Eesti Energia Unaudited Financial Results for Q1 2019

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Transcription

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Dear investors, my name is Andri Avila, I'm the CFO of Eesti Energia. I am glad to welcome you on our conference call introducing Eesti Energia's first quarter 2019 financial results. I hope you have had a chance to download the quarterly report and the investor presentation from our web site.

Eesti Energia's sales revenue increased by 24% in the first quarter of 2019 and reached 283 million euros. Sales revenue increased mainly on the back of strong electricity sales as the Nord Pool electricity prices were higher than a year ago, which had especially good effect on the Renewables operations – more on that later under the electricity segment. Also our shale oil operations showed a descent increase in sales revenue. Group EBITDA increased by 9% to 84 million euros. Operating cash flow equalled 103 million euros, up by 28%. Capital expenditure totalled 21 million euros which is a 40% decrease compared to a year ago. Last year in Q1 we had capex related to Auvere power plant which is no longer the case. We will be reviewing the financials in more detail in the upcoming slides.

Before we move to the financial results of the business segments, let's go over the developments in our main commodity markets on slides 4 and 5. On slide 4 it can be seen that the 2019 first quarter electricity prices increased compared to the same period a year ago. The increase was backed by the rise in the emission allowance prices and low hydro levels in the Nordics. The volume of electricity imported from Russia, which is CO_2 allowance free and therefore cheaper, rose more than 50% in Q1 2019 to 4.6TWh from last year's volume of 3TWh. It is important to note that Russian electricity imports put the EU producers operating in areas bordering with Russia in an unfair competitive situation as the Russian electricity producers do not have to purchase CO_2 allowances for their emissions, so their production is per MWh more than 20 euros cheaper. The import of electricity from Russia also led to Estonia becoming a net importer of electricity on a quarterly basis in the first quarter of this year – something that has not happened according to our data at least since 2010. In the first quarter the average price of Nord Pool Estonia equalled 47.7 euros per MWh which is a 14% increase from Q1 2018. At the same time, we managed to achieve 8% higher electricity sales price for our Narva power plants. Price spreads difference between Estonia-Latvia and Estonia-Finland were pretty much unchanged compared to last year's first quarter. Eesti Energia's CDS, Clean Dark Spread, decreased to 6.8 euros per MWh due to higher CO2 cost and this took away the gain from the increased electricity price.

Oil markets in Q1 2019 were generally favourable for us. Although the average price on Brent crude oil decreased on a yearly basis by 5%, the price of 1% sulphur content fuel oil which is a reference for our main oil products increased 14% to 333.1 euros per tonne. The rise in the 1% fuel oil was due to good demand from Asia, while Russian exports were lower and in Northwest Europe there were refinery upgrades related to the tighter marine fuel sulphur cap that will be imposed in 2020. This meant that the supply side was not that strong to fill up the Asian demand and this led to higher fuel oil prices.

Next let’s start the review of Eesti Energia’s financial results in Q1 in more detail. Strong result from the electricity segment carried the sales revenue increase as electricity prices in Q1 2019 were strong, and our shale oil operations also showed good growth. EBITDA showed weaker rise than sales revenue as the higher CO2 price had its impact. The distribution segment showed declining revenues and profits as the regulated distribution tariff fell in the beginning of this year, but also stormy weather Q1 in this year's had its impact there. Although other sales revenue increased, EBITDA from other segments fell as in last year's Q1 figures there were liquidated damages in the amount of 7.7 million euros related to the delay in the delivery of the Auvere power plant. Without this item EBITDA from other products and services would have shown a slight increase.

