

# ELETROPAULO

## 2Q14 still poor even when adjusted for regulatory receivables/high energy purchase costs

### 2Q14 weak and a miss to UBSe and consensus – see Figure 1 for details

2Q14 EBITDA was negative at -R\$383m. Net Income was a loss of -R\$354m (-R\$2.12/sh) and a miss to both UBSe of -R\$11m and consensus of -R\$99m. Nevertheless, similar to 1Q14, this miss was on higher non-controllable costs, set as a pass-thru to end-user tariffs (in early July, co got a 9.1% tariff increase). When adjusting 2Q14 for tariff receivables/pension fund expenses (so as to consider the latter as financial expense as opposed to opex), company indicated that adjusted EBITDA is R\$303m (i.e., flattish vs. the R\$300m of 2Q13). Similarly, net income would be a small R\$49m profit (R\$42m prior year). We see 2Q14 as still weak.

### Low demand growth outlook, higher opex/lower provisions for contingencies

Demand was -0.1% despite the 1.9% increase in consumption units, due to weak industrial activity (-7%). Commercial demand was high (+4.8%; note flat residential demand), underscoring a better tariff mix. We however are concerned with unpredictable hydrology/low economic activity impacting future profitability. We also note that opex was R\$18m above UBSe, offset by c.R\$40m lower provisions for contingencies – if recurring, this could mean upside to our fair value estimate.

### Next catalysts: hydrological risks/regulatory changes, legal disputes, M&A

Our upside case is now R\$10 (up from R\$9/sh) on cost cutting upside, while downside case remains R\$4/sh. Key variables: i) demand growth and shortage risks for 2015; ii) risks of an unfavourable settlement regarding the Eletrobras dispute; iii) uncertainties around co's July 2015 tariff reset process including the dispute with ANEEL on R\$700m missing cables. Lower provisions and M&A could also be positive catalysts for the stock (note that ELPL4 offers 100% tag-along rights) but of limited visibility.

### Valuation: SOTP/DCF-based R\$7/sh PT and Sell rating unchanged

We find fixed income yields more attractive than Eletropaulo stock, especially when factoring in economic growth slowdown plus a combo of regulatory, financial and legal risks. We favour sister TIETE in the Generation business, peer disco LIGHT or vertical players ENERGIAS DO BRASIL and CPFL ENERGIA.

### Equities

Americas  
Electric Utilities

12-month rating **Sell**

12m price target **R\$7.00**

Price **R\$10.23**

RIC: ELPL4.SA BBG: ELPL4 BZ

### Trading data and key metrics

52-wk range	R\$12.15-5.95
Market cap.	R\$1.71bn/US\$0.77bn
Shares o/s	167m (PREF)
Free float	56%
Avg. daily volume ('000)	614
Avg. daily value (m)	R\$6.2
Common s/h equity (12/13E)	R\$2.11bn
P/BV (12/13E)	0.8x
Net debt / EBITDA (12/13E)	5.1x

### EPS (UBS, diluted) (R\$)

	UBS	Cons.
12/13E	(1.14)	1.54
12/14E	(0.27)	(1.25)
12/15E	1.13	(0.05)

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Highlights (R\$m)	12/10	12/11	12/12	12/13E	12/14E	12/15E	12/16E	12/17E
Revenues	9,697	9,836	9,959	8,365	9,528	10,577	11,526	12,401
EBIT (UBS)	1,913	2,345	205	(104)	47	386	601	701
Net earnings (UBS)	1,348	1,572	108	(190)	(45)	188	342	419
EPS (UBS, diluted) (R\$)	8.05	9.40	0.65	(1.14)	(0.27)	1.13	2.04	2.51
DPS (R\$)	9.56	5.65	0.34	0.00	0.00	0.58	1.06	1.30
Net (debt) / cash	(1,163)	(1,257)	(2,021)	(1,682)	(1,950)	(2,093)	(2,171)	(2,225)
Profitability/valuation	12/10	12/11	12/12	12/13E	12/14E	12/15E	12/16E	12/17E
EBIT margin %	19.7	23.8	2.1	-1.2	0.5	3.7	5.2	5.7
ROIC (EBIT) %	28.5	36.8	3.1	(1.5)	0.7	5.3	8.0	9.1
EV/EBITDA (core) x	3.6	2.8	10.7	17.1	12.2	7.7	6.3	5.8
P/E (UBS, diluted) x	4.2	3.5	38.9	(9.0)	(37.9)	9.1	5.0	4.1
Equity FCF (UBS) yield %	37.7	24.3	(7.9)	(20.5)	(2.3)	12.8	21.3	25.1
Net dividend yield %	28.0	17.2	1.4	0.0	0.0	5.7	10.4	12.7

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of R\$10.23 on 06 Aug 2014 19:39 EDT

# Investment Thesis

We think ELPL4 is expensive on top valuation multiples relative to Bz discos and yet below-average dividend yields in the foreseeable future. We also add low growth potential as well as low earnings visibility coming from a July 2015 rate review process (4<sup>th</sup> cycle). Moreover, we think co.'s balance sheet is too leveraged when compared with peers and we are concerned about squeezed profitability coming from potential supply shock derived from very dry weather since last year. Finally, we note a sizeable dispute with ELETROBRAS that could erode as much as R\$9/sh of fair value.

