are optimistic that we can reach a definitive solution as President Lopez Obrador has visited the Yaqui community twice in recent months and have expressed the importance of restoring the pipeline operation. With that, I will pass the call over to Carlos, so he can talk about our financial results and project update. Welcome, Carlos.

Carlos Mauer Díaz Barriga *Infraestructura Energética Nova, S.A.B. de C.V. - CFO*

Thank you, Tania, and thank you also, Carlos, for the warm welcome, and good morning to everyone. I am very happy to return to IEnova with this new opportunity.

We remain very focused on delivering solid financial results, executing our business plan and strengthening our balance sheet. One example of this is our recent investment-grade US\$800 million debt issuance. The proceeds were used to refinance our short-term debt, which means that no new debt was added to our balance sheet.

In addition, it helped us extend our debt maturity from 7 to 12 years, and significantly improve our available liquidity. We also continue to work on the marine pipeline financing and believe there is a viable path to find a structure that works both for our partner and for us. We are fully aware of the importance of delivering on this initiative, and we're working hard to get it to the finish line.

Please turn to Page 5 to review the financial results. In the third quarter of 2020, adjusted EBITDA was US\$275 million, up 19% from US\$231 million in 2019. The increase was mainly due to the start of operations of the marine pipeline and higher operational results at the TDM power plant. As Tania mentioned earlier, we are on target to reach our adjusted EBITDA guidance.

Please turn to Page 6, so I can provide more details on our portfolio of projects under development and construction. Regarding the Gulf-Center terminal, the Veracruz terminal is ready to start operations. The first cargo is expected to arise in the next couple of weeks in order to perform test and reach commercial operation shortly thereafter.

Please turn to Page 7. The Puebla and Mexico City terminals are in pre-commissioning activities, and our target is to start operations

later this quarter. The Don Diego solar project started delivering energy into the grid, and we expect to finalize the testing phase in the coming days. The Topolobampo terminal construction continues as scheduled and Border Solar is now in pre-commissioning activities.

The status of all the projects under preconstruction activities remains unchanged. We will keep you updated on any additional development.

This year, we'll finalized construction in 5 of our 9 projects, which demonstrates our ability to execute our plan even in this complex environment. This project EBITDA contribution as well as other ongoing initiatives will provide -- will improve our net debt-to-EBITDA metric.

Please turn to Page 8, and I will pass the call back to Tania.

Tania Ortíz Mena López Negrete *Infraestructura Energética Nova, S.A.B. de C.V. - CEO & Director*

Thank you, Carlos. In this very challenging time, last quarter, our Board postponed the dividend payment decision. This week, the Board decided not to pay dividends in 2020. As always, we are focused in generating value to our shareholders and showing discipline in our capital allocation.

As you know, we have been very active with our stock repurchase program. As of yesterday, we have acquired equivalent of US\$231 million in IEnova shares, which we plan to cancel once approved in an upcoming shareholders meeting.

Please turn to Page 9. I am very pleased that we continue delivering strong results and remain on track to reach our adjusted EBITDA guidance. Our priority remains the health and safety of our employees, the continuity of our operations, the disciplined execution of our projects and strengthening our balance sheet.

At IEnova, we remain committed to continue delivering exceptional results to our shareholders and to the economic development of Mexico. With that, I will open the call for questions. Thank you.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question is with Nikolaj Lippmann with Morgan Stanley.

Nikolaj Lippmann *Morgan Stanley, Research Division - Equity Analyst*

Thank you very much, thanks for taking my question. First -- and I'm sorry, they might not be the best questions ever, but first on the Supreme Court ruling from yesterday. Does that at all affect the way you're thinking about renewable energy? And is that something that has moved up on your list of priorities? That could be a number of large projects on the block around Mexico. So that's number one. And number two is what's sort of the late thinking with regards to movement of debt from the whole [co down] to the project in the Texas Tuxpan level? Thank you very much.

Tania Ortíz Mena López Negrete *Infraestructura Energética Nova, S.A.B. de C.V. - CEO & Director*

Good morning Nikolaj. Thank you for joining our call today. First, with regard to the Supreme Court ruling, what that does is grant a definitive suspension on the policy that was issued by the Ministry of Energy that intended to change the rules around renewables, dispatch and the connection and testing.

