Eesti Energia Unaudited Financial Results for Q1 2018

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Transcription

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Dear investors, welcome to our quarterly investor call introducing Eesti Energia's first quarter 2018 financial results. I hope you have had a chance to download the quarterly report and investor presentation from our web site.

Eesti Energia's sales revenues amounted to 229 million euros in the first quarter, which is 6% higher than in the same period last year. If we look at EBITDA which totalled 77 million euros, it should be noted that the result in the first quarter of 2017 included one-off impact from the sell-down of the Jordan project in the amount of 9.2 million euros. This means that on adjusted basis Eesti Energia's first quarter EBITDA remained unchanged compared to a year ago. The official reported result without adjustments showed 11% decline in EBITDA. Operating cash flow also declined, however what can be said is that the first quarter of 2017 was exceptionally positive in terms of cash flow including among other items large cash receivables from GE related to the Auvere power plant. It can be said that this year's cash flow is on a more regular level. Investments increased by 10 million euros which is mainly due to the Auvere project where GE has met some payment milestones this year.

Before turning to a detailed analysis of the financial results, let's briefly look at the key markets of Eesti Energia's products. On slide 4 it can be seen that electricity prices were on average much higher than has been seen in 2016 or 2017. As a result of higher demand caused by cold weather and also by some supply side factors, the average electricity price in Estonia reached 41.9 euros per MWh which is 28% higher than in the first quarter of 2017. Price spreads between the Estonian price and Latvian and Finnish prices remained at a very low level. Part of the increase in electricity price was caused by higher CO_2 price so the higher electricity price was only partially reflected in Eesti Energia's clean dark spread. The movement in the spread was however still positive and it reached 13.6 euros per MWh, a 40% increase compared to 2017.

On slide 5 we have also given a snapshot of the movements in global oil prices. The quarterly average price of Brent oil reached 67 dollars per barrel which is 25% higher compared to the same period a year ago. The average price of 1% sulphur content fuel oil totalled 295 euros per tonne, up by 6% compared to the first quarter last year. The price of crude oil and fuel oil move in strong correlation but are not identical. The spread between Brent and fuel oil has been variable and while it widened in the first quarter, current forward prices indicate to tightening of the spread in the future. All in all, movements in oil prices were favourable for a producer such as Eesti Energia although it will be seen later on in the presentation that a substantial share of Eesti Energia's near term oil sales has already been hedged.

Starting with slide 6, we will be going through the financial results in more detail. Eesti Energia's sales revenues totalled 229 million euros in the first quarter, up by 6% year-on-year. Sales growth was supported by increasing sales quantities. In the distribution segment the implementation of new lower tariffs in the second half of last year contributed to lower sales revenues despite higher sales quantity. Group EBITDA totalled 77 million euros in the quarter, which is stable compared to the previous level if adjusted for the 9.2 million euro income from the Jordan sell-down transaction which was recorded in the „other" segment in 2017. On unadjusted basis EBITDA declined by 11% year-on-year. Next let's look at the trends in each of the product segments in more detail.

Looking at the analysis of electricity revenues on slide 8, it can be seen that the Group's average electricity sales price increased by 3.7% to 41.4 euros per MWh. The growth in Nord Pool prices was not fully reflected in Eesti Energia's sales price due to hedge positions which had been entered into at lower price levels. We have some hedges in place also for the remainder of 2018 and for 2019 at around 36 to 37 euros per MWh. Electricity sales volume including full Auvere sales quantity totalled 2.6 TWh in the first quarter, down by 2% year-on-year. However, part of Auvere sales quantity is still capitalised until acceptance of the plant and the sales volume relevant for accounting revenues actually increased by 1%. Wholesale quantity decreased by 19% and this was partly due to Auvere power plant which had an unplanned outage in February and will be compensated financially with higher payments of liquidated damages to Eesti Energia. Electricity sales revenues totalled 106 million euros, up by 3.5% year-on-year, which is the best quarterly result since the fourth quarter of 2014.

Electricity segment's EBITDA amounted to 32 million euros, down by 13% compared to the first quarter of 2017. It can be seen on slide 9 that improvement in sales margins had a 6 million euro positive effect on EBITDA. The margin component combines the effect from better electricity prices but also the higher cost of CO_2. The cost of CO_2 emissions increased by 4.4 million euros in the first quarter which is less than the pure market price movement would have been as Eesti Energia still benefits from some of the free allowances and forward purchases of emission allowances at lower price levels. The information about the group's CO_2 position is included on slide 26 in the appendix of this presentation. Volume impact on EBITDA was slightly positive as the sales volume recognised in revenues increased by 1%. Fixed costs had a negative impact as there were more maintenance works scheduled in the first quarter of this year compared to 2017. Derivative positions had a negative impact as already discussed on the previous slide because hedges had been fixed at price levels below the quarterly market price.

Next, let's move to the results of the distribution segment on slide 11. Distribution volumes grew by 8% on the back of favourable weather and supportive economic conditions and amounted to 2.1 TWh. The average distribution sales price declined by 8% as the tariff cuts which took place in the second half of 2017 are still feeding into the group's financial results in year-on-year comparison. Distribution segment's sales revenue amounted to 71 million euros, down by 1% year-on-year. Network losses were at a level of 4.6% which is slightly higher than a year before due to retroactive correction of some measuring errors by the transmission system operator.

EBITDA from distribution was affected by the same drivers as the segment's revenues. EBITDA amounted to 26 million euros, down by 9% from the first quarter of last year. Lower average sales price had a negative impact on profits but this was to some extent reversed by growing sales volumes.

