Transcript

Investor presentation: 9M 2023 results

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Corporate participants

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Jonas Rimavičius, Member of the Management Board, CFO
Ainė Riffel-Grinkevičienė, Chief of Staff to CFO and Head of Investor Relations

Presentation

Ainė Riffel-Grinkevičienė, Chief of Staff to CFO and Head of Investor Relations

[Slide No 1]

Good afternoon, everyone. It's a pleasure to welcome you to Ignitis Group 9 months' results call. Today, the Group's management will share with you the key highlights of the strategic and financial performance in the first nine months of this year. The presentation will be followed by a Q&A session. We encourage everyone to take the opportunity to ask any questions you may have. With that, I'll hand over to the Group's CEO, Darius Maikštėnas.

Darius Maikštėnas, Chair of the Management Board, CEO

[Slide No 5]

Thank you. Good afternoon, everyone, and welcome to our earnings call today. Let me start with the performance highlights of the past nine months of 2023.

We continue to deliver on our strategic performance, particularly in renewables, where we develop the largest projects in the Baltics. First, we started the construction of the largest onshore wind farm, with capacity of 300 MW, in Lithuania. Second, we made a final investment decision for the 239 MW solar portfolio in Latvia, which is also the largest in the Baltics.

Looking at the sustainability progress, our leadership continues to be reflected in ESG risk ratings, this time with an upgrade of our ISS ESG rating. This time with an upgrade from 'C' to 'B-'.

Finally, we made a record level of investments, up 72.3% YoY to EUR 633.7 million. Investments in Green Generation more than doubled and, in Networks, were more than a third higher than last year.

Nevertheless, we have continued to maintain a strong balance sheet, which is reflected in S&P's credit rating of 'BBB+' with a stable outlook. And lastly, following our nine months of 2023 performance, which was in line with our expectations, we reiterate our 2023 Adjusted EBITDA guidance of EUR 430–480 million.

Let me now deep dive into each of the highlights.

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So far this year, we have achieved significant milestones in the expansion and development of our Green Generation Portfolio across all project development phases.

On this slide, we highlight the progress made since January. However, let me highlight those that were added after the half-year results. Starting with offshore wind development, the Group, together with its partner Ocean Winds, was confirmed as the winners of the 700 MW Lithuanian offshore wind tender and established a joint company for its development.

On the onshore wind front, we have completed the acquisition of two projects in Lithuania, with the total capacity of up to 300 MW, and have already started construction on sites. This wind farm in Kelmė, Lithuania, is the largest wind project being constructed in the Baltics. On top of that, we signed the largest external corporate PPA to date with Umicore Poland electric vehicle battery materials plant in Poland. It covers a substantial part of the expected electricity production of Silesia WF II, which is currently under construction, with a total expected capacity of 137 MW. The conclusion of this PPA is a strategic milestone for us, supporting our commitment to providing green and flexible energy solutions and enhancing the Group's ability to deliver a consistent supply of clean energy to partners in our home countries.

In our solar portfolio, we made a final investment decision for a 239 MW solar portfolio in Latvia with an expected total investment of around EUR 179 million. As mentioned previously, there is no other solar project in the Baltics of such size. And, in addition, we further increased the capacity of secured grid connections to up to 620 MW.

Finally, as planned for this heating season, we started generation and supply of heat by Vilnius CHP biomass unit in Lithuania.

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This, in turn, has led to the key highlights of the portfolio development in absolute terms.

Since the beginning of the year, our Portfolio has grown by 1.2 GW, from 5.1 GW to 6.3 GW. Of this, 1.3 GW has been converted to Secured Capacity, bringing the total to 2.9 GW as of today. In terms of our Portfolio split, there have been no significant changes as the largest share of 6.3 GW is onshore wind and solar projects, and most projects are being developed in Lithuania and Latvia.

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Next, I would like to highlight the progress the Group has made on the sustainability front. We continue our decarbonisation initiatives to minimise the Group's environmental impact.

During the reporting period, the Group's total greenhouse gas emissions decreased by 3.9% compared to the previous year. This was mainly due to a 20.1% decrease in Scope 1 emissions, driven by the improved natural gas accounting measures and lower retail natural gas sales. In addition, the green share of our generation remained stable at 89% compared to the prior year.