So we believe that it is along the same lines of the ruling that we have seen around this specific topic. As you know, we did begin litigation related to this change in regulation. So we believe that this is moving in the right direction, and we continue to move forward with our projects.

And with regards to the marine pipeline financing, I will ask Carlos to answer that. Carlos?

Carlos Mauer Diaz Barriga *Infraestructura Energética Nova, S.A.B. de C.V. - CFO*

Sure. Thank you, Tania. Well, yes, as I mentioned in the call, the restructuring of the debt at the marine pipeline is one of our priorities. This is still a work in progress but we're very focused in trying to find a solution to this. So we'll give more details once we have more clarity on exactly what the structure will be.

Nikolaj Lippmann *Morgan Stanley, Research Division - Equity Analyst*

Got it, Carlos. And can you provide any color on why -- what's holding it up? I mean in the beginning, it seemed to be related just to the volatility of market prices in the beginning of the pandemic. Things have come down in terms of spreads and just volatility. Is something else holding it up? Or is it -- can you give a color on that, please? Thank you.

Carlos Mauer Diaz Barriga *Infraestructura Energética Nova, S.A.B. de C.V. - CFO*

Yes, I don't want to -- sure. Go ahead, Tania.

Tania Ortíz Mena López Negrete *Infraestructura Energética Nova, S.A.B. de C.V. - CEO & Director*

No, no. We're trying to find a structure that works for both ourselves and our partner.

Nikolaj Lippmann *Morgan Stanley, Research Division - Equity Analyst*

Ok, thank you.

Operator

Our next question is from Pablo Monsivais with Barclays.

Pablo Monsivais Mendoza *Barclays Bank PLC, Research Division - Assistant VP & Lead Research Analyst*

Hi, good morning, thank you for taking my question. I have two quick questions for you. The first one is, what do you expect EBITDA contributions from the Veracruz terminal that you are starting right now? And the second question is do you expect to have some news on ECA Guaymas-El Oro by the end of the year? Or what is the timing to see if these 2 issues are resolved? Thank you.

Tania Ortíz Mena López Negrete *Infraestructura Energética Nova, S.A.B. de C.V. - CEO & Director*

Pablo, regarding your first question, I mean we usually did not provide specific EBITDA guidance around individual projects. But again, sufficient to say, like I said, that we do intend to meet our EBITDA guidance by year-end. I didn't quite get your second question. Could you repeat it, please?

Pablo Monsivais Mendoza *Barclays Bank PLC, Research Division - Assistant VP & Lead Research Analyst*

Yes. When do you have -- do you expect you have some news on ECA and Guaymas-El Oro.

Tania Ortíz Mena López Negrete *Infraestructura Energética Nova, S.A.B. de C.V. - CEO & Director*

Okay. Okay. Regarding ECA, again, our plan is to take a final investment decision by the end of the year. So basically, we had a couple of months to go. So you should be hearing from us shortly. And regarding Guaymas-El Oro, we --on September 15, we extended the contract for -- the contract suspension for another 6 months. So I'm hopeful that during that period, we will reach a solution. I'm sure you -- I know that you follow President Lopez Obrador closely, and you've heard him on different locations say that, that needs to be resolved as part of the package of issues that are being discussed with that community.

Pablo Monsivais Mendoza *Barclays Bank PLC, Research Division - Assistant VP & Lead Research Analyst*

Ok, perfect. Thank you very much, Tania.

Operator

Our next question is from Andres Cardona with Citigroup.

Andres Felipe Cardona Gómez Citigroup Inc., Research Division - Research Analyst

Hi, good morning everybody. I have two questions. The first one has to do with the LNG project. And if you can confirm if the 2 off-takers remain engaged with the project and if they have expressed interest on having equity on the project?

