Eesti Energia Unaudited Financial Results for Q1 2021

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Transcription

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Dear investors and partners, my name is Andri Avila, the CFO of Eesti Energia. I am glad to welcome you to our conference call to discuss Eesti Energia's financial results of this year's first quarter. I hope you have downloaded the quarterly report and the investor presentation from our web site.

Now, to start off with the overview of the results, let's move to slide number 3. Overall, the start to the year has been strong with first quarter sales revenue increasing by nearly a third and EBITDA by nearly half from last year's levels. Better performance is mainly attributable to all segments, while shale oil segment's performance was held back by hedging impacts. Operating cash flow was significantly stronger mostly due to favourable derivative and CO2 cash-flow effects, and better EBITDA. Investments during the start of the year were lower compared to last year as last year's first quarter included purchase of the Tootsi land plot in the amount of 43 million euros. Without this item the investments would have risen on an annual basis.

Before we move on to the review of the financial results, let's do a brief overview of our main commodity markets. So please turn to slide number 4. First quarter of 2021 saw increasing electricity prices in the Baltic and Nordic regions. For the past 12 months we have been witnessing quarter-by-quarter increasing electricity prices. As a result, the quarterly average electricity price was nearly two times higher than a year ago in the Nord Pool Estonia region. Although price spread between Estonia and Finland narrowed slightly, the Estonian electricity prices were still on average ca 3.2 euros per MWh higher. The last time the price spread between Estonia and Finland was that low was back in the second half of 2019. As a result of increased electricity prices, the clean dark spread metric also improved although staying in the negative territory. As a reminder, the clean dark spread is an internal market price based metric regarding electricity and CO2 prices showing the available margin for Eesti Energia's oil shale based power plants. As the power production of such power units is aimed at peaks hours and the actual CO2 cost is lower than market price due to hedges from the past from lower price levels and free allowances, the actual performance of the plants is not directly transferable from the market-based metric.

Next, let's turn to slide number 5 to briefly cover the oil markets. As with regional electricity prices, global oil prices have also recovered quarter by quarter since the beginning of last year achieving basically pre-decline levels seen back in 2019. During the quarter oil prices got support from production restriction agreement by OPEC countries.

Moving on to the overview of financial results, please turn to slide number 6. Higher sales and EBITDA are mostly the result of electricity segment's strong performance due to higher electricity prices and increased sales quantities. Distribution segment's results improved on an annual basis thanks to more winter-like weather this year which resulted in higher electricity demand. Shale oil segment's result was affected by non-hedge accounting negative derivative impacts while in broader terms the operations of the oil production performed nicely. Other products and services benefitted mainly from better heat and gas sales. As a result sales revenues grew 31% and EBITDA of the Group by nearly a half from last year's levels.

To cover the electricity segment in more detail, please turn to slide number 8. Higher quarterly electricity prices together with increased sales volume thanks to better retail sales quantities translated over to higher sales revenue. Increase in the average electricity sales price for the Group was lower than the increase in the market price as a significant part of retail contracts have fixed prices. Such fixed price contracts are fully hedged, so the higher market price does not have any effect. Electricity generation in the first quarter rose a third from last year's same period to 1.3 TWh, although wind conditions were less favourable resulting in 11% decline in renewable energy production in annual comparison. Despite the decline in renewable energy production, we saw record biomass usage at our traditionally oil shale fired power plants. The improvements of our engineers to the power units enable to use more biomass instead of oil shale. This makes the oil shale based power units more competitive and allow for more flexibility while operating the plants on the back of rising CO2 prices. The biomass we use is basically waste wood from construction sites or forestry with very few alternative uses, therefore the price of such biomass is not comparable to that of pellets for example. During the first three months of the year the oil shale based power units saw significantly more demand from the market compared to last year's same period thanks to higher electricity prices and better flexibility of the power plants. The share of renewable and alternative energy production from total was at 45% for the quarter, in March the figure was even at 65%. As to hedging, we hedge our power production units and retail sales separately, with more details on the hedges available in the appendices.

Moving over to next side, the EBITDA profit of the electricity segment nearly doubled with positive factors outweighing the negative ones. Compared to last year's EBITDA figure positive contributions came from higher sales volumes, realised and unrealised derivative impacts, and from power purchase agreements. From the summer of last year we have signed two long-term Power Purchase Agreements, the so-called PPAs, with wind developers in Lithuania. This electricity is then offered and sold to retail clients in the Baltics who wish to consume renewable energy. Up until now we have sold such electricity in the amount of 2 TWh. As the electricity market price forecasts change, the value of those signed PPA contracts also change for the unhedged part and this is portrayed under the „Other" column together with the unrealised impact. Negative impacts to EBITDA compared to last year came mainly from margin impact and inventories related to oil shale. Although the margin impact column was positively effected by the higher electricity sales prices, the larger negative effect came from higher variable costs which mainly relate to higher electricity purchase costs due to higher market prices.

Next, let's cover the distribution segment's performance on slide 11. Distribution sales revenues benefitted from higher distributed volumes. Both revenues and volumes rose by nearly 10% as the weather in the beginning of this year was more traditional to what we have been used to in the region. Last year's first quarter was exceptionally warm, and this played an important role in the last year's lower electricity distribution levels. Average distribution sales price, or the tariff, was pretty much on the same level as a year ago having smaller effect compared to volumes.

On the next slide, number 12, the EBITDA development of the distribution segment is shown. Higher distributed volumes had the largest impact here together with lower fixed costs from lower maintenance costs. We have revised the maintenance schedule of the distribution network as people spend more time in their homes due to restrictions imposed by the COVID-19 pandemic. This in turn has resulted in lower maintenance costs for the first quarter of this year. Margin impact's negative effect is attributable to costs related to network losses as electricity prices have been higher. However, all in all the EBITDA of the distribution business increased by nearly a quarter from last year to 23.7 million euros, which is a very solid performance.