On slides 8 and 9, let’s look at the results of the electricity segment in more detail. Eesti Energia's average electricity sales price increased by 32% in the first quarter reaching 56.4 euros per MWh. Hedged positions of electricity had a positive effect on the average electricity sales price. Taking this impact into account, the average electricity sales price was 58.7 euros per MWh, a 42% increase from last year's level. Despite good prices, electricity generation fell 17% to 2.2TWh due to higher CO2 costs that affect directly our oil shale based Narva power plants, and there were also unplanned maintenance works in Auvere power plant. However, the production of electricity from renewable and alternative sources reached an all-time high of 552 GWh, from which renewables made up 397GWh. The acquisition of Nelja Energia increased our installed renewable capacity from 111MW to 398MW, but also weather conditions were favourable in the first three months of this year. This meant that electricity produced from renewable and alternative sources constituted about 25% of total electricity produced by Eesti Energia in Q1 2019. In March the share was even higher reaching about 32%. For the renewables, higher electricity price comes directly through to EBITDA as the majority of the assets are in Estonia and have a feed-in-premium subsidy scheme where the subsidy is an extra on top of the electricity sales price achieved. Electricity sales volume in Q1 decreased by 0.1TWh, this was led by a fall in wholesale electricity sales, whereas retail sales volumes increased, mostly on the Polish market. Eventually, the electricity sales revenue increased nearly 50% reaching 157 million euros as the electricity prices moved favourably.

EBITDA of the elctricity segment grew by 49% reaching 48.5 million euros. Major contributor to EBITDA growth was higher electricity price – the total impact from it was nearly 42 million euros, whereas higher electricity purchasing and CO2 costs brought down margin impact to 14.7 million euros. With regards to margin impact, it is important to note that the renewables electricity production is free of CO2 cost meaning that the higher electricity price runs directly through to EBITDA line for the renewables. On the other hand, electricity production from oil shale is under pressure from higher CO2 costs, as was demonstrated by the decrease in the Clean Dark Spread on slide 4. The volume impact component is explained by the fact that in the 2018 first quarter numbers Auvere's sales and costs were capitalised, whereas this year they ran directly to the Income Statement as the Auvere power plant has been accepted from GE by now. Fixed costs were higher in Q1 2019 by nearly 6 million euros coming mainly from two instances. Firstly, Enefit Green's costs were higher related to the acquisition of Nelja Energia. Secondly, Customer Services continued to expand in our latest new home markets, mainly Sweden, Finland and Poland, and this led to an increase in costs. Gain on derivate instruments had a positive effect on EBITDA, whereas change in the value of derivatives had a negative impact.

In annual comparison, distribution volumes decreased by nearly 3% declining from 2.1TWh to 2TWh. In the beginning of this year there was an 8.4% average distribution tariff cut. Last tariff cuts took place in 2017 and no further tariff cuts have been decided on as of this moment in time. The tariff cut together with a slight decrease in distributed volumes led to lower sales revenue from the distribution segment on a yearly basis. Sales revenue equalled 62.6 million euros, a decrease of 11.4%. Network losses were 0.6 percentage points lower than a year ago leading to a 4% loss from the electricity entering into the distribution network. Challenging weather conditions in the beginning of this year led to a rise in the average duration of unplanned interruptions.

EBITDA from the distribution segment declined by a bit more than a quarter to 19 million euros. The decrease was led by lower tariffs, while lower distribution volume had smaller effect. Fixed costs rose due to stormy and frosty weather and there were more network repair and maintenance works to be done. This we also covered on the previous slide under the growth in unplanned SAIDI. However, on a good note the planned SAIDI showed improvement from 26 to 18 minutes.

Now we will continue with the shale oil segment on slide 14. In line with global fuel oil prices, Eesti Energia’s average shale oil sales price, excluding the impact of hedges, rose by 14%. Our average shale oil sales price was held back by hedges made from lower levels. Including hedges, the average sales price was about 289.4 euros per tonne, but still showing nearly an 11% improvement from last year. Sales volume increased nearly 22% to 102 thousand tonnes, while shale oil production made a quarterly all time production record with 125 thousand tonnes of oil produced – up nearly 20% from levels a year ago. The rise in oil production came thanks to higher operational reliability in our oil production facilities. During the quarter, our Enefit 280 production facility managed to exceed its projected capacity on a sustainable basis. This gives us good confidence in going forward. Higher sales and better prices led to an increase in shale oil sales revenue, which were up by 35%.