The second one is if there is any update about the arbitration process at ECA, and if you are still collecting the payments on time. And associated to this last question, if you get any notification from Gazprom about an initiation of an arbitration process as well? Thank you

Carlos Ruiz Sacristan Infraestructura Energética Nova, S.A.B. de C.V. - Chairman of the Board & Executive President

That will be a -- let me answer the first question. As Tania mentioned, we are on track to have FID in this quarter. Second, the clients, they have at least -- well, they have a strong interest in participating on the equity. Tania?

Tania Ortíz Mena López Negrete Infraestructura Energética Nova, S.A.B. de C.V. - CEO & Director

And I would add -- yes. And I would add that they remain fully engaged with the project. And yes, there is a possibility that one of them may take equity. Now with regards to the existing facility, existing customers, as you are aware, Shell initiated an arbitration proceeding. And although Shell has not been paying their invoices, we have been drawing from their letter of credit.

Gazprom has indicated that they may join the proceeding, but Gazprom has continued to pay their invoices. Now again, we don't believe that those claims have any merit whatsoever.

Hello. Can everyone hear me? I'm not hearing Carmen but...

Operator

Yes, I'm here, ma'am.

Tania Ortíz Mena López Negrete Infraestructura Energética Nova, S.A.B. de C.V. - CEO & Director

Okay. Can we go into the next question then?

Operator

Yes, ma'am. Our next question is from Christian Audi with Santander.

Christian Audi Santander Investment Securities Inc., Research Division - Head of Latin America Equity Research, Agribusiness & Oil, Gas and Petrochemicals

Thank you. Hi everybody. On Gazprom, Tania, on this last point that you made, I just wanted to double check. They -- if they do go ahead and file an arbitration, they also would have -- or you also would have a letter of credit upon you can draw payments and this letter of credit would have to be replenished for a period of 2 years, similar to what's happening to Shell, or would it be a different setup?

And my second question related to ECA. As you pointed out, Tania, we had this positive development about the Ensenada voting. I mean do you see any other step that's necessary before the government makes a final decision? Is there anything else that would need to get done in order for a permit to be awarded? And once the permit is awarded, Tania, how quickly can you do the FID?

In other words, is this -- even that you've been looking right at the situation for so long, I would assume that everything is in place to move quickly. But how quickly could that happen? So if you get the permit tomorrow, does it take a month for you to go ahead with the FID? Or is it a question of weeks? If you could shed some color there would be very helpful, please.

Tania Ortíz Mena López Negrete Infraestructura Energética Nova, S.A.B. de C.V. - CEO & Director

Thank you, Christian. Let me give you a little bit more color around Gazprom first. Gazprom, they have been paying their invoices, but at one point, they did not pay for 1 month. We pulled the letter of credits, and they replenished the letter of credit. And since then, they've been paying regularly. We have guarantees for 2 years, according to 3 years of service, and they would need to replenish those letters of credit if we pull on those letters of credit.

So that's with regards to the existing facility. Now with regard to the liquefaction project, where I believe in a positive path towards obtaining the export permit shortly, and our plan would be to be able to declare a final investment decision immediately thereafter. So we're ready to go. It's not a matter of weeks, months, okay?

Christian Audi Santander Investment Securities Inc., Research Division - Head of Latin America Equity Research, Agribusiness & Oil, Gas and Petrochemicals

Got it. Yes, yes, it's not a matter -- okay. Understood. Okay. And on the topic of do you foresee any other step that's necessary on the back of business and other votes, I mean can you think of anything else that would be needed in order to convince the government to go ahead?

Tania Ortíz Mena López Negrete Infraestructura Energética Nova, S.A.B. de C.V. - CEO & Director

No, I think -- I mean the vote in Ensenada was, again, I think, simply a confirmation of the reputation that we built in Ensenada over 20 years. We have a strong presence, and we have strong support. I think we have a very positive engagement with the federal government. At this point, I do not foresee objections to go forward.

Christian Audi Santander Investment Securities Inc., Research Division - Head of Latin America Equity Research, Agribusiness & Oil, Gas and Petrochemicals

Understood, thank you Tania.

Operator

Our next question is from Alvaro Garcia with BTG.

