Transcript Conference Call Encavis AG
Interim Statement Q3/9M 2022

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JB	Jan Bauer, Warburg Research
SK	Sven Kürten, DZ Bank
MC	Manon Coulon, Erasmus
MT	Martin Tessier, Stifel

M Good morning, ladies and gentlemen. Welcome to the Encavis AG conference call regarding the results of the first nine months of 2022. At this time, all participants have been placed on a listen only mode. The floor will be open for questions following the presentation. Let me now turn the floor over to your host, Mr. Christoph Husmann.

CH Good morning, ladies and gentlemen. A warm welcome to Encavis analysts' and investors' conference call regarding our Q3 results. Today in the conference, the hosts which are at your disposal, are Dierk Paskert, our Chief Executive Officer, who participates most likely for the last time in such a call since Dierk is about to leave the company as of December 22. And there is Mario Schirru, our Chief Investment Officer and Chief Operating Officer, newly appointed on August 22. [1:00] He will guide you through some parts of this presentation, and also myself, Christoph Husmann. But all of us will be available for your questions. Ladies and gentlemen, yesterday evening we released our internal report Q3 2022 and this morning the corresponding press release. Before we go into the details, I would like to emphasise two topics. Our key figures reflect the commercial development of our company and first of all, the growth of our company. Compared to the nine months of fiscal year 2021, we added, in the meantime, 233 megawatts of capacity, which is a growth of 13%. There are 34 megawatts in Q4 2021, and then additionally, 199 megawatts in 2022. [2:00] These capacities were not available in the first nine months of last year, therefore, did not contribute to the revenues last year, but this year. The second topic I would like to raise is the current European discussion on caps for market prices for power. I would like to give you an overview and we'd like to show you the impact on Encavis. First of all, I would like to state that the Council of the European Union agreed on September 29, so within the third quarter, to introduce energy price caps of 180 euros per megawatt hour for technologies, like wind and solar. Where does it have an impact on us? On the right-hand side, you see the European map with our activity. The two dark blue countries, Spain and Italy, there we do not see an impact on our business. The reason for that is that these two countries already pretty early during the course of the year [3:00] introduced market price caps. And so, therefore, these were already introduced and integrated in our figures during the course of the year. And these countries are not obliged to introduce any additional price limits due to that Council decision. In France, there is an exemption from the rule as well, because states, which have kept the prices anyhow by feed-in-tariffs and two-way contracts for difference, they do not have any obligation to cap prices on such parks again, because they do not earn market prices there. So, therefore, no cap of the market prices was possible or does impacts us. So, it is only the middle blue countries in the North in which there could be an impact by that price cap limitation. [4:00] In the East countries, which either have one sided CFDs, like Netherlands and Germany, where the feed in towers is just the floor price and other countries like Denmark, Finland, and Sweden and outside the EU in the UK, where we have some merchant exposure. So,in these six countries, there might be an impact from such measures. What is Encavis' approach to that decision of the Council of the European Union and the ongoing discussion in the respective countries? First of all, our approach is always to show you the true and fair view on our figures. We have said that since the politicians obviously decided to do something here on the price limitation, it would not be fair and true to show you figures without any such price caps. Since the decision was taken, founding the basis for the laws and the respective national countries on September 29 [5:00] of the third quarter, we decided to integrate that in our figures based on the later discussion which detailed out the specific mechanism. We decided to take the most likely case of a so-called retroactive cap off the prices in several countries, effective as of September 1 2022. So, we calculated an impact for September of 30.3 million euros, not forcing the country, but for numerous countries like Denmark, Netherlands, Germany, Sweden, Finland, and the UK. We build up provisions in the revenues for these price caps. Let's go into the figures and what that means for the growth as well as for the price caps. First of all, in our existing portfolio [6:00], we generated 2.3 terawatt hours of electricity, which is an up of 195 gigawatt hours or plus of 9%. Due to weather conditions in the first nine months of this year, which are fairly on plan. That means they're fairly above the poor weather conditions we have seen in the first nine months of 2021. In addition to that, as we pointed out, we increased the portfolio of our capacities by 13% in the meantime, and this means that we have 10 percentage points of additional energy production in our whole portfolio, which amounts now to almost 2.6 terrawatt hours in the first nine months. This 19% increase in gigawatt hour production together with the price increase we've seen in the power market, leads to an increase of revenues of 37%, [7:00] or an up of more than 96 million euros of revenues in total to 355 million euros. Please have in mind that in these results, we have already incorporated the provision of 30.3 million euros to reflect the market power price caps. Without these provisions, our revenues would have amounted to 385.1 million euros. This increase by 37% of the revenues, so the 355 million euros we have shown here, leads to an increase of the EBITDA by 39%. Now we reach an EBITDA margin of almost 77%, or in figures, 271 million euros. The operating EBIT margin, fell to 47%, fairly above the margins of the previous year. [8:00] I would like to comment something on the cash flow. While the cash flow is usually slightly below our EBITDA, reflecting the growth of the company and the later cash in of the revenues, now, the cash flow is slightly above the operating EBITDA. The operating EBITDA is 271.5 million euros. The reason for that is that we deducted 30.3 million euros of revenues for the price cap and revenues as well as the EBITDA. This cash has