**Base Case:** Our R\$7/sh 12-month PT is based on DCF with 8% cost of equity in real R\$, and we also assume a 20% chance that the company will lose the R\$1.5bn dispute (R\$9/sh) with ELETROBRAS. We are not yet assuming lower sales volume coming from demand rationalization or rationing.

## Upside scenario with R\$10/sh valuation

Our upside case assumes a favourable outcome for the ELETROBRAS dispute (+R\$2/sh, based on nil disbursement vs. 20% chance of a lost dispute of R\$1.3bn of our base case), lower controllable costs, and lower discount rate coming from the perception that ELETROPAULO will soon be divested or that the regulatory framework will improve (R\$1.5/sh for every 100bp in lower cost of equity).

## Downside scenario with R\$4/sh valuation

Our downside case of R\$4/sh assumes the company pays 50% of the ELETROBRAS liability (-R\$4/sh vs. -R\$2/sh that is now included in our Base Case) and incurs in lower revenues/higher opex/higher financial expenses from supply constraints related to poor hydrology/rationing or blackout risks, as well as high energy purchase costs that have to be done at sky-rocketed spot prices.

## Figure 1: ELETROPAULO – Summary 2Q14 Results

In nominal R\$ million unless otherwise stated.

	2Q14	2Q13	% Chg	Comments
<b>Net Revenues</b>	<b>2,203</b>	<b>2,148</b>	<b>2.6</b>	Flattish volumes at -0.1% YoY, and below Bz's +1.2%. Demand for commercial customers was up 4.8%, for residential customers was flat, but for industrials it was down 7%. A miss to both UBSe of R\$2.38bn and to consensus of R\$2.3bn.
<b>Electricity Purchase</b>	(1,981)	(1,020)	94.3	Co. continued to be short energy in 2Q14 (4.1% of its demand vs c.11% in 1Q14) and had to buy at the expensive spot market as the Bz Fed Govt's planning entity failed to contract energy on behalf of Bz Discos back in 2012/13 for 2014. Poor hydrology made spot prices reach R\$786.7/MWh in 2Q14 (from R\$292.1/MWh in 2Q13). These high costs were partially offset by R\$336m equity capital injection (to be paid for with future tariff hikes); more is on the way.
<b>Transmission</b>	(29)	(72)	-59.7	One-off gains related to CONER funds
<b>Depreciation</b>	(108)	(108)	0.4	Vs. UBSe of -R\$124m.
<b>Personnel Expense</b>	(157)	(124)	26.8	R\$22m worse than our estimate, mostly explained by capitalization of capex ahead of the next tariff reset cycle due 2015 (R\$12m), higher salaries after collective agreement (R\$10m) and insourcing of 3rd party employees related to emergency and fraud monitoring.
<b>Pension Fund Expense</b>	(71)	(87)	-17.6	In line.
<b>Third Parties &amp; Materials</b>	(125)	(118)	6.6	R\$4m better than UBSe mostly explained by insourcing of 3rd-party employees.
<b>Construction Costs</b>	(169)	(195)	-13.1	Introduced by IFRS, neutral impact on EBITDA.
<b>Other Operating Expenses (including Provisions)</b>	(53)	(24)	115.8	R\$40m better than UBSe on lower judicial provisions, reversal of provisions related to social security contributions, sale of real estate assets.
<b>EBIT</b>	<b>(491)</b>	<b>402</b>	<b>-222.3</b>	
<b>% margin</b>	-22.3%	18.7%		
<b>Reported EBITDA</b>	<b>(383)</b>	<b>510</b>	<b>n.m.</b>	A miss to UBSe of +R\$135m, but not as worrisome given that high noncontrollable costs with energy purchases at the expensive spot market will be paid for by end-users via future tariff hikes. Company's EBITDA adjusted by pension expenses and regulatory receivables/liabilities were R\$303m vs. R\$300m in the prior year.
<b>% margin</b>	-17.4%	23.7%		
<b>Net Financial Result</b>	(46)	(28)	67.0	R\$23m worse than expected, R\$12m of which regarding reduced fair value estimate of concession assets.
<b>EBT</b>	<b>(537)</b>	<b>374</b>	<b>n.m.</b>	
<b>Taxes</b>	183	(129)	n.m.	
<b>Net Income</b>	<b>(354)</b>	<b>245</b>	<b>n.m.</b>	A miss to UBSe of -R\$11m and to consensus of -R\$99m.
<b>EPS, R\$/share</b>	<b>(2.12)</b>	<b>1.47</b>	<b>n.m.</b>	
<b>Capex</b>	169	195	-13.1	Above UBSe of -R\$138m) Note that co reiterated its 2014FY capex guidance of R\$550m which is the same amount we carry in our model.
<b>Banking Net Debt</b>	2,470	1,726	43.1	
<b>Adjusted Net Debt</b>	<b>5,111</b>	<b>4,900</b>	<b>4.3</b>	Includes dividend payables and pension fund liability.
<b>Adj. Net Debt/EBITDA</b>	<b>-11.2x</b>	<b>6.9x</b>		LTM EBITDA (2.7x as per co's press release, was 3.1x in 2Q13). Impacted by higher energy purchase costs in the past 12-m that will be recovered via higher tariffs thru mid-2016.