On slide 14 let's continue with the review of the oil segment. Eesti Energia's average shale oil sales price increased by 9% to 261 euros per tonne, slightly more than the movement in the market price of the reference product. Loss on derivatives continued to have an impact on the group's realised sales price however the impact was less pronounced compared to the same period a year ago. We have hedge positions in place also for the coming quarters of 2018 and for 2019 with prices lower than current market price level. Shale oil sales volume reached 84 thousand tonnes in the first quarter, up by 9% compared to 2017. The Group's shale oil production also increased and in fact a new monthly record level of oil production was achieved in March. As a result of both growing prices and sales, shale oil sales revenues increased by 19% to 22 million euros in the first quarter.

The shale oil segment also performed well in terms of EBITDA in the first quarter. Increased prices and higher sales volumes both had a positive impact compared to last year's EBITDA as did relatively better result from derivative positions. Fixed costs were higher than last year. Close to a million euros of the fixed cost increase was related to declining inventories. The fixed cost component of inventories is expensed in the income statement at the time when the inventories are sold. All in all, the EBITDA from shale oil segment reached 8 million euros, up by 49% year-on-year.

Finally, EBITDA from other products and services of Eesti Energia group totalled 10 million euros in the first quarter, compared to 15 million euros in the same period last year. The largest item affecting comparability is the 9 million euro profit which was recorded from the sell-down of the Jordan project in the first quarter of 2017. Liquidated damages related to Auvere power plant were somewhat higher this year. Development in the heat and gas sales was also positive this year, especially in terms of sales revenues.

Next let's have a look at the drivers behind Eesti Energia's cash flow, shown on slide 17. Firstly, compared to EBITDA there was a 4 million euro negative impact from working capital movements, primarily due to the seasonal increase in client receivables. CO_2 related items has a positive impact of 11 million euros as our purchases of CO_2 allowances were lower than the corresponding cost of emissions recorded in EBITDA, owing to CO_2 position accumulated in previous periods. Cash flow impact from certain derivative instruments amounted to approximately 6 million euros. In addition, Eesti Energia paid income tax on dividends in the amount of 11 million euros in the first quarter. All in all, it can be seen that operating cash flow totalled 75 million euros which was 2 million euros lower than EBITDA.

Slide 18 presents a comparison of the first quarter's cash flow compared to the same period in 2017. As a general comment, while operating cash flow declined substantially compared to 2017, it is mostly due to a very high basis in the first quarter of 2017 which had extraordinarily strong cash flow. The largest difference comes from working capital, which was less favourable this year by 32 million euros. This was to a large extent due to a high amount of liquidated damages that Eesti Energia received from GE in 2017. While there have been similar payments also in 2018, the amount is lower by 24.5 million euros in annual comparison. Additional 6 million euros of changes in working capital is due to increased receivables in the energy sales business resulting from growing revenues. Derivative instruments had a positive contribution to cash flow in both years but the impact was more positive in the first quarter of 2017. Additional negative contribution comes from EBITDA decline in the amount of 10 million euros and payment of income tax in the amount of 11 million euros, which we did not have in 2017. In annual comparison, the financial close of the Jordan project has a positive effect as the transaction's cash flows were included under investing activities in 2017 and were deducted from EBITDA to calculate operating cash flow.

Next let's look at the capital expenditures of the Group. In total, Eesti Energia's investments amounted to 36 million euros in the quarter, up by 10 million euros year-on-year. Most investments stayed at stable levels, the only item which increased was payments related to Auvere power plant. GE made progress with their work on the project and reached certain payment milestones in the amount of 8 million euros.

On the following slide 20, changes in Eesti Energia's total liquidity position have been shown. It can be seen that the Group's liquidity level grew further during in the first quarter and remains very strong ahead of the Eurobond repayment later on in 2018. At the end of March this year, Eesti Energia's cash position amounted to 337 million euros. In addition, the Group has access to revolving credit facilities with two regional banks in the amount of 150 million euros. It is currently expected that the Group's cash position will be sufficient over the year to redeem the eurobond in October from existing cash and additional refinancing will not be required.

On slide 21 information about Eesti Energia's debt maturity profile and leverage metrics has been provided. Eesti Energia's credit ratings are Baa3 with stable outlook from Moody's and BBB (flat) from Standard and Poor's. Standard and Poor's completed their rating review in March and also assigned a stable outlook to the rating. Eesti Energia's net debt to EBITDA ratio equalled 2.1 as at the end of the first quarter, compared to 1.7 a year ago. The group's net debt level has been declining but EBITDA has also declined as large extraordinary income items at the end of 2016 are no longer part of 12 month rolling EBITDA. This has translated into an increase in the net debt to EBITDA ratio. Net debt totalled 546 million euros at the end of the first quarter.

Finally, let's also review the future guidance on slide 22. The outlook for the full year 2018 remains unchanged compared to the communication that was given in February. On unadjusted basis, sales revenues and investments are forecast to grow while EBITDA is expected to decline. When adjusting the forecast for the extraordinary items included in the 2017 result, EBITDA is expected to stay on the same level as in 2017. Dividend payment has been approved by Eesti Energia's shareholder for 2018 at the level of 15.8 million euros with additional income tax of 4 million euros.

Finally, to sum up the presentation, Eesti Energia had a solid first quarter supported by strong sales quantities and generally supportive market prices. The impact from higher CO_2 price was mitigated by CO_2 positions accumulated in older periods and by free allowances. We are now ready to take any questions you may have

Thank you for listening the presentation and hope to be presenting again at the end of July our second quarter results.