

Nasdaq – 26/10/2010

Brazil Utility Group Sees Rising Industry Investments, Profits

<http://www.nasdaq.com/aspx/stock-market-news-story.aspx?storyid=201010261302dowjonesdjonline000365&title=brazil-utility-group-sees-rising-industry-investmentsprofits>

SAO PAULO -(Dow Jones)- Investment in Brazil's electric power utilities will likely pick up, along with profitability, as consumption rises and financing costs decline, an industry think tank said Tuesday.

Economic Value Added, or EVA--the difference between return on capital and the cost of that capital--has stabilized in the past three years at positive levels for Brazil's non-government utilities, said Augusto Korps Jr. of consulting firm Stern Stewart and Co. Stern Stewart conducted a study of the Brazilian utilities industry in conjunction with **Acende Brasil**, a local utilities industry think tank.

After nationwide blackouts and subsequent energy rationing pulled down company profitability in 2002, Brazil's utilities industry is now posting returns of around 12%, in line with the global average for the sector, said Korps.

Brazil's improving economy and declining interest rates, meanwhile, have brought down capital costs. "The industry is only sustainable if you have positive EVA," said **Claudio Sales**, president of **Acende Brasil**. "Fortunately, Brazil has crossed the line into a healthy EVA."

The country's high cost of capital eliminated some 49.3 billion Brazilian reais (\$29 billion) of value from the industry between 1998 and 2009, according to the study.

Despite the recovery in profitability, investors can only expect returns of \$ 0.30 for every \$100 invested, Korps said, noting that long-term investors can get better returns with other kinds of assets.

The way to improve returns is to reduce tax burdens, **Sales** said, repeating a refrain often heard in Brazil. The industry sets aside about 45% of earnings for tax payments, a rate that "doesn't make sense" if Brazil's government wants to expand the supply of cheap and reliable energy, he said.

-By Paulo Winterstein, Dow Jones Newswires; 55-11-3544-7090; brazil@dowjones.com