

Encavis AG
Transcript Conference Call on the
preliminary, unaudited results FY 2021
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Speakers:

Dr Christoph Husmann (CFO)

M Moderator
CH Dr Christoph Husmann
JB Jan Bauer
IK Igor Kim
TS Teresa Schinwald
AK Anders Knudsen
NDT Nicola Dalla Torre
ALK Alina Köhler

M: Ladies and gentlemen, welcome to the Encavis AG conference call. 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, Dr. Christoph Husmann.

CH: Hello to all of you. And thank you very much in these turbulent times that you took the time to dial-in. We invited you for this telephone conference call on a very short notice. And the reason for that is that we released this morning an ad hoc announcement on our preliminary unaudited results 2021.

Well, ladies and gentlemen, we released this morning a note in which we said that our revenue currently are at the amount of 330 million euros, 10 million up, or 3% up compared to our guidance. Our EBITDA amounts now to 255 million euros, 15 million up, 6% plus and the EBIT and EPS increase accordingly. That alone would not be a reason for an ad hoc news. The reason for the ad hoc news lies in our operating cashflow, which amounts to 250 million euros compared to a guidance of 210 million euros, which is an up of 40 million euros or plus 19%. Now, we would like to go with you into the analysis, but the nature of an ad hoc news does not give us the time for full and perfect analysis. So, please do not expect that but maybe we can give you first insights. If we have a look on our figures compared to the fiscal year 2020, then we do see that our preliminary and unaudited fiscal year 2021 figures are compared to the 2020 fiscal year figures, the revenue, the EBITDA, the EBIT and the EPS are up by 13% or 12% respectively. So, totally in line with all the other figures. Only the operating cashflow has an increase of 17%, so by 38.1 million compared to the operating cashflow of previous year. Some of you regarded this operating cashflow guidance, which we had with 210 million euro as pretty conservative. So, if now the deviation weakened to that, we emphasised in Q3, our expectation on this guidance of 210 million, because we strongly believed into that, but there is a development in the market which can be shown and comparison of two of these figures. Because of these preliminary unaudited figures, we have now an operating cashflow, which is almost on the level of the EBITDA that was not the case in the past. With this growing business, we had increasing EBITDA year-on-year, but the cashflow had always some time lack compared to the EBITDA. The reason for that is that in the past, we acquired mainly feed-in tariff parks where we received some remuneration based on the gigawatt hour production of the previous quarter in the following quarter, or sometimes even later. And that meant at the year's end, the operating cashflow never reached the level of EBITDA. But now, there's a structural change in the market. It is that we have more PPA parks and as we told you in previous course,

we usually cannot really hedge 100% of the electricity produced in such a PPA park. So, there is by nature, some portion of our revenue merchant. The merchant part of the gigawatt hours produced as well as the gigawatt hours which are produced under these mostly financial PPAs is so on the spot market and there we are remunerated correctly. And with the increase of the power prices in Q4, we enjoy here in the respective parks, an increase of the revenue of the EBITDA of EBIT and so on. But as a matter of fact, why is there no such an alignment? So, why does the operating cashflow come so closely to the EBITDA, because there still should be a gap due to the filter? Well, the reason for that is that now, under the financial PPA contracts we see in the markets, the high electricity price from the sale of the electricity, and at the same time, has to compensate the PPA offtaker to that fixed PPA price. The financial PPAs as we explained to you in some earlier meetings, we always had the fixing of the electricity price, because if the merchant price falls below that fixed price, we are compensated by the PPA offtaker. But if, like in today's world, the PPA price is much higher than the fixed electricity price, we have to compensate him by paying the difference to that lower price. And if cash payments are not done immediately on the spot, but do have some delays, as you will see in our balance sheet at year-end which we will publish at the end of March, we will have the payables from these compensation payments which we have to pay to offtakers. If we have a long-term comparison of the margins this year 2021 which is a successful one is reflected in the EBITDA margin which increases to 77.3%. And so this goes pretty much in line to the 2025 goal of 75% EBITDA margin as well as 45% EBIT margin, the EBIT margin in 2021 will be on the 45% level as well. To go more into the detail of the analysis, I think it is worthwhile to note and it's very important to understand that 2021 was a record year in means of generation capacities connected to the grid. We connected 435 megawatts (MW) of capacities to the grid, 300 MW out of them is the PV park Talayuela in Spain, 235 MW of other parks which we acquired, and were shortly then connected to the grid as well. So, that was almost twice the amount of capacities which we connected to the grid in 2020 and more than four times the capacities we connected to the grid in 2019. That had a substantial effect on the gigawatt hours produced. But if we then have a look into the gigawatt hour production of last year, then we see and that now explains to you the development of our revenue in wind, we have 10% less of production as in 2020. But this reduced amount of each of our production was fully compensated by higher prices. Well, first of all, that is obviously not a surprise that in Danish wind farms partially and in Finnish wind farms fully merchant positions, we enjoy the high electricity prices which are currently possible in this market. But it is worthwhile to note that in German wind farms under the feed-in tariff in such an environment, we enjoy the higher electricity prices as well since the German feed-in tariff structure is designed in form of a floor price. That means if the merchant price is higher than the feed-in tariff, we receive the higher merchant price. So, the revenue deviation in 2020 to 2021 is zero in wind because the shortfall of electricity production is fully compensated by the price. And so long, we have a substantial increase of the megawatts connected to the grid. So, it is not only the 300 megawatts solar park in Talayuela in Spain that was connected to the grid in January, February, March 2021 but there is an additional contribution from the 200 megawatts park La Cabrera also in Spain, which was connected to the grid in August, September 2020. And so there was the first full year of full contribution to our energy production. That is the reason for the 73% increase of our, you don't want to call production. In fact, it is that within the existing portfolio, we have a 6% decline of our PP parts of electricity production, but that again was compensated by the current pricing. So, the growth itself in the gigawatt hours as well as in the revenue goes back to our Spanish parks.