The Group's net electricity generation increased by 2.5%, driven by Mažeikiai onshore wind farm in Lithuania, which became fully operational in August.

Turning to occupational health and safety, this remains to be one of our top priorities this year. We continue to take proactive measures to improve the health and safety culture both inside and outside our Group. This is reflected in an improvement of the total recordable injury rate of our employees to 0.89, as the number of safety incidents fell from 11 to 5.

Finally, we are pleased to share that our efforts have again resulted in high ESG ratings from international ESG rating agencies, placing the Group among the top utility peers globally. ISS ESG has awarded the Group a rating of 'B-' and 'Prime' status. Last year the Group was rated 'C'. The Group's ESG ratings have also been updated by other global rating agencies, with MSCI and EcoVadis maintaining the same high ratings as last year, and Sustainalytics changed the Group's ESG rating to 25.2.

With that, I will conclude the strategic overview for now, and hand over to Jonas to continue with the financials.

Jonas Rimavičius, Member of the Management Board, CFO

[Slide No 10]

Thank you, Darius, and hello, everyone.

Let me start with the financial highlights for the first nine months of 2023. Our Adjusted EBITDA amounted to EUR 345.3 million and was 3.3% lower than a year ago, driven by lower captured electricity prices. This, in turn, led to a 4.6% decrease in the Adjusted Net Profit to EUR 193.0 million. Despite the slight decline, profitability figures remained at historically high levels.

This year, we have substantially increased our investments, reflecting our progress in developing the Green Generation Portfolio. Compared to last year, the Group's Investments increased by 72.3% and reached a record high level of EUR 633.7 million in the first nine months of the year. As a result, our Adjusted ROCE decreased by 2.2 p. p. YoY to 8.6% due to the time lag between the deployment of capital in investments and subsequent realisation of returns. Despite such a high investment level, our leverage metrics remained strong, with FFO/Net Debt remaining at solid 39.6%, and Net Debt/Adjusted EBITDA at 2.4 times.

The Group's balance sheet strength is also reflected by S&P's affirmation of 'BBB+' credit rating with stable outlook, which is in line with our commitment to maintain a solid investment-grade credit rating of 'BBB' or above.

Finally, in line with our Dividend Policy, for the first six months of 2023, we paid a dividend of 64.3 cents per share, 3% higher than last year.

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Now let's look at our main numbers in more detail.

Adjusted EBITDA, as mentioned before, has decreased by 3.3% but remained at historically high levels. Reasons for the decline were as follows: in Green Generation, where Adjusted EBITDA was EUR 31.4 million lower, the main drivers were lower captured electricity prices and significant expansion, which led to higher operating expenses. In Customers & Solutions, where Adjusted EBITDA was EUR 14.4 million lower, the main driver was lower volumes supplied, mainly as a result of overall lower consumption levels this year. These two segments –

Green Generation and Customers & Solutions – were the main drivers behind Adjusted EBITDA decrease as was expected in the beginning of the year. In terms of other segments, Reserve Capacities recorded an increase of EUR 20.6 million, mainly as a result of a utilised option to earn additional return in the market on top of the regulated return by fixing a positive forward Clean Spark spread, and Networks increased by EUR 12.0 million, mainly due to higher RAB.

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Next, let's deep dive into the financial results of each of the segments. Starting with Green Generation, it remains the largest contributor to the Group's Adjusted EBITDA, accounting for 44.7% of the total. This year, however, it has declined by 16.9%, from EUR 185.8 million to EUR 154.4 million. The main drivers behind that were, firstly, lower captured electricity prices, due to a decrease in overall electricity market prices, and especially in Pomerania WF, where last year we sold around 80% of electricity on high market prices, while this year we are selling 100% under a lower CfD subsidy scheme as a result of the price cap introduced in Poland. Another factor was the increase in OPEX as we continue to expand and build our renewables organisation and develop more and more projects.

[Slide No 13]

Moving on to Networks, Adjusted EBITDA of the segment grew by 10.3% and amounted to EUR 128.7 million, and the increase was mainly due to a higher RAB value, which increased by 6%, from EUR 1.3 billion to EUR 1.4 billion. Also, worth to mention that tariffs for the next year have been approved, and we know that RAB for 2024 will be increasing by 11% to EUR 1.6 billion, while WACC has been increased to above 5%.

