Eesti Energia Unaudited Financial Results for 2020

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Transcription

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Dear investors and partners, my name is Rasmus Noormägi, Head of Investor Relations and Treasury of Eesti Energia. Unfortunately, Andri Avila, the CFO of Eesti Energia, who has conducted the investor calls so far, was a victim of slippery streets in Tallinn earlier in the week, and therefore is not able to join us today. No need to worry, Andri is well and we wish him a speedy recovery. Now, let's continue with the discussion of Eesti Energia's results of the 2020 financial year. I hope you had a chance to download the report and the investor presentation from our web site for better listening. Previously, at this time of the year we have provided you with the audited annual results, but today we will be covering the unaudited results as the audit procedure for the 2020 financial year will be taking a bit longer due to regular IFRS review conducted by our auditors. The 2020 audited annual report will be published on the 8 April.

Now to start off with our overview of the results, let's move to slide number 3. 2020 sales revenue declined by 10% year-on-year to 833.7 million euros, while EBITDA fell to 213.6 million euros. The smaller sales revenue and EBITDA are mainly attributable to the electricity segment, while other units showed better performance. The distribution, renewable and oil production units are performing nicely, showing year-on-year improving results. Electricity production from oil shale saw the most challenges in 2020 as CO2 prices rose while electricity prices were at relatively low levels due to warm weather, record high Nordic hydro reservoir levels and slightly lower consumption as a result of the Covid-19 pandemic. However, from the end of last year electricity prices have been moving higher and there is still demand for our oil-shale based electricity production units. The operating cash flows in 2020 were nearly 2 times higher than the year before, mostly due to postponing the CO2 quota buyout from the end of last year to the second quarter of this year. Investments rose by more than a third from 2019 due to higher renewable investments.

Before me move on to the more detailed view of the financials, we shall provide a brief overview of our main commodity markets and also comment on intra-group restructurings that were finalised with the end of 2020. Firstly, we merged two companies in the large scale energy production, with the mining and the production Operations now in one legal entity. The newly formed Enefit Power's intention is to realise synergies of the oil-shale units through cost reduction and more efficient operations. Secondly, our distribution subsidiary Elektrilevi was demerged into two companies. As a result of the demerger new company named Enefit Connect was founded. Enefit Connect will focus on developing market-based services, such as high-speed fiber optic Internet network, street lightning services, electromobility etc. Elektrilevi will continue as the operator of the regulated assets, mainly the electricity distribution network that covers ca 90% of Estonia. Elektrilevi also gained a subsidiary from Enefit Power, a company called Narva Soojusvõrk that provides the City of Narva heat. As providing heat is also a regulated business, it made sense for us to move regulated assets to one pool. And now, let's head on to slide 4 and the electricity market overview.

Despite rising electricity prices in the fourth quarter of last year in the Baltics, we saw lower electricity prices in annual comparison both for the 2020 full year and for the fourth quarter. In the Baltics, the annual average electricity price for 2020 was ca 25% lower, and in the fourth quarter ca 6 to 7 per cent lower depending on the country. Finnish electricity prices decreased even more in 2020, by 36% for the whole year and by 25% in the fourth quarter as the impact from the historically high Nordic hydro reservoirs comes to the Baltics mainly through Finland. This also meant that the price difference between Estonia and Finland increased to at least a 3 year high of 8,5 euros per MWh.

The red line on the graph is the average electricity sales price achieved by Eesti Energia's oil shale electricity production units operating under Enefit Power. As those production units can be ramped up and down according to the market situations, we are able to capture higher electricity sales prices and ramp to minimum when the prices are low. This explains why on the graph the red line is well above the green line and how we can operate in a situation where the Clean Dark Spread metric is in the negative territory. As a reminder, the Clean Dark Spread is a purely market price based figure with regards to electricity and CO2 components. Therefore, this might mix the picture slightly when it comes to the daily operation of our power plants. Also, the CO2 cost in the Income Statement is the average reserve price which is lower from the market price of CO2 used in the Clean Dark Spread figure due to received free allowances and CO2 hedges made from lower price levels.

Next, let's briefly cover the oil markets on slide number 5. Both the Brent crude oil and the 1% Sulphur content fuel oil moved similarly throughout the year. For the full 2020, the average price of both products decreased by a third compared to 2019 with prices bottoming in the second quarter due to oversupply in the market. From the second half of the year until now we have seen increasing prices with recovering demand side but remains to be seen how the Covid-19 pandemic situation develops further with the vaccine rollouts and the easing of restrictions. Current outlook on the oil prices gives us good confidence to move onwards with the investment of our new oil plant.

