

Conference Call Transcript
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CH Ladies and gentlemen, a warm welcome this early morning, on this year's analysts' and investors' conference call on our fiscal year results 2023, in which we again, I think for the tenth consecutive year, beat our guidance again.

Ladies and gentlemen, before I go into the details of the figures, please I would like to hand over to my colleague, Mario Schirru, on my right-hand side, who will guide you through our acquisitions of 2023.

MS Thank you, Christoph, and good morning also from my side. Yes, this year has been a very successful year on the acquisition side. We initially had set a target for the year, of capacities for a total amount of production of 750 GWh. We managed to exceed this goal by 33%, by a total of 548 MW projects, with a total output or expected output of 1 TWh.

It's a good split of wind and PV, in our view. It's a very good split between ready-to-build projects and operational projects, so we are more than happy with what we have been able to achieve. A very small portion of it, but also an exciting project, is the battery, the first battery project that we have acquired this year. That will be operational by the end of the next year.

In looking at the portfolio, we recorded an amount in production of 7%. This is mainly due to the full-year effect of our wind park in Lithuania. The park has been acquired in November 2022, and didn't really contribute in 2022 on the total output. This, of course, changed.

Besides that, the PV production was stable and will grow next year, given the project that will be connected over the year, but we will talk about that later.

CH Well, ladies and gentlemen, if we then look into this energy production of plus 7%, which is plus of 221 GWh, then we have to admit that in the existing portfolio, there's a slightly different view.

In the existing portfolio, that means these parks which we already owned last year, the previous year, 2022, and in 2023, we see that we had a power production which is 60 GWh below the previous year, and that is minus 2%.

This minus 2% can be split into two components. One half approximately of that is just weather related, so in 2023, weather was not as good as in 2022, sorry. Both were pretty much on standard, but 2023 was slightly worse.

The other half of that deviation, technically reasoned lower production, and that was either curtailments due to a congestion in the grid, or there were some flawed products, and so some guarantee cases, of the module, of turbine manufacturers, of blade manufacturers. Or we had an insurance case where something was broken, the insurance company had to pay for.

These technically reasoned shortfalls of the power production are usually, approximately, two thirds of them compensated by one of these named sources, either the grid operator, insurance companies, or component manufacturer. That is important if we talk about the further questions, because the shortfall of the energy production, it's always reflected in reduced revenues as well.

So, we see that the revenues decreased by 3%, from €463 million net revenues to €449.1 million revenues in 2023. Here we see, first of all, a big price effect, so the shortfall of this power production is mostly price related, but to some extent volume related as well.

But a small portion is, or half of the portion of the volume production is, weather, as I pointed out, and the other one technical reasons. But they are compensated on other income, on the way down to the EBITDA.

Still, the shortfall in revenues of €12.6 million is accompanied by a shortfall in EBITDA of €31 million. Why is it in EBITDA harder if there is some compensation for the technical shortfall?

The reason for that, is that within the revenues, the price wise shortfall, as we will see on the next slide, is somewhat compensated by more revenues in our service segments, which have lower EBITDA margin, and therefore do not contribute to the same extent to the EBITDA line as they did to the revenues line.

But since in 2022 we had more extraordinary depreciation due to the sharp increase of interest rates, now in 2023, we did not have this extraordinary depreciation. And therefore, the shortfall in EBITDA of €31 million, boils down to a shortfall in EBIT of only €4 million.

And since this is accompanied by slightly lower interest rate expenses and lower tax payments, this is fully compensated in the earnings per share, which will reach exactly the 60 Euro cents.

So, here you see again the resilience of our business model, that we have some compensational effects. Even if there is a shortfall somewhere in the top line, it is usually fully compensated down to the EPS, to the bottom line.

Ladies and gentlemen, here we have in a graph shown the different steps. Firstly, we have the €463 million of net revenues, minus €72 million, which is mostly price-related shortfall of revenues, but to a minor extent technical shortfall.

Then we have an increase of the revenues of asset management and the third-party revenues, Stern business with lower margins, and then the new acquisitions, which then lead to the €449.1 million of net revenues in 2023.

If we then compare the different figures with our guidance, then you can see that we fulfilled all figures which were guided in 2023, and exceeded revenues, EBITDA and EBIT, and exactly reached the EPS.

But there's one shortfall, and these are the operating cash flows. In the operating cash flow, there is some deviation against 2023 guidance in our actual figures, because there is some impact delayed by delayed tax repayments, and some delays. And now we come back to the technical deficiencies. Then, we have compensational payments from guarantors, insurance companies and grid operators, which are somewhat delayed. They are already included in the EBITDA, but unfortunately not paid yet.