[Slide No 14]

Reserve Capacities' Adjusted EBITDA increased by EUR 20.6 million and reached EUR 38.3 million. No news here, the increase was mainly the result of a utilised option to earn additional return in the market on top of the regulated return in Q1 this year.

[Slide No 15]

Lastly, our YoY Customers & Solutions' Adjusted EBITDA decreased by EUR 14.4 million and reached EUR 20.9 million. The overall result was driven by a decline in the natural gas result, driven by lower supply volumes as a result of lower consumption.

[Slide No 16]

Next, Investments. This year, so far, we have invested EUR 633.7 million, which is the highest level ever and 72.3% higher than last year, during the same period.

The main drivers of this increase were the following:
Firstly, more than a twofold increase in Green Generation investments, mainly in new wind farm projects in Lithuania and Poland, but also in Vilnius CHP biomass unit and Kruonis PSHP expansion project. It is worth highlighting that Investments made in Green Generation accounted for 57% of the Group's total Investments.

Secondly, higher Investments in electricity network expansion were driven by new connection points and higher contractor fees as well as smart meter roll-out.

[Slide No 17]

Turning on to Net Working Capital and Free Cash Flow figures, lower energy market prices led to lower inventory value and, in turn, a reduction in Net Working Capital, which has decreased by 51% since the end of 2022 and reached EUR 216.8 million at the end of September this year. However, despite the improvement in Net Working Capital figure, our Free Cash Flow remained negative at EUR 115.3 million in the first nine months of 2023, driven by our sizable investment programme.

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Next, our leverage metrics. Since the end of 2022, our Net Debt increased by 12.9% and stood at EUR 1.1 billion at the end of the first nine months of 2023, mainly due to negative FCF, influenced by high Investments. Despite the increase, the Group's FFO/Net Debt stood at a solid level of 39.6%, remaining well above the 23% threshold required by S&P for 'BBB+' credit rating. Net Debt/Adjusted EBITDA increased from 2.1 to 2.4 times and continues to be well below the 5 times threshold of our strategic plan.

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Finally, our guidance for 2023. No changes here as a result of the Group's performance in the first nine months of 2023, which was in line with our expectations, and we reiterate our Adjusted EBITDA guidance for the full year and expect it to be in the range of EUR 430–480 million.

There are also no changes in the directional guidance of our segments.

With that, I will hand back to Darius to conclude our earnings call.

Darius Maikštėnas, Chair of the Management Board, CEO

[Slide No 21]

Thank you, Jonas. Let me summarise the performance of Ignitis Group in the first nine months of this year.

We made a significant progress in developing our renewables Portfolio. Our Green Generation Portfolio increased by 1.2 GW to 6.3 GW, while our Secured Capacity grew by 1.3 GW to 2.9 GW.

Next, we are working on the largest onshore projects' development in the Baltics. The Group started construction of the largest wind farm in the Baltics with capacity of 300 MW in Kelmė region, Lithuania. Also, we made a final investment decision for Latvian Solar Portfolio I with total capacity of 239 MW, which is the largest solar portfolio in the Baltics.

Finally, we signed the largest external corporate PPA to date in Poland, for which electricity will be supplied by our Silesia WF II.

In addition, progress on sustainability is reflected in upgrade in the ISS ESG risk rating from 'C' to 'B-', placing Ignitis Group in the second decile of global utility peers.

Finally, on our financial highlights, we made record-high Investments, amounting to EUR 633.7 million, mainly in Green Generation and Networks. Despite this, we maintained our strong balance sheet with a 'BBB+' credit rating affirmation from S&P.

And lastly, as a result of the first nine months of 2023 results being in line of our expectations, we maintain our Adjusted EBITDA guidance for 2023 and expect it to be in the range of EUR 430–480 million.

With that, I would like to thank you for staying with us, and we are now open for you questions.

Ainė Riffel-Grinkevičienė, Chief of Staff to CFO and Head of Investor Relations

This concludes the management presentation and opens the floor for the Q&A session.

We will start with the first question we received: "Is, as reported, Vilnius CHP biomass unit is already supplying the heat to the city of Vilnius? Is electricity already being produced by the biomass unit too? If not, what are the reasons and when are you planning to supply first electricity?"

