Eesti Energia Unaudited Financial Results for Q2 2018

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Transcription

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Dear investors, I am Andri Avila, the CFO of Eesti Energia. You are welcome to our investor call introducing Eesti Energia's second quarter financial results. You can download the quarterly report and the investor presentation from our web site.

Eesti Energia's sales revenues amounted to 186 million EUR in the second quarter, up by 5% year-on-year. EBITDA declined by 17% to 53 million EUR. The quarter was characterised by increasing market prices of all our main commodities, including electricity, oil and CO2 allowances. Operating cash flow declined by 56 million EUR compared to the second quarter of last year and amounted to 10 million euros. The decline was due to large payments of liquidated damages received from General Electric last year and also due to collateral payments of new electricity hedges which we have executed, given the favourable power prices. Investments increased by 16 million euros to 47 million, due to a payment made in connection with the Auvere power plant and also higher maintenance capex.

Turning to slide 4, let's look at market developments in the second quarter. Electricity prices increased throughout the Nord Pool system due to maintenance works in power plants, low Nordic hydro balance and higher prices of CO2 emission allowances. The average price of electricity in Nord Pool Estonia price area equalled 42.1 euros per MWh, which is 37% higher than in the same period last year. The previous time when similar levels for the quarterly power price were reached was five years ago in 2013. The price difference with Finland remained at a very low level while the spread between the Estonian and Latvian price was somewhat higher at 2.8 euros per MWh. Eesti Energia's clean dark spread amounted to 8.1 euros per MWh last quarter, which was 1% higher compared to last year. The increase in the market price of CO2 allowances was more than compensated by higher electricity price.

On slide 5, it can be seen that oil price dynamics were also favourable in the second quarter, although existing hedge positions limit the short-term effect that price movements have on Eesti Energia's financials. The price of Brent oil averaged 75 USD per barrel, up by 52% year-on-year. The average price of 1% sulphur content fuel oil amounted to 344 euros per tonne, a growth of 32%.

Starting with slide 6, we will go through the quarterly financial results in more detail. Eesti Energia's sales revenues totalled 186 million euros, up by 5% year-on-year. The revenues of the electricity and oil segment were supported by favourable market prices which balanced smaller production quantities due to maintenance works in the production facilities. The revenues of the distribution segment showed a decline in year-on-year comparison due to the changes in tariffs that took effect in the second half of last year. Eesti Energia's EBITDA amounted to 53 million euros, down by 17% compared to the second quarter of 2017. The EBITDA from the shale oil segment slightly increased while the EBITDA from the rest of the businesses declined compared to the year before. In addition to the cut in distribution tariffs, the decline was due to lower electricity generation volumes and smaller receivable of liquidated damages from General Electric.

Let's continue with slide 8, which shows the results of the electricity segment. In line with positive market developments, Eesti Energia's average electricity sales price increased to 43.3 EUR per MWh in the second quarter, a growth of 17%. Electricity sales and generation volume however declined, as a high level of regular maintenance works had been scheduled for the power plants in the second quarter. Electricity sales declined by 10% to 2.1 TWh while generation declined by 17% to 2 TWh. As a result, electricity sales revenue still showed a positive trend and totalled 89 million euros which is 9% higher than in the same period of 2017. In the light of favourable market movements in forward prices we have been increasing our hedge positions for electricity. As at the end of June, the position covered with hedges totalled 2.7 TWh at an average price of 41.5 EUR per MWh for the second half of this year, and 1.6 TWh at an average price of 38.6 EUR per MWh for 2019.

Turning to next slide, EBITDA from the electricity segment amounted to 17.6 million euros, 23% lower than a year ago. Although the increase in electricity price was just sufficient to cover the higher cost of CO_2 in the second quarter, the total margin effect was still negative due to other variable costs. Higher price of CO_2 is increasingly having an impact on Eesti Energia's financials as the share of free allowances has been declining. The higher cost of CO_2 is also the prime reason behind lower return on fixed assets compared to a year ago. Lower generation and sales volumes also had a negative impact as substantial maintenance works in Eesti Energia's power plants had been scheduled to the second quarter. The maintenance schedules had been designed taking into account the planned outage of the NordBalt cable between Lithuania and Sweden in the third quarter. The outage of the power cable is likely to create upwards price pressure in the Baltic region and the power plant maintenance schedules had been timed to make sure that the units are back online by the time of the cable maintenance. In addition, gain on derivatives declined while fixed costs had a positive impact on EBITDA compared to 2017.

Slide 11 of the presentation provides an overview of the distribution segment. On annual comparison the financial results of the distribution business continue to be impacted by the cut in the distribution tariffs. The change in tariffs took effect in July and November last year so the decline will be fully factored in only after the fourth quarter of this year. The average distribution sales price declined by 8% year-on-year. Distribution volume was flat and total segment sales revenues amounted to 54 million euros, down by 7%. Network losses equalled 4%, slightly lower than a year ago. The average duration of unplanned interruptions in the network was 35 minutes, compared to 16 minutes in 2017. The figure depends on weather conditions in the specific time period and was affected by stormy weather in June this year.

EBITDA from the distribution segment equalled 26 million euros, a decline of 13% compared to the same period last year. The decline resulted from lower margins which is mostly due to lower distribution tariffs, as already discussed.

