

Transcript Conference Call Encavis AG
Q1/3M Interim Statement 2021
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M Moderator
 CH Dr Christoph Husmann
 DP Dr Dierk Paskert
 JB Jan Bauer
 PC Peter Crampton
 MT Martin Tessier

M Good morning, ladies and gentlemen, and welcome to the Encavis conference call regarding the Encavis interim statement Q1 2021. At this time all participants have been placed on a listen-only mode. The floor will be open to questions following the presentation. Let me now turn the floor to your host, Dr Christoph Husmann.

CH Hello and good morning to everyone, this is now the fifth telephone conference which we have in the lockdown situation. I hope you're all fine and healthy, and safe. Welcome to the Q1 Interim Statement telephone conference call this morning, thank you very much for your interest and dialling in. Ladies and gentlemen this morning we published our figures. Before we go on to the figures, please let us recall what has happened during the course of the year [01:00] so far.

Well regarding our share, more banks are covering Encavis now, with buy with overweight recommendations and target prices which are partially substantially above our current price. The latest one joining our coverage list is Barclays, which initiated our coverage with 18 Euros target price, and Hauck & Aufhäuser updated their initiated active coverage with hold recommendation with a target price of 23 euros. The share price over the course of this year had some turbulent development: first increased to 25.55 euro in January, and since then some upward and downward developments but in total a decline to currently 14 euros. Positively, it has to be seen that we were promoted via Fast-Entry from SDAX to MDAX [02:00] which should have given the share price a push, and with that an accrued interest of international institutional investors, they are named here.

But, in February, Standard and Poor's Clean Energy Index announced a reshuffling, and an increase of the number of shares which are represented by the index from 30 to 90 shares, which by nature, for shares like Encavis, being part of their Clean Energy Index with hitherto 30 shares, now with 90 shares will have a lower representation which created a share overhang of 250 million Euros in Encavis since February 2021. That was mostly burned off in April. Despite all these turbulences in the share market, the business is prospering and developing positively. In our Encavis Asset Management, we could reach, we think, more than 150 million Euros [03:00] committed equity and acquired the large solar plant Vlagtwedde which is the largest currently operating in The Netherlands, now in total, Encavis Asset Management operates and manages one gigawatt of capacity. And we got our solar park Talayuela with 300 megawatts, not only the largest park in our Group, but one of the largest parks in Europe so far connected to the grid, on schedule, although last year, please recall that, we had a lock down in Spain. We got it connected to the grid on time on the 4th of

January, injected the first kilowatt hours of energy produced, into the grid. As usually is the case, we had a ramp-up phase then to be done, and for such a large, large park, it needs some days to do so, so until the mid of March, the ramp-up phase was done, and since then the park is **[04:00]** producing full energy as expected.

Encavis AG grew in the meantime - so this week we announced a new acquisition of a wind farm, Paltusmäki in Finland which not only added 22 megawatts of new capacity to our portfolio but increased the number of countries in which we are in with our own capacity by one country, by Finland.

When we talk about Encavis, we have to talk about our ESG report in orientation as well. We sharpened our position here, and with a clearer and better definition of our ESG position, we got two rating agency improvements. ISS ESG improved the rating from "B-" to "B", and MSCI ESG from "A" to "AA". Now, we are rated to be one of the top 20% in the industry cluster **[05:00]** renewable energy operations at ISS ESG. And we published our first sustainability report 2020. Beyond all these very sustainable and important issues regarding ESG, in position, we have to ensure that in today's world, our IT systems are very well protected and our data which we manage are safe. And therefore, we improved the IT on the system we have in place and certified it Group-wide by a subsidiary of the German insurance companies which helps us not only to get a better understanding of the very high quality of our IT systems, but yet in any case better insurance terms for such IT insider issues.

Ladies and gentlemen, the Company is in very good shape, and further unimpressed **[06:00]** by the ongoing pandemic. But we are exposed to weather. And that, honestly said, is the story of Q1 2021. We reported this morning revenues for Q1 2021 of 58.9 million euros which is below, not only Q1 2020, but even below Q1 2019. Why is that? This looks surprising on the very first glance because the capacities connected to the grid increased in the meantime by more than 40%. The reason of the reduced revenue is not a price issue. As you might know, 95% of our revenue are hedged, most of them, over a very long time of more than ten years; the average count is 12 years. And for the remaining non-hedged part **[07:00]**, we see overall that the electricity prices are rising. And our parks are in a very good shape. The availability of our parks is close to 100%. Therefore the reason for that drop in revenue is, that the energy production was low, due to meteorology. We will come back to this chart later, but let's go to another one first.