Source: Company and UBS estimates.

## ELETROPAULO (ELPL4.SA)

	12/10	12/11	12/12	12/13E	% ch	12/14E	% ch	12/15E	12/16E	12/17E
<b>Income statement (R\$m)</b>										
<b>Revenues</b>	<b>9,697</b>	<b>9,836</b>	<b>9,959</b>	<b>8,365</b>	<b>-16.0</b>	<b>9,528</b>	<b>13.9</b>	<b>10,577</b>	<b>11,526</b>	<b>12,401</b>
Gross profit	2,999	2,904	1,819	1,568	-13.8	1,762	12.4	2,213	2,547	2,772
<b>EBITDA (UBS)</b>	<b>2,413</b>	<b>2,848</b>	<b>656</b>	<b>333</b>	<b>-49.2</b>	<b>542</b>	<b>62.7</b>	<b>885</b>	<b>1,105</b>	<b>1,209</b>
Depreciation & amortisation	(500)	(503)	(451)	(437)	-3.0	(495)	13.1	(499)	(503)	(508)
<b>EBIT (UBS)</b>	<b>1,913</b>	<b>2,345</b>	<b>205</b>	<b>(104)</b>	<b>-</b>	<b>47</b>	<b>-</b>	<b>386</b>	<b>601</b>	<b>701</b>
Associates & investment income	0	0	0	0	-	0	-	0	0	0
Other non-operating income	0	0	0	0	-	0	-	0	0	0
Net interest	103	(21)	(52)	(86)	-66.2	(92)	-7.8	(109)	(98)	(84)
Exceptionals (incl goodwill)	0	0	0	0	-	0	-	0	0	0
<b>Profit before tax</b>	<b>2,016</b>	<b>2,323</b>	<b>153</b>	<b>(190)</b>	<b>-</b>	<b>(45)</b>	<b>76.3</b>	<b>277</b>	<b>503</b>	<b>617</b>
Tax	(668)	(751)	(45)	0	-	0	-	(89)	(161)	(198)
<b>Profit after tax</b>	<b>1,348</b>	<b>1,572</b>	<b>108</b>	<b>(190)</b>	<b>-</b>	<b>(45)</b>	<b>76.3</b>	<b>188</b>	<b>342</b>	<b>419</b>
Preference dividends	0	0	0	0	-	0	-	0	0	0
Minorities	0	0	0	0	-	0	-	0	0	0
Extraordinary items	0	0	0	0	-	0	-	0	0	0
<b>Net earnings (local GAAP)</b>	<b>1,348</b>	<b>1,572</b>	<b>108</b>	<b>(190)</b>	<b>-</b>	<b>(45)</b>	<b>76.3</b>	<b>188</b>	<b>342</b>	<b>419</b>
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Tax rate (%)	33.1	32.3	29.5	0.0	-	0.0	-	32.0	32.0	32.0
<b>Per share (R\$)</b>										
EPS (UBS, diluted)	8.05	9.40	0.65	(1.14)	-	(0.27)	76.3	1.13	2.04	2.51
EPS (local GAAP, diluted)	8.05	9.40	0.65	(1.14)	-	(0.27)	76.3	1.13	2.04	2.51
EPS (UBS, basic)	8.05	9.40	0.65	(1.14)	-	(0.27)	76.3	1.13	2.04	2.51
Net DPS (R\$)	9.56	5.65	0.34	0.00	-	0.00	-	0.58	1.06	1.30
Cash EPS (UBS, diluted)*	11.04	12.40	3.34	1.48	-55.8	2.69	81.8	4.11	5.05	5.54
Book value per share	22.33	23.96	21.37	12.63	-40.9	12.36	-2.1	12.93	13.95	15.20
Average shares (diluted)	167.34	167.34	167.34	167.34	0.0	167.34	0.0	167.34	167.34	167.34
<b>Balance sheet (R\$m)</b>										
Cash and equivalents	1,664	1,391	814	1,064	30.7	797	-25.1	748	747	731
Other current assets	1,602	1,716	2,151	1,758	-18.3	1,921	9.3	2,067	2,199	2,321
<b>Total current assets</b>	<b>3,266</b>	<b>3,107</b>	<b>2,965</b>	<b>2,822</b>	<b>-4.8</b>	<b>2,718</b>	<b>-3.7</b>	<b>2,815</b>	<b>2,946</b>	<b>3,052</b>
Net tangible fixed assets	5,868	5,883	5,763	5,808	0.8	5,864	1.0	5,914	5,964	6,015
Net intangible fixed assets	0	0	0	0	0.0	0	0.0	0	0	0
Investments / other assets	1,576	1,776	1,771	1,845	4.2	1,945	5.5	2,072	2,214	2,375