Moving on to slide number 6, we have provided an update to the impacts of the Covid-19 pandemic. From the last investor presentation call there are no noteworthy developments to mention besides the updated forecast for the GDP recovery by the Estonia's central bank. Latest expectation is a smoother recovery line compared to the September forecast, while the 2020 decline should be more limited than initially thought.

Now turning to next slide number 7, let's start the coverage of the financial results in more detail. The dynamics for the whole year are very similar to what we saw in the first three quarters of 2020. The lower annual sales revenue and EBITDA of the group tracks down to the Electricity segment where smaller sales volume and lower margin had negative impact on both the revenues and the EBITDA profit. The electricity segment covers the operations of three different business units – oil shale electricity production, retail sales and renewable electricity production. The Dynamics of those businesses were very different last year, and we will provide some colour in the upcoming slides. Distribution segment's EBITDA increased, despite slightly lower sales revenues as the consumption profile of the consumers has shifted more towards the households where the tariffs are higher. Shale oil sales revenue and EBITDA increased thanks to record production volumes, while the sales revenue and EBITDA of other products and services also improved year on year.

Now kindly turn to slide 9 to cover the electricity segment. While the electricity market prices decreased by nearly 27% to below 34 euros per MWh for the average 2020 figure, the Group's average electricity sales price excluding the derivatives impact declined to a lesser extent. The decrease was 9.7% to 48.2 euros per MWh for the full year. Support to the average electricity price of the Group comes from retail sales that are with higher margins, and from the controllable electricity production that is targeted towards peak hours. Derivatives had a negative impact of 3 euros per MWh on the average electricity sales price. Electricity sales volume decreased as retail sales and wholesale quantities were at lower levels. The lower retail sales mostly came from the Estonian market where we have the largest market share, but also from Poland where the 2020 retail sales portfolio was more tilted towards gas customers. Lithuania and Finland managed to show better sales volumes in 2020 than the year before. As a result of all the factors, the total electricity sales revenue fell by nearly a quarter to 360 million euros.

Electricity generation of the group amounted to 3.8TWh in 2020, a 31% decrease from the year before, due to lower market price of electricity and the continuously high CO2 emissions prices. On the positive note, the renewable energy production was at 1.5TWh, at 39.5% from total production due to larger use of biomass at our Enefit Power production units, and favourable wind conditions together with the good reliability of renewable assets. Year-on-year renewable electricity production increased by 18%, while electricity production from oil-shale fell by half. Electricity produced from renewable and alternative resources made up 55% of total electricity production both in the fourth quarter and for the whole year, above the Group's target of 45% by 2023. Despite reaching the target due to decreased oil-shale electricity production, we are continuing the development of renewable projects to further improve the company's asset base.

We have hedged electricity price risk for our power production units and for the retail sales business separately. A more detailed view of the hedged positions can be seen on slide number 27 in the appendices.

Continuing to next slide, the EBITDA profit of the electricity segment for 2020 was at 53.4 million euros, a decline of nearly 60% from last year. Biggest impacts came from lower margin, sales volumes and the realisation of derivative transactions. There is one key difference to note when comparing the 2019 and 2020 numbers – the 2019 sales of surplus CO2 allowances are booked under the column of „Margin impact", while the 2020 sales of surplus CO2 allowances of the Group are booked under the segment of „Other products and services" due to difference in the specifics of the sales transaction. Change in fixed costs had a positive impact, mainly from lower payroll and maintenance costs. The other item relates to the change in the value of unrealised derivative instruments, which in 2020 had a more positive impact than in 2019.

As of the end of last year, asset valuations were also conducted and as a result of this the value of the older oil-shale electricity units with pulverised combustion technology was written down in the amount of 23 million euros, while the impairment loss from 2015 in the amount of 36 million euros regarding our most modern production unit, Auvere, was reversed. The reversal of the Auvere's 2015 impairment was conducted as the competitiveness of the unit has been strengthened during the last couple of years by increasing the capability to produce electricity from alternative fuels. As a result, the share of oil shale from the fuel mix can go as low as 20% of the total. This asset valuation does not affect the EBITDA but will contribute to the bottom line result.