to be paid out to the government at a later stage, so it is still in the operating cash flow included. If we have a look into the specific quarters, and if we compare the respective quarters with each other, [9:00] then we see that in the first quarter of 2022, we had, meteorological wise, a better quarter than the very poor quarter of last year, increasing the gigawatt hour production in our existing portfolio by 23%. While the Q2 quarters were almost on the same level, meteorological wise, it is that we had, again, a better quarter in Q3 2022. That can be seen in the energy production in gigawatt hours in total as well, where we had strong growth in the first quarter and strong growth in the third quarter. In addition to that, now we have an increasing portion of impact by the energy prices, which can then be seen in all three quarters. If we then come to the segments, we see that the solar parks still add the biggest portion to our revenues, in total [10:00] 256 million euros, 72% of the whole revenues of the growth. We do see a sharp increase of the wind farms, now contributing 23% to total revenues. PV and PV services and asset management are still on a moderate level, but both growing as we will see later[10:27] during the course of the year. Let's have a look on the PV segment. The PV segment is impressed by the full year effect of the acquisition of the Spanish and the connection to the grid of the Spanish projects during the course of last year and the new acquisitions of our Dutch and Danish parks. In total, our revenues increased in that segment by 29% but this is mainly based on an increase of the production of electricity by 21%. 9% of that growth is due to better weather conditions [11:00] specifically in Germany, Italy. And 12% is due to the capacity increases in Spain, Denmark, and Netherlands. Only a minor portion is due to increased energy prices, but this can be seen in all countries. With these revenues, we can keep up the high EBITDA margins, which we already enjoyed in the first nine months of last year, on 81% this nine months as well. And, have a slight increase in the EBIT margin from 42% to 48%. Please have in mind that we utilise some of the profits from the higher energy prices for investments to increase the productivity of the existing asset portfolio by a comprehensive technical compensation, which sometimes are accounted for as expenses. Ladies and gentlemen, [12:00] in our wind portfolio segment, we do see a significant growth of our revenues by 70%. This increase of our revenues by 70% is mainly based on energy price effects, and only to a minor extent of 14% to higher production of electricity, which in this case, is 10 percentage points based on better weather conditions and 4% only on capacity increases. The main driving portfolio here are Germany and Denmark. That sharp increase in revenues is based on prices, which is only accompanied partially with increased costs due to revenues linked lease contracts, for instance and higher minorities which we have to pay out to the minority shareholders and wind farms, is then reflected in an improved operating EBITDA margin, which increases from 74% to 81% [13:00] and a sharp increase of our operating EBIT margin from 31% to 58%. In our asset management, which does not have any material impact from any price effects, we see a strong increase in the revenues as well. Compared to previous year's nine months 2021figures, we do see an increase of revenues by 44%. This is reflected in a very strong increase in EBITDA, which more than doubled, and this is similar to the strong development in operating EBIT, which more than doubled as well. The increase of revenue is backed by compensation, and this is ongoing compensation from consultancy and operations management and some one-off revenues from project realisations, specifically, the AIF2 fund [14:00]. Though there is not much to say about the headquarters, but in the headquarters, we have a substantial increase in negative EBITDA. The reason for that is an increase in personal expenses, which is based on the growth of the company and therefore, the growth of the number of people working here as well as inflation driven increase of wages. Ladies and gentlemen, based on the figures of Q3, we do confirm our guidance for the fiscal year 2022, although there is an ongoing discussion on price limits of the group. In August, we raised our guidance for the fiscal year 2022 from 380 to 420 million euros. We feel very comfortable with these figures having in mind how far we are already in Q3, although we incorporated provisions for some price caps [15:00]. During the guidance, these provisions we have seen in Q3 are just for September. October, November, December prices, including potential price caps, are incorporated in the guidance. We expect for the operating EBITDA, 310 million euros, so substantially above the 75% EBITDA margin, as well as 185 million EBIT. The operating cash flow of 280 million is expected to be somewhat higher than the Q3 operating cash flow. Again, the reason for that is we still have a lot of cash in in Q4 but expect to repay this price limit exceeding the power prices to the state and therefore, there are some compensation effects in it [16:00]. We still expect an operating EPS of 55 euro cents. If we do compare our Q3 figures as well as the guidance with the analaysts' consensus, then we do see that we have, in Q3 stand alone, as well as in the nine month reported figures, approximately 10 million less of revenues and EBIT compared to the average of the analysts' consensus and 5 million less of EBITDA. The reason for that is that we did already incorporate 30.3 million euros of provision in our figures, which you didn't take into consideration. In the operating cash flow here, we substantially exceed the average expectation by 70 million in Q3 and 18 million in the nine-month figures. If we have a look on the guidance [17:00] and if we take into consideration that we say "more" than 420 million euros of sales and "more" than 310 million euros of EBITDA, then I think the annual consensus is in line with our guidance. If we then have a further look into the guidance of our segments, then we do not change the respective guidances here. We are still confident that we still will have a further positive development of our solar farms, wind farms, the technical service, and the asset management. But we will have to change it in a way in the future by incorporating the Stern acquisition, which Mario will discuss with you on the following charts. Mario, would you like to take it over?

