Eesti Energia Unaudited Financial Results for Q1 2023

5 May 2023
Transcription

Introduction by Danel Freiberg

Ladies and gentlemen, thank you for standing by. My name is Danel Freiberg, I'm the Head of Investor Relations and Treasury of Eesti Energia. Welcome and thank you for joining Eesti Energia 2023 unaudited first quarter financial results investor conference call. Throughout today's recorded presentation, all participants will be in a listen only mode. Should you have any questions, you may write them in the chat, or after the presentation we are available for a question and answer session.

Slide 3

Starting from slide number 3 we have provided an overview of selected operational metrics that show the trends of falling energy prices shaping the markets and the operations of the group. Sales volumes of the retail business from outside of Estonia continue to increase and now make up 57% of volumes which is in line with Group's strategy and up from 54% a year ago. Electricity production of the group saw a significant drop in production from non-renewable assets, which are the dispatchable oil shale-based hybrid power plants, while there was a significant increase of renewable production that now made up more than 40% of electricity generation of the group mostly due to the addition of new wind farms in Estonia and Lithuania. The decrease in the usage of the dispatchable oil shale based hybrid power plants comes as direct consequence of a calming power market situation where gas prices have dropped significantly bringing down electricity prices along with them. During the quarter the older asset base that consists of PC, Pulverized Combustion, units that have been modernized but are still less flexible on the intake fuel and have higher CO_2 intensity figures, saw little use as the variable costs to run them are high. The more modern and flexible CFB units that are able to use biomass as fuel to a greater extent, are more efficient and less pollutive were still used.

Distribution volumes decreased 4.5% with the added solar capacities, warm spring weather and lower consumption due to still quite high electricity prices being the main culprits.

Shale oil production volumes increased compared to last years first quarter mostly due to shorter halts caused by maintenance.

The CO_2 emission intensity saw a significant drop that is mostly due to added renewable energy production capacity and the ability to shut down the older PC plants.

Slide 4

Now turning to next slide number 4 a brief overview of main financial figures has been provided with significant changes in all fronts. The electricity price environment continues to support the ongoing operations while the group continues to develop its asset base through investments to renewable energy, distribution network, and chemical Industry transition through the construction of a new Enefit280 production facility.

Sales revenues of the group for the first quarter of 2023 reached over 580 million euros which is a small increase of ca 11 million euros or 2% increase from 2022. The groups EBITDA amounted to 178.3 million euros which is a 16% drop compared to last years same quarter. In Q1 2022, we introduced a new definition of adjusted EBITDA which deducts non-monetary revaluation of long-term PPA contracts. Adjusted EBITDA of the group amounted to 202.3 million euros which is a 59% increase compared to last years first quarter. The difference between the solid and the streaked area on the EBITDA graph shows the impact from this specific item. We provided more detail into the accounting specifics of the topic in the 2022 first quarter investor call, so those who wish may find the recording and the transcript from our investor webpage.

Operating cash flow decreased by 197 million euros on that was mainly affected by change in working capital of ca 29 million, change in derivative instruments of ca 131 million and change in EBITDA of ca 35 million euros.

Investments of the group increased significantly and were just shy of 160 million euros. Most of these investments went into renewable energy production but also into the distribution network.

Slide 5

To cover the markets, please turn to slide number 5. Let's start with the electricity market where the price environment has decreased compared to the record levels from last year and is at similar levels compared to Q1 2022. The most talked about factor for the high power prices was gas which due to ca 200 euros per MWh market prices during last year took the gas fired power plant variable cost to around 400 euros per MWh. As in most parts of Europe, gas power units are used for peak electricity production also in Latvia and Lithuania. Therefore, gas was the major reason for high electricity prices in the region due to lack of alternative electricity production facilities. With gas prices decreasing we can also see a decrease in electricity prices. Secondly, an important factor on the significant price spreads between different countries are the interconnection capacities. During last year there were significant limitations on the Estonian-Latvian border connections, which have been resolved by now, also the two Estlink cables between Estonia and Finland were operational throughout the quarter, however congested most of the time. The dark blue dotted line on the graph, the Clean dark spread of Eesti Energia's dispatchable hybrid power units have decreased significantly due to lower electricity prices, while CO_2 prices at 80-100 euros per ton and higher oil shale costs have pushed the spread into negative territory.

Slide 6

Moving on to slide 6 we have provided an overview of the oil markets. Oil market prices have again decreased in Q1 2023 but are now at a much lower levels than in 2022, with brent and fuel oil moving in a similar fashion.

In 2023 Q1, liquid fuel prices were mainly influenced by the overall cooldown of the global economy, which decreased the demand for fuel oil. During the quarter oil prices have been fairly volatile due to interest rate hikes and prospects of rising global demand as China is expected to relax its COVID-19 restrictions.

