

THOMSON REUTERS STREETEVENETS

EDITED TRANSCRIPT

IENOVA*.MX - Q1 2018 Infraestructura Energetica Nova SAB de CV
Earnings Call

EVENT DATE/TIME: APRIL 26, 2018 / 3:00PM GMT



APRIL 26, 2018 / 3:00PM, IENOVA*.MX - Q1 2018 Infraestructura Energetica Nova SAB de CV Earnings Call

CORPORATE PARTICIPANTS

Carlos Ruiz Sacristán *Infraestructura Energética Nova, S.A.B. de C.V. - Chairman & CEO*

Manuela Molina Peralta *Infraestructura Energética Nova, S.A.B. de C.V. - CFO*

Susan Bradham *Infraestructura Energética Nova, S.A.B. de C.V. - Director of IR and M&A*

Tania Ortiz Mena López Negrete *Infraestructura Energética Nova, S.A.B. de C.V. - Chief Development Officer*

CONFERENCE CALL PARTICIPANTS

Alejandra Obregon *Morgan Stanley, Research Division - Strategist*

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

Jeremy Bryan Tonet *JP Morgan Chase & Co, Research Division - Senior Analyst*

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

Vanessa Quiroga *Crédit Suisse AG, Research Division - Head of Mexico Equity Research & Co-Head of the Housing & Infrastructure in LatAm excluding Brazil*

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the IEnova First Quarter Results Conference Call. (Operator Instructions) As a reminder, this conference is being recorded.

I would now like to introduce your host for today's conference, Sue Bradham, you may begin.

Susan Bradham - *Infraestructura Energética Nova, S.A.B. de C.V. - Director of IR and M&A*

Good morning. Thank you for joining us. Today, we will be discussing IEnova's first quarter 2018 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 this presentation speak only as of today, April 26, 2018, 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. Carlos Ruiz Sacristán, Chairman and Chief Executive Officer; Nelly Manuela, Chief Financial Officer; Tania Ortiz, Chief Development Officer; Arturo Infanzón, Chief M&A and Planning Officer; and Roberto Rubio, Vice President and Controller.

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

Carlos Ruiz Sacristán - *Infraestructura Energética Nova, S.A.B. de C.V. - Chairman & CEO*

Thank you. Good morning, everyone. Thank you for joining today's call. Before discussing our first quarter financial results, I would like to describe how we have continued executing our growth strategy. In just the first few months of this year, we have completed 3 important long-term contracts with high-quality private counterparties. In February, we announced a 125-megawatt solar plant that will require an investment of around \$130 million. The plant will have the capacity to serve the long-term contract we executed with Liverpool and with all the large energy consumers with whom we are in advanced negotiations. Earlier this month, we announced a \$130 million project to develop a marine terminal to receive, store and deliver refined products in Baja California. The terminal is fully contracted with Chevron and another global oil company. This is our fourth



APRIL 26, 2018 / 3:00PM, IENOVA*.MX - Q1 2018 Infraestructura Energetica Nova SAB de CV Earnings Call

liquid storage terminal in the country, which is consistent with our intention to be a significant participant in this sector. These transactions enrich our portfolio of customers and enable us to not only diversify our customer base, which is very important, but also to grow our business. Tania will provide more details about these recent developments and the many other opportunities that we are working on.

Please turn to Page 4. In the first quarter of 2018, our adjusted EBITDA increased 15% to \$211 million, compared with \$184 million in the same period of 2017. This increase was mainly due to the November, 2017 acquisition of an additional 25% of Los Ramones Norte pipeline higher margin in the Gas segment, higher operational results at the Termoeléctrica de Mexicali power plant and the start of new pipeline operations. It was partially offset by wind factor variation compared to the same period of 2017.

In the first quarter of 2018, profit was \$128 million, compared with \$145 million in the same period of 2017. The decrease was mainly due to exchange rate effects and higher financing costs associated with a long-term debt we issued in December, partially offset by higher margin in the Gas segment.

I will now turn the call to Nelly to discuss our financial performance and construction progress.

Manuela Molina Peralta - *Infraestructura Energética Nova, S.A.B. de C.V. - CFO*

Thank you, Carlos. I will go through the results for each of our 2 segments.

Please turn to Page 5. For our Gas segment, in the first quarter of 2018, profit before income tax and share of profits of joint ventures was \$143 million, compared with \$135 million in the same period of 2017. The increase is mainly due to the exchange rate gains and high margins on the Gas segment, partially offset by lower interest capitalization.