MSc Thank you very much Christoph. Just before we start talking about Stern [18:00], a couple of words on our acquisitions. So in terms of the deals and the transactions we have formed this year, we are well on track to deliver the target growth of 500 megawatt. So far, we have announced 93 megawatts of acquisitions. A couple of projects are already operational, some of those are still in the ready-to-build stage but construction will start soon. In addition to these, 143 megawatts will be announced very soon. We have closed various transactions, we are waiting for the agreements and the press releases to be discussed with the sellers. So in total we have secured a capacity of 236 megawatt so far. Now there are a couple of projects which are in the advanced stage of the development process, and in a couple of those, we are waiting for the final grid approval to the project [19:00], so that the project can be built, but the grid connection is not clear yet and the projects are progressing to the ready-to-build status. Also, on these projects, the authorizations for the big ones have been granted. So, in total, we are striving at the moment to a total capacity of 475 megawatts. There are some additional projects which are currently being due diligenced. Now it's important to point out that we have been particularly careful in the selection of deals so far, given the fact that high interest rates have driven up return expectations, and we are seeing that sellers are digesting this new market environment and therefore, discussions and negotiations are taking a little bit longer due to a difference in, or let's say reflected expectations from the investors [20:00]. Talking about Stern, as Christoph Husmann has already anticipated, we have increased our stake in our long-term O&M partner for three reasons. First of all, we love Stern's attitude in serving its customers and making sure that the plants produce at their very best. Secondly, because Stern has a very broad customer base, with well-known investors and IPPs, which allows us to benefit from and to develop together with Stern, new best practices for the industry. Thirdly, because it guarantees us access to competencies and resources for the booming market of revamping and repowering older plants, a sector which we see an incredible potential in the near future. The quality of the company and it's ability for growth [21:00] is visible in the figures we are presenting here. We have planned to support Stern in entering some markets in which they are strategically relevant to us, but currently not served by Stern yet, namely France, Spain, Denmark, and Sweden. All in all, we can say that we are very proud to have had this opportunity to further increase our stake, given the fact that Stern has been a strong and contended company in a consolidating market. This deal allows us to significantly strengthen our segment of Technical Services, giving us a competitive advantage in an area which will become even more important in the future.