Álvaro García Banco BTG Pactual S.A., Research Division - Research Analyst

Hi, Tani and Carlos, Thanks for the call One follow-up on ECA. I suppose the question is whether your off-takers have some form of hard stop at the end of this year if the project weren't -- if you weren't let's say going to get the necessary permits. And my second question is just sort of on the regulatory environment in general. You mentioned AMLO went to visit -- or the Yaqui community a couple of times. And would you say, Tania, that's trended in a more positive direction on the back of, let's say, a more -- of a stronger legal effort on the renewables front and just greater pragmatism generally? Thank you.

Carlos Ruiz Sacristan Infraestructura Energética Nova, S.A.B. de C.V. - Chairman of the Board & Executive President

Let me answer the first question. What we believe -- we strongly believe that we are on the right track that we are going to get the permits very soon, and we are going to be able to have FID in this quarter. So I think we are confident that this will happen.

Álvaro García Banco BTG Pactual S.A., Research Division - Research Analyst

Right.

Tania Ortíz Mena López Negrete Infraestructura Energética Nova, S.A.B. de C.V. - CEO & Director

And regarding the second question, we certainly see the President's visit to the Yaqui community as very positive again, expressing the importance of restoring the operations of the pipeline. So I see that as very possible and if you can, after seeing to focus very closely on this and find a solution.

The regulatory environment, I mean, it varies per segment, and there are different things happening at the same time. The situation with renewables is not the same as it was, for example, with the gas pipelines where it's quieter.

So I would say -- I mean I wouldn't make a statement around the regulatory environment in general. But I think from our perspective, there is a constructive communication with the administration without any doubt.

Álvaro García Banco BTG Pactual S.A., Research Division - Research Analyst

Great, thank you very much.

Operator

Our next question is from Jean Bruny with BBVA.

Jean Baptiste Bruny *BBVA Corporate and Investment Bank, Research Division - Chief Analyst*

Hi there, thank you for taking my question. I'm sorry if I'm asking something that has already been answered, I connect late. I just had two doubts. You mentioned already the Guaymas-El Oro, maybe can you give us an idea of the timing when it will actually start up?

And the other point is on the pipeline of projects. I'm seeing that you have still 2 storage project with TBC. Can you explain why it's still TBC? And when do you expect the permits to be lifted?

Tania Ortíz Mena López Negrete *Infraestructura Energética Nova, S.A.B. de C.V. - CEO & Director*

Thank you, Jean. With regards to Guaymas-El Oro, again, we executed a 6-month an additional 6 month extension to the contract, which takes us from September to March of next year. I would hold back in that time frame, we can somehow reach a definitive solution. We're working very closely. Now CFE is actually also very, very much engaged in finding a solution. So -- I'm sorry, your second question?

Jean Baptiste Bruny *BBVA Corporate and Investment Bank, Research Division - Chief Analyst*

Yes, it was on the 2 storage project that are still TBC which...

Tania Ortíz Mena López Negrete *Infraestructura Energética Nova, S.A.B. de C.V. - CEO & Director*

Okay, sorry, yes. Really, the reason those projects are delayed has to do with permitting. Permitting has a slowdown first, due to COVID. A lot of the agencies in Mexico are still closed. Many do not expect to open at least until January, if not later. So a lot of the permitting is hold. And so -- and in fact, overall during the past few years, permitting has slowed down a little bit. So that is why we do not want to provide a definitive schedule, but rather wait until those permits are issued and then come back and show you a new schedule, a new calendar.

Jean Baptiste Bruny *BBVA Corporate and Investment Bank, Research Division - Chief Analyst*

Okay. So we should expect more clarity early next year, no? That's your take?

Tania Ortíz Mena López Negrete *Infraestructura Energética Nova, S.A.B. de C.V. - CEO & Director*

That is correct. And again, I mean the pandemic in Mexico certainly continues to extend. So again, we do not have sufficient clarity as to when we may be able to obtain the permit.

Jean Baptiste Bruny *BBVA Corporate and Investment Bank, Research Division - Chief Analyst*

Super. And maybe a very last one. Are you involved in some way the Salina Cruz project that was announced by CFE? Have you been approached? Or you're not involved at all?