Now, please go to Page 6. In the first quarter of 2018, the Power segment had a profit before income tax share of profits of joint ventures of \$3 million, compared with \$10 million in the same period of 2017. This increase is mainly due to the wind factor variation compared to the same period of 2017.

Please now go to Page 7. It is important to mention that we have 10 projects under construction that represent a total investment of nearly \$2 billion, and all of them are moving forward according to schedule. Those construction projects will begin contributing to our EBITDA generation in 2019 and 2020. These projects include 1 gas pipeline, which is a marine project, 4 liquid storage terminals, Veracruz, Puebla, Mexico City and Baja Refinados, and 5 solar generation projects, Pima, Tepezalá Solar, Rumorosa, Energía Sierra Juárez expansion and Don Diego. Our marine pipeline project, in a joint venture with TransCanada, had achieved about 80% completion of the offshore construction. This pipeline is expected to start operations by the end of 2018. For the liquids terminals, we have just started construction at the Veracruz site. And we have initiated preconstruction activity for the Mexico City and Puebla terminals. Construction with Pima, Tepezalá Solar and Rumorosa Solar project is progressing as planned. Design and permitting of Don Diego Solar and Energía Sierra Juárez wind expansion are also underway. The new projects we contacted during the first quarter, Don Diego Solar and Baja Refinados storage terminal, will add \$260 million of capital to be deployed during this year, 2019 and 2020.

For 2018, our Capex guidance has now increased to approximately \$795 million from the \$730 million, we stated during our February call. We will fund these projects with cash flow from operations and our revolver credit lines.

With that, I will turn the call over to Tania to discuss new projects.

Tania Ortíz Mena López Negrete - *Infraestructura Energética Nova, S.A.B. de C.V. - Chief Development Officer*

Thank you, Nelly. Please turn to Page 8. As Carlos mentioned earlier, we continue to execute important transactions. In February, we signed a long-term dollar-denominated contract with Liverpool to provide electricity from a new solar plant located in Sonora called Don Diego. The Don



APRIL 26, 2018 / 3:00PM, IENOVA*.MX - Q1 2018 Infraestructura Energetica Nova SAB de CV Earnings Call

Diego project is a 125-megawatt facility with an estimated investment of \$130 million. And it will start operations in the second half of 2019. Liverpool committed to approximately 50% of the project's capacity and we're in advanced discussions with other counterparties for the remainder.

Please turn to Page 9. Our liquids business is continuing to grow rapidly and we recently announced a project to develop, construct and operate a marine terminal for refined products in Baja California. The project is called Baja Refinados and will enhance supply options and increase refined products' supply reliability in the region. The project will require an investment of approximately \$130 million and it is expected to begin commercial operations in the second half of 2020. We also signed a long-term contract with Chevron, one of the largest refiners from the West Coast of the U.S., to utilize 50% of the terminal storage capacity. The other 50% has been contracted by another global oil company, and the 1 million barrels of terminal storage capacity is fully contracted.

Please turn to Page 10. We are working on several initiatives that will provide additional growth over the next few years. First, we are making progress on several additional terminal projects. Our efforts are focused on both developing greenfield projects and participating in bid processes. For example, there is a bid process in Topolobampo, the request proposals to be submitted in June. We continue to see interest in this kind of assets from companies who want to market refined products in Mexico. Second, in the Power segment, we continue to advance commercial discussions to fully contract Don Diego as well as launch additional renewable projects. Third, we are working with a strategic partner to prepare for the electric transmission bid that both the Ministry of Energy and CFE have issued. As we mentioned in our last call, each transmission line is worth approximately \$1 billion and according to their current schedules, they will be awarded during the third quarter of this year. Fourth, in the natural gas business, the Ministry of Energy published the public policy for underground storage. It will require inventories equivalent to 45 BCF by 2026. This could create investment opportunities of up to \$2 billion. CENAGAS has announced that the first bid for 10 BCF storage may take place later this year. Fifth, as part of our asset optimization efforts, we continue to work in converting our Energía Costa Azul LNG import terminal to a liquefaction facility. Technical work and commercial discussions at this are advancing. LNG importing countries in the Pacific basin as well as global LNG portfolio holders have indicated interest in the project, and we expect to make significant progress throughout the rest of this year. We are making good progress across all of these initiatives, and we are confident that they will lead to additional growth.