Slide 7

But now, turning to slide number 7, let's start the financial overview of Group's results. As mentioned, sales were quite stable and EBITDA of the Group decreased with gas segment being the main culprit due to lower demand impact from revaluation of derivative transactions. The DSO segment's profitability grew as the tariff has now been able to catch up and has brought down the impact of losses coming from electricity purchases to cover network losses. Shale oil segment's revenues and EBITDA increased due to higher sales volumes than a year ago backed by higher average sales price including derivative transactions than a year ago. Natural gas sales revenue and EBITDA saw a significant drop mostly due to lower demand and impact from revaluation unrealized derivatives. The Other products and services biggest positive impact came from the frequency restoration reserve (FRR) service.

Slide 9

As usual, let's start the coverage with the electricity segment. So please turn to slide number 9. Sales revenues and volumes didn't see significant changes compared to Q1 2022. There

was a slight drop in sales volumes of 0.4, but due to the rise in averages sales price the sales revenue increased by 2.4% and amounted to 373 million euros. Retail volumes saw a strong increase during the quarter with the biggest increases in Poland and Lithuania. On the electricity production side, volume was 23% lower than a year ago, but renewable energy production increased significantly and now makes up about 40% of total energy generation.

Slide 10

Moving to the next slide, number 10, electricity EBITDA development is shown. The solid dark blue column is the EBITDA, with the streaked column showing adjusted EBITDA with the impact from revaluation of PPA contracts removed. The first green column, „margin impact", was ca 25 million euros positive, but inside the column there are significant movements in both directions detailed in the first bullet on the graph. The fixed costs were impacted mainly by higher payroll. The biggest positive effects came from realized hedging impacts which are in the column of „Gain on derivatives". Other changes impacted EBITDA negatively by 68 million euros, mainly related to change in value of derivative instruments and power purchase agreements for renewable energy. All in all, the electricity segment's result was very strong with adjusted EBITDA just shy of 175 million euros, but the reported figure was slightly lower than last year with a 3.8% decrease.

Slide 12

Moving onto the distribution segment's performance, please turn to slide number 12. Distribution sales volumes decreased slightly by 4.5%, with the added solar capacities, warm spring weather and lower consumption being the main culprits. The exact impact from added solar capacities, which now stand near 700MW can be derived but there is no exact figure. The reason is that the lower consumption of the consumers due to installed solar capacities does not show up in the metering data received by the DSO, because the system is built up on net consumption or production numbers. Therefore, for most of consumers lower quantities can be seen but what are the effects from lower inherent consumption or self-produced quantities, is unclear.

Turning attention to sales revenues and sales price, the increase can be traced back to the average tariff. Last year there were 4 tariff increases. In Estonia there are no set regulatory periods for the tariff increases, therefore the DSO can submit an application to the Competition Authority for a new tariff basically at any time. All four tariff changes are tied to higher electricity purchase costs as a direct result of higher network loss costs. One tariff increase also included the impact from the rise in the Transmission System Operator's tariff.

Unplanned interruptions saw a significant decrease which is thanks to investments made into the network to increase the liability of the grid.

Slide 13

Turning to next slide, the overview of distribution EBITDA has been provided. Largest positive impact in quarterly comparison came from margin impact which was positively effected by increased average sale price. Largest negative impact came from the rise of fixed costs which were mainly increased payroll and higher maintenance costs.

Slide 15

Next, let's move on to shale oil operations on slide 15. Sales revenues and quantities had an increase in Q1 2023 even though there was a 27% sales price decrease. Sales revenue of the segment continues to be held back by hedges done from lower market prices from last year which bring the average sales price including derivatives down to 363 EUR/mt. We continue

to see good demand for our liquid fuel products portrayed by the premium received when comparing the average shale oil sales price to market price of heavy fuel oil.

Slide 16

Moving onto next slide, the columns that pop out are „margin impact", and „gain on derivatives". „Margin impact" column includes the market price effect without hedges. Even though the variable costs decreased they didn't make up for the price impact and so margin impact amounted to a negative 11.2 million euros. „Gain on derivatives" column includes hedging impacts for the quarterly sales quantities, while the „Other" column includes the change in the value of unrealized gain of derivative instrument in annual comparison.

Slide 18

Next, let's move on to natural gas operations on slide 18. Gas sales volumes decreased by 55% from last year's levels mostly due to lower demand. Due to lower sales volumes the revenue from sales also decreased by more than 37 million euros or 45% and amounted to 45.6 million euros.

Slide 19

Moving onto next slide, the overview of natural gas EBITDA has been provided. Largest positive impact in annual comparison came from gain on derivatives which contributed 31.6 million to EBITDA. Changes in value of urealized derivatives had the largest negative impact of over 51 million euros, with variable profit being the second largest negative impact at 31.2 million euros coming mostly from decreased market prices. This resulted in EBITDA decrease of 51.4 million euros compared to last year.

Slide 20

Please turn to slide number 20 to cover other products and services where we can see a significant increase in both revenues and EBITDA. The main reason for the higher sales revenues were pellet sales and other sales that comprise of other products and services, materials, industrial equipment and impacts of one-off transactions, R&D costs and frequency restoration reserve services. The segment's EBITDA saw a 121.8% increase. Heat sales had a slight negative impact on EBITDA mostly due to increased CO2 emission costs, while frequency restoration reserve service, or FRR in short, ended up with a 3.6 million euro positive contribution to EBITDA. FRR is a service offered by Group's dispatchable hybrid power plants to transmission system operators (TSO) in Finland, and Estonia from the start of 2022. The nature of the service is to offer TSOs additional capacities for keeping the electricity system's frequency in balance through ramping the production units up or down based on the necessity.