Within the shortfall of our operating cash flow, there is only €10 million real deviation from the guidance, which was not correctly guessed tax payments for the year 2022 and 2023, but the other components are all delayed to 2024 or shown in other baskets.

And this is shown here, so the tax delay, which was the wrong tax assumption for 2022, at €12 million. Then we had a disposal of parks, of two parks which ran out of their feed-in tariffs, to the former developer, which was done last year and was strategically reasonable. We sold them down, but that cash was not shown in the operating cash flow, but in the investment cash flow, so the cash is there, but it is shown in a different basket. And the remaining part of €20 million are the different types of advance tax payments 2023, capital gains tax and sales tax receivables, which we all expect in 2024.

Some of them, specifically the sales tax receivables, are already in within Q1. And we have some receivables from compensational payments, which are the guarantors of power manufacturers.

If we have a look then in the segmentation report, then we see a decline in the revenues of solar farms, of wind farms, and an increase in the revenues of PV services and asset management. This goes in line with our forecast of our Accelerated Growth 2027, where we forecasted an increase in the portion of the revenues of our service entities.

Here we see that the solar farms now reduced their portion within the revenues, from 67% to 64%, and the wind farms from 26% to 22%, while PV service and asset management increased their importance from a total 8% to 18%, significantly. But the margins within our solar and wind farm business are very stable and, certainly, above the 75% which we already had in the past.

If we have a look now into the PV segment, then we see that the revenues are reduced to lower power prices by a total of approximately €10 million, and we have a lower production here, of approximately €22 million revenue effect. It is, that, the strongest price reduction which we have seen in the last year, and the biggest impact we had on our P&L in PV, was in the Netherlands, Spain, and Germany.

As you might recall, we have a very high portion of price-fixed mechanism, but in 2022, we enjoyed in this floor price system of the feed-in tariffs in the Netherlands and Germany, power prices which were fairly exceeding the feed-in tariffs. And therefore, we enjoyed higher revenues, but couldn't repeat that in that extent in 2023.

In the wind business, we have almost the same issue, but here mostly in wind in Germany, because we don't have wind farms in the Netherlands. Here the same feed-in tariff with the floor price mechanism is existing.

Here we have a revenues decline in the existing portfolio, from the much lower power prices, of €30 million, and that couldn't be compensated by our new park in Lithuania or by the curtailment compensation, as we had. Here we have a positive contribution from the disposal of Boreas parks.

In our PV segment, we see the strongest growth of, in total, €12.7 to €55 million, so an uplift of €43 million. The reason for that... No, forgive me. Yes. The reason for that, is that we fully have now reflected the Stern acquisition in our 12-month figures, and at the same time, Stern was growing rapidly. But that strong growth comes along with other expenses, with material expenses and personnel expenses, and in total, it realised an 11% EBITDA margin.

That EBITDA margin might be reasoned by that strong growth. On the other side, by a new Italian accounting rule, which doesn't allow to go for a percentage-of-completion method, and therefore the translation to IFRS did not happen perfectly, so we see that there is some small potential for further profit here. But we will have certainly an eye on the EBITDA margin in that growing business in the future.

In the asset management business, we have enjoyed, in these difficult times for such asset management business, in this higher-interest-rate environment, by the disposal of participation of one of our customers in last year. And here we had a one-off profit of €5 million of service fees from that disposal. But since there came along some depreciation of some assets along with that, this was eliminated in the EBIT, so here we have a more flattish development.

In the headquarters, we have an improvement of the cost, from €13.4 million to now €9.4 million, but that is not due to shrinking number of employees. No, we are growing here, according to our growth of our business. We had one-off payments in 2022, specifically the severance package for my former colleague, Dierk Paskert, in 2022, which certainly was not repeated now.

If we have a look into the balance sheet, we have, with our growth of our business, a steady growth of our balance sheet total.

You might recall that last year, our equity ratio suffered somewhat compared to 2021, due to the high power prices in the market, because IFRS forces us to account for the negative value of negative payments to our offtakers, in a high power price environment compared to the fixed PPA price. Although we know that we get the money from the market at the same time when we pay it to our offtaker, that created a huge negative effect in our equity in 2022, and reduced our equity ratio artificially.

With the decrease of power prices to a broader extent, now these negative values of these PPAs which are accounted for in our equity, are reduced, and therefore we enjoy a sufficient increase of our equity ratio, up to 33%, now.

Ladies and gentlemen, we'll next have a look on the guidance. As every year, the guidance is based on standard weather. We have unchanged interest rate levels, as we see them today, and we utilised the power price curve as of the valuation date of March 10th.

What is new this year, there's no further revenue skimming ahead, so this is a nightmare which we can forget.