Next, let's cover the distribution segment's performance on slide 12. Distribution volumes for the whole year declined by 2.5% while in the beginning of the year we saw the volumes falling by as much as 4.5% due to warmer than usual weather. Despite the slightly fallen volumes, distribution sales revenue was pretty much stable due to increase in the average sales price. The rise in the average distribution sales price, or in other words the tariff, comes from changes in the consumption profile. As a result of the Covid-19 pandemic we have seen consumption by corporate customers, who have lower tariffs, in slight decline while the electricity consumption of residential clients, who have higher tariffs, has risen. The average duration of unplanned interruptions for the whole year fell, although throughout the year we saw mixed results on that particular front.

Moving on to the next slide, the EBITDA of the distribution segment in 2020 increased by nearly 10% led by the positive impacts from the higher achieved average sales price, smaller costs related to the network losses and lower maintenance costs. Smaller volume of distributed electricity had a negative impact. Falling network losses and the related costs are the result of smart-metering system which enables continuous measurement and monitoring of the distributed electricity.

The smaller maintenance costs are the result of better price levels received from latest procurements where we have seen prices come down by 7 to 10 per cent from pre-pandemic levels. As we will see from the capex overview slide, the investments into the electricity network have risen on an annual basis, that is also illustrated by the increased Regulated Asset Base, and with nearly 70% of the distribution network being weatherproof.

Next let's turn to the shale oil segment on slide number 15. The Dynamics of the first 9 months of 2020 carried through to the full year results. The average sales price of shale oil decreased due to the decline in the oil market prices, while derivative transactions made from higher price levels had a supporting effect. Annual sales volume, and as a result the sales revenue, increased both thanks to record shale oil production volumes. The premiums received for our products were at a good level providing support to the growth in sales revenues. Despite the Covid-19 pandemic impact, we see good demand for our oil products going forwards mostly from the regulations of the fuel oil market, as our products are fully in line with the International Maritime Organization's latest requirements for fuel quality. For 2021 we have hedged roughly 80% of the expected oil production at an average price of nearly 300 euros per metric ton.

Moving to slide number 16, we have provided the overview of shale oil EBITDA. The picture for the full year is very similar to what we saw in the first nine months – negative impact from the margin is offset by gain from derivative transactions as a result of the hedges conducted in the past. The record production volumes laid the basis for the improvement in the annual sales volumes. Fixed costs were pretty much stable, while the slight increase is attributable to the fixed cost component of inventories.

Next please turn to slide number 17 where we cover the performance of other products and services that mostly include the sale of heat, gas, pellets, industrial equipment and other non-recurring transactions. Sales revenue and EBITDA from heat declined due to lower heat sales price and change in the used fuel mix towards more gas as the share of heat produced from oil shale was smaller. At the same time gas sales revenue and EBITDA showed strong performance as gas sales volumes increased. Other impacts on EBITDA totalled at 14.6 million euros, from which 13.7 million euros related to the sale of excessive CO2 emission allowances of the heat production units that took place in the second quarter of 2020.

Moving on to next slide, number 18, we have provided an EBITDA to operating cash flow bridge. Operating cash flow was 69 million euros higher than EBITDA mostly due to postponing the buyout of CO2 emission allowances from the end of last year to this year's April. In the fourth quarter of 2020 we received 28 million euros as a result of enforcing a bank guarantee provided for the guarantee period of the Auvere power plant. As the power plant's performance has been below contractual levels, we are in arbitration proceedings regarding the possible compensation by the contractor of the Auvere power plant. The final decision of the Arbitration Court is expected in 2022. On the graph the 28 million euro sum is covered under the item of „Changes in working capital“, while in the Balance Sheet the received guarantee is fully booked under the payables due to uncertainty around the Arbitration Court's final decision. From our side, we feel comfortable with our arguments and feel that we have a strong case for a favourable final decision. Coming back to working capital changes, inventory and receivable increases together with payable decreases meant that overall the impact from working capital was lower than the received bank guarantee amount. Other listed items on the graph had smaller impact

On the next slide, we have compared the operating cash flows from last year to 2019. The already mentioned postponement of the CO2 purchase had the biggest positive impact, while working capital changes mostly benefited from the proceeds of the mentioned Auvere bank guarantee, and also from favourable movements in the payables, receivables and inventories. Income tax item had positive effect in 2020 as last year no dividends were paid, while in 2019 dividend payment to the owner amounted to 57 million euros. The relevant tax expense in 2019 amounted to ca 14 million euros, while in the beginning of 2019 we also paid income tax for dividends paid at the end of 2018. Interest payments and changes from derivative instruments in 2020 were at similar levels as in 2019.