We had as you can see here, specifically in Germany significantly lower wind in Q1 2021 compared to previous years. We show here Anemos maps, which measures independently speed of wind and magnitude of wind compared to the reference period, the more reddish the colour is, the better the wind. **[08:00]** The darker it is even better it is. And if it is blue, or light blue, then it is below the reference period. I think it is simple to see that in Q1 2019, which was a good wind quarter, we had very strong wind in January and March. In Q1 2020, which was a very good wind quarter, we had extremely good wind all over the quarter. The picture that we see for Q1 2021 is a different one. This wind weakness applies by the way to the overall European Renewables. The electricity produced by Renewables in total in the EU in Q1 by wind, PV, hydro, bio masse and biogas was 240 terawatt hours, which is 14% down compared to previous years Q1 **[09:00]** of 280 terawatt hours. Although in the meantime, new capacities were added. What does it mean to Encavis? We produced with the same capacities in Q1 2020, 556 gigawatt hours, in Q1 2021, just 428 gigawatt hours, which is 22% less. Why is our figure bigger? Please have in mind, the European figure was a net figure, so compensated by the improved number of capacities, the figure I just told you was just for the existing portfolio which we had in last year's Q1, which was compared to energy that is produced this year. So our energy production in shortfall was partially compensated by

additional capacities as well, but loss of the electricity, which I already stated to you [10:00] it was totally or most totally responsible by wind, so it was not so much solar, it was totally wind.

So, if we go back to these figures, 6.3 million euros shortfall of wind use, this is a net figure which means that there is a bigger loss due to the shortfall of the energy production and partially compensated by the additional capacities which we added like La Cabrera, Talayuela, and Viertkamp, the wind farm which we acquired last year.

These new additions which partially compensated the revenue, create additional costs. These costs are then reflected in the EBITDA and EBIT as well.

Ladies and Gentlemen [11:00] we published on Monday the consensus of our analysts. Seven analysts participated and when we have a look on these figures and compare them to the reported figures, we see that for revenues, EBITDA and operating cashflow, the forecast of the analysts were extremely well. This is not true for the EBIT. If you compare the reported EBITDA and EBIT of the last two quarters, Q1 2019, Q1 2020 and then the average of the consensus, we see that the depreciation has not really changed. But we increased the capacities by 40%, and that brings along additional depreciation. This is the reason why the EBIT, or the reported EBIT, is lower than the consensus average. And that applies to the EPS as well.

Ladies and gentlemen, when we come then to the [12:00] to the operating cashflow. The operating cashflow reached an amount of 39.9 million euros which is approximately 10 million euros down compared to Q1 2020. Here, to judge that, we have to have in mind that Q1 2020 had a one-off effect of an early reimbursement of capital gains tax of more than 9 million euros and that has to be deducted and then we are in line with previous years, please have in mind that in the Q1 2020 we suffered slightly from the very weak wind in December 2020 as well, because this is reimbursed in the first quarter. When we talk about the segment report, we see the story which I told you already here as well. We see a slight increase in revenue in solar farms, this is due to the Spanish parks, slightly offset by [13:00] less likely lower solar irradiation as well. The lower amount of electricity compared to fully strong previous years first quarter, and the additional cost of solar farm lead then to the reduced profit figures. In wind farms we see a lack of 7 million euros revenue, all of that due to the reduced number of kilowatt hours produced due to the lack of wind, and that exact same figure can be seen in the deviation in the EBITDA and EBIT as well.

The Technical Services have more or less the same internal revenue, slightly below previous year, but that is more fluctuation. EBITDA is lower than in the previous year, the reason for that one-off effect which we had in the last first quarter 2020, was [14:00] that we sold our Encavis Technical Services to Stern Energy, our minority participation, and therefore created a profit of 1.9 million euros which we reported last year, and this we cannot repeat, is the difference here.

Encavis Asset Management had a very good start in Q1 2020, of 3.1 million euros revenue. Encavis Asset Management as I told you is already very well on the way this year as well, but in the first quarter, did not close so many investments as in the previous year's first quarter, but this will come. If we have a look on our balance sheet, we see an increase of our balance sheet total by more than 200 million euros, this is due to the full consolidation of Talayuela. [15:00] As you might recall, these investments which were done by our partnerships are under control by the developers although we owned in this case 80% of the shares already.

But the developers have the responsibility to develop these parks on their own risk, and as a matter of fact therefore we may not consolidate them, but we have them as an equity participation already in our books. With the COD, with the grid connection, we are in control of the park and then we get them fully consolidated in our books, and this is the net effect you see here for the project Talayueta. The same applies by the way to the equity. The equity increases only due to Talayueta, we had to account with the negative value in the equity for the PPA in last year's [16:00] report until the full consolidation of the 4th of January this year, and that negative effect could be taken also out with a full consolidation, therefore we have an improvement of the equity. In total we have now an equity ratio of 25.5%, again, substantially above our threshold which we defined for ourselves.

