

Brazilian Utilities

May 9 transmission auction: Copel and Spanish players are still investing

Equities

Latin America
Utilities

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Friday auction: 5 of 13 lots with no bids despite higher 6% WACC

On Friday, ANEEL auctioned 13 lots totalling 3,469km of new transmission lines/ 17 substations for combined R\$403m p.a. revenue cap for 30-years, requiring R\$4.4bn capex in the next 24-43 months. There were no bids for five lots representing 23% of capex; this underscored in our view 1) weaker balance sheets for Eletrobras/CTEEP post-MP579, with c.70% cut in revenues, but no full compensation yet from the Bz Fed Govt for past investments that were never amortized; 2) still high execution risks perceived by investors despite the more reasonable, recently increased 6% ROA cap (in real R\$) that was used to derive the cap revenues for this auction.

Spanish players Abengoa, Cymi and Elecnor are still investing. Copel too

Unlike recent auctions, this time we did not see Eletrobras or Chinese player State Grid bid. Cymi was the most aggressive bidder at 23-35% discount to cap revenues for R\$1.13bn capex vs. Abengoa's 1-9% discount for R\$1.17bn capex for different lots, while Elecnor bid w/ 51-49% in JV w/ Copel at nil discount to the cap for a R\$624m, 500Kv, 328km double circuit line. Copel won 2 lots alone w/ nil-6.5% discount to the cap. All-in, Copel committed w/ ownership-adj. R\$490m capex for R\$58m revenues. Of Brazil's Transcos, Alupar got one lot but CTEEP or CEMIG's TAESA did not participate or did not win any project. See Table 1 for details on the May 9, 2014 auction.

Copel: projects might yield 10% ROE which seems reasonable

Copel's balance sheet remains unlevered at 2.2x EBITDA and ROEs of recent projects are of low visibility. Key execution risks for the estimated 10% yield are related to environmental liabilities and cheap funding.

Valuation: Transmission remains our favourable sector within Brazilian utilities

This is due to limited volume and delinquency risks under a scenario of shortage coming from poor hydrology. We like Buy-rated CTEEP (TRPL4).

Table 1: May 9th Transmission Line Auction – Summary

Lot	Km	Sub stations	Capex (R\$m)	Max. Revenues (R\$m p.a.)	Bid revenues (R\$m p.a.)	Discount relative to RAP Cap	Winner	Comments
TOTAL	3,469	17	4,361	403.1	350.0	-13%		Average discount considering auctioned projects only
A	436	1	330	38.7	-	0%	No bids	Registered bidders: Abengoa, Alupar, Eletronorte and Lintran.
B	480	4	854	102.2	92.5	-9%	Abengoa	Other registered bidders: Alupar, Eletronorte and Elecnor.
C	40	2	262	30.4	28.9	-5%	Alupar	Other registered bidders: Alupar and CPFL Geração
D	301	2	603	71.3	45.6	-36%	Cymi Holding	Other registered bidders: Abengoa, Alupar, Elecnor and TAESA.
E	492	0	531	63.6	48.8	-23%	Cymi Holding	Other registered bidders: Abengoa, Alupar, Riacho Verde, Elecnor and Lintran.
F	656	0	624	76.9	76.9	0%	Cantareira Consortium - Copel GT (49%) and Elecnor (51%)	Other registered bidders: Abengoa, Alupar, Cymi and Lintran.
G	195	2	312	36.9	36.5	-1%	Abengoa	Other registered bidders: Alupar, Santa Rosa, Cymi, Elecnor and Lintran.
H	148	1	301	33.6	-	0%	No bids	Registered bidders: Abengoa, Alupar, Eletronorte, Elecnor, and ENTE.
I	262	3	184	21.7	-	0%	No bids	Registered bidders: Abengoa, Alupar, Bi-Global, Canarana, Cymi and Lintran.
J	95	0	46	5.5	-	0%	No bids	Registered bidders: Abengoa, Alupar, Eletronorte and Lintran.
K	53	1	49	5.7	5.7	0%	Copel	Other registered bidders: Abengoa, Alupar and Elecnor.
L	191	1	130	15.3	-	0%	No bids	Registered bidders: Abengoa, Alupar, ENTE and Lintran.
M	120	0	135	16.0	15.0	-7%	Copel	Other registered bidders: Abengoa, Alupar, Cymi, Lintran and TAESA.