Now, please turn to Page 11, and I will turn the call back to Carlos.

Carlos Ruiz Sacristán - *Infraestructura Energética Nova, S.A.B. de C.V. - Chairman & CEO*

Thank you, Tania. I'm pleased with the strong results and growth of the company. We have invested more than \$5 billion in the Mexican energy sector in the past 5 years. As Nelly mentioned early, we are permitting, designing and constructing nearly \$2 billion of energy infrastructure projects that will reach operations by 2020. We also continue to seek new opportunities to grow and diversify our assets and customer base to meet Mexico very large energy constructional needs, as Tania described. To conclude, I'm positive that IEnova will continue to deliver growth.

With that, I will open up the call for your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first 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*

I had 3 questions. First, Carlos, as you pursue these opportunities in liquids with private sector players, have you felt any impact on your ability to close these deals from the fact that we are in an election year in Mexico or no? In other words, that may impact your government-related projects, but is not impacting your projects that you're pursuing with the private sector. The second question was for Nelly. If you could just update us,



APRIL 26, 2018 / 3:00PM, IENOVA*.MX - Q1 2018 Infraestructura Energetica Nova SAB de CV Earnings Call

please, on how much -- from a funding point of view, how much is left in your credit line facility? And then thirdly, for Tania, I was just wondering if you could provide us a bit more color in terms of the liquids potential? Are you able to tell us how many more projects are you working on, on the liquids front that could viably close this year? Second, on the transmission front, how different are these 2 projects, the CFE and the SENER bids, from your perspective from an attractiveness point of view? And then the other question, you touched on the underground bid. I just wanted to clarify, is the total amount that you mentioned of \$2 billion for the whole opportunity? Or would that \$2 billion just apply for this potential first bid that may happen later this year?

Carlos Ruiz Sacristán - *Infraestructura Energética Nova, S.A.B. de C.V. - Chairman & CEO*

In relation to your questions, our ability to close new deals, because of the elections, I think that what has happened is exactly the opposite. All the large refineries that want to participate in the country are really moving on and trying to close deals with us and others in order to build infrastructure that is needed. As you know, we bought something like 50% of the gasoline. The storage capacity of the country is only 3 days. So this infrastructure is badly needed and the participants recognize that. So we see a lot of interest of clients into building these facilities. Tania (inaudible)?

Tania Ortíz Mena López Negrete - *Infraestructura Energética Nova, S.A.B. de C.V. - Chief Development Officer*

Thank you, Carlos. And just trying to expand on Carlos' point. The gasoline producers, the U.S. refiners as well as international traders, they're very eager to enter the market. Those are great ways to have positions in retail. They are opening up gas stations every single day. I believe that now they probably have about a 20% of the share of the retail market. So now they need -- they require infrastructure to be able to bring their products to the market. So we continue to see a very, very actively interest that in working with us to develop these import facilities. We are working on several different initiatives in the Pacific coast. I mentioned Topolobampo, but there are other greenfield facilities in the Pacific coast not necessarily through bid processes. And we're also waiting for the port of La Paz in Baja California Sur to issue a tender. On the Gulf Coast, there's a potential of a tender in the Veracruz area, and in the Campeche area, but we will keep you posted as we progress. But we are working on several initiatives in parallel, particularly in the Pacific coast. With regards to the transmission line, both the CFE line from Oaxaca to Central Mexico and the SENER line that connects Baja California to Sonora, are fairly similar. We would be responsible for the development, permitting rights of way, construction and operations during 25 years of this asset. The assets will be placed in a trust and they will be turned or -- back to the government once the contract expires. As we've discussed, they are both denominated in peso. So of course, there are differences with regard to schedule and with regards to the source of the payment. Of course, one will be paid by the CFE, and the other one will be paid by [SENER]. But the structures are very, very similar, the regions are different. So we are evaluating each of these bids to determine which one is a better fit for us. With regards to underground storage, the figure that I mentioned, \$2 billion would be the total requirement to build 45 BCF of storage. So not the initial \$10 billion, but the full 45 BCF of storage.

Manuela Molina Peralta - *Infraestructura Energética Nova, S.A.B. de C.V. - CFO*

Christian regarding to your question on funding and based on a CapEx commitment, let me tell you that our full CapEx including these 3 new projects that we recently announced, it is now very close to \$800 million, each are very secured through our committed line of credit, which is now -- which actually has now an availability of approximately \$830 million, and cash coming in from operations.