Slide 21

On next slide, number 21, we have provided a comparison of the quarters EBITDA to operating cash flows with the figure being 107.1 million euros or 60% weaker.

Changes in working capital amount to 35.4 million but hold significant movements inside. During the quarter trade receivables decrease had a positive impact of ca 35 million while current liabilities decrease had a negative impact of 14 million. Inventories decrease impacted the cash flow positively by 23 million and other current assents increase had a negative impact of ca 29 million euros.

The CO2 negative positive of ca 100 million witch came from mark to market impact and provisions.

The large derivative instruments negative impact of ca 220 million mostly came from electricity hedges which contributed ca 200 million euros.

Interest paid was larger due to rising interest rates and had an effect on cash flows in the amount of 12.6 million euros.

Slide 22

Moving onwards to slide number 22, we have compared the Q1 2023 cash flow to last year same quarter. The main factors tend to be similar as on the last slide with some differences.

Changes in working capital had a negative impact of 29.3 million euros which again hold significant movements inside. During the quarter trade receivables had a positive impact of ca 46 million while current liabilities had a negative impact of 78 million. Inventories impacted the cash flow positively by 32 million and other current had a negative impact of ca 29 million euros.

CO2 impact on the cash flow was positive, 15.8 million and other derivative impact was the largest negative impactor with 131.1 million with electricity hedges again having the largest negative impact of 89 million euros.

In addition the EBITDA figure had a negative impact of 34.7 million and with the rise of interest rates a negative impact on interests paid of 11.4 million. Total operating cash flows were 196.9 million smaller than the year before with an decrease of 73.4%

Slide 23

Next, let's cover the investments. For this, please turn to slide 23. Investments during the quarter increased from 59 to 160 million euros compared to Q1 2022 mainly due to increased investments to the different development projects led by new renewable asset developments, the distribution network and also the Enefit-280 chemical plant.

Renewable energy investments have become by far the largest segment with an increase of 79 million euros or 588% compared to 2022.

Distribution network remains the second biggest recipient of investments where the significant share goes to improving connections that will enable to add more solar production units to the network. The segments investments increased by 11 million or 53% compared to 2022. Other development projects consist mostly of the new chemical plant Enefit 280 which made up 20.4 million out of the 26.2 million.

Slide 24

Turning to slide number 24 an overview of the Group's liquidity position is provided. At the end of the quarter, Group's cash position amounted to 234 million euros which is a decrease of 47 million euros or 17% compared to the end of the year 2022. In addition, the group has access to 1,37 billion euros of undisbursed loans.

Slide 25

On slide 25, there is an overview of the group's leverage ratios and debt repayment profile. The net debt to EBITDA ratio of the Group has increased and is at a level of 2.2x. We expect the net debt to EBITDA ratio to increase during 2023 due to investments and working capital requirements.

On February 15th, 2023, Eesti Energia signed a sustainability linked, amortizing term loan contract in the amount of 600 million EUR. The term of the senior unsecured loan is 5 years.

The loan is sustainability linked with two ESG KPI's: carbon intensity of scope 1, 2 and 3 emissions and yearly addition of renewable energy capacity. The purpose of the term loan is to primarily refinance the 500 million EUR bond maturing in September 2023 and supporting Eesti Energia's carbon neutrality strategy.

The group's credit ratings remain unchanged compared to previous investor call, BBB- from Standard and Poor's and Baa3 from Moody's. Eesti Energia's financial policy is aimed at maintaining investment grade credit rating and a net-debt to EBITDA long-term target of 3.5 times.

Slide 26

Turning to the 2023 Outlook on slide 26, the Outlook is positive. Growth in Group's sales revenue and EBITDA is expected mostly from higher sales volumes and previously made hedges from favorable levels. Investments are expected to grow from the levels of 2022, with increase expected from renewable energy developments, larger distribution network investments and the construction of the new Enefit280 production facility.

Slide 27

To conclude today's presentation, please turn to the last slide, number 27. Group's performance in the first quarter of 2023 resulted in a stable but strong turnover, 2% higher than a year ago. EBITDA levels decreased 16% but increased 59% on adjusted basis and were over 200 million euros for Q1 2023. The quarter ended with a decent net profit of 119 million euros, with adjusted net profit 143 million euros. The strong financial performance enables to carry out investments with focus on affordable renewable energy solutions in line with the long-term strategy of the Group. Investments were 169% higher, at 160 million euros.

Ladies and gentlemen, with this we conclude today's presentation, and we are now ready to take your questions. Anyone who wishes to ask a question, please use the "raise hand" feature or write a question to the chat.

Closing Comments

Seems that there are no (more) questions at this point. So, on behalf of Eesti Energia I would like to thank you for listening and see you again at the beginning of August when we present our 2023 Q2 results. Thank you!