Now, let's continue with the shale oil segment on slide number 14. Although oil prices globally rose, our hedge transactions had a negative impact as the hedge price levels are below the current market prices. Higher sales volumes had a stabilising effect on the revenues which basically ended up being stable year on year at 35 million euros when including the negative impact from derivatives. On a good note, our production facilities are working properly with production volumes increasing 2.4% from the level's of last year. We have also provided the hedge information on the slides – for 2021 we have hedged around 80% of our forecasted volumes, and for 2022 around 65%.

To cover shale oil EBITDA, please turn to next slide. Despite the growth in sales volumes, the EBITDA of the shale oil segment was nearly 3 times lower at 5.8 million euros due to derivative impacts. As mentioned on last side, the hedges to the oil production had a negative impact on the first quarter sales revenue and this is showed on the graph in the column „Gain on derivatives". However the biggest impact to the EBITDA came from the so-called „Other" factors. Under „Other" factors the largest effect came from the market movements of naphtha derivatives. From the second half of last year we started to hedge the smaller part of our production, the gasoline, and this is done through the use of the naphtha derivatives. Since the gasoline hedges are not included in the hedge accounting framework, the market movements go through the profit and loss statement. This has resulted in negative effect in comparison to last year's first quarter as the market prices right now are higher than the hedge levels.

To cover the last segment, other products and services, please turn to slide number 17. Other sales and EBITDA improved both year-on-year comparison, with improvements mainly coming from natural gas and heat sub-segments. Heat segment got a boost from lower fuel costs as last year gas was the main fuel versus oil shale and biomass this year. Heat's fuel cost is to a large extent tied to the production of electricity by the oil shale based power units which produced more electricity this year than a year ago. Natural gas sales and profit benefitted from higher volumes and favourable market price movements from derivative instruments as gas sales are not included in the hedge accounting framework.

Next, we shall provide a brief overview of cash flow development. To start from slide number 17, we have provided a bridge from EBITDA to operating cash flow for the first quarter of this year. The operating cash flow was ca 48 million stronger than the EBITDA with main impacts coming from CO2 and derivative instruments. Regarding the CO2 impacts we have 2 main factors to mention. First, there is positive impact from the CO2 related income statement provisions, meaning in the Profit and Loss Statement the CO2 expense item occurs but there is no cash outflow tied to the CO2 expense because the actual CO2 allowances are bought out usually once a year while hedges are made on a continuous basis. Secondly the increased CO2 market price results in paid-out market-to-market movements for the already locked exchange-cleared positions and this ends up as extra cash on our bank accounts. Cash flow effect from derivative instruments relates to the similar logic in the electricity and oil contracts where due to market price movements we saw cash inflow.

On the next slide, we have provided a bridge from the 2020 first quarter operating cash flow of minus 1.1 million euros to this year's first quarter operating cash flow of 120.6 million euros. As in the previous slide, CO2 and derivative impacts have significant effects as this and last year's first quarters saw price movements of CO2, electricity and oil market prices in exact opposite directions – this year prices were stable or increasing depending on the instruments, while a year ago we saw all prices bottoming out. When comparing the cash flows of the two quarters, major additional effects came from this year's higher EBITDA and working capital changes that are mostly attributable to decreased inventories of oil shale, gas and shale oil.

Moving on to slide number 19, we have provided a brief overview of the investments during the quarter. Although capex decreased by more than a half from last year's level, it is worth remembering that last year's figure also included the purchase of Tootsi land plot for wind development. Without this item, the capex figure would have shown an increase. The highest share of investments still go to the distribution network.

Turning to next slide, an overview of the Group's liquidity position is provided. At the end of this year's first quarter, Group's cash position amounted to 225 million euros. In addition, the group has access to 540 million euros of undisbursed loans, which are divided between revolving credit facilities and long-term loan agreements. In the beginning of April the group purchased CO2 emissions for surrendering the 2020 emission allowances in the amount of nearly 100 million euros. This explains the somewhat high cash balance at the end of March. During the quarter the group returned a part of utilised credit facility in the amount of 20 million euros and made contractual debt repayments of ca 9 million euros.

On slide 21, we have provided an overview of the group's leverage ratios and debt repayment profile. In the first quarter of this year we announced the refinancing of the 150 million euro Swedbank term loan which now matures in June 2024, previously the maturity was in this year's June. The group's credit ratings remain unchanged, 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 target of maximum 3.5 times.

Turning to the 2021 Outlook on slide 22, we can say that for 2021 the management expectations have not changed from the presentation of the 2020 annual results. Growth in sales revenues, EBITDA and investments are expected by the management of the group. 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. It is the management's opinion that the Covid-19 pandemic is not over yet. Therefore, active monitoring of the circumstances is continuing on a daily basis with the readiness for necessary adjustments if needed.

To conclude today's presentation, please turn to the last slide, number 23. On the back of climbing market prices of electricity and oil, the Group's performance has also recovered from the low levels seen last year. Electricity segment showed most improvement from last year's same period with distribution business also showing nice performance as the more winter-like weather resulted in higher demand for electricity. Although shale oil profit decreased in percentage terms greatly due to non-hedge accounting derivative impacts, the operations of oil production are going smoothly with production levels increasing from the levels of last year. With the disclosure of the audited annual report of 2020 we announced that the management of the company proposed a dividend payment of 5 million euros to the owner. The annual general meeting held at the end of April however decided not to take the dividend payment providing additional support to the company to carry out its strategic goals and the related investment plan. That is all for the first quarter of this year, we are now ready to take your questions.

Thank you for listening and the next conference will be held at the end of July when we present our second quarter results. Thank you.