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

Really sorry, I couldn't hear you what you said, \$840 million on the line of credit?

Manuela Molina Peralta - *Infraestructura Energética Nova, S.A.B. de C.V. - CFO*

\$830 million is available at this time in our committed line. Yes.



APRIL 26, 2018 / 3:00PM, IENOVA*.MX - Q1 2018 Infraestructura Energetica Nova SAB de CV Earnings Call

Operator

Our next question is from Jeremy Tonet from JPMorgan.

Jeremy Bryan Tonet - *JP Morgan Chase & Co, Research Division - Senior Analyst*

Just wanted to touch on that regas a bit more in the opportunity. I think you had mentioned in the past that you've obtained a key federal permit there. I was just wondering if you could provide a bit more color as far as your outlook there. And how things are progressing and your interest level?

Tania Ortíz Mena López Negrete - *Infraestructura Energética Nova, S.A.B. de C.V. - Chief Development Officer*

Jeremy, thank you for your question. Yes, last year -- late last year, we obtained all of the key federal permits required in Mexico. So once we obtain those permits, we started reaching out to the market. And I can tell you that we are seeing a lot of interest for players, particularly in the Pacific coast and international LNG players in acquiring or having a long-term transaction with the new liquefaction facility. So with that in mind, we are evaluating the scope of the permit, and we should be able, I think, to make a definitive investment decision next year.

Jeremy Bryan Tonet - *JP Morgan Chase & Co, Research Division - Senior Analyst*

That's helpful. And then, with regards to TDM, I was wondering if you might be able to provide a bit more color there on the divesture process, anything you can update us with?

Carlos Ruiz Sacristán - *Infraestructura Energética Nova, S.A.B. de C.V. - Chairman & CEO*

We continue with the effort. The processes is there. We'll have to see soon now how this process finishes. But we continue with the effort.

Jeremy Bryan Tonet - *JP Morgan Chase & Co, Research Division - Senior Analyst*

And then just one last one, if I could. Just with regards to the tariffs and some increases in the release, I was just wondering if you might be able to share a little bit more color, which assets that will...

Carlos Ruiz Sacristán - *Infraestructura Energética Nova, S.A.B. de C.V. - Chairman & CEO*

I am sorry, could you repeat the question, because we didn't hear you well.

Jeremy Bryan Tonet - *JP Morgan Chase & Co, Research Division - Senior Analyst*

Sure. So in the press release I think you had noted some increase in tariffs, and I was just wondering if you might be able to provide a little bit more color on which pipes or what degree of increase?

Manuela Molina Peralta - *Infraestructura Energética Nova, S.A.B. de C.V. - CFO*

Yes. Jeremy, as you know, many of our assets are contracted through negotiated rates, which are fixed for the life of the contract with a little bit of indexation. But some of our contacts are indexed to the regulated rate that's adjusted either yearly or every 5 year by the regulators. So we had rate adjustments in a couple of the assets, which is the reason for that increase. So it's a result of adjustment in regulated rates on several assets.

APRIL 26, 2018 / 3:00PM, IENOVA*.MX - Q1 2018 Infraestructura Energetica Nova SAB de CV Earnings Call

Operator

And our next question is from Alejandra Obregon from Morgan Stanley.

Alejandra Obregon - *Morgan Stanley, Research Division - Strategist*

The first one is on the transmission projects, just a follow-up, if you could provide us some color on the timing and the status, particularly on the Baja one, which I believe you mentioned has already released the bid guidelines? And on the second one, in CapEx. I believe you mentioned you have raised the CapEx to \$795 million. So maybe, if you could provide, or I guess I would like to understand what's embedded in that CapEx guidance? And if you could break it on the Baja Refinados and Liverpool CapEx expenses? How much of it will be deployed in 2019 and 2018?

Carlos Ruiz Sacristán - *Infraestructura Energética Nova, S.A.B. de C.V. - Chairman & CEO*

There is a lot of noise.

Tania Ortíz Mena López Negrete - *Infraestructura Energética Nova, S.A.B. de C.V. - Chief Development Officer*

That's better. Thank you, Alejandra. On the transmission project, the CFE bid, which is the Oaxaca to Central Mexico bid is -- bids are due in June -- June 20, I believe. And then for the Baja to Sonora bid, bids are due in August. As I'm sure, you're aware, it's not uncommon for these schedules to move. So we will continue to let you know if the schedules are pushed back.

