

Conference Call Transcript
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CH Good morning, ladies and gentlemen. A warm welcome to our Q1 Analysts Call. We released our figures of Q1 2024 already via an ad hoc announcement on May 3, because our figures are fairly below previous year's level. Although we are convinced that none of you will be surprised by that, that the negative deviation was there, because with the guidance already, we announced that the 2024 figures will be, many of them, fairly below 2023, having in mind the big impact of high power prices of previous years, which fortunately cannot be repeated this year. But these figures are approximately on target, so therefore, we are still positive regarding our guidance.

Today, I'm here together with my colleague, Mario Schirru, CIO and COO of Encavis. We will guide you through the figures and then, afterwards, will be available for your questions.

Ladies and gentlemen, well, one of the highlights certainly in Q1 2024 was that KKR launched a voluntary public takeover offer. The process is progressing, and we have already now the investment agreement signed, which was released on 14 March.

KKR launched the public takeover on April 24, with a cash consideration of €17.50 per share for every shareholder, and the first offer period will end in two weeks from now. The Management Board and the Supervisory Board of Encavis AG recommended that offer in a joint reasoned statement, which was published on May 2.

But at the same time, we are not only working on the progress of that process, but we are building up the business of our company at the same time. So in the meantime, we started the construction of a 114 MW solar park in Borrentin in Mecklenburg-Western Pomerania, as well as we did some - next page, please - refinancing of two parks in Spain, Talayuela and La Cabrera, which is in the total amount of €203 million, setting up better financial positioning of these two parks.

And we signed for Encavis Asset Management a Power Purchase Agreement for 80% of the electricity of our 260 MW solar park, Bartow, in Germany.

Ladies and gentlemen – next page, please – ladies and gentlemen, if we have a look into our figures, then we see that the energy production of our existing portfolio has decreased by 59 megawatt hours, by 8%, to 694 megawatt, gigawatt hours, sorry, gigawatt hours. Two thirds of

that deviation of 59 GWh is due to meteorological conditions. One third of it is due to two wind farms which we sold at the end of last year before they were pretty much at the end of their feed-in tariff and were up for repowering. Certainly, that last effect was recognised in our guidance.

The total energy production decreased by minus 2% or 12 GWh. So obviously, we acquired 47 GWh of additional power production last year, which we are now producing, which were wind farms in Germany and Finland. These minus 2% of reduced energy production in total boiled down to 12% negative deviation in revenues, or minus €12.2 million.

These are predominantly, firstly, €8.1 million special effect, which we announced in Q1 2023, which was the cash-in under the accounting for a performance-imbalance factor in the Netherlands and the Dutch SDE+ system, which we received last year, and certainly which we could not repeat this year. This was planned for as well.

And we have approximately €5.3 million negative revenue effect out of lower prices. May we recall that Q1 2023 was impacted by pretty high price levels still, and that could not be repeated this year and was certainly reflected in our guidance as well. And lastly, it is Greußen and Sohland, sale of two wind farms, which I already stated. This is minus €1.5 million, which was reflected in the guidance as well.

So therefore, we were not surprised by the negative deviation of the revenues by minus €12.2 million. This is reflected in the EBITDA development by minus €15.8 million, where, first of all, these revenues are missing, and secondly, we have additional cost for the growth of the company for personnel as well as costs for the new projects, the two wind farms in Germany and Finland. And that is then further reflected in the EBIT as well, where we have additional depreciation.

At the end of this table, you see that we have an operating negative EPS of -€0.04. This is not unusual for solar companies, since we have fixed costs in every quarter, but low irradiation and therefore low revenues in the first quarter. And that is in some periods, as we will see on one of the later charts, overcompensated by unusually high prices, like the last two first quarters of 2023 and 2022, and high wind performance.

Ladies and gentlemen, if we go into the segmentation report, then we see that we have a decline of revenues in three out of four segments. Only the PV services is growing. We see here the impacts of the specific issues which I already raised.

So in solar, we have negative meteorological effect and price effect. In the wind farms, we have the sale of the two wind farms, Sohland and Greußen, and in asset management, we just have a shift of business to the second and third quarter, PV services growing, but overall, all of them developing in a way as expected on our side and in line with guidance.

If we go to the specifics, first of all, we see a decline of revenues in the solar segment by €10 million. This is, firstly, €8.1 million of the performance imbalance factor of the Netherlands, then €1.7 million of price effect, and only €600,000 of lower production than previous year.

We see that in the overall portfolio, we have a decline of power production by 9%, but that only leads to the €600,000 of lower revenues, due to the fact that most of it or almost 50% of it is

from Spain, where, in average, the remuneration per kilowatt hour is one of the lowest within the group. So the impact from the bad weather situation in Spain is not so much reflected in the revenues. As you see here very well, that we have a fixed cost system, because the €10 million gap in revenues exactly can be seen within the gap of the EBITDA and in the EBIT.

If we have a look into the wind segment, then we see a decline of revenues by €3 million. Here, we have two compensating effects. One is we have minus €5.1 million revenues in the existing portfolio, which is partially due to the sale of Greußen and Sohland wind farms of €1.5 million and meteorological effect of minus €3.6 million and a positive effect of €2.6 million from new assets, the wind farms in Finland and in Germany.

