

Conference Call Transcript
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Conference Call regarding Q2/6M 2024

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CH Dr Christoph Husmann, Encavis

CH Good morning, ladies and gentlemen. A warm welcome to this year's conference call on the H1 2024 figures. These figures are already published on July 30th via an ad-hoc news and via a press release, because these figures are pretty much below previous year's figures, but as expected, and the guidance for Fiscal Year 2024 is currently confirmed.

Ladies and gentlemen, as you are aware, and I think I don't have to highlight that very long, is that there is a transaction going on with BidCo, which is an investment fund which is managed and advised by KKR, together with family Viessman and ABACON, is having our takeover offer for ENCAVIS a cash consideration of €17.50 per share. And it is that the Management Board, Supervisory Board of ENCAVIS AG recommended the acceptance on May 2nd. And in the meantime, until 18th of June 2024, 87.41% of all ENCAVIS shareholders accepted that offer. The closing of the deal is expected for Q3 2024 or Q4 2024.

The whole contemplated transaction will benefit ENCAVIS and the energy transition. As a matter of fact, before that contemplated transaction, we had a target of 5.8 GW in 2027, and now we have a new ambition, together with our partners, to reach 7 GW of capacity then. Here, you already see what that will mean, the whole transaction will mean, to ENCAVIS.

Although the whole company is working on the realisation of this new partnership, we are working on our daily business as well. As we pointed out in Q1 already, we signed two non-recourse project refinancing agreements in total amount of €203 million for our plants in Spain, Talayuela and La Cabrera.

And in the meantime, now, on 30th April 2025, which was not already announced in the Q1 figures, is that we signed a syndicated revolving credit facility in the amount of €300 million. Both will help us to foster our further growth of our Accelerated Growth Strategy 2027.

The syndicated revolving credit facility will hold until 30th April 2025. Until then, at latest, the total takeover will be done. And this interim financing was necessary because we received a rejection vote of our annual shareholders meeting for our capitalisation measures. And recently, most recently, in July 2024, we got from SCOPE Ratings a confirmation of our investment grade issuer rating of BBB-.

But not only on the financing side, we are busy, but we are working on further investments, construction and connection to the grids of some parks. So in Q1, we always stated that we are under construction in the Borrentin Park with 140 MW, the largest park of our own portfolio.

In addition to that, we could acquire another park in Spain of 95 MW, which brings our total capacity in Spain alone at the end of year 2025 to 800 MW. This park was acquired from BayWa r.e. The park is under construction and will be connected to the grid in Q4 2025.

In addition to that, we closed the contract of the already grid-connected 11 MW wind farm Schieder-Schwalenberg. That park was already acquired in December 2023. Sometimes closing of such parks needs some time. And we got a 14 MW solar park Mörghult, in Smaland in Denmark, connected to the grid.

ENCAVIS Asset Management is working on the projects as well. As you might know, the largest German solar farm in the group managed is with Asset Management. It is the Park Bartow with 260 MW. Here, we could sign beginning of April a PPA contract with LyondellBasell, and now we got financing done with Commerzbank on the 31st July in the amount of €145 million.

Before I go now into the details of our half-year figures, I would like to highlight that these figures, we will present it in this presentation without the cost of the partnership with Elbe, with KKR and Viessman. And the reason for that is that we want to keep the half-year figures here comparable to the guidance, which did not incorporate these costs as well.

So the total cost so far of that project are €5.4 million, which were accounted for in the half-year for 2024. So, if you compare our half-year report with the figures here, please have in mind that all figures, despite cash flow and revenues, have to be reduced by €5.4 million.

If we go then into the details of our figures, we usually start with the energy production of our existing portfolio. And for the first time, we have here a severe drop of 7% or 130 GWh. As a matter of fact, there are numerous issues which we are confronted with, and this is a very unusual combination.

Firstly, it is that we sold at the end of last year two wind farms, which were at the end of the feed-in tariff, Greußen and Sohland, and they produced in the first half of last year 20 GWh. So that is obviously lacking now, and that was planned for. And we have much less favourable weather conditions in the first half of this year than we had in the first half of 2023. It is not that 2024 is extremely bad. Yes, it is below-standard weather, but the first half of 2023 was very-much-better-than-standard weather. And, therefore, there is a big deviation here. And we were in some areas of Europe confronted for the first time with negative prices.

Now, you might ask why do negative prices influence the gigawatt hour production? In 15-minute periods where we see negative prices, we stop the power production because we do not want to pay money for producing electricity, and then we do not produce the electricity. And that costs us a huge part of this 130 GWh power production. And then we had some areas, as usual, but fully compensated, with curtailments.

That all means that we have a reduction of our gigawatt hour production of the existing portfolio of 7% or 130 GWh. That is by two thirds compensated by new parks connected to the grid. So, in total, the energy production in this growing portfolio is only 3% or 46 GWh below previous year's figure.

But that leads to 9% reduced revenues. If there is a big lag of power production in the existing portfolio, which in average has a much higher remuneration per kilowatt hour than the new parks, then this means that there is a higher negative deviation in the revenues.

In fact, it is that the €21.3 million negative deviation in net operating profit is by half has its reason in the reduced volumes, which I pointed out in the existing portfolio, and the other half by lower prices. These lower prices were expected and were planned for in our plan for 2024 and so therefore reflected in our guidance. But it is a deviation to the first half of 2023.

You see that €21 million deviation in the revenues in the EBITDA as well. But, in addition to that, some compensational effect in the revenues, which is provided by Stern or by newly-to-the-grid-connected parks, they come along with cost. And so that means that the EBITA has a slightly higher deviation compared to previous year, and they come along with depreciation. So the same applies to EBIT.