Tania Ortíz Mena López Negrete *Infraestructura Energética Nova, S.A.B. de C.V. - CEO & Director*

We have a very strong working relationship with CFE. We have discussed that project in general terms, but nothing beyond that.

Jean Baptiste Bruny *BBVA Corporate and Investment Bank, Research Division - Chief Analyst*

Super, thank you very much Tania.

Operator

Our next question is from Alejandro Zamacona with Credit Suisse.

Alejandro Zamacona Urquiza *Crédit Suisse AG, Research Division - Research Analyst*

Hi everyone, thank you for the call and thank you for taking my questions. Just a couple for us. The first one is on the cost side of the Gas division. So despite the revenue deferment at Guaymas-El Oro, the EBITDA -- we saw EBITDA came in flat year-over-year. So I'm curious on what's behind the cost reduction for the division if it's explained by cost control or perhaps something related to FX.

And my second question is on the repurchase program. So considering the 96 million shares as of October 21, I understand that the intention is to cancel those shares. But my question is, if there is some sort of gap for repurchase, meaning that if you need to cancel some of these shares before continuing with the additional repurchase from the program? Thank you.

Tania Ortíz Mena López Negrete *Infraestructura Energética Nova, S.A.B. de C.V. - CEO & Director*

Okay. I will ask Roberto to take the first one and then Carlos the second.

Roberto Rubio Macías

Thank you, Tania, and good morning. Thank you, Tania and good morning, Alejandro. On the Gas division, just on the EBITDA side, as you mentioned, Guaymas-El Oro, if deferral revenue, and now we are not recurring revenue during this quarter.

However, this in line because this quarter we have lower expenses, and this is due to the reschedule of maintenance activity and higher value at this division. And this first schedule of maintenance is -- are going to be resumed during the fourth quarter or late -- or during 2021.

But in summary, we had lower results due to the Guaymas-El Oro revenue. And in the other side, the positive side, we have lower expenses. We remain reduce of many activities that are going to be deferred for fourth quarter.

Carlos Mauer Diaz Barriga *Infraestructura Energética Nova, S.A.B. de C.V. - CFO*

And on the second question, this is Carlos. As you know, we have a \$500 million repurchase program. So far, we bought about \$230 million. And the intention is to cancel those shares once we get it through the shareholders' meeting for approval. And I would say that going forward, it will depend a little bit on market conditions and other developments. We're constantly evaluating our next steps on that front.

The other thing that I think it's important to mention is, as you know, we also decided in the last Board meeting not to pay dividend for this year. But on the other hand, we're doing this repurchase, this \$230 million, which we think is a very good way to allocate our capital and to return value to our shareholders.

Alejandro Zamacona Urquiza *Crédit Suisse AG, Research Division - Research Analyst*

Okay. Just to be clear, on the repurchase program, you need to cancel those shares before continuing with the additional repurchase? Or there's no need, you can...

Carlos Mauer Diaz Barriga *Infraestructura Energética Nova, S.A.B. de C.V. - CFO*

No, there is no need.

Alejandro Zamacona Urquiza *Crédit Suisse AG, Research Division - Research Analyst*

Ok, thank you very much.

Operator

Our next question is from Anton Mortenkotter with GBM.

Anton Mortenkotter

Hi guys, thank you for taking my question. My question is related to the last question asked of the repurchase program. Is this something you see yourself doing for the next year also? Or do you plan on taking the dividend distribution?

Tania Ortíz Mena López Negrete *Infraestructura Energética Nova, S.A.B. de C.V. - CEO & Director*

Carlos, do you want to take that?

Carlos Mauer Diaz Barriga *Infraestructura Energética Nova, S.A.B. de C.V. - CFO*

Sure. As I just mentioned, I think our -- going forward, we constantly evaluate the situation based on market conditions, liquidity, pricing and other developments in the company. So I really -- we cannot really provide a lot of visibility into what we're going to do next year.