<b>Total assets</b>	<b>10,710</b>	<b>10,766</b>	<b>10,499</b>	<b>10,475</b>	<b>-0.2</b>	<b>10,527</b>	<b>0.5</b>	<b>10,801</b>	<b>11,125</b>	<b>11,442</b>
Trade payables & other ST liabilities	2,094	2,159	2,340	2,062	-11.9	2,172	5.3	2,270	2,358	2,439
Short term debt	402	492	115	50	-56.43	50	0.00	144	221	260
<b>Total current liabilities</b>	<b>2,495</b>	<b>2,651</b>	<b>2,455</b>	<b>2,112</b>	<b>-13.9</b>	<b>2,222</b>	<b>5.2</b>	<b>2,414</b>	<b>2,579</b>	<b>2,699</b>
Long term debt	2,426	2,156	2,720	2,696	-0.9	2,696	0.0	2,696	2,696	2,696
Other long term liabilities	2,051	1,950	1,748	3,552	103.2	3,539	-0.4	3,527	3,515	3,503
Preferred shares	0	0	0	0	-	0	-	0	0	0
<b>Total liabilities (incl pref shares)</b>	<b>6,973</b>	<b>6,756</b>	<b>6,922</b>	<b>8,361</b>	<b>20.8</b>	<b>8,458</b>	<b>1.2</b>	<b>8,637</b>	<b>8,790</b>	<b>8,898</b>
Common s/h equity	3,737	4,010	3,577	2,114	-40.9	2,069	-2.1	2,163	2,334	2,544
Minority interests	0	0	0	0	-	0	-	0	0	0
<b>Total liabilities &amp; equity</b>	<b>10,710</b>	<b>10,766</b>	<b>10,499</b>	<b>10,475</b>	<b>-0.2</b>	<b>10,527</b>	<b>0.5</b>	<b>10,801</b>	<b>11,124</b>	<b>11,442</b>
<b>Cash flow (R\$m)</b>										
Net income (before pref divs)	1,348	1,572	108	(190)	-	(45)	76.3	188	342	419
Depreciation & amortisation	500	503	451	437	-3.0	495	13.1	499	503	508
Net change in working capital	1,087	(20)	(113)	(37)	67.2	(31)	16.4	(28)	(26)	(23)
Other operating	(103)	21	52	86	66.2	92	7.8	109	98	84
<b>Operating cash flow</b>	<b>2,832</b>	<b>2,076</b>	<b>497</b>	<b>296</b>	<b>-40.5</b>	<b>511</b>	<b>72.7</b>	<b>768</b>	<b>918</b>	<b>988</b>
Tangible capital expenditure	(682)	(739)	(831)	(647)	22.2	(550)	15.0	(549)	(554)	(559)
Intangible capital expenditure	0	0	0	0	-	0	-	0	0	0
Net (acquisitions) / disposals	0	0	0	0	-	0	-	0	0	0
Other investing	0	0	0	0	-	0	-	0	0	0
<b>Investing cash flow</b>	<b>(682)</b>	<b>(739)</b>	<b>(831)</b>	<b>(647)</b>	<b>22.2</b>	<b>(550)</b>	<b>15.0</b>	<b>(549)</b>	<b>(554)</b>	<b>(559)</b>
Equity dividends paid	(1,542)	(911)	(55)	0	-	0	-	(94)	(171)	(210)
Share issues / (buybacks)	0	0	100	0	-	0	-	0	0	0
Other financing	(171)	77	109	47	-57.27	0	-	0	0	0
Change in debt & pref shares	176	(449)	236	1,952	727.93	0	-100.00	0	0	0
<b>Financing cash flow</b>	<b>(1,537)</b>	<b>(1,283)</b>	<b>390</b>	<b>1,999</b>	<b>NM</b>	<b>0</b>	<b>-</b>	<b>(94)</b>	<b>(171)</b>	<b>(210)</b>
<b>Cash flow inc/(dec) in cash</b>	<b>612</b>	<b>55</b>	<b>56</b>	<b>1,648</b>	<b>NM</b>	<b>(39)</b>	<b>-</b>	<b>125</b>	<b>193</b>	<b>220</b>
FX / non cash items	(197)	(329)	(633)	(1,398)	-120.9	(228)	83.7	(174)	(194)	(235)
<b>Balance sheet inc/(dec) in cash</b>	<b>415</b>	<b>(274)</b>	<b>(576)</b>	<b>250</b>	<b>-</b>	<b>(267)</b>	<b>-</b>	<b>(49)</b>	<b>(1)</b>	<b>(15)</b>