If we have a look into the PV services, here we see a growth of the business, half of it internal growth, half of it external growth. You see that here, because the net revenues grow by €1.2 million and total revenues by €2.5 million, so half of it is consolidated, because it's internal. With that growth of the business, the margin is coming back, is improving. That's positive and should be seen during the course of the year in a further positive way. Next page, please.

In the asset management, we have a decline of revenues. The issue is that last year, we suffered somewhat from high interest rates because some of the investors were reluctant to invest into such funds, because firstly they want to see that the returns are coming back. This could be shown now. But now, the business is restarting, and there's more committed equity. And so we see that the business shifts more to the second and third quarter and, honestly said, in the first quarter is always pretty weak in the asset management.

If we have a look into consolidation and headquarters, it is in the first line, the revenues is just the consolidation of the internal works of Stern. The operating EBITDA is increasing from -€2.7 million to -€3.4 million. These are increased costs of the team for the growth of the company.

Ladies and gentlemen, if we then go to the guidance. And here, we have to have a look on the relation of the first quarter results compared to the guidance. As you might see here, the Q1 2024 figures are not unusual. You have seen that in Q1 2021 as well, in Q1 2018 and Q1 2016 as well.

Here, we have seen negative results, but you might argue that they are increasing. Well, just only for the simple rule of thumb, the more solar you have, the more fixed cost you have, but the irradiation in the first quarter is always bad. You make your profits in second and third quarter. So the bigger your solar portfolio is, the bigger the losses in the first quarter should be. But in some of the quarters, that trend is overcompensated.

Specifically, in Q1 2022 and in Q1 2023, due to the war in Ukraine and the high power prices in combination with high volumes, we had a positive effect. But that was quite unusual. In Q1 2019 and Q1 2020, we had good wind, and therefore, this negative was overcompensated. But wherever you look, whether there is, in the first quarter, a profit, a loss or a zero result, it is always the case that the guidance was reached, was fulfilled and was on the level above previous year.

So ladies and gentlemen, therefore, it is that - and now I would like to go to page 16 – we stick to our guidance and emphasise that we are heading to revenues of more than €460 million, of

EBITDA of more than €300 million, EBIT of more than €175 million and operating cash flow of more than €260 million.

Let's talk lastly on the carbon footprint - on page 19, yes. In the year 2023, and you might have seen that because we released our ESG progress report and our ESG Plus report recently, you have seen that we again could reduce the Scope 3 emissions. So the Scope 1 and Scope 2 emissions are not of that importance to us. They are pretty small anyhow. Yes, there is an increase here, unfortunately. It is, first of all, that the direct carbon emissions, for instance, the fuel consumption of the company vehicles, are increasing. But this will, as you might recall, be abolished, that Scope 1, because we are currently changing all company cars to full electrified cars. But this, with the existing lease contracts, will last some time.

The Scope 2 emissions, which is mainly our purchased power, with the bigger parks and more parks we have, there is an increase. This cannot be prevented. But we are, as you might recall, switching that to full green electricity.

So let's focus more on the Scope 3 emissions. The Scope 3 emissions could again be decreased by 13% compared to 2022. 98% of our emissions are in Scope 3, but this quota will be stable because the other ones will be abolished, but was in total, over the last three years, decreased by almost 50%. And here, we were pretty active, well, by increasing the use of recycled materials as well as the increase of use of low-emission means of transport with the construction of our parks. So we are heading here as well, and we are on plan here as well.

Ladies and gentlemen, that was a brief introduction into our figures of Q1 2024. And now, we are available for your questions. Thank you very much for your audience.

O Ladies and gentlemen, at this time, we will begin the question and answer session. Anyone who wishes to ask a question may click the "Q&A" button on the left side of your screen, and then raise your hand or submit a question. If you are connected via phone, please press "*" followed by "1" on your telephone keypad.

If you wish to remove yourself from the question queue, you may press "*" followed by "2", or please press the "lower-your-hand" button. Anyone who has a question may click the "Q&A" and "raise-your-hand" button or press "*" followed by "1" at this time. The first question is from Teresa Schinwald from Raiffeisen Bank International. Please go ahead.

TS Hi. Good morning. Thank you for the presentation. I'll ask my almost usual. Can you give us an update on the investment costs for a new project under development here? What's going on with the wind and solar panels? Thank you.

MS Yes, that's, I think, pretty easy. Prices have been quite stable over the last months. Last time, I think we mentioned figures around €0.11-0.12 for that peak. I don't see a significant decrease in these figures. Things simply seem to be stable. And actually, the same holds for the other capital expenditures when constructing new plants.

TS Thank you.

O For any further question, please click the “Q&A” button on the left side of your screen and then raise your hand, or submit a text question. The next question is from Harrison Williams from Morgan Stanley. Please go ahead.

HW Hi there. Good morning. I was hoping you could maybe provide a little bit more colour on what you're seeing in the European PPA markets in terms of latest demand trends, given we have seen power prices fall quite significantly this year. So any overall colour you can provide and anything specific you can say by geography would be particularly useful. Thanks.