Moving on to slide number 20, group's capex in the year of 2020 amounted to 188 million euros, an increase of 38% from the previous year. The biggest share of investments went to the electricity distribution network, nearly 15% more than in 2019.

Second largest investment category were the renewable energy related investments, where the largest component was the Tootsi windfarm followed by solar and wind related investments in Estonia and Lithuania. In 2020 there were some notable investments made to increase the flexibility of the large-scale energy production. We increased the alternative fuel burning capabilities of our units and installed new start-up burners to one of our units that enable to start the power unit from standstill.

Turning to next slide, an overview of the Group's liquidity position is provided. At the end of 2020, Eesti Energia's cash position amounted to nearly 167 million euros on the back of strong operating cash flows. In 2020 Eesti Energia received share capital pay in from the owner in the amount of 125 million euros to support the investment of the new oil plant. In the month of November, we redeemed a bond issued back in 2005 with a coupon of 4.5% in the amount of 106 million euros from a combination of existing cash resources and revolving credit facilities. Moving onwards we expect our annual interest expenses to be roughly 4 million euros lower. As of the end of the year, the group had access to 520 million euros of loans. From this amount 245 million euros are long-term loan agreements with the European Investment Bank, revolving credit facilities at the parent company level amount to 250 million euros and at the Enefit Green level we have one revolving credit line in the amount of 25 million euros.

On slide 22, we have provided an overview of the group's leverage ratios and debt repayment profile. In 2020, both Standard and Poor's and Moody's updated their credit ratings for Eesti Energia. Standard and Poor's left the rating unchanged at BBB-, but changed outlook from stable to negative due to weaker credit metrics. Credit rating and outlook from Moody's remained unchanged. Eesti Energia's financial policy is aimed at maintaining investment grade credit rating. Company's net debt to EBITDA ratio stood at 4.0 times at the end of 2020 which is above the group's long-term financial policy target of 3.5 times. The Group has outlined measures to get back to the financial policy metric.

Looking at the debt maturity profile, we have 306 million euros of loans maturing this year, while the group has unutilised signed loan agreements in excess of 500 million euros. From the maturing 306 million nearly half, 150 million euros, is a Swedbank bullet loan maturing in June of this year. As of the end of 2020, utilised revolving credit facilities amounted to 70 million euros. Other notable maturities include contractual annual repayments in the amount of 56 million euros, and also a 30 million bullet repayment in the second half of this year to European Investment Bank.

Now turning to the 2021 Outlook on slide 23, we can say that for 2021 the management expects growth in sales revenues, EBITDA and investments of Eesti Energia. However, the Covid-19 pandemic is far from over. Therefore, we are continuing to actively monitor the circumstances to be ready for necessary adjustments in our operations. Growth in Group's sales revenue and EBITDA is expected mostly from higher electricity market price and higher electricity sales volumes. Investments are expected to grow from the levels of 2020, with increase expected from renewable energy developments and the construction of the new shale oil production unit.

To conclude today's presentation, please turn to slide number 24. Here we have provided the 2020 full year overview and comparison to 2019. To comment on the fourth quarter performance, then year-on-year fourth quarter sales revenues were stable at 248 million euros, with only electricity related revenues declining by 10 million euros. This decline was offset by increase in distribution and shale oil revenues which both grew by a 1 million euros, while the major support to the revenue line came from the other segment as gas sales increased. EBITDA of the fourth quarter of 2020 fell by 9% from the 2019 figure to 65 million euros. The dynamics here were similar to revenues – electricity segment saw a fall in the profits, while all other segments showed better EBITDA than in the fourth quarter of 2019. Fourth quarter net profit of 22.2 million euros helped to bring the full year net profit to positive territory as well, as the year ended with a positive bottom line result of 19.3 million euros. The fourth quarter net profit was boosted from the previously mentioned asset revaluations of the oil shale power units conducted at the end of 2020 in the amount of 13 million euros. To sum up, 2020 was definitely a year like no other. All things considered the management of the company is satisfied with the performance of the company. We are now ready to take your questions.

Thank you for listening and we hope to see you again when we introduce our 2021 first quarter results in the beginning of May.