Darius Maikštėnas, Chair of the Management Board, CEO

As communicated, Vilnius CHP biomass unit in Lithuania started to generate and supply heat to Vilnius, as planned, for the heating season. Regarding electricity generation, we also generate electricity and supply it to the grid. However, it's important to understand that the power generation capacity depends on the heat production capacity and both are synchronised, meaning that the unit is not yet working at full capacity. Generally, the biomass unit is undergoing the final testing procedures and expect to reach COD by 2024.

Ainė Riffel-Grinkevičienė, Chief of Staff to CFO and Head of Investor Relations

Our next question: "There have been demands from politicians to change the Dividend Policy of Ignitis Group by allocating profits to reinvestment into the Networks segment. Are you going to change the Dividend Policy? Should we expect the suspension or reduction of dividend payments?"

Jonas Rimavičius, Member of the Management Board, CFO

So, I mean, in short, our ongoing commitment to the existing Group Dividend Policy is very strong and we don't expect changes. It is also worth highlighting that the comments were more related to the Dividend Policy of our Networks business, not the Group.

Ainė Riffel-Grinkevičienė, Chief of Staff to CFO and Head of Investor Relations

Our next question: "The EUR 160 million history. Is it possible to return the regulatory differences through the tariff later than previously planned? Are these regulated differences already included in the Adjusted EBITDA and profit indicators? Or maybe, after the start of the payment, the mentioned indicators will also decrease accordingly?"

Jonas Rimavičius, Member of the Management Board, CFO

Yes, so, first of all, to set some context, the EUR 160 million is a temporary regulatory difference related to 2016–2021 Networks' regulatory period. The amount was calculated and approved by the regulator back in 2021 as well as agreed repayment structure during 2032–2036. And this year the state audit department completed the audit of the energy sector, and one of the remarks was that were no clear criteria how this 2032–2036 period was determined. So, what we are doing right now is discussing with the regulator how to address this remark and we plan to have an agreement by the end of this year.

In terms of Adjusted EBITDA, since conceptually we show Adjusted EBITDA, eliminating those temporary regulatory differences, so it will not have any impact on Adjusted EBITDA, independently of which period those amounts will be returned.

Ainė Riffel-Grinkevičienė, Chief of Staff to CFO and Head of Investor Relations

The following question: "Polish solar portfolio has already generated first electricity. At the same time, it is expected to be delayed Q4 2024, which would mean the loss of the entire season. What part in MW of this project is expected to be late?"

Jonas Rimavičius, Member of the Management Board, CFO

Yes, so, Polish solar portfolio II is around 40 MW, and the part which is expected to be delayed is around 10 MW from the total amount. So, the amounts are very insignificant and generation of 10 MW of our solar plant is not big compared to the overall portfolio.

Ainė Riffel-Grinkevičienė, Chief of Staff to CFO and Head of Investor Relations

The next question: "The development of EV charging stations. Do you see the usage already growing? When could this project reach the financial breakpoint?"

Jonas Rimavičius, Member of the Management Board, CFO

Yes, so, in terms of EV network, we need to understand that we are still in the initial stages of both adoption of EVs and network development, so, yes, we are seeing the usage constantly growing but the break-even point is still a few years ahead of us.

Ainė Riffel-Grinkevičienė, Chief of Staff to CFO and Head of Investor Relations

The following question: "Silesia WF I turbines are already complete and the Silesia WF II is more than half-way built. When do you plan to start producing the first energy?"

Jonas Rimavičius, Member of the Management Board, CFO

Yes, so, the first energy for Silesia WF I should be generated relatively soon, best case – this year, but, in any cases, early next year. And for Silesia WF II, we also expect to see the first energy generation next year. And both projects, in any case, will be completed by the end of the next year with full generation.

Ainė Riffel-Grinkevičienė, Chief of Staff to CFO and Head of Investor Relations

Our next question: "Planned COD of the Kelmė portfolio is in 2025. When is the first energy planned for this large project? More in the 2025 first half or the second half?"

Jonas Rimavičius, Member of the Management Board, CFO

So, since it is a two-stage project, the first part will part will be launched a bit earlier than the second one. And usually for the projects of similar type, the first electricity, first power, starts to be generated one year before the full completion, so in the beginning of 2025 we can expect to see first generation, but the major amounts will come only towards the end of 2025.

Ainė Riffel-Grinkevičienė, Chief of Staff to CFO and Head of Investor Relations

One more question: "Could you please disclose the price in a 10-year corporate PPA with Umicore in Poland?"