Ladies and gentlemen, this is a very short first explanation of what is going on in our P&L. I think overall, it is positive news with very positive development of P&L as well as cashflow figures. And after that short introduction, I'm now happy to answer your questions. Thank you very much.

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. And the first question comes from Jan Bauer, Warburg research. Please go ahead with your question.

JB: Hello, thank you for taking my question. I have two short questions; the first one would be in Germany, it's possible to use the so called opt-out plus the FiT to change from remunerated to a PPA remuneration for a limited time and then fall back to the feed-in tariff (FiT) again. Will we use this mechanism for your PV parks or your wind parks because as far as I know, PPA prices couldn't be above your EEG strike prices especially for onshore wind.

CH: So, to both questions. Okay. So, first of all, thank you very much Mr. Bauer. On average, so first of all, we checked that opportunity for every park systematically, but currently, the remuneration for our German PV parks is even higher than today's electricity prices, in the PPA prices, which we could get. So, therefore, I think it is not worthwhile to switch from PV park into a PPA regime, but it could, so for the time being and if we see all forecasts for potential horrifying developments, it might be a chance of the future and we will keep an eye on that. As I pointed out for wind farms, we already utilise that situation for merchant pricing. But here we do not see currently that we have PPA prices in the broad scale available for such powers, which are above our feed-in tariffs, but as soon as that happens, we would consider that option as well.

JB: Okay, perfect. Thank you. And the second question would be, we've seen quite an increase in installation costs for especially PV parks, as module prices and everything has went up pretty well. Do you see that the currently higher prices for PPAs are also emerging markets, compensate or even overcompensate for that higher capex so that in the end, your equity IRR, the respective projects would be in line with your forecast of, I think it's five to seven percent or even above that.

CH: So, first of all, yes, certainly, we see an increase in installation costs. And I think with the upcoming sea of inflation that might be not the end what we see currently there. But on the other hand, we see an increase of the electricity prices compensating us for that. So currently, we do not see any pressure on our IRR from that source. Forecast into the future in this volatile world is very difficult but we as you know, we are very cautious investors, and therefore we are keeping an eye on not deteriorating our IRR.

M: Okay, perfect. Thank you very much. The next question comes from Igor Kim from Berenberg. Please go ahead with your question.

IK: Yes. Hi. I've got a couple of questions. Thanks. First, if I correctly remember, you had 5% of revenues that had to merchant exposure and around 5% that was kind of hedged for one year. With that, what do you still have in place and with the growing number of PPA contracts in the future, should this margin exposure also goes up or it should remain at around five to ten percent of revenue as you have now. And second question is, I don't know, have you already seen what was the weather effects year-to-date in solar and wind segments? Yeah, that's it so far. Thank you.