MS Yes, happy to elaborate a little bit on that. We see still a strong demand. So when we reach out to offtakers to sell the power from our plants, there is a lot of interest. There is, of course, people are careful in terms of pricing, because everyone has seen this huge decrease in prices. Actually, none of us were expecting it to be that significant. We also were a little bit surprised.

Over the last weeks, we've seen a slight recovery. There are different factors that are now playing a role. In general, yes, I think the toughest thing is really to agree on pricing. And for us, it's important to find and to look for offtakers that are currently more looking for, or basing their decisions on strategic rationales rather than on optimising their own energy costs, because this is... Again, I feel like there is a little bit of non-correlation between the price that we see on the market on the spot and what is expected to happen in the long term. And this is the challenge. Again, volumes have been still high, so there are a lot of contracts being signed. Again, we see that the price-finding discussions are a little bit more difficult than in the past. Let's wait and see.

HW Thanks. And maybe if I can ask one follow-up to that. Are you seeing any change in the structure of these PPAs in the demand of offtakers? And I mean that both in terms of the length of the PPA and also in terms of the sophistication. Are offtakers still happy with pay-as-produced PPAs, or is there a shift towards more baseload as the preferred option? Thanks.

MS Yes. Well, this is a discussion which I think will stay with us for the next years, because ultimately, yes, there are a lot of buyers who wish to buy baseload, but there are a lot of sellers and producers, like Encavis, who know that producing baseload from single assets is nearly impossible and can be very, very dangerous.

So I think that as soon as everyone will start looking at portfolios, meaning offtakers and producers, there might be discussions going in that direction. As long as everyone's still looking at the assets, at the single assets, I think that it will take... I don't know even if it will ever happen, that a significant amount of baseload PPAs are signed.

So long story short, we still see enough interest from players to buy on a pay-as-produced basis, which is, of course, our preferred structure, and this seems to still work well on the market. So again, everyone's talking, a lot of players are pretending that that's the only thing that they are willing to sign. But in the end, there are a lot of pay-as-produced PPAs being signed. So nothing to be worried about in this regard from us.

HW That's very useful. And any colour on the length of these PPAs? Has there been any change there?

MS No. The length, again, it's a little bit about the price. So we have seen, a couple of months ago, that there was significant spread between the five- and a ten-year contract. So on the five-year, people were willing to pay unproportionally more compared to the ten-years.

This is not as acute as a couple of weeks or months ago. In general, we still see a strong demand also for longer-term PPAs. So again, I would say nothing really fundamentally changing at the moment.

HW That's very helpful. Thanks very much.

O Any further questions, please click the "Q&A" button on the left side of your screen and then raise your hand, or submit a text question. If you're connected via phone, please press "*" followed by "1". There are no more questions at this time.

CH Okay.

O I'm sorry, sir. We have a last-minute registration from Anis Zgaya from Oddo BHF. Please go ahead.

AZ Yes, sir, good morning. So do you hear me?

CH Yes.

MS Yes, we can.

AZ Yes. Good morning, gentlemen. So I have two questions, if I may, two follow-up questions. So on PPA, could you please give us an idea on the level of current PPA prices in main geographies? I mean in Germany, Italy, Nordics and the Netherlands. And do you still see tech companies and data centres as main offtakers in the market? Thank you.

MS In terms of prices, I would say that they are quite stable. Of course, they have gone down compared to one year ago. Just to give you a couple of figures. In Spain, again, we always talk about ten-year pay-as-produced. We see prices between €30 and €35.

In Germany, we see something around €60-65, which is the same, yes, maybe around €60, in Italy, still a little bit higher, can be around €60-65 more on the upper end. And these are the countries where we are currently being more active in terms of sourcing. So again, maybe slight decreases, but marginal compared to the last quarter. This was the first one.

The second one was on the offtakers. Yes, tech companies are still keen to source green power. I think that the evolution around AI is somehow putting pressure on them. It seems like AI is going to significantly require more energy than the traditional business, so this is definitely a good thing for us.

But to be honest, and as I mentioned before, we are more looking for players who are a little bit less price sensitive, maybe, than the big corporates who actually reach out with their power and can negotiate hard. So we see SMEs, we see a lot of industrial players, again, not the biggest ones, but, I would say, the small and medium enterprises, who still want to procure that power to

stabilise their cost positions and want to also have a good visibility on their costs in the long term.

And these guys, these companies are somehow easier to deal with, because again, they are not putting the price on the list of their top priority when negotiating. They are more interested in having the right party and sizing the PPA in an appropriate way. So this is what we are currently seeing, and we are focusing more on industrial players, I would say, than in the past to sell our power.

AZ Thank you. Thank you, Mario.

O That was the last question. I would now like to turn the conference back over to Dr. Christoph Husmann for any closing remarks.

CH Yes. Thank you very much for dialling in. Thank you very much for the interest in our company. Well, whenever you have questions, you can ask us, so whenever you want. And thank you very much, and have a good day. Thank you. Bye.