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts.\*Cash EPS (UBS, diluted) is calculated using UBS net income adding back depreciation and amortization.

## ELETROPAULO (ELPL4.SA)

Valuation (x)	12/10	12/11	12/12	12/13E	12/14E	12/15E	12/16E	12/17E
P/E (local GAAP, diluted)	4.2	3.5	38.9	NM	NM	9.1	5.0	4.1
P/E (UBS, diluted)	4.2	3.5	38.9	(9.0)	(37.9)	9.1	5.0	4.1
P/CEPS	3.1	2.6	7.5	6.9	3.8	2.5	2.0	1.8
Equity FCF (UBS) yield %	37.7	24.3	(7.9)	(20.5)	(2.3)	12.8	21.3	25.1
Net dividend yield (%)	28.0	17.2	1.4	0.0	0.0	5.7	10.4	12.7
P/BV x	1.5	1.4	1.2	0.8	0.8	0.8	0.7	0.7
EV/revenues (core)	0.9	0.8	0.7	0.7	0.7	0.6	0.6	0.6
EV/EBITDA (core)	3.6	2.8	10.7	17.1	12.2	7.7	6.3	5.8
EV/EBIT (core)	4.5	3.4	NM	NM	NM	17.7	11.6	10.0
EV/OpFCF (core)	4.5	3.4	NM	NM	NM	17.7	11.6	10.0
EV/op. invested capital	1.3	1.3	1.1	0.8	0.9	0.9	0.9	0.9
<b>Enterprise value (R\$m)</b>	<b>12/10</b>	<b>12/11</b>	<b>12/12</b>	<b>12/13E</b>	<b>12/14E</b>	<b>12/15E</b>	<b>12/16E</b>	<b>12/17E</b>
Market cap.	5,708	5,495	4,205	1,712	1,712	1,712	1,712	1,712
Net debt (cash)	1,586	1,210	1,639	1,852	1,816	2,021	2,132	2,198
Buy out of minorities	0	0	0	0	0	0	0	0
Pension provisions/other	1,408	1,302	1,182	2,121	3,109	3,109	3,109	3,109
<b>Total enterprise value</b>	<b>8,703</b>	<b>8,007</b>	<b>7,026</b>	<b>5,685</b>	<b>6,637</b>	<b>6,842</b>	<b>6,953</b>	<b>7,019</b>
Non core assets	0	0	0	0	0	0	0	0
<b>Core enterprise value</b>	<b>8,703</b>	<b>8,007</b>	<b>7,026</b>	<b>5,685</b>	<b>6,637</b>	<b>6,842</b>	<b>6,953</b>	<b>7,019</b>
<b>Growth (%)</b>	<b>12/10</b>	<b>12/11</b>	<b>12/12</b>	<b>12/13E</b>	<b>12/14E</b>	<b>12/15E</b>	<b>12/16E</b>	<b>12/17E</b>
Revenue	10.4	1.4	1.3	-16.0	13.9	11.0	9.0	7.6
EBITDA (UBS)	35.9	18.0	-77.0	-49.2	62.7	63.4	24.8	9.4
EBIT (UBS)	49.7	22.6	-91.3	-	-	NM	55.7	16.6
EPS (UBS, diluted)	16.6	16.6	-93.1	-	76.3	-	81.5	22.6
Net DPS	42.8	-40.9	-94.0	-	-	-	81.5	22.6
<b>Margins &amp; Profitability (%)</b>	<b>12/10</b>	<b>12/11</b>	<b>12/12</b>	<b>12/13E</b>	<b>12/14E</b>	<b>12/15E</b>	<b>12/16E</b>	<b>12/17E</b>
Gross profit margin	30.9	29.5	18.3	18.7	18.5	20.9	22.1	22.4
EBITDA margin	24.9	29.0	6.6	4.0	5.7	8.4	9.6	9.8
EBIT margin	19.7	23.8	2.1	-1.2	0.5	3.7	5.2	5.7
Net earnings (UBS) margin	13.9	16.0	1.1	NM	NM	1.8	3.0	3.4
ROIC (EBIT)	28.5	36.8	3.1	(1.5)	0.7	5.3	8.0	9.1
ROIC post tax	19.0	24.9	2.2	NM	0.7	3.6	5.5	6.2
ROE (UBS)	36.1	40.6	2.8	(6.7)	(2.2)	8.9	15.2	17.2
<b>Capital structure &amp; Coverage (x)</b>	<b>12/10</b>	<b>12/11</b>	<b>12/12</b>	<b>12/13E</b>	<b>12/14E</b>	<b>12/15E</b>	<b>12/16E</b>	<b>12/17E</b>
Net debt / EBITDA	0.5	0.4	3.1	5.1	3.6	2.4	2.0	1.8
Net debt / total equity %	31.1	31.4	56.5	79.6	94.2	96.7	93.0	87.4
Net debt / (net debt + total equity) %	23.7	23.9	36.1	44.3	48.5	49.2	48.2	46.7
Net debt/EV	13.4	15.7	28.8	29.6	29.4	30.6	31.2	31.7
Capex / depreciation %	136.5	146.8	184.3	147.9	111.2	110.0	110.0	110.0
Capex / revenue %	7.0	7.5	8.3	7.7	5.8	5.2	4.8	4.5
EBIT / net interest	NM	NM	4.0	NM	0.5	3.5	6.1	8.3
Dividend cover (UBS)	0.8	1.7	1.9	-	-	1.9	1.9	1.9
Div. payout ratio (UBS) %	118.7	60.1	52.7	-	-	51.9	51.9	51.9
<b>Revenues by division (R\$m)</b>	<b>12/10</b>	<b>12/11</b>	<b>12/12</b>	<b>12/13E</b>	<b>12/14E</b>	<b>12/15E</b>	<b>12/16E</b>	<b>12/17E</b>
Others	9,697	9,836	9,959	8,365	9,528	10,577	11,526	12,401
<b>Total</b>	<b>9,697</b>	<b>9,836</b>	<b>9,959</b>	<b>8,365</b>	<b>9,528</b>	<b>10,577</b>	<b>11,526</b>	<b>12,401</b>
<b>EBIT (UBS) by division (R\$m)</b>	<b>12/10</b>	<b>12/11</b>	<b>12/12</b>	<b>12/13E</b>	<b>12/14E</b>	<b>12/15E</b>	<b>12/16E</b>	<b>12/17E</b>
Others	1,913	2,345	205	(104)	47	386	601	701
<b>Total</b>	<b>1,913</b>	<b>2,345</b>	<b>205</b>	<b>(104)</b>	<b>47</b>	<b>386</b>	<b>601</b>	<b>701</b>