Let's continue the discussion on slide 14 with the shale oil segment. Eesti Energia's average sales price of shale oil increased by 13% to 266 euros per tonne. The increase was more moderate compared to the increase in the general market price due to hedge positions which we have put in place at somewhat lower price levels. There are also substantial hedge positions going forward, which reduce the impact of both negative as well as positive market movements in the market. The quantities and hedge price levels are shown in the presentation. Shale oil sales volume totalled 101 thousand tonnes, down by 3%. Sales declined due to lower production during the second quarter as there were more planned maintenance works carried out in the oil plants in the second quarter of this year compared to 2017. Revenue from shale oil sales reached 27 million euros, which is an increase of 10% in annual comparison.

Turning to slide 15, let’s discuss the development of shale oil EBITDA. Higher oil prices improved margins and had a substantial positive effect on the segment’s profitability. However, a large share of the positive effect was reversed by the impact from hedge positions as we had locked in the price for our oil sales at lower price levels. Slightly lower sales volume and higher fixed costs also had a small negative effect. All in all, shale oil EBITDA increased by 2% and reached 7 million euros in the second quarter.

Finally, EBITDA from other products and services of Eesti Energia group totalled 2 million euros in the second quarter, compared to 4 million euros in the same period last year. The amount of liquidated damages received from General Electric in connection with Auvere power plant was substantially lower this year. Also, revenue and earnings from selling heat was lower. There were a number of other items which had a positive impact, including more than 1 million euros of revenue received from the Jordan power project.

Next let’s look at the composition of Eesti Energia’s cash flow in the second quarter. On slide 17 a comparison of quarterly EBITDA and operating cash flow has been provided. The largest share of the difference between 53 million euros EBITDA and 10 million euro operating cash flow is explained by purchases of CO2 allowances. While we expense the cost of CO2 emissions in the income statement on regular basis as a cost, the actual purchase of CO2 allowances occurs less frequently. Due to Eesti Energia’s good liquidity balance, we purchased 56 million euros worth of CO2 allowances in the second quarter. This now covers the majority of the allowances that we need this year. In addition, there were payments made in relation to the collateral requirements of the hedge positions. Improving prices of electricity enables executing new transactions in addition to existing positions. These two factors mainly explain the cash flow requirement in the second quarter.

Slide 18 gives an overview of the second quarter cash flow compared to the same period last year. There was a substantial decline in operating cash flow, but it was mostly due to an extraordinarily high basis in the first quarter of 2017. The largest item is changes in working capital which was less favourable this year by 44 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 Eesti Energia received liquidated damages also in the second quarter of 2018, the amount was lower by 26 million euros in annual comparison. Payments related to derivative instruments, mainly including electricity hedges, were 8 million euros higher this year while the impact from CO2 related items had a positive impact on cash flow in annual comparison. Lower EBITDA also explains part of the difference. In total, the quarterly operating cash flow amounted to 10 million euros this year.

Next let's move to an overview of investments on slide 19. Eesti Energia's capex amounted to 47 million euros in the second quarter, up by 16 million euros from the same period last year. Investments into distribution grid made up 18 million of the total. The growth in investments came primarily from higher maintenance capex in the power plants and in the mining unit and also from payments related to the Auvere power plant. All of the technical tests have now been completed in Auvere and it is expected that the final acceptance of the power plant will take place in the next couple of months. Another important milestone happened in the second quarter, namely Eesti Energia signed the share purchase agreement relating to Nelja Energia, a wind energy producer and developer operating in the Baltic countries. When the transaction gets approved by competition authorities, Eesti Energia will pay 289 million euros for the shares of Nelja Energia. In addition, Eesti Energia will take over 204 million euros of existing net debt of the target company. The acquisition is the major step towards fulfilling Eesti Energia's renewable energy goals.

Slide 20 shows the liquidity position of the group as at the end of the second quarter. It can be seen that the amount of liquid assets declined by 19 million euros during this quarter. The balance of cash and cash equivalents totalled 318 million euros as at the end of June. In addition to cash, the group has access to a total of 450 million euros of credit lines with regional banks. In addition to previously existing revolving credit facilities, the Group signed in June new 3-year credit facilities to support Eesti Energia's liquidity in the light of the upcoming closing of the Nelja Energia transaction and also the 152 million euro bonds repayment.

On the following slide 21 it can be seen that ahead of the completion of the Nelja Energia transaction, Eesti Energia's leverage remains at a comfortable level with the net debt to EBITDA ratio of 2.3 times. The credit ratings remain unchanged although S&P assigned creditwatch negative to the rating in May. Eesti Energia's total debt amounted to 885 million euros as at the end of the second quarter. Net debt stood at 567 million euros.

Finally, let's discuss the management guidance for full year 2018 results. On unadjusted basis, sales revenues and investments are forecast to grow while EBITDA is expected to decline. When adjusting the forecast for the extraordinary profit from the Jordan power project included in the 2017 result, EBITDA is expected to stay on the same level as in 2017. The dividend payment that has been approved by Eesti Energia's shareholder for 2018 is at the level of 15.8 million euros and the income tax on the dividend amounts to 4 million euros. We have not yet included any effects from the acquisition of Nelja Energia on the 2018 guidance.

To conclude the presentation, the past quarter was characterised by increasing market prices of electricity, CO_2 allowances as well as oil. Lower production volumes prevented Eesti Energia from taking full advantage of the market conditions but this should change in the third quarter now that maintenance works have been completed. Nelja Energia's acquisition was also announced last quarter and it is an important step towards increasing the share of Eesti Energia's renewable production. We are now ready to take any questions.

Thank you very much for participating in the second quarter results conference call. And we will be presenting again after three months our third quarter results. Thank you.