If we have a look into the segmentation report, then we see that although we have a severe drop in power prices and reduced volumes due to meteorological reasons, grid curtailments and some negative price-related shutdowns, that still the operating revenues of the solar parks contribute approximately two thirds to the top line of the whole group. While wind farms are stable, with 22% providing to the total top line, PV service is increasing its importance to the top line.

If we go now into the details of the solar farms, we have a drop in revenues of the solar parks by 14%. This is due to the expected lower power prices, in combination with less sunshine in many European states and first-in-the-lifetime negative price-related uncompensated shutdowns.

Let's have a look on the meteorological effect. As a matter of fact, we always plan standard weather for solar and for wind. While we have seen in all European countries in the first half of 2023 very positive deviations in the radiation compared to standard weather, we see in all but one surprising country negative deviations to that standard. Why a surprising country? While most Germans would consider this summer not to be the most sunny one, but, in fact, we still are above standard weather in the radiation. But, in fact, the highest deviation we see, in the Netherlands, we had last year in the first half 9.2% more radiation than usually expected, and this year 6% less than usually expected. So, compared with the usual expectation, it is a negative deviation of 15%. And that certainly means that there is less power produced.

But the likelihood of high or low irradiation in the future does not change with that experience. So this is something which we cannot forecast and something where we always assume standard weather.

If we then have a look into the wind farms, here we have a deviation of -7% in the revenues. And this is mainly due, the deviation of 3.2 million, to the sale of the parks Greußen and Sohland, which produced in the first half of 2023 €2.2 million of revenues, which are obviously missing now. And €1 million is due to prices.

Our Stern parks develop very well, as well as our other projects. So not to take it too negatively. So the solar farms and wind farms are working properly, they're in good shape, and the capacities which we have are growing, and we are further investing successfully. But there is, by accident, the combination of some negative influences which currently overcompensate that effect.

Stern is developing very well as well. We have growth of 30% in our revenues, mainly driven by internal revenues with our own parks. As a matter of fact, this is exactly what we had in mind strategically when we decided to acquire Stern.

The EBITA margin looks a bit to be under pressure, but, in fact, the first half of 2023 was fairly impressed by one-off effects of winding down the formerly small development business of Stern. Here we had realised some profits in winding that business down. So the 11% of EBITA margin is in line with our expectation.

In our Asset Management business, we still have, due to the interest rate environment and to the reluctance in the past of some investors to provide us with sufficient committed equity, some delays in further project investments, which are expected now for the second half of this year. And so we have some shifts in projects, so, therefore, the revenues are somewhat reduced. But since the costs are fixed, we are currently in the negatives, but we are confident that this will turn around in the second half.

In the headquarters, we see in the revenues only the consolidation of the internal revenues with Stern. Here you see the magnitude of the growth of the revenues from 8.7 to 12.7, so almost plus 50% of internal revenues with our new subsidiary. So that is very positive.

The EBITA is purely the cost of the holdings. Here you see a reduction from -6.3% to -5%, although the company is growing, as well as the workforce. So that is not the reason. But the reason is that in the first half of 2023, we had several one-off effects which were a cost burden, and this means that we have a reduction of our cost in total.

Ladies and gentlemen, now, we had a turbulent first half-year due to bad weather, shutdowns due to negative prices and the low price volume. As a matter of fact, our Guidance 2024, which we announced in March, was based on, like every year, standard weather. This is something which I already earlier pointed out.

Only the fact that we had negative or bad weather conditions in the first half does not mean that we have any reason to assume that we do not have standard weather in the second half. So the weather is an open issue, and there is no relationship between the first-half weather conditions, the second half. So, therefore, we stick to our assumption of standard weather.

And we had the power price curve of 10th March 2024. The power price curve is the assumption regarding the power prices, the overall power price environment. It is not a forecast of every-15-minutes corridor. So what we cannot say today, how many negative-price 15-minute corridors there will be, and so how many shutdowns will be done. And so, therefore, we cannot forecast anything like that for the second half.

But having a look on the pricing level, and if you compare this chart with the Q1 figure, it is that there is some relief in the power prices. In most of the countries and technologies, the reduction in power prices is somewhat slightly lower than we assumed in the Q1 figures. This is not material, so, therefore, there is no reason to change the guidance out of that reason. And it is a snapshot, and the prices are extremely volatile in the current environment.

But there is some relief. Overall, we currently stick to our guidance. Honestly said, it depends very much on the weather conditions and very much on the volatility of daily power prices and whether there are negative prices in 15-minute corridors which could enforce us to shut down one or the other park, not all of them. It is only selectively. So, therefore, we confirm our guidance.

Ladies and gentlemen, that's it, what I wanted to present to you. The further charts and the presentation are standard charts which you have seen already in the last quarters. Now I'm available for your questions. Thank you very much for your audience and your attention.

- O Ladies and gentlemen, we will now begin the question-and-answer session. Anyone who wishes to ask a question may click the Q&A button on the left side of the screen, and then raise your hand, or submit a text question. If you are connected via phone, please press star, followed by one, on your telephone keypad. If you wish to remove yourself from the question queue, you may press star, followed by two, 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 star, followed by one, at this time.

One moment for the first question, please. It seems there are no questions at this time. So I would hand back to Dr Christoph Husmann for any closing remarks.

- CH Yes. Thank you very much for attending our presentation of the Q2 figures. And if you have any further questions in the aftermath, please do not hesitate to contact the Investor Relations Department. And so thank you very much for dialling in. And I hope that you sit in an air-conditioned and nice room so that the day is not as warm as it started this morning. Thank you very much and have a good day. Bye.