Turning to shale oil's EBITDA, we saw a 56% improvement from 8.4 to 13.1 million euros. Better oil prices and increased sales volumes were made possible by better operational reliability both gave an impact to the growth of EBITDA. Current oil hedges, as already mentioned, are made from lower price levels and this leads to a negative effect on the EBITDA level. Higher payroll costs which were mostly related to mining brought down EBITDA by 1.6 million euros, however the fixed cost component in inventories partly compensated for the higher payroll. This led the fixed costs to increase 0.2 million euros compared to last year's Q1.

And now on slide 16, let’s cover the last part – the contribution of other products and services of Eesti Energia. Sales of such other products and services reached 33 million euros in Q1 2019, an annual increase of 9%. Although heat sales declined due to weaker demand of heat as the weather was warmer, we had sales revenue from mining products in this year's Q1 as we sold 84 thousand tonnes of oil shale outside of our Group and this amounted to 2 million euros. Also, with the acquisition of Nelja Energia in November 2018, we also attained ownership of Pellet operations in Latvia and this contributed 5 million euros to sales revenue in the first quarter of this year. Coming to the EBITDA of other products and services, the main impact comes from the liquidated damages related to the delay of the delivery of Auvere power plant. As the Auvere plant has been completed and accepted by now, the payments for damages have stopped. Despite lower heat EBITDA and the termination of liquidated damages related to Auvere, we saw the previously mentioned factors under sales revenue having their influence on EBITDA line as well – sales of mining products, meaning oil shale, and the acquired pellet operations, but also natural gas, scrap metal, and other products and services offered by our subsidiary Enefit Solutions.

Looking at the development of Eesti Energia’s cash flow in Q1 2019 on the next slide, we can see the steps from EBITDA to operating cash flows. Q1 EBITDA was 83.8 million euros, while operating cash flows were 19 million euros, or 23% higher. Changes in working capital amounted to 8 million euros in the negative direction. Here increase in oil shale and shale oil inventories had the biggest impact. CO2 impact is mainly related to the non-monetary provisions made during the quarter to match the emission cost of our electricity production, and a small negative effect came from the position revaluation of our CO2 forwards which have daily settlements for market-to-market movements as the price of emission allowances declined during the quarter from 25 to 21.5 euros per tonne. From derivative instruments we received in net terms 6 million euros. Positive impact came from gas and electricity instruments as the electricity hedges settled, while no new electricity hedges were made. Oil derivative instruments on the other hand had a negative effect on the cash flows as the current oil hedges are made on a lower price levels than current world market fuel oil prices. Under derivative instruments' impact we have also included ca 4 million euros of costs related to the refinancing operations of the debt acquired with the acquisition of Nelja Energia. More specifically, we prematurely ended all of the interest rate swaps and this involved costs due to the market-to-market settlements of the interest rate swap contracts in the acquired company's project based financing agreements. These associated costs were identified during the acquisition process so there were no surprises regarding that matter. Interest payments for debt liabilities amounted to 1 million euros during the quarter which was related to Enefit Green's quarterly interest payments on the loan took out during Q1 2019. In the following quarters we will see this expense line as well, more on financing a bit later. This year in January we paid income tax in the amount of 3.8 million euros on dividends of 15.8 million euros paid to the owner last year, so this impacted our operating cash flows negatively in the first quarter.

Moving on to the next slide to compare cash flows in the first quarter in 2019 to 2018, we can see that the operating cash flows increased by 37.5% or 28 million euros from the levels of last year. The increase compared to last year came from better EBITDA, lower income tax paid on dividends and impact from CO2 as this year we made no CO2 hedges during the first three months of the year. Derivative instruments excluding CO2 had basically a zero net effect if we compare previous year's and this year's Q1. As on previous slide, under derivative instruments were also 4 million euros worth of expenses that we did not have last year related to the early termination of interest rate swaps that came along with the acquisition of Nelja Energia. Also, the effect from electricity and gas hedges were positive, but this was largely offset by negative impact from oil instruments. Changes in the working capital were again mostly affected by growth in oil shale and shale oil inventories. In Q1 2018 we did not pay any interests, whereas already mentioned on the previous slide, this and the following quarters we will see Enefit Green's quarterly principal and interest payments on the loan took out during Q1 2019.