CH: Thank you very much, Mr Kim for these questions. So, first of all, the 5% back in your merchant revenue threshold is a measurement which we take on our goods level to keep the risk on our Company low. So, therefore, with the time being that with more and more PPAs to be signed, we then if there would be a bigger portion of revenue which is not hedged long term, we would utilise the short-term hedges to keep that number in line with the 5% threshold. So yes, we will keep an eye on that, and this is our strategy. Regarding the weather effect, you are referring to the year-to-date figures of 2022, I guess?

IK: Right.

CH: Okay. So, we are here now, mid of March, and we do not published figures here. But I think I do not give you any internal knowledge. But if you look outside, compare this year's first quarter weather so far, with last year's first quarter weather, then you'll realise that the weather in Europe is not as bad as last year, please remember what we have told you on the Q1 weather last year, and that was the total disaster. So therefore, I think it is worthwhile that I think useful to expect better weather this year than last year for the first quarter.

IK: Okay. And probably the last one. It was elevated to power prices that we currently have an escalating gear political tensions that we currently have. Do you observe an increased demand for the PPA contracts or hasn't really changed much over the last few months?

CH: Yes, we see a very big hike in PPA prices but not only since the beginning of the war. It is reviewing all these Q4 months and here the first two months of Q1, we already have seen an increasing demand and an increase in PPA prices as for the market. So currently, we see alone in Germany, a demand for PPAs which would compensate the full plant parks connected to the grid within this year by several multiples. So, the PPA demand is exceeding the potential additional supply by many, many times.

IK: Okay, great. Thank you.

CH: You're welcome.

M: The next question comes from Teresa Schinwald from Raiffeisen International. Please go ahead with your question.

TS: Yeah. Good afternoon, gentlemen. My first question, and maybe I've missed it because I was late with another conference call. Could you give us a bit of more clarity on the split of the merchant performance between wind and solar? Also, maybe north and south, which is kind of the same, but you indicated that Finland was strong and Germany invite, can you give us a rough split?

CH: I'm sorry for most likely misunderstanding this invite, but I said that he enjoyed it for different reasons. In the wind segment in these three countries, don't refer to all countries where we are in with wind. But on all of them we enjoyed higher prices. So, first of all, it is not a surprise that in Finland where out of 21 MW our part is fully merchant. So, it is part of the 5% merchant where we use we have, that we fully enjoyed the high power prices there. In Denmark, we have PPA projects where we have a certain part of the gigawatt hours produced noted as well. So, we enjoyed here some price hikes as well. But as then I boiled it down to the most surprising part is, that in the winter feed-in tariff parks in Germany, which is structured to be at low price, we enjoyed the high merchant price as well, because as long as the merchant price is above the feed-in tariffs, we get the higher merchant price as remuneration. So, therefore, it was not a split of stronger performance or not. I just wanted to explain why, although we do have a shortfall in electricity production of 10%. In wind, there is no shortfall in the revenue.

TS: Okay, great. That clears a lot of things up. My second question also relates to the war in Ukraine.

CH: There is still an echo in the line. But we can try it.

TS: Okay, well, in Ukraine, there were some projects, large scale projects, not by you, but the development plan is, especially the modules and the hardware, I can already see some movements away of these projects from the region in Ukraine moving to other parts of Europe.

CH: So, honestly said, I don't have any clue of the Ukrainian PV market or wind market, because this is a country where due to the situation in Eastern Ukraine with these Russian areas there and Ukraine, we did not invest into Ukraine and therefore did not work on that country. And so therefore, I don't have any knowledge on that. Sorry for that, I can't. It will be pure speculation if I would say anything here.

TS: No worries. It's just that you're much closer to the market.

CH: Yeah, but I don't have any clue on that. Sorry.

TS: Thank you.

CH: You're welcome.

M: At the moment, there seem to be no further questions. Ladies and gentlemen, if you want to ask a question, please press nine and star. And the next question comes from Anders Knudsen from SEB. Please go ahead with your question.

AK: Yeah. Good afternoon, gentlemen. And thank you very much for the update. Much appreciated. And as you talked about, there's plenty of demand right now for PPAs. But how's the supply side looking from your end? And can you get hold of the projects in order to cater for this high demand?