What does that wind weakness now mean to us? The full consolidation of Talayueta was fully reflected in our guidance already, so no change to that. The wind weakness which we experienced in the first quarter is a seasonality effect which we are aware of, and which we are used of. We often see such extreme meteorological effects which we know that they are usually boiled off during the course of the year and leveled out. [17:00] Therefore we stick to our guidance. 2021 guidance is still based on the assumption that we will have in total standard weather and April already showed us that the compensation for the shortfall of the first quarter is under way. Therefore, the Management Board does not see a reason to deviate from the guidance, and we confirm it with this. The same applies to the segment reports, although we know that in wind specifically, there is some way to go, but we are confident that we will come close to, or even exceed, the wind park's guidance until this year's end.

Ladies and gentlemen, that in a snapshot was the simple story, weakness in wind that we suffered under, and now, ladies and gentlemen, we are open for your questions. [18:00]

- M Yes, ladies and gentlemen, if you would like to ask a question, please press nine star on your telephone keypad. Please press nine star if you would like to ask a question. And the first question comes from Mr Martin Tessier from Stifel.
- MT Yes hi, good morning. Thanks for the great presentation. I apologise because I was late, so if you already provided the answer I apologise. Is it fair to understand that [19:00] your guidance for 2021 includes the positive contribution of the wind farm that you acquired yesterday? Thank you.
- CH Honestly said, thank you very much, Martin, for the question, the wind farm we required is with 22 megawatts not something which changes everything in our business plan. The business plan is something very complex, so what we usually do during the course of the year is that we once or twice, so every quarter then, we rebalance and recheck our guidance. Our guidance has a broad perspective anyhow since it always says bigger as the mentioned figures. So please give us time for the second quarter interim report which will be published in August to give you then a new guidance of these figures including then this new wind farm. Thank you.
- M There are no more questions. Ladies and gentlemen, if you would like to ask a question, please press nine star on your telephone keypad. Please press nine star now, if you'd like to ask a question. And the next question comes from Peter Crampton from Barclays.
- PC Hello, this is Peter Crampton from Barclays. Thank you very much for your presentation today. Just a quick question. If we're looking at the upcoming German election on the 26th of

September, it's quite notable in the polls how well the Green Party is doing and how important kind of the whole climate question [21:00] has become for the public. Do you have an expectation that with the new government there would be kind of a renewed renewables kind of push, and more done on onshore wind and solar that would obviously benefit you? Thank you very much.

DP Christoph Husmann may I take this question?

CH Sure, sure. Go ahead.

DP So it's Dierk Paskert the CEO. Thanks for the question, good question on a little bit of speculation in it, but I think we can at least assume that the Green Party will play a significant role either in a coalition if not as a leading party. So therefore, that will fuel further investments into the let's say, renewable energy landscape. We all know that the pace with which we develop [22:00] currently solar as well as onshore wind is too low in order to meet our CO₂ targets, so therefore I would definitely expect a further push there, and also an even better investment climate, but also on the permitting side, probably some relief which allows accelerating the whole programme. So therefore, that can only be of benefit then to us, without meaning this as a political statement, please.

PC Thank you for your answer.

M And the next question comes from Jan Bauer from Warburg Research.

JB Good morning, thanks for the presentation, this is Jan from Warburg Research. I've only got two smaller questions. First one is: you want to sell another minority [23:00] stake this year, right? Can you give us some kind of guidance when it is expected and what size it would be?

CH So that was both questions, right? Okay. I was waiting for the second one. The minority stake will take place maybe more at the end of this year, to the financial close. And regarding the size, as you might have seen in the past we always sold smaller portfolios. We do not want to get rid of all the portfolio, but we want to have a steady stream of minority sales, so therefore this will be something in the same volume as you've seen in the past.

JB Thank you, and the second question now, so you acquired this Finnish wind park. Is Finland a new strategic country for you and can we expect further acquisitions in Finland or is this like one good [24:00] opportunity shot and that's it for now.

CH Dierk, would you take it?

DP Yeah, I'll take the question, thanks for the question. No, as always, we do not enter a market just on a single opportunity, so if we go into a market then we would like to build bigger size there, and there are lots of opportunities above all, this region just allows wind, for onshore wind, but it's definitely something we will be looking at, so therefore, and we have also already contact to some content developers including the one from which we bought the current wind park Paltusmäki so therefore we have quite good reasons to believe that Finland can be another contributing country to our portfolio.

JB Perfect. Thank you very much. [25:00]

M There are no more questions.

CH Okay, if there are no more questions, then thank you very much for your interest in the Company, thank you very much for dialling in. And I think we have hopefully shown to you that the Company is well, is in very good order to keep up all the opportunities and challenges we see in the market, during the course of the year. We are very well positioned to reach our guidance, although there was this wind lack in the first quarter. Thank you very much for the interest and please stay safe and healthy. Thank you and goodbye.