CH Thank you very much, Mario. So ladies and gentlemen, those were our Q3 figures and the outlook for the full year [22:00]. Now we are happy to answer all your questions. Please go ahead.

M Ladies and gentlemen, if you would like to ask a question, please press nine and star on your telephone keypad. In case you wish to cancel your question, press nine and star again. Please press nine and star now to state your question. The first question comes from Teresa Schinwald from Raiffeisen Bank International. Please go ahead with your question.

TS Thank you, good morning. So, could you please provide us with a technology split for this provision and maybe also a country split [23:00] to help us with our modelling?

CH Thank you, Mrs Schinwald for the question, which - honestly said – we expected. We hope you're understanding that we won't answer the question on the country split. The reason is that the politicians – if we announce that - would know what we are incorporating in our figures, therefore, we are happy to design that in the respective way. Therefore, we apologise that we will not give a country split but we can give you a technology split. So for the solar sector, we build up a provision of 20.8 million euros and for the wind sector a 9.5 million euros provision.

TS Okay, understood, very clear. Given the experience [24:00] in various countries, I can also very much understand that. Again, on these revenue clawbacks, where we have seen some general approaches like the technology independent 180 million proposal by the European Commission, but some countries also have technology-based price caps. What's your expectation for the general trend? Not so much, perhaps on the country's side, as I understand your reluctance, when it comes to these caps.

CH So first of all, thank you so much for the question. So first of all, for me, it is really a surprise. Why do they really believe in the European Council on a decision where they exactly state that any differentiation between the different countries [25:00] would be disastrous for the whole integrated European power market? Since this would lead to a discrimination of different providers of electricity, although that power can flow over the borders. So therefore, it is really a surprise to me that, although they all agreed on this formula and this wording, that they do not have that in mind and consider that if they go to the national parliaments. Regarding the technologies, I think there is a different way how to handle them. Specifically in Germany, we have technology wise differentiation by giving, very complex formulas by the way, to allow the producers a marginal price limit depending on the Feed-in Tariff plus 30 euros, plus 10% [26:00] exceeding the total sum of both. Here, there is some different variations between wind and solar and the age of the respective parks because wind in general has lower Feed-in Tariffs than solar, therefore allowing total lower price caps for the wind technology. Solar has a higher Feed-in Tariffs, plus the 30 euros, plus the 10%, allows their higher prices. So, there is some differentiation here, we see that similar discussion in other countries as well. On the other hand, we see that the complexity of the introduction of such a low, looks to be very challenging to the politician. That's the reason why, most likely yesterday, German government decided to postpone the discussion [27:00] of such a measure in the cabinet. Therefore, I wouldn't exclude that they all, after discussing such a complex measure, that they were to return to more simple ways as the Italians and Spanish government introduced during the course of the year.

TS Okay, great, thank you. I'll come back with more questions later.

CH Your welcome.

M The next question comes from Jan Bauer from Warburg Research. Please go ahead with your question.

JB Good morning and thank you for taking my questions. Just for my understanding, you made the 30 million provisions on sales level, but in the end on EBIT and EBITDA level should be the same figure, is that right?

CH It is almost the same figure [28:00]. As you might know, specifically in the wind sector, we have lease agreements which are dependent on the revenues which we incorporate. So, therefore, with the price limit introduction, here, the lease would react accordingly. But that should be almost all of it, so it is only a minor reduction of the 30 million euro impact on EBITDA, but there is some.

JB Okay, yeah, okay. But only on these payments and contracts. All right. So, on investments IRRs, if you assume that the price cap on how it's discussed currently will be introduced, does this somehow affect your investment plans for the period as long as this power price cap will be affective?

