Eesti Energia Unaudited Financial Results for Q2 2023

3 August 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 second 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.

We will be also showing the slides on the screen as we go along. The report together with the presentation are available at our website.

Slide 3

Starting from slide number 3 we have provided an overview of selected operational metrics that show mixed results.

The trends of falling energy prices continue 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 64% of volumes which is in line with Group's strategy and up from 58% 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. 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 while high CO2 and other variable costs rise the price of production from non-renewable sources. This has greatly positively impacted the groups CO2 emission intensity as the group has not run its older PC units to supply energy security to the region. Renewable electricity production now made up ca 40% of the groups electricity production even though there was a slight decrease due to unfavourable wind conditions in Estonia and Lithuania.

Distribution volumes decreased slightly but due to higher average sales prices the segment had a good quarter – more details about this segment later in the presentation.

Shale oil production volumes increased compared to last year's second quarter mostly due to shorter unplanned halts and maintenance.

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.

Sales revenues of the group for the second quarter of 2023 reached over 400 million euros which is level with Q2 2022. The groups EBITDA amounted to 107,7 million euros which is a 17% increase compared to last year's 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 115,7 million euros which is a 45% increase compared to last year's first quarter. The streaked area on the EBITDA graph shows the impact from this specific item.

Operating cash flow decreased by 241 million euros that was mainly affected by change in derivative instruments of ca 184 million and CO2 impact of ca 125 million euros.

Investments of the group increased significantly and were over 180 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. 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. 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 and are in deep negative territory, with CO2 prices at 80-100 euros per ton.

Slide 6

Moving on to slide 6 we have provided an overview of the oil markets. Oil market prices have been stable in Q2 2023 but are now at a much lower level than in 2022.

In Q2 2023 liquid fuel prices were mainly influenced by the overall cooldown of the global economy, which decreased the demand for fuel oil. During 2023 Q2 the oil prices were impacted by OPEC decision to decrease production and cooldown of Chinese economy which has decreased the demand for oil.

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 overall. Most segments actually saw an increase, but the increase was cancelled out by a significant drop in the gas segment. EBITDA of the Group increased with gas segment again delivering negative numbers together with other products and services. The electricity segment saw an EBITDA increase largely due to hedges done from favourable levels. The DSO segment's profitability grew as the tariff has now been able to catch up and has brought down electricity purchase costs to cover network losses. Shale oil segment's revenues and EBITDA increased mainly due to higher sales volumes. Natural gas sales revenue and EBITDA saw a significant drop mostly due to lower demand and significantly lower prices. The Other products and services biggest negative impact came from the frequency restoration reserve (FRR) service which was caused by high variable costs and lower electricity prices due to which the group was not able to offer the service to the market in the intended capacity. Other changes in EBITDA total -10,5 million with negative impacts from solar services, one-off transactions, and other ancillary services as well as increased overhead costs.

Slide 9

As usual, let's start the coverage with the electricity segment. So please turn to slide number 9. Sales volumes didn't see large changes compared to Q2 2023 but there was a slight decrease of 6%. The slight drop came mainly from wholesale volumes as retail sales volumes staid level.

Sales revenues on the other hand saw an increase of 5,5% and amounted to 267 million due to higher sales prices. Thanks to hedges done from favourable levels the groups average sales price including derivatives was 112,7 eur MWh while the market price dropped to 74,4 eur MWh.

Electricity generation amounted to 0,7 TWh which is a 50% drop. This is mainly due to the group not running its older PC units as the power market is calming down and prices have dropped while high CO2 and other variable costs rise the price of production from non-renewable sources. This means that the group has not had the need to run its older PC units to supply energy security to the region.

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, this was mainly influenced by higher average sales price. The fixed costs were impacted mainly by lower payroll. Other positive effects came from realized hedging impacts which are in the column of „Gain on derivatives" as average sales price including derivatives was higher than without hedging impacts due to production related hedges. Other changes impacted EBITDA by -€22.0m, mainly related to change in value of derivative instruments and power purchase agreements for renewable energy.

Overall, the segment had a good quarter with EBITDA increasing by 13,5 million or 20%.

Slide 12

Moving onto the distribution segment's performance, please turn to slide number 12. During the Quarter the Distribution sales revenue saw a significant increase. Even though the volumes saw a slight decrease of 9,8%, the average sales price increase of 32% had a larger positive impact.

Unplanned interruptions were much lower than in Q2 2022 which is thanks to investments made into the network to increase the reliability of the grid.

Slide 13

Turning to next slide, the overview of distribution EBITDA has been provided where we can see a significant increase compared to Q2 2022. Largest positive impact in quarterly comparison came from margin impact which was positively affected by increased average sale price which was much higher than the increase of variable costs. Largest negative impact came from the rise of fixed costs which were mainly increased payroll and higher maintenance costs. Distribution segments EBITDA totalled 33,1 million which is an increase of 66,5%

Slide 15

Next, let's move on to shale oil operations on slide 15. Sales revenues and quantities had an increase in Q2 2023 even though there was a 36% sales price decrease. Sales volumes increased by 18,4% and with it sales revenues increased by 34,3% Even though there has been an increase in the sales price on a y-o-y comparison, the 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 347 EUR/mt while the market price is about 60 euros higher.

