Eesti Energia Unaudited Financial Results for Q3 2018

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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 third quarter 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 revenues grew by 27% in the third quarter and amounted to 200 million euros. The increase was mostly based on higher electricity sales. EBITDA also grew and totalled 58 million euros, up by 8% year-on-year. Operating cash flow equalled 53 million euros, an increase of 36% compared to the same period in 2017. Capital expenditure totalled 65 million euros compared to 35 million euros a year ago. A large part of the increase was due to payments for Auvere power plant, as we finally took over the plant from GE in July. Overall, third quarter was a relatively strong one and it was characterised by growing sales volumes of all our major three products.

On slide 4 and 5 let's first review the developments in our major commodity markets during the third quarter. Power prices climbed to high levels due to an increase in CO2 emission allowances prices, relatively low hydro levels in Nordic countries and maintenance works of power plants and interconnectors. The average electricity price in Nord Pool Estonia equalled 53.5 EUR per MWh, which is 49% higher than in the same period last year. The price spread between Estonia and Finland remained at a very low level while the spread between the Estonian and Latvian price widened to 4 EUR per MWh. One of the reasons of the increasing price differential between Estonia and Latvia is increased flows of Russian electricity into the Baltics. Imports of Russian electricity by the Lithuanian system operator limits the ability of Estonian and Finnish electricity to compete in the Latvian and Lithuanian markets. It should also be noted that Russian electricity producers have an unfair advantage compared to EU producers as they do not have to purchase CO2 allowances for their emissions. Eesti Energia's clean dark spread climbed to 15 EUR per MWh in the latest quarter, up by 45% year-on-year. The increase in power price was more than sufficient to cover the higher price of CO2 emission allowances.

Oil markets remained also favourable in the third quarter. The average price of Brent equalled 76 dollars per barrel, which is 45% higher than a year ago. The last time that quarterly oil price reached similar high levels was in the fourth quarter of 2014 when Brent averaged 77 dollars per barrel. The average price of 1% sulphur content fuel oil equalled 366 euros per tonne, also about 45% higher than in the third quarter of 2017. Fuel oil demand was positively affected by the European heat wave which increased the use of fuel oil for cooling industrial buildings.

Next we will go through the financial results of the business segments in more detail. It can be seen on slide 6 that Eesti Energia's third quarter sales revenues grew by 27% or 42 million euros, out of which majority was contributed by higher electricity sales. Shale oil sales also increased. EBITDA growth was more muted but it still increased by 8% and reached 58 million euros. Similarly to the increase in sales revenues, EBITDA was positively impacted by the electricity and shale oil segments. EBITDA from distribution and from other products and services declined. The year-on-year change in the „other" segment is negative because we no longer receive liquidated damages from GE now that Auvere power plant has been completed and accepted by Eesti Energia.

Let's move on to slide 8 to discuss the performance of the electricity segment. Eesti Energia's average electricity sales price increased by 29% in the third quarter and reached 51 EUR per MWh. Hedge positions had a small negative effect on the average sales price. Despite good electricity prices, Eesti Energia's electricity generation increased by just 3% due to higher Co2 prices which increase the cost of generation. Additionally, limits on working hours of some the older power units also affected the Group's generation capability. Specifically, three of the older pulverised combustion power units that are close to running out of their allowed working hours were conserved in the third quarter to save the final limited working time of these blocks for peak winter months. These Eesti Energia's older power blocks are expected to be decommissionned in 2019, as we have already done over the past years with some of the oldest units. The Group's electricity sales volume grew by 6% and totalled 2.2 TWh. All in all, electricity sales revenue totalled 116 million euros, an increase of 46% year-on-year.

Turning to the next slide, it can be seen that EBITDA of the electricity segment grew by 69% in the third quarter and reached 30 million euros. The largest contributor to EBITDA growth was higher electricity price and better margins. However, Eesti Energia did not get the full benefit of higher electricity prices because part of it was erased by the simultaneous increase in the cost of CO2 emission allowances. Market price of CO2 will have an even more important effect after we have used up older Co2 emission positions which have been bought at lower price levels. Higher sales volumes also had a positive impact on EBITDA in the third quarter. Part of the volume effect comes from the fact that in 2017 the sales volume of Auvere power plant was not fully reflected in the group's sales revenue and EBITDA whereas in 2018 it has been included to full extent. Now that we have taken over Auvere power plant from GE, also all costs will be fully reflected in the income statement, including depreciation and interest costs which will amount to roughly 40 million euros annually and will have an impact on net profit. Fixed costs of the electricity segment reflect 0.9 million euro extraordinary loss related to the default of Nasdaq commodities clearing member. The loss to clearing default fund was shared between all clearing members according to Nasdaq rules, including Eesti Energia.

Slide 11 of the presentation provides an overview of the distribution segment. In annual comparison, the average distribution sales price declined by 2% as we still see the final effects from the tariff cuts which were implemented in July and November last year. There will be a further 8% tariff cut from the beginning of 2019. Distribution volume amounted to 1.5 TWh in the third quarter, up by 1% year-on-year. Sales revenue from the distribution segment equalled 52 million euros, down by 1%. The average duration of unplanned interruptions was affected by stormy weather in September and equalled 53 minutes in the third quarter.

EBITDA from the distribution segment amounted to 25 million euros in the third quarter, a 10% decline compared to last year. The reduction in EBITDA was driven by the cut in tariffs and by increased cost of distribution losses as electricity prices have increased. Fixed costs increased due to relatively more maintenance works that were necessary after the storms.