CH: So, thank you very much for the question. So, first of all, as you might know, we have a pipeline of 1.5 gigawatts (GW) already secured, which we lined out in our Company presentation in total, we have a pipeline of 3.5 gigawatts (GW) which are developed by our developers. So, the 1.5 GW secured are part of this 3.5 GW, please don't add them up. So, with the total 1.5 GW, which will be available within the next one, two years or three years, we will happily come to digest some of that demand certainly. And as you might be aware, last year with a 25 MW project Groß Behnitz in Germany, we have a project currently constructed and so therefore, in the market, yet we see a very good demand for potential PPAs there, and much better prices than we have seen in the past. And so therefore, yes, we hope we can take up some of that demand. And we hope that the German authorities are starting to wake up after two years of Corona sleep and we'll prove more of our projects, which are ready to build and with them, we could immediately take up more of their demand. This issue of the authorities is well known to the government because they agreed already that the energy transition will only be realised if the authorities speed up in the approval of such processes and the EU commission last week announced that they want to speed up parks being connected to the grid in the amount of 980 gigawatts at 2030. And they argue that every country within the EU should use all flexibility EU law allows to speed up immediately. So, at least the politicians realise that this is the bottleneck and we hope that as soon as the bottleneck is taken away, that we with all our projects in our pipeline can speed up and take up all the demand of PPAs.

AK: So, in summary, and then thank you for the elaboration, it is still the regulatory bottlenecks that is the biggest concern if we can call it that. It is not lack of components or something else in your pipeline at this moment.

CH: Well, this is currently not the issue it might be. So, if the 980 gigawatts will be realised - at the same time in eight years, then scarceness of such components might be an issue. But then this is a new bottleneck which has to be abolished, but currently it is the authorisation. Yes.

AK: Thank you very much for the update.

CH: You're welcome.

I: The next question comes from Nicola Dalla Torre from Helikon Investments, please go on with your question.

NDT: Hey, thank you. Thank you very much for the presentation. On one side, you said we're going to benefit from higher electricity prices. While on the other side, some governments are already introducing caps or other regulatory mechanism to limit the electricity prices. So, just to understand, do you have some answer that has been already impacted by these caps or do you forecast to have some impact in the future? Thank you very much.

CH: You're welcome. So, did we have an impact? Firstly, there are some countries, as you already pointed out, which do impose some caps to electricity prices. Like in Spain, we have seen that as well as in Italy. As a matter of fact, it could be that in other countries that will happen as well. Does it have an impact on us? Well, it doesn't have an impact on the prices, which we calculated when we did the investment. No, because the caps are on such a high level, that they don't have a negative impact on IRR. If we have looked into the forecast the prices for electricity, which we can see in the respective curves, which are far away from whatever we calculated. And then, if then there is a cap imposed on that high level compared to this

theoretical price. Yes, there might be an impact. And we have seen that last year already in Spain, where we had some minor impact on the merchant part of our PV park, where there was a price cap, but again, on a very, very high level compared to what we calculated in the beginning. And we just might have an impact on our Italian performance this year that on a low one digit million number of revenue. But again, we haven't used which we never expected and never incorporated in our calculation and guidance.

NDT: Okay, thank you. That's very clear.

M: And the next question comes from Alina Köhler, from Hauck & Aufhäuser. Please go ahead with your question.

ALK: Good afternoon. I just have a question on the operating cashflow again if I understood correctly. So, you do still need to compensate some PPA offtakers due to higher electricity prices, right. So these payments will follow later and hence, the cashflow that you reported is slightly overstated. Is that correct? And if so, how large is the impact?

CH: So, the impact is 15 million euros. So, but the cashflow is not overstated, it is there. And you are right, out of the 250 million euros, we have to pay 15 million euros in the course of the first quarter. But please be aware that if the electricity price stays on this level, this is an impact which we see this year again. So, the 15 million late payments will be, again an issue. So, it will be slowed if we ever have that higher, ticket price will be spillover effect for many, many years. So, no one then could be impacted on that side. But again, if we take out the 15 million out of the 250, then it is 235. Still, it is more than two-digit percentage-wise deviation from the guidance and still would be worthwhile to have an ad hoc news this morning.

ALK: Perfect. That's clear. Okay. And then the second question is on PV parks and then percent received didn't have Germany. So, only Germany has been perfect currently benefiting from the higher power prices, right, because your PV parks already have high feed-in tariffs so there's no park really that benefits here.

CH: Perfect. Absolutely correct.

ALK: Okay, perfect. That's all. Thanks.

CH: You're welcome.

I: There are no questions at the moment.

CH: Good then. Thank you very much then for dialing-in. And thank you very much for all your questions, keen that there is not 100% perfect analysis available as of today, due to the shortness of time. That's the nature of ad hoc news. So, we will talk to each other most likely at the end of March after the release of our consolidated financial statements, and then we will provide you with a more detailed analysis. In the meantime, thank you very much for dialing-in and have a good time.

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