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts.

**Forecast returns**

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Forecast price appreciation	-31.6%
Forecast dividend yield	0.0%
Forecast stock return	-31.6%
Market return assumption	14.6%
Forecast excess return	-46.2%

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**Statement of Risk**

The following are key risks: 1) rising energy deficit for Brazil as it means volume downside risks to Discos; 2) October 2014 elections given potential regulatory changes afterwards; 3) Brasiliana Energia auction, as it could trigger control transfer and tag-along upside; 4) 4th tariff reset cycle, set for July 2015, especially in view of higher regulatory risks since the 1st tariff reset cycle, twelve years ago; 5) hidden off-balance sheet liabilities with provisions for losses including the billionaire dispute with ELETROBRAS, which could wipe out earnings and ability to pay high level of dividends; 6) political and macroeconomic outlook ahead.

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12-Month Rating	Definition	Coverage <sup>1</sup>	IB Services <sup>2</sup>
Buy	FSR is > 6% above the MRA.	48%	33%
Neutral	FSR is between -6% and 6% of the MRA.	41%	30%
Sell	FSR is > 6% below the MRA.	11%	23%
Short-Term Rating	Definition	Coverage <sup>3</sup>	IB Services <sup>4</sup>
Buy	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	less than 1%	less than 1%
Sell	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	less than 1%	less than 1%

Source: UBS. Rating allocations are as of 30 June 2014.

1:Percentage of companies under coverage globally within the 12-month rating category. 2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

3:Percentage of companies under coverage globally within the Short-Term rating category. 4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

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**UBS Brasil CCTVM S.A.:** Lilyanna Yang, CFA; Carlos Herrera; Luiz Fonseca.