MSc It definitely does. There is a combination of affects. On the one side, we do of course have to incorporate some kind of caps [29:00] in the investment models, this is for sure. And it's a big question, which figures. We definitely run different sensitives to understand how the price would change. Moreover, as I said before, there is a discussion about the return expectations that we should now chase, given the fact that interests have gone up. The attractiveness of different asset classes has also changed, therefore, it's a sort of double affect. We have to take into account the new revenue structure. At the same time, we have to adjust our return expectations. The first one, we have to say, there is another variable which has to be discussed, which is the duration of these measures. We have seen recently that Spain has extended. Originally it was planned to have the revenue cap until the middle of the year, now they have decided that it's going to stay in place until [30:00] the end of next year. So, it's a different and difficult set of variables to define.

JB I totally understand. About the 500 gigawatt target, can you give us an idea of how much CapEx this will cost you for Q4? Or respectively, you said that you already acquired some of the parks and have rights for the 134 gigawatt. How much did you already spend on this pipeline so far?

MSc On the operational assets, we have paid the full price, of course. On the ready-to-build assets, we have paid very little fees, I would say, because this is exactly the reason why we have these agreements with the developers. We have paid little fees to secure the plan to acquire the shares of the SPV. We have a variable earn out to be paid out to the developers [31:00], according to the final business model, which is then, ultimately defined, and finalised once we have a PPA assumption and a binding PPA term sheet. At the same time, final financing conditions, and EPC prices defined. So it's a variable price that we end up paying at financial close.

JB Okay, that means so far, the 236 gigawatts, you already paid the full price and on the remaining, roughly, 239 gigawatts, you already paid the secure payment?

MSc Almost, the dark blue ones are the operational ones where we have paid the final price. The light blue ones are the ready-to-build projects, where there will be an upside to be paid out to the developer.

JB Okay. Thank you for taking my questions. [32:00]

M The next question comes from Sven Kürten from DZ Bank. Please go ahead with your question.

SK Thank you. Given the current electricity pricing and political suggestions, how much would the impact be next year then, from the price cap?

CH Well, thank you Mr Kürten for that question. But that question is hard to discuss, because, first of all, we have to agree what revenues we might have next year if the prices would develop in a certain way, and then how much would be capped away then again. So, it is the comparison of two theoretical concepts, and therefore it would be pure speculation. But we do not believe that any of such price caps that will be introduced will stop us from reaching our 2025 goals earlier than anticipated. Honestly said, even if such price caps are implemented, [33:00] they are the kept prices fairly above the expectations we ever had, when we started that business plan Fast Forward 2025.

SK Okay, thank you.

M The next question comes from Manon Coulon from Erasmus. Please go ahead with your question.

MC Hey, thank you for taking my question. Good morning. Just a follow up, a quick reminder, can you remind us what is the split of your portfolio we got in the contract in order we're getting what [33:35] was the PPA split, what the feed-in-tariff? Please.

CH Do you mean the split of our capacities?

MC Yes.

CH Regarding revenues, it is about 70% of our planned revenues are under Feed-In Tariffs. And 20% of our planned revenues are under PPA's. [34:00] That PPA portion is growing steadily since most of the new acquired projects, almost all of them, are PPA projects. The remaining 10% are either short term hedges or merchant.

MC Thank you very much.

M There are no further questions.

CH So, Teresa Schinwald announced, that she might have further questions?

M Yes, there is one more question from Mrs Schinwald. Please go ahead with your question.

TS Yes, thank you. I also wanted to ask you for an update on the general situation for sourcing the panels and what's the price development [35:00] in that area compared to last year? We've heard about 25% increases; I think these were your comments. In recent quarters, is this still the case or have you seen another uptick?