Unfortunately, compared, or fortunately for the business, for the overall business and the economy, but for us, it is quite challenging to see that after a huge decline of power prices, from 2022 to 2023, in the extent between 70% or 74% in Dutch PV or Swedish PV, or down to 52% in Spain PV, we now see further declines from these much lower levels, by between 24% to minus 42%.

Only in Finland, in wind, a slight positive price development, again. Based on these much lower power prices, we forecast revenues, and now again net and gross revenues are the same, so net revenues, compared to previous year's net revenues of €460 million, on the same level.

We believe that we will have, with these power prices, although they are much lower than the past, the same revenues which we can realise, but the reason for that is the growth of our capacities. We will connect approximately 299 MW of parks to the grid. Only a few of them will contribute for the full year, some of them will be connected in the midst of it, and a major part at the end of this year. So, it will contribute only somewhat, but fully compensate that shortfall of power prices.

But as we pointed out, we will have an increase, again, of our service business, which do not come along with such high EBITDA margins. And these additional revenue contributions from these new capacities come along with additional costs, so having a more than 75% EBITDA margin. Still, they do not contribute in the same extent to the EBITDA as they do to the revenues, and therefore although we will reach the same revenue level as in 2023, we will have slightly lower EBITDA in 2024.

The same applies to the EBIT, because in both cases, no extraordinary depreciation. But the operating cash flow will recover. We had some delays from 2023 to 2024, and therefore we will have an increase in the cash flow per share.

Ladies and gentlemen, with that, Encavis remains on a solid mid-term growth path due to, as I said, our Accelerated Growth Strategy 2027, and despite this uncertain and current market environment.

But we have to consider and to admit that this guidance is fully conservative, not because we are conservative, but because all potential additions of higher power prices are not there anymore. Power prices are so low, that we have only a very small open market position in this guidance of approximately €20 million. Therefore, this only can disappear if power prices, in average of the year, will be zero. This is very conservative.

Now let's have a look into the segment. Here we see again that the net revenues of solar and wind, solar will decline slightly, wind will increase slightly, will decrease the portion of their revenue contribution in the group, down to 59% in solar and 23% in wind. And again, we see a

slight increase of the portion of the revenue contribution of the services, which is by 3%.

The operating margins of solar and wind farms continue to be above 75%, stable in PV services and slightly declining in asset management, which contributed last year again from this one-off effect.

Ladies and gentlemen, with our growth strategy and even with our accelerated ambitions, we will stick to our disciplined and selective investment criteria, which you knew from the past.

And as you might recall, in the past, we had a goal to increase our capacities from currently 2.2 GW, which will be approximately 3 GW then at mid of 2025, with the new additions through these parks. And we wanted to grow that to 5.8 GW parks being connected to the grid in 2027.

With the new partnership with KKR and Viessmann, which we're intending, we will be able to unlock our future growth and, therefore, have now new ambitions for 2027, in the amount of 7 GW.

Ladies and gentlemen, thank you very much for your audience and thank you very much for dialling in. And now we are available for your questions.

- O** Ladies and gentlemen, at this time we will begin the question-and-answer session. Anyone who wishes to ask a question, you may click the Q&A button on the left side of your screen, and then raise your hand to ask audio questions or type a text question.

If you're connected via phone, please press "*" followed by "1" on your telephone keypad. If you wish to remove yourself from the question queue, you may press "*" followed by "2", or please press the lower-your-hand button.

Anyone who has a question may click the Q&A and raise-your-hand button, or press "*" followed by "1" at this time. The first question is from Jan Bauer. Please go ahead.

JB Good morning. Can you hear me?

CH Yes, we can. Good morning.

JB Perfect. Just one follow-up question. Do you have a capacity addition target for 2024?

CH As you might know, last year we changed the form of capacity targets, from capacities to energy production, power production. And last year, we had the goal of 750 gigawatt-hours, and this year we have the intention to add 1,000 gigawatt-hours to our capacities.

We usually use gigawatt-hours instead of capacities, because it depends very much whether we buy solar or wind. Wind contributes between approximately twice as much power production compared to the same solar capacity, and it usually costs us twice as much, so therefore I think the best thing is to go ahead with the 1,000 gigawatt-hours for this year.

JB Okay, I agree with you. Can we expect that the additions to the portfolio will be as much backend-loaded as we've seen it in the last two years?

CH Certainly, it is not that we buy only COD parks this year. This would be extremely costly, and therefore, and they're highly attractive in the market. Anyhow.

It is that we will buy lots of these parks on our Strategic Development Partnerships, so therefore they need some time to become registered and to be constructed and connected to the grid. Yes, it will be backend-loaded.

JB Okay, thank you.

CH You're welcome.