Moving on to slide 19, let's also take a look at Eesti Energia's investment cash flow. Capital expenditure fell by 14 million euros on a yearly basis, coming to 21 million euros. A large part of the decrease is associated to the payments for Auvere power plant which took place a year ago. Investments to the distribution network were 20% higher reaching 15.3 million euros. Other maintenance investments, excluding distribution, grew slightly to 3.7 million euros. We would like to point out that during the quarter we have invested 1 million euros to the wood shredding complex. Although a relatively small amount in absolute terms, but when this investment will be done by the end of this year, we will have better capability to use waste wood in our power plants. Waste wood is cheaper than other biomass, meaning pellets or chips, and this gave the project an economic sense. Also, this investment directly helps us closer to achieving our target of producing 40% of electricity from renewable and alternative sources. Besides, the wood shredding complex gives us greater flexibility to operate our Narva power plants when it comes to the volatile CO2 price that directly affects our electricity production.

On the next slide we have provided an overview of the group's liquidity position. Quarterly cash position improved due to strong operating cash flows. This lead to an increase in Group's liquid assets by 80 million euros from the end of last year. During the quarter we carried through the refinancing operations related to the acquisition of Nelja Energia by our subsidiary Enefit Green. With the acquisition we also required the debt obligations of the target company in the amount of 212 million euros, from which 164 million euros were project financing bank loans and 48.5 million euros was a eurobond on the Oslo Stock Exchange. The bond was fully redeemed last December as the first part of refinancing operations. The final part of the operations was carried out in this year's Q1 as a result of which 163 million euros of Nelja Energia's bank loans were paid back. Also, associated interest rate swaps in the subsidiaries of the target company were terminated. For refinancing purposes, during the quarter

Enefit Green took out 260 million euros of new loans on a corporate level from SEB Bank and Swedbank. Mentioned loan agreements were signed in December last year. The repayments of the new loan will be on a quarterly basis. The loan has a 5 year term with 7 year repayment schedule. During the quarter Enefit Green made its first loan repayment of 9 million euros, and Eesti Energia paid back revolving credit facilities that were in use in the end of last year. This means that Eesti Energia's undrawn liquidity loans are now back to 300 million euros from OP Corporate bank and SEB.

Coming to Group's leverage ratios and repayment profile, we see that the net debt to EBITDA ratio declined to 3.4 times by the end of this quarter being in accordance with Eesti Energia's long term financial policy target of 3.5 times net debt EBITDA. Eesti Energia's credit ratings are unchanged at BBB flat from S&P and Baa3 from Moody's. The loan maturity profile on the lower half of the slide now reflects the changes that occured with the refinancing of the debt on Enefit Green level.

Finally, let's discuss the outlook for Eesti Energia for the rest of 2019. We expect sales revenues to grow in 2019 which is defined by more than a 5% growth compared to 2018. Sales revenue increase is supported by higher electricity sales prices. EBITDA we expect to remain on the same level, as the increase in emission allowance prices will have an adverse effect. Investments are expected to increase as investments in the renewables sector will be bigger. This year Eesti Energia will pay 57 million euros of dividends to its owner, with an additional income tax of 14.3 million euros to be paid on top of the dividends.

To conclude today's presentation, in the first quarter of this year we saw once again increasing electricity and CO2 prices. The group's sales revenues from electricity and shale oil segments performed well while the distribution segment showed declines in both revenues and EBITDA due to tariff cuts. Electricity's EBITDA was supported by the renewables operations which is CO2 cost free and the subsidy schemes mostly pay premium to electricity market prices. Investments declined over 40% as there is no capex related to the Auvere power plant anymore. We would like to point out, that last year we still capitalised costs related to the Auvere power plant, which is no longer the case.

The costs related to the Auvere power plant now go directly through the Income Statement. The net profit for the quarter decreased as a result to 9.5 million euros. One of the major contributors to the decline in net profit was income tax expense related to the dividends which in last year was in the second quarter, this year it was in first quarter and also in larger sum as this year Eesti Energia will pay 41.2 million euros more in net dividends to its owner than last year. This means that the income tax expense related to dividends will be 14 million euros this year compared to nearly 4 million euros last year. We are now ready to take any questions you may have.

Thank you and let’s hear again during our Q2 results in the end of July. Thank you.