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 15 million euros. „Gain on derivatives" column includes hedging impacts for the quarterly sales quantities which amounted to 22,9 million. While there was a positive impact from increased sales volumes there was also an equal negative impact from increase in fixed costs.

Slide 18

Next, let's move on to natural gas operations on slide 18. Gas sales volumes decreased by 41% from last year's levels mostly due to lower demand. Due to lower sales volumes and significantly lower sales price, which dropped 48%, the revenue from sales also decreased by more than 35 million euros or 69% and amounted to 15,5 million euros.

Slide 19

Moving onto next slide, the overview of natural gas EBITDA has been provided. Largest negative impact in annual comparison came from gain on derivatives which totalled 10,4 million with variable profit being the second largest negative impact at 5,5 million euros coming mostly from decreased market prices. Changes in value of unrealized derivatives had the largest positive impact of over 7 million euros. This resulted in EBITDA decrease of 8,4 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 slight decrease in revenues but a significant decrease in EBITDA. The segment's EBITDA saw a 10,5 million euro drop or 151,4% decrease. Frequency restoration reserve service, or FRR in short, ended up with a 4,7 million euro negative impact to EBITDA, which was caused by high variable costs and lower electricity prices due to which the group was not able to offer the service to the market in the intended capacity. 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. Other changes in EBITDA total -€5.7m with negative impacts from solar services, one
off transactions and other ancillary services as well as increased overhead costs.

Slide 21

On next slide, number 21, we have provided a comparison of the quarters EBITDA to operating cash flows with the figure being 61,9 million euros or 43% weaker.

Changes in working capital amount to 26 million but hold significant movements inside. During the quarter trade receivables decrease had a positive impact of ca 62 million. Inventories increase impacted the cash flow negatively by 24 million and other current assets increase had a negative impact of ca 13 million euros.

The CO2 impact was positive ca 28 million which came from mark to market impact and provisions.

The large derivative instruments negative impact of ca 78 million mostly came from electricity hedges which contributed ca 73 million euros.

Interest paid was larger due to rising interest rates and influenced cash flows in the amount of 7 million euros.

As large dividends were paid in Q2 2023 we can also see a negative impact on income tax ca 14 million euros.

Slide 22

Moving onwards to slide number 22, we have compared the Q2 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 positive impact of 56,1 million euros which again hold significant movements inside. During the quarter trade receivables had a positive impact of ca 42 million. Current liabilities also had a positive impact of 12 million. Inventories impacted the cash flow negatively by 4 million and other current assets had a positive impact of 6 million euros.

CO2 impact on the cash flow was negative, 125 million and other derivative impact was the largest negative impactor with -184 million with electricity hedges again having the largest negative impact of 184 million euros.

The EBITDA figure had a positive impact of 21 million.

With the rise of interest rates, a negative impact on interests paid of 6 million.

As large dividends were paid in Q2 2023 we can also see a negative impact on income tax ca 10 million euros.

Total operating cash flows were 241 million smaller than the year before with an decrease of 79,6%

Slide 23

Next, let's cover the investments. For this, please turn to slide 23. Investments during the quarter increased from 98 to 181 million euros compared to Q2 2022 mainly due to increased investments to the different development projects led by new renewable asset developments, the distribution network and the Enefit-280 chemical plant.

Renewable energy investments have become by far the largest segment with an increase of 34 million euros or 85% compared to Q2 2022.

Distribution network is another big recipient of investments where the significant share goes to improving connections that will enable to add more solar production units to the network and increasing the reliability of the grid. The segments investments increased by 19 million or 76% compared to Q2 2022.

Other development projects consist mostly of the new chemical plant Enefit 280 which made up 32,1 million out of the 46 million.

We are proud to note here that in Q2 2023 we opened a new hybrid wind and solar park in Estonia, Purtse. The total capacity of the park is 53 MW with 21 MW wind and 32 MW solar.

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 409 million euros which is an increase of 176 million euros or 75% compared to the first quarter of 2023. It is important to note here that short-term deposits are not accounted for here. At the end of the quarter the group had deposits in the amount of 245 million euros which would total the cash position to 654 million euros. In addition, the group has access to 730 million euros of undisbursed loans out of which 270 million are liquidity 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 3.1x. It is important to note here that this does not include short-term deposits. Considering the deposits, the net debt to EBITDA ratio would be 2.5x and on adjusted basis 2.3x. We expect the net debt to EBITDA ratio to slightly increase during 2023 due to investments and working capital requirements.

In May 2023, Eesti Energia disbursed the 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 overall positive. Slight decline in Group's sales revenue is expected mostly from lower electricity market prices and volumes. EBITDA is expected to increase mostly thanks to electricity hedges done from more favourable 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 second quarter of 2023 resulted in a stable but strong turnover. EBITDA levels increased 17%, on adjusted basis 61% and were over 100 million euros for Q2 2023. The quarter ended with a decent net profit of 43 million euros, with adjusted net profit 51 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 85% higher, at 116 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!