O For any further questions, please click the Q&A button on the left side of your screen, or "*" and "1" on your telephone keypad. The next question is from Charles Swabey. Please go ahead.

CS Hi. Good morning, everyone. In terms of financial guidance for 27, is that based of connected capacity of 5.8 GW, or is that off the new target of 7 GW?

CH The new ambition is 7 GW.

CS Okay, and just in terms of the financial guidance you gave last year, in terms of EBITDA, is that based of the 7 GW or is that based off the 5.8 GW?

CH That was based on the 5.8.

CS Okay, brilliant, thank you.

CH You're welcome.

O We have a text question from Teresa Schinwald.

TS Could you give us an update on investment CapEx for wind and solar, the most recent developments? Also, did the accelerated pattern of interest rates in CE change your interest in the region? What is your current take on the more emerging markets in Europe?

MS First of all, on the CapEx we see, I would say, a quite flat development in the sense that modules are at their record low, so there has been a decline in the last months. But at the same time, the HV components are costly, and the effect of modules in the total CapEx is, yes, not the biggest anymore, so I would say the development is quite flat, both in wind and solar.

On the second one, on the interest rate, I guess if I got the question right, it's basically what is changing on the markets. To be honest, we don't see significant changes in the moment. We have seen the appetite for investors to increase again slightly, so we see a little bit more competition on the acquisition side.

The good thing is I think we have a very good setup with the Strategic Development Partners where we have the agreements already in place, so basically there is no real effect on this part of

the pipeline, even by the interest rates.

I think the last question is also very interesting in terms of the emerging markets. Yes, that's, as always, something we closely monitor in the sense that we see that, in Eastern Europe, the appetite for power and green power also grows, like in all the other countries.

At the same time, you know us. We are very conservative. We are careful investors. We look for the long-term operation of our assets, so for us, the overall stability is crucial. It's not only the attractiveness of the power market, given that's in a certain phase, but it's really the long-term outlook.

And in this regard, I think it's very important to differentiate between different countries. Again, we felt comfortable last year to enter, let's say, the Baltics, with the first acquisition in Lithuania in 2022, but it's not a straightforward thing. We have to look at the different situations, one by one.

O The next question is from Anis Zgaya. Please go ahead.

AZ Yes, good morning. Do you hear me?

CH Yes, we do.

MS Yes, we do.

AZ Yes, good morning. Thank you for taking my question. I have one question on exposure to market prices. I think you said a total of €20 million in income, in total. Is that the case, €20 million of total exposure?

CH Yes, it is. And the exposure in the past years was considerably higher, and the reason for that, is that, as you might recall, we do have in the Netherlands and Germany feed-in tariff structures, which are floor prices. We enjoy higher market prices if they are exceeding the individual feed-in tariff, and this does not happen currently.

The power prices are considerably below the feed-in tariffs, and so therefore these €20 million are just our open market positions which we do have, for technical reasons, in our PPA parks in Spain, Finland, Denmark.

AZ Okay, thank you. Thank you very much.

CH You're welcome.

O For any further questions, please click the Q&A button or "*" and "1" on your telephone keypad. The next question is from Martin Tessier. Please go ahead.

MT Hi. Can you hear me?

MS Yes.

CH Yes, we can.

MT Yes, hi. Thanks for taking my questions. Could you give us the share of acquisitions last year that were made from your Strategic Development Partners, and the share from acquisitions on the secondary market?

And a second question. Could you tell us when will you see the first expiry of historical-high feed-in tariffs, especially in Germany? Should we expect the first contracts to expire in 2024, or beyond? Thank you.

MS On the first question, the split, I'm going to refer to the capacity in megawatt, not to the production, so I think this is relevant. We acquired 292 MW from our Development Partnerships, out of the 576 MW, so it's a 51% share. We acquired 167 MW of, I would say, opportunistic transactions, so accounting for 29% PV.

And we acquired 105 MW, so 18% of new wind projects, also opportunistically. As you know, we do not have Strategic Development Partnerships in place on wind, and so this is the overall balance.

CH And now regarding the feed-in tariffs, so the first German feed-in tariff part which will go on out of feed-in tariff, will be in 2026, which is a 5 MW park in Bavaria. That, obviously, is not significant for the whole group.

And then, the first bigger portion of German parks running out of feed-in tariff will be in 2028, 2029, so it will last somewhat, but then there will be the first material parks running out of feed-in tariff.

O There are no more questions at this time.

CH If that is the case, then thank you very much for dialling in, thank you very much for participating in this call and for your questions.

And then we will talk, I think, at the end of May next time, with the release of our quarterly figures. Thank you very much, and I wish you all a happy Easter holiday. Thank you. Bye.

MS Bye bye. Thank you.

O In the conference. You may now disconnect your lines. Goodbye.