Tania Ortíz Mena López Negrete *Infraestructura Energética Nova, S.A.B. de C.V. - CEO & Director*

And on this, as you're aware, we do not have a dividend policy. So this year, we thought it would be prudent not to pay a dividend. We have traditionally paid a dividend. So we would revisit that again next year as the situation evolves.

Anton Mortenkotter

Okay. Perfect. And as a second question. Regarding the increase in receivables that you had quarter-over-quarter, is this all related to Guaymas-El Oro? Or if you could provide some color on that?

Tania Ortíz Mena López Negrete *Infraestructura Energética Nova, S.A.B. de C.V. - CEO & Director*

Roberto, do you want to take that?

Roberto Rubio Macías

Yes. In terms of the account receivables, related to the collection to our customers, actually, we are doing a little bit better the March 2020 when at the very beginning of the sanitary contingency. However, we are -- the recovery of the VAT, value-added taxes, related to the price under construction are taking more than expected. So this is the reason of the increase from the beginning of the year to September 30, 2020.

Anton Mortenkotter

Ok, perfect. Thank you.

Operator

Our next question is from Pablo Ordonez with Itau.

Pablo Ordóñez *Itaú Corretora de Valores S.A., Research Division - Research Analyst*

Yes, hi, good morning Tania and Carlos. My question is regarding the operational efficiency in TDM. And can you give us more color on this please? In the Power segment we saw in the quarter a reduction in operating and administrative costs from the previous 2 quarters. Is this sustainable? And what should we expect ahead? And thanks again for the greater transparency on the different segment in financials. Thank you.

Tania Ortíz Mena López Negrete *Infraestructura Energética Nova, S.A.B. de C.V. - CEO & Director*

Thank you, Pablo. And Roberto can provide a little bit more color. But really, what we're seeing in the very strong performance behind TDM is very hot weather in California, a lot of demand for power and again, an exceptional performance for TDM.

We're always, always very disciplined about our operational expenses. This year, we are even more disciplined against a very uncertain year. So we did defer certain maintenance, which would be very likely part of our budget next year. Roberto, do you want to provide a little bit more detail?

Roberto Rubio Macías

Yes. I would like just to add that at Termoelectrica de Mexicali, as we mentioned, we had remarkable results but the increase is associated to historical demand and big energy prices. And this is due to seasonality and weather conditions of few quarter for Termoelectrica de Mexicali into this quarter of the year.

Pablo Ordóñez *Itaú Corretora de Valores S.A., Research Division - Research Analyst*

Ok, very clear. Thank you very much.

Operator

(Operator Instructions) Our next question is from Christian Audi with Santander.

Christian Audi Santander Investment Securities Inc., Research Division - Head of Latin America Equity Research, Agribusiness & Oil, Gas and Petrochemicals

Hi. Just a follow-up, Tania. If we could go back to the topic of growth, as you look out at the existing segments where you are and potential new segments where you could go into if you could, given all that has happened this year, just provide us an update, right? Because on the renewables front, there was so much noise there that it makes one apprehensive about wanting to pursue something there. But maybe if you could provide an update on the terminals. You had done a phenomenal job with the portfolio that you have now. But is there really a lot of space for you to double the 8 to 10 terminals you're working on, for example, for now or it's not that magnitude of growth?

And then I know that you have talked about in the past other longer-term projects such as oil pipelines or even -- sorry, storage for oil or even natural gas underground storage. But again, there, you would be having to work through a notch and, I guess, related to the government. So if you could provide an update, that will be very helpful, please.

Tania Ortíz Mena López Negrete Infraestructura Energética Nova, S.A.B. de C.V. - CEO & Director

Of course, Christian. That's an interesting question. Of course, our key growth initiatives is the Energia Costa Azul liquefaction project. That will certainly keep us busy and keep our CapEx program going for the next 3 or 4 years. So really, I mean, that is a critical part of our growth.

Beyond that, we're looking at several, I would call it, optimization or expansion initiative. So, on top of the assets, even some of our newer assets, looking at opportunities to either to expand or to optimize. That's important. We're also looking at initiative from some of our older assets in order to be able to extend contracts and extend the life of our assets. So there's a lot of work going around optimization of existing assets.