Manuela Molina Peralta - *Infraestructura Energética Nova, S.A.B. de C.V. - CFO*

Regarding the CapEx, yes this year we raise it to \$795 million because of the \$65 million worth of the new projects announced, which will be spent this year. \$65 million is a portion of that \$260 million worth of total investment. So these CapEx is composed of mainly funding into these different project levels. And, for instance, this year, a big portion of that is for the marine pipeline. But the remaining is essentially for the liquids terminals in the 3 main solar projects: Rumorosa and Tepezalá Solar and Pima Solar. Three of those projects will be completed this year, Pima Solar, the Veracruz terminal and the scheduled marine terminal.

Operator

Our next question is from Vanessa Quiroga from Crédit Suisse.

Vanessa Quiroga - *Crédit Suisse AG, Research Division - Head of Mexico Equity Research & Co-Head of the Housing & Infrastructure in LatAm excluding Brazil*

The first one that I have is on the submarine pipeline. If you think that given the progress done so far, if you think it would be possible to finish ahead of the -- or ahead of schedule, that project? And the second question that I have is regarding the opportunity for gas storage. About what size do you think this projects could be? And in general, what could be the main characteristics of those contracts?

Carlos Ruiz Sacristán - *Infraestructura Energética Nova, S.A.B. de C.V. - Chairman & CEO*

The -- in relations to the marine pipeline, we are working exactly on our plan, and we will finish on the schedule.



APRIL 26, 2018 / 3:00PM, IENOVA*.MX - Q1 2018 Infraestructura Energetica Nova SAB de CV Earnings Call

Tania Ortíz Mena López Negrete - *Infraestructura Energética Nova, S.A.B. de C.V. - Chief Development Officer*

With regards to gas storage, so the public policy states that 45 BCF of storage are needed in Mexico. The first bid will be issued by CENAGAS. That first bid will very likely be in Northeast Mexico. It will very likely utilize depleted oil wells. And the intent is for CENAGAS to execute a long-term capacity contract on that facility.

Vanessa Quiroga - *Crédit Suisse AG, Research Division - Head of Mexico Equity Research & Co-Head of the Housing & Infrastructure in LatAm excluding Brazil*

Okay, okay. And those assets would be owned by the developer, right? The developer and operator, not...

Tania Ortíz Mena López Negrete - *Infraestructura Energética Nova, S.A.B. de C.V. - Chief Development Officer*

Yes.

Vanessa Quiroga - *Crédit Suisse AG, Research Division - Head of Mexico Equity Research & Co-Head of the Housing & Infrastructure in LatAm excluding Brazil*

Okay, okay. All right.

Operator

(Operator Instructions) And our next question is from Pablo Ordóñez from Itaú.

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

Two questions from my side. On the LNG project, Tania, now that you'd expect to see more progress, what's the size of the investment that you think this project will be -- will require? And the second question will also be a follow-up on the liquids segment. I understood that, Tania mentioned that the private sector already has like 25% of the retail market. I was wondering, do you have any projection on how much the private sector could take of the overall retail market.

Tania Ortíz Mena López Negrete - *Infraestructura Energética Nova, S.A.B. de C.V. - Chief Development Officer*

Thank you, Pablo. Regarding the LNG project, now that we're reaching out to the market, we think there is a possibility that we may develop the project in stages. So the full project will be a 12 MTPA project, but we -- you may be seeing an initial phase of 2 to 2.5 MTPA. That initial project investment would be between \$1 billion and \$1.5 billion just for that initial phase. But again, we are working to determine the scope of the project. On the liquids segment, I would say, we really don't have an estimate of how much of the retail market these new private players will be able to take. Each player has a different strategy, different region and different timing. But we're there to build the infrastructure that they need.

Operator

(Operator Instructions) At this time, I'm not showing no further questions. I would like to turn the call back over to Carlos Ruiz Sacristán for closing remarks.

APRIL 26, 2018 / 3:00PM, IENOVA*.MX - Q1 2018 Infraestructura Energetica Nova SAB de CV Earnings Call

Carlos Ruiz Sacristán - *Infraestructura Energética Nova, S.A.B. de C.V. - Chairman & CEO*

Well, thank you very much for your call. We have to tell you that we continue to grow and we are seeing very important opportunities in the future with the same business model that we have. Thank you very much.

Operator

Ladies and gentlemen, thank you for your participation in today's conference. This concludes the program, you may now disconnect.

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2018, Thomson Reuters. All Rights Reserved.