## Company Disclosures

Company Name	Reuters	12-month rating	Short-term rating	Price	Price date
<b>AES TIETE (ON)</b>	GETI3.SA	Buy	N/A	R\$16.04	06 Aug 2014
<b>CPFL Energia<sup>16</sup></b>	CPFE3.SA	Neutral	N/A	R\$19.74	06 Aug 2014
<b>ELETROPAULO</b>	ELPL4.SA	Sell	N/A	R\$10.23	06 Aug 2014
<b>ENERGIAS DO BRASIL</b>	ENBR3.SA	Buy	N/A	R\$10.80	06 Aug 2014
<b>LIGHT</b>	LIGT3.SA	Neutral	N/A	R\$21.48	06 Aug 2014

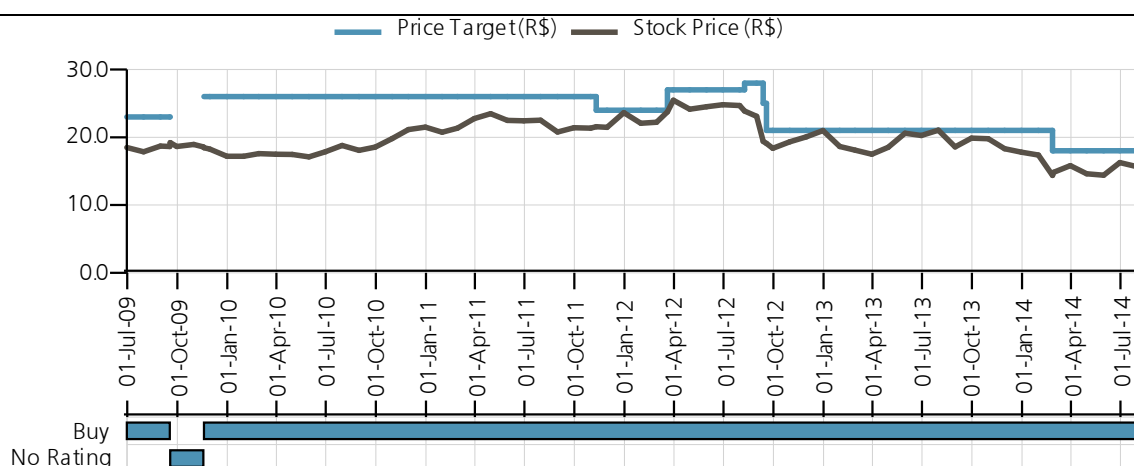
Source: UBS. All prices as of local market close.

Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

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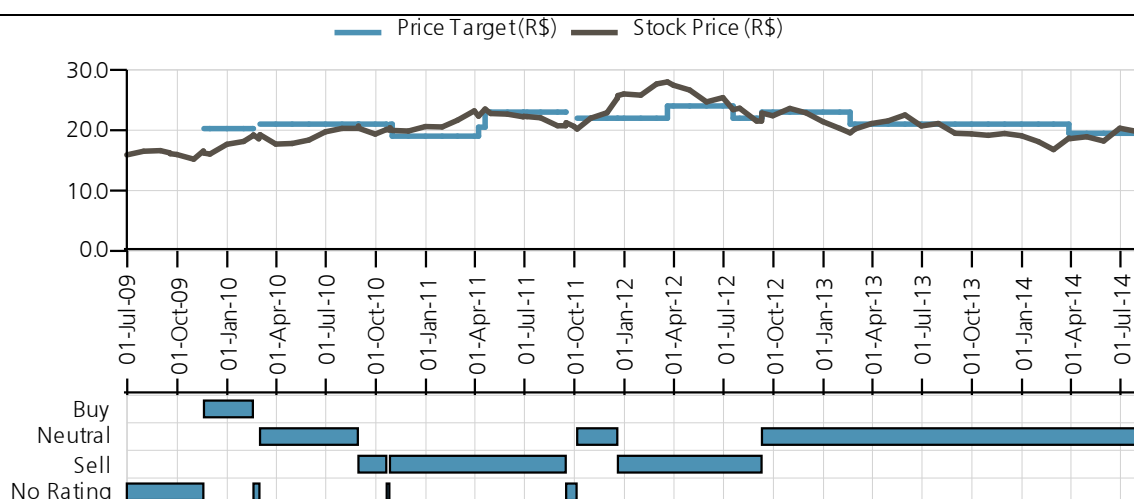
Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