Source: ANEEL, BM&F Bovespa and UBS

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Source: UBS. Rating allocations are as of 31 March 2014.

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Company Name	Reuters	12-month rating	Short-term rating	Price	Price date
COPEL ¹⁶	CPLE6.SA	Buy	N/A	R\$33.24	09 May 2014
Transmissão Paulista	TRPL4.SA	Buy	N/A	R\$26.00	09 May 2014

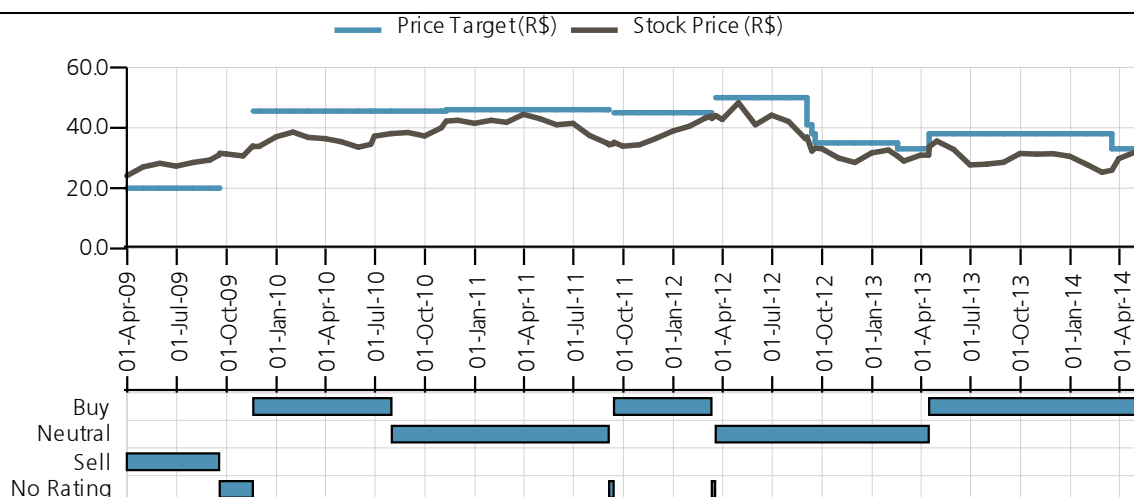
Source: UBS. All prices as of local market close.

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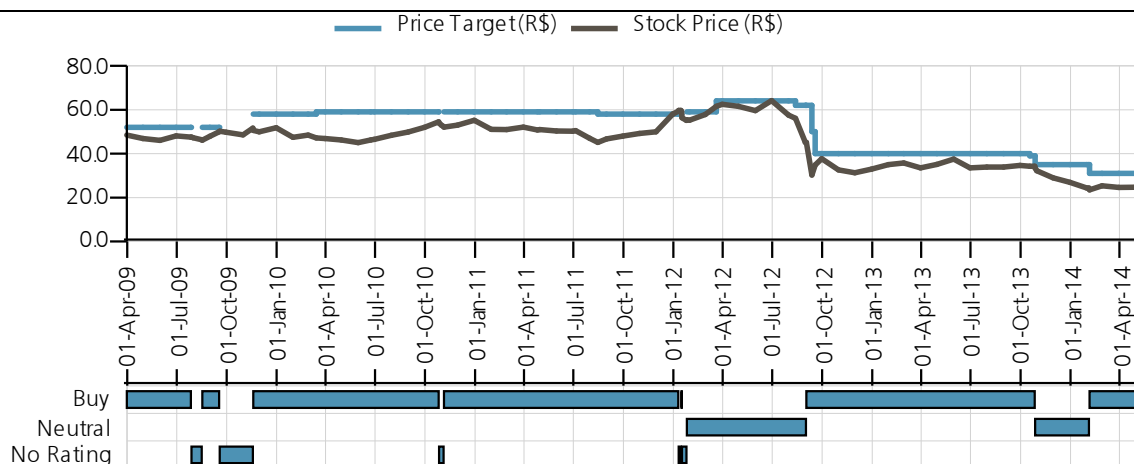
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COPEL (R\$)



Source: UBS; as of 09 May 2014

Transmissão Paulista (R\$)



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