On the refined terminal upfront, I think I've stated that for some time that, that was a big wave, but I do not see many more large terminal being built. I think the space has been pretty much taken up. So while we may explore maybe an additional terminal or you won't hear us doing a new terminal, I don't think there's space in the market for either IEnova or any of our competitors to do many more large terminal projects.

So -- and with regards to renewables, I think we need to be very, very cautious. There may be some opportunities, for example, to us, cross-border opportunities are always interesting. But I think renewables, we need to evaluate the risk profile very, very closely. It has been a very unusual year, a challenging year. The Mexican economy is slowing down. So I think that will also have some type of an impact on the demand for future projects. But I mean, we continue to work on several avenues of new initiatives again, I think we need to be evaluated very, very carefully the risk of a specific segment that we're in.

Christian Audi Santander Investment Securities Inc., Research Division - Head of Latin America Equity Research, Agribusiness & Oil, Gas and Petrochemicals

Perfect. And just a follow-up maybe to Carlos on the dividend versus buyback, Carlos, as you're saying. So the decision not to pay dividends was merely you're arriving at the conclusion that it would be a better use of your cash to buy back shares as opposed to pay dividends, is that in a nutshell, kind of what happened?

Carlos Mauer Diaz Barriga Infraestructura Energética Nova, S.A.B. de C.V. - CFO

Yes, I would say so. Obviously, the decision of not paying the dividend was also linked to -- well, to the whole situation about the market conditions, economic conditions and everything. But yes, we -- in the end, I think from a capital allocation perspective, it's our view that it makes a lot of sense to repurchase our shares.

Tania Ortíz Mena López Negrete Infraestructura Energética Nova, S.A.B. de C.V. - CEO & Director

Also, one last comment -- sorry, go ahead.

Christian Audi Santander Investment Securities Inc., Research Division - Head of Latin America Equity Research, Agribusiness & Oil, Gas and Petrochemicals

And -- sorry, go ahead, no, it was that you mentioned that the timing -- yes, please.

Tania Ortíz Mena López Negrete Infraestructura Energética Nova, S.A.B. de C.V. - CEO & Director

Now the one thing that I did not mentioned is we're also constantly always looking at M&A opportunities, right? When there's more uncertainty, more volatility, there may be opportunities to get new projects, new joint ventures, acquisitions, etcetera, etcetera. So Carlos, Miguel and their teams are also actively working on that front.

Christian Audi Santander Investment Securities Inc., Research Division - Head of Latin America Equity Research, Agribusiness & Oil, Gas and Petrochemicals

Very clear. And Carlos, on the timing of canceling the shares, what is driving that? Is it -- are you not doing it now just because you envision potentially doing more buybacks so you would rather do it all at once? Or what's driving your decision as to when you eventually cancel these shares that you've bought back?

Carlos Mauer Diaz Barriga Infraestructura Energética Nova, S.A.B. de C.V. - CFO

Well, we've already bought a significant amount. So we think it's a good moment to cancel those shares and then look forward for the next steps depending on, as I mentioned, on market conditions and other things.

Christian Audi Santander Investment Securities Inc., Research Division - Head of Latin America Equity Research, Agribusiness & Oil, Gas and Petrochemicals

Ok, thank you.

Operator

(Operator Instructions) Our next question is from Jean Bruny with BBVA.

Jean Baptiste Bruny BBVA Corporate and Investment Bank, Research Division - Chief Analyst

Just a quick follow-up. A few years back, you tried to sell TDM. You decided to suspend the process in 2016. Given the very strong result so far, is this something we can expect maybe for you to try to sell this asset again?

Tania Ortíz Mena López Negrete Infraestructura Energética Nova, S.A.B. de C.V. - CEO & Director

I mean I would say it's not something that's on the table today, but we're always looking at interesting capital recycling initiatives. So again, Carlos and Miguel go over our portfolio regularly to try to determine if there are any assets that -- where we could create value by selling them. So there's no specific focus on TDM today, but it's something that we do review regularly.

Jean Baptiste Bruny BBVA Corporate and Investment Bank, Research Division - Chief Analyst

Thanks.