### AES TIETE (ON) (R\$)



Source: UBS; as of 06 Aug 2014

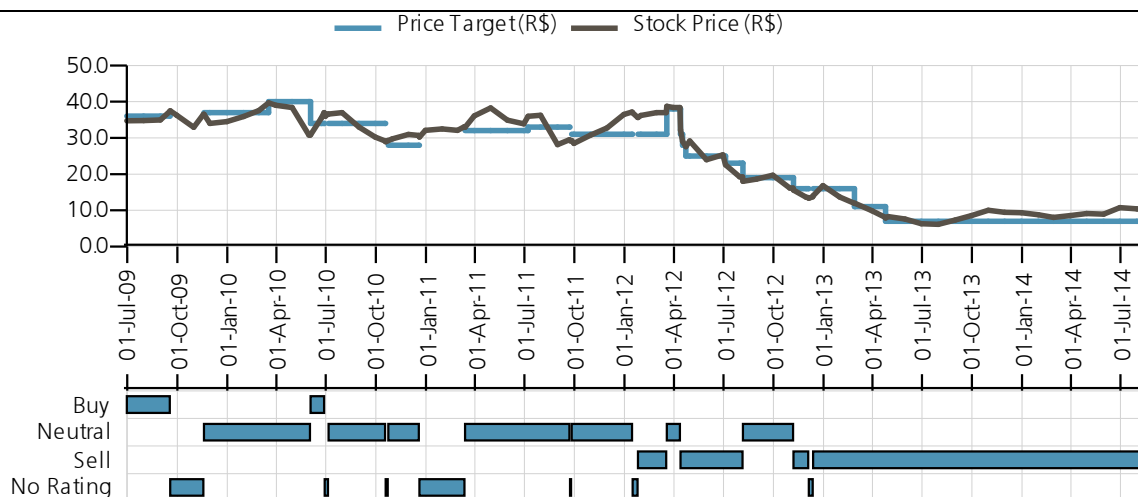
### CPFL Energia (R\$)



Source: UBS; as of 06 Aug 2014

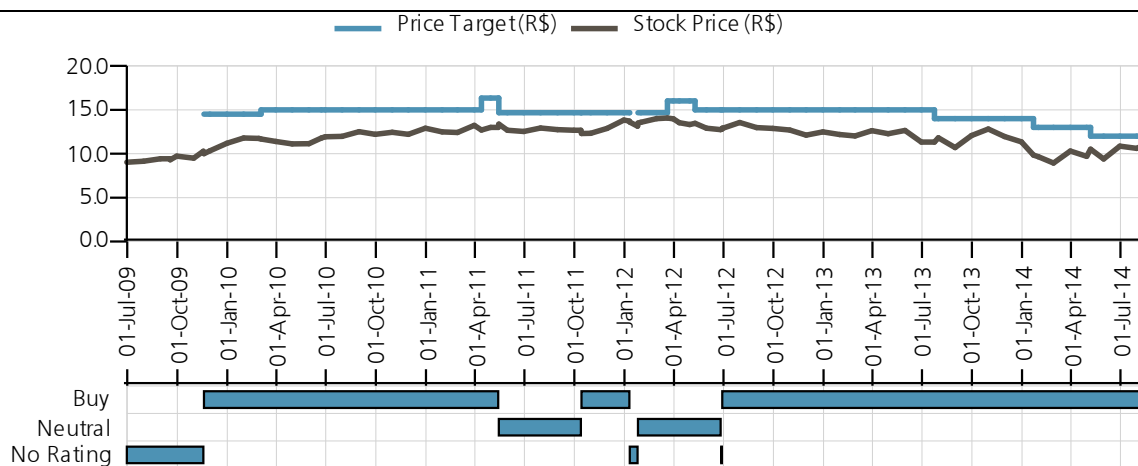


## ELETROPAULO (R\$)



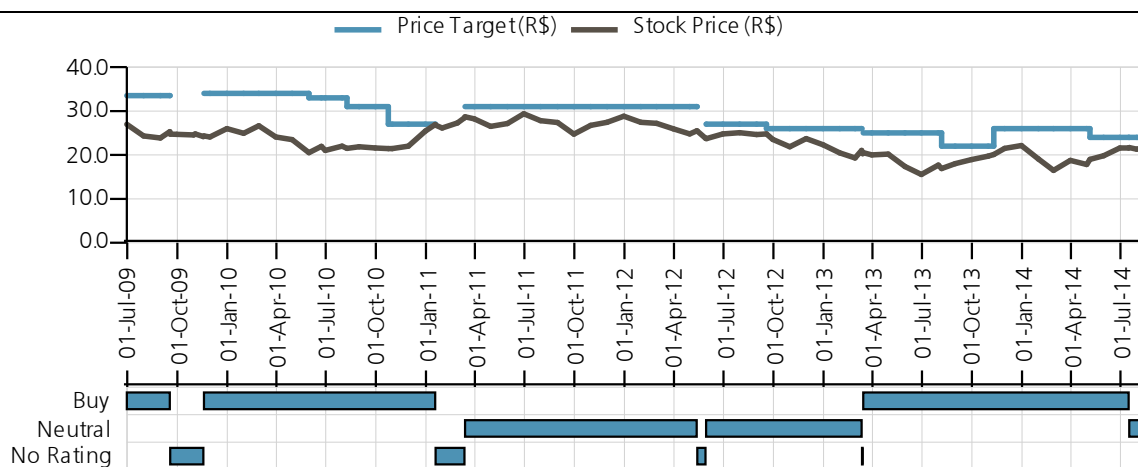
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## ENERGIAS DO BRASIL (R\$)



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## LIGHT (R\$)



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