CH First of all, thank you very much for the question. I would like to combine it together with the current discussion on the price caps. As a matter of fact, yes, we do see shortages of all different components. Honestly said, not in the module sector. In the modules, we see a sufficient supply but increasing prices, and they are due to the overall inflation. Please have in mind that the baking of silicium is pretty energy intensive. Therefore, the high energy price we see in the market has an impact on the module prices as well. In addition to that, we have a shortage of potential workers and construction workers [36:00] in Europe and therefore, EPC prices are increasing as well. So, we see cost increases almost everywhere and we do see an increase of interest costs as well. Financing becomes more expensive for such projects. Therefore, the impact on cashflow is confronted with increasing minimum return requirements, we have in all asset classes, the IRR expectation increasing to attract capital and to make good investments for our shareholders. We have to increase our minimum return requirements as well. What does this mean? If the electricity prices are capped by the politicians now by these laws, then the potential acquisition price we are willing to pay for such projects are increasing. [37:00]. This does not only apply to Encavis but to the whole industry. So, we see that financial investors are currently turning around and walking away from that business because now they can buy U.S government bonds for 3 or 4 per cent. Therefore, they don't have to go to the renewables. What does this mean to the developers? The developers are now confronted with a market, which is drying out or at least reduced. The people are not willing to pay high prices as they did in the past. Why? Because their price limits are in discussion for energy and power prices because these are the only components which could compensate for increase of the inflationary driven increased costs of the project, the increased interest costs, and the increased requirements for IRRs. So, what we currently see in the market is that the European states [38:00] with a good intention to ease the high energy costs for the poor households and for the industry, at the same time, create a burden for the further energy transition. Do we see any negative impact on us? No, not necessarily, because due to the strategic development partnerships we have in place, we have sufficient projects already in our pipeline to grow further. We see that the energy transition will slow down.

TS A follow up. So, we're not talking more than 25% if you see cost increases, is that right?

CH Somewhat, yeah, it could be. It depends on the negotiation. Yeah, but this figure could be overall, quite right.

TS [39:00] Okay, thank you very much.

M And there's one follow up question from Jan Bauer from Warburg Research. Please go ahead with your question.

JB Thank you for taking my question again. So, to sum up your statement regarding the higher price for components, modules and so on. In the end, you're saying if we expect you to keep your investment IRR, especially on the return on equity, at least stable, the higher prices and less optional compensation off this higher prices by higher electricity prices due to power price cap, is then fully compensated by the developers. So the developer margin is set to decline for new projects? Is that right?

Ch Absolutely. [40:00]

JB All right, thank you very much.

M The next question comes from Martin Tessier from Stifel. Please go ahead with your question.

MT Good morning, thank you for the presentation. One question on deep impacts from high power prices over the nine months, you say it's 57% of the increase in revenues. My understanding is that it applies to reported revenues of 255 million, excluding the 30 million euros provision. So is it correct to say that the impact from higher prices was 57% of the increase in reported revenues, plus 30 million from the provision, so implying a total of 85 million euros? This is my first question. The second question on the price cap. Could you indicate how much volumes are behind the 30 million euros provision? So could you maybe extrapolate on the impact [41:00] of the price cap and tell us what would be the final provision for the full year? Based on the same assumptions you made for the 30 million euros provision and be able to communicate maybe tell us what would be the impact for October, which is now over? Thank you.

CH Thank you very much for the questions, Martin. The first one is easy to answer. Yes. The second question, well, first of all, if government introduces that new price cap soon, and has a simple mechanism of payment within we don't need provisions, the provisions are only because we want to give you a true and fair view on our revenues and EBITDA and therefore take that into our calculation. But we didn't pay it out. So as soon as we pay them out, the provisions will be done. The matter of fact is I cannot give you [42:00] the precise figures on the capacities but it is, as I pointed out, the solar business in the Netherlands, Germany and Denmark has some impact here, the small one in Sweden most likely as well, and in the UK, and the whole wind business in Denmark and Finland. So it is a huge amount of capacity. So the input per kilowatt hour isn't as big. Forecasts on the October figures I cannot give you because I don’t have the figures of our October revenues so far. Therefore, I don't know the calculation. I'm sorry for that. And it's too early in the month.

MT Okay, thank you.

M There are no further questions.

CH Okay, then thank you very much for following our company in these turbulent times. We hope that we could give you some clarity on what the politicians are discussing with introducing that provision of 30 million euros and giving a true and fair view. Our company is well prepared to reach and exceed the guidance of 2022 and to reach the figures of our Fast Forward 2025 programme earlier than anticipated. Thank you very much for your patience and thank you very much for the time you took. Have a good day and please stay safe and healthy. Thank you and goodbye.