Operator

Our next question is from Chris Dechiaro with Marathon Asset Management.

Christopher Sebastian Dechiaro Marathon Asset Management, LP - Director & Senior Analyst of Emerging Markets

Hi, thanks for the call. Just you mentioned you're always looking at M&A opportunities. Maybe there's something more attractive there than new projects going forward? Like what -- is there some limit as to the size of M&A that you would do? Sort of how -- just sort of in general, would you expect to finance that? Or is there some maximum net leverage you would let the company get to just maybe sort of in general terms, can you speak to that?

Tania Ortíz Mena López Negrete Infraestructura Energética Nova, S.A.B. de C.V. - CEO & Director

Yes. Of course, I mean, we actually take a -- I wouldn't call it an opportunistic approach to M&A. It's either -- it can be either -- I mean when we're buying, we would ideally look for partnerships so that we could acquire those projects and not have to consolidate that.

In some other cases, it may be an asset that's made too large, where we're more comfortable with a partner or where there is a specific expertise, which we don't have. That's the case, for example, of the marine pipeline where we have a partner. But I would say, we would be very opportunistic, and I say we would seek structures where ideally we would not need to consolidate that onto our balance sheet.

Christopher Sebastian Dechiaro *Marathon Asset Management, LP - Director & Senior Analyst of Emerging Markets*

Thank you.

Operator

And our next question is from Pablo Monsivais with Barclays.

Pablo Monsivais Mendoza *Barclays Bank PLC, Research Division - Assistant VP & Lead Research Analyst*

Hello, hi for taking this question again. Lopez Obrador has said in the morning press conference that he -- that there is an excess of natural gas in some areas in Mexico and that he would like to export some of it. Do you think you can be part of the solution to this? Are you kind of in talks with the government in helping them and how they can solve that? Thank you.

Tania Ortíz Mena López Negrete *Infraestructura Energética Nova, S.A.B. de C.V. - CEO & Director*

Pablo, did you say excess natural gas in Mexico?

Pablo Monsivais Mendoza *Barclays Bank PLC, Research Division - Assistant VP & Lead Research Analyst*

In the -- yes, in the north west of Mexico. Lopez Obrador has said that in the press conference, no?

Tania Ortíz Mena López Negrete *Infraestructura Energética Nova, S.A.B. de C.V. - CEO & Director*

Okay. Okay. Yes. I mean there is -- okay, I know what you're referring to. I wouldn't necessarily call it excess natural gas. I would say there's pipeline, natural gas pipeline capacity that's not been fully utilized. Because the pipelines were obviously designed to meet future growth and future demand growth and not only current demand.

And I think there are different ways in which that pipeline capacity can be optimized. The pipeline capacity is really or mostly controlled by CFE. So they can do that by either simply releasing that capacity for industrial users to pay that capacity in order to be able to take gas to a plant. But another solution, obviously, would be to develop additional liquefaction facilities to export gas. And like I said, we have a strong and constructive relationship with CFE and we would be interested in pursuing those types of initiatives together with CFE.

Pablo Monsivais Mendoza *Barclays Bank PLC, Research Division - Assistant VP & Lead Research Analyst*

Okay. So you are having some sort of conversations with that, working with the government to help in the decision?

Tania Ortíz Mena López Negrete *Infraestructura Energética Nova, S.A.B. de C.V. - CEO & Director*

We're always looking at ways exactly of helping CFE optimize their capacity. We always do that.

Pablo Monsivais Mendoza *Barclays Bank PLC, Research Division - Assistant VP & Lead Research Analyst*

Ok, perfect. Thank you.

Operator

And I'm not showing anyone else in the queue. I would like to turn the call to Tania for her final remarks. Please go ahead.

Tania Ortíz Mena López Negrete *Infraestructura Energética Nova, S.A.B. de C.V. - CEO & Director*

Thank you, Carmen. And thank you, everyone, for joining our earnings call. As always, if you have any questions, please reach out to our Investor Relations team, and have a good day.

Operator

And with that, ladies and gentlemen, we thank you for participating in today's program. You may now disconnect. Have a wonderful day.

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