On slide 14 we continue the discussion with the shale oil segment. The market price of shale oil increased substantially in the third quarter in year-on-year comparison, however the impact on Eesti Energia's average sales price was limited by hedge positions which had been entered into on lower levels. The group's average shale oil sales price increased by 24% to 260 euros per tonne. Eesti Energia's shale oil production also increased due to less maintenance works in the third quarter compared to 2017. Sales volume increased by 9% and reached 80 thousand tonnes. On the back of both higher sales and higher sales price, sales revenue from the shale oil segment grew by 35%.

Turning to slide 15, let's discuss the development of shale oil EBITDA. Higher oil prices improved margins and had a sizable positive effect on shale oil profitability. However, loss on derivative positions reversed some of this effect because the price of shale oil had already been fixed at lower levels. Increasing volumes and lower fixed costs also had a positive impact on EBITDA although it was much smaller in magnitude compared to the price and hedge effects. Overall, shale oil EBITDA more than doubled in the third quarter and reached 7 million euros.

Finally on slide 16, it can be seen that other products and services of Eesti Energia group yielded minus 4 million euros to EBITDA, compared to 6 million euros in the same period last year. The segment includes products such as heat, gas and oil shale but also Enefit Solutions which manufactures a wide range of metal structures. The segment also encompasses the result of Eesti Energia's R&D division, including R&D costs. Previously, liquidated damages related to Auvere power plant were also recorded in this segment but now the plant has finally been completed and accepted and the payments of damages have also stopped.

Next let's also look at the composition of Eesti Energia's cash flow. On slide 17 a step-by-step development of operating cash flow from EBITDA has been shown. EBITDA amounted to 58 million euros in the third quarter. Changes in working capital, including increase in inventories, had a negative impact of 5 million euros on cash flow. However, the largest negative impact came from cash collateral that we had to provide to clearing houses and trading counterparties related to the Group's electricity and oil hedges. Substantially higher hedge positions and market movements have resulted in higher margin payments. CO2 related items conversely had a positive impact of 39 million euros. Actual purchases of CO2 emission allowances were substantially lower in the third quarter compared to the cost of CO2 recorded in the income statement, as the purchases of the emissions are not spread out evenly over the year. Additionally, we received 17 million euros for mark-to-market movements of our CO2 futures positions. Other derivative instruments also had a positive impact of 17 million euros. Interest payments amounted to 20 million euros so in total we arrive at 53 million euros of operating cash flow in the third quarter.

Slide 18 gives an overview of the third quarter cash flow compared to the same period last year. Operating cash flow increased by 14 million euros or 36%, out of which higher EBITDA explains 4 million euros. It can be seen that the largest items explaining the difference between the years are similar to those mentioned also on the previous slide. Working capital flows were somewhat more negative this year. Payment of hedge collateral exceeded last year's amount by 29 million euros. At the same time, impact from CO2 related items has a much more positive effect compared to last year. For example, we received large mark-to-market settlements for our CO2 purchase positions given the increase in CO2 market price. Additionally, actual purchases of CO2 allowances in comparison to the expensed emission cost was lower this year compared to 2017. Cash flow impact from other derivative instruments explains the remainder of the difference between the two years.

Next let's move to the discussion of capital expenditure on slide 19. Investments increased by 30 million euros and reached 65 million in the third quarter. A large part of the increase was due to the handover of the Auvere power plant which passed the final required tests and payment milestones. Investments into the distribution network made up about 19 million euros of total capex but were at a stable level. Maintenance investments in the mining unit were higher than last year due to purchases of certain new mining machinery. Additional 2 million euros were paid in relation to the Tolpanvaara wind farm development in Finland.

On slide 20 it can be seen that after a long period of no news there were some changes relating to the liquidity position of the group in the third quarter. Eesti Energia paid 152 million euros to redeem the bond on maturity date. Nevertheless, the group's liquidity position remains strong ahead of the completion of the Nelja Energia acquisition. In addition to 164 million euros of cash and cash equivalents, the Group has access to 450 million euros of credit facilities with Swedbank, OP Corporate Bank and SEB.

On slide 21 let's also have a look at the leverage ratios and funding profile. Eesti Energia's net debt to EBITDA ratio stood at 2.3 times at the end of the quarter. The group's leverage will temporarily increase with the closing of the Nelja Energia transaction which is expected in the fourth quarter. Eesti Energia's credit ratings remain Baa3 and BBB flat. The rating outlook is stable for Moody's while Standard & Poor's assigned a negative outlook to the rating in August. The debt maturity profile on the slide has been updated now that the 2018 bond has been repaid.

Finally, let's discuss the guidance for full year 2018. It is expected that both sales revenues as well as EBITDA will grow in 2018 which is defined as more than 5% growth compared to 2017. The financial result is supported by higher market prices of electricity while increasing cost of CO2 will have an adverse effect. Investments are also expected to grow now that the final payments for Auvere have taken place. The presented forecast has not yet been adjusted for any effects from the acquisition of Nelja Energia.

To sum up the presentation, we witnessed substantially higher electricity as well as CO2 prices in the third quarter. The Group's sales revenue increased by 27%. EBITDA also increased but less than revenues as higher CO2 costs limited the Group's ability to take full advantage of the high electricity price. Going forward, the full revenues and costs of Auvere power plant will enter the income statement which will have a substantial impact especially on net profit due to higher depreciation and higher interest expenses. In the fourth quarter, we also look forward to completion of the Nelja Energia acquisition. We are now ready to take any questions you may have

Thank you for listening for our Q3 results of 2018 and hope to hear you back here after four months when we introduce the annual results of 2018 at the end of February. Thank you.