Jonas Rimavičius, Member of the Management Board, CFO

Yes, so, as much as I would like to do so, we are bound by the confidentiality agreement and we can't disclose the price due to the contract conditions with Umicore.

Ainė Riffel-Grinkevičienė, Chief of Staff to CFO and Head of Investor Relations

The following question: "What are your thoughts on the Orsted offshore wind farm development projects' missteps in the US and how do you avoid that something similar does not happen with Ignitis Group's large offshore mega project in Lithuania and potential projects in Estonia and Latvia? What are your thoughts on large offshore projects versus smaller onshore projects?"

Jonas Rimavičius, Member of the Management Board, CFO

Yes, so, in case of Orsted, the situation was relatively straightforward, right? So, securing CAPEX, well, securing the tariff before securing CAPEX can lead you to similar situations. In our case, we have not made any commitment neither on offtake side, nor on CAPEX side and we will try to align those as much as possible so to avoid similar situations, which we are seeing in the sector.

In terms of large offshore versus onshore projects, in the offshore is where the main capacity lies and where more stable generation lies, so in the increasingly volatile generation environment, offshore is the key component to the system's stability.

Ainė Riffel-Grinkevičienė, Chief of Staff to CFO and Head of Investor Relations

The following question: "What is Clean Spark option?"

Jonas Rimavičius, Member of the Management Board, CFO

Yes, so, the Clean Spark spread is effectively the ratio between power prices, gas prices and emission allowance prices, and when that spread is positive, we can launch our gas-fired units. So, effectively it makes economic sense to generate when the price of electricity exceeds the price of gas and emission allowances. So, that's the short explanation.

Ainė Riffel-Grinkevičienė, Chief of Staff to CFO and Head of Investor Relations

Next question is: "The largest shareholder of the Group is the Ministry of Finance. What risks do you see in that, especially during the series of political elections? Do minority shareholders have the power to defend themselves against the imposition of political agenda on the company?"

Darius Maikštėnas, Chair of the Management Board, CEO

Ignitis Group has a very strong corporate governance framework with an independent Supervisory Board, chaired by an independent Supervisory Chairman. The Ministry of Finance is applying, and was applying all the time, best corporate governance practices while executing shareholder duties via the Letter of Expectations, and I have to note that, independently of political changes, the strategy of Ignitis Group is very-well-aligned with the national energy independence strategy, therefore, we will not expect significant changes in policies and execution.

Ainė Riffel-Grinkevičienė, Chief of Staff to CFO and Head of Investor Relations

We have one more question: "Hi, there, and thank you for the presentation. I wonder what could be investment range for 2024?

Also, have you discussed about increase the dividends more than the stated in the Dividend Policy of 3%?

One more question would be on the geography of operation, does Ignitis Group considers investments in Poland more than previously as well as starting operations in other European countries?"

Jonas Rimavičius, Member of the Management Board, CFO

Yes, so, regarding the range of investments for 2024, we are not disclosing that as part of our guidance yet, so I can't comment on it. I can only reiterate our strategic plans, where we state the investment plans for the next four years.

In terms of increase in dividends, I can repeat it once again, we are strongly committed to our existing Dividend Policy, which stipulates a 3% annual dividend growth. Currently, we have no plans to increase the growth rate.

And then the last bit, in terms of the geography of operations, so our main focus is on the Baltics and Poland, and we look at investments on a case-by-case basis. So, if there is an attractive investment in Poland, we look at it, if it's in Lithuania or Latvia, we also look at it. So, I wouldn't say we started to look more at Poland. We are looking at Poland consistently and constantly as we did before.

And regarding new markets. Currently, there are no plans to enter other markets.

Ainė Riffel-Grinkevičienė, Chief of Staff to CFO and Head of Investor Relations

Next question: "How is the average interest rate on your newest loans affected your average interest rate on your loans? What was the average interest on your loans last year and what it is now?"

Jonas Rimavičius, Member of the Management Board, CFO

Yes, so, our current effective interest rate is 2.5%, while at the end of last year it was 2.1%. So, the increase is not material because the majority of our borrowing portfolio is with fixed interest rates.

Ainė Riffel-Grinkevičienė, Chief of Staff to CFO and Head of Investor Relations

We have one more question: “On what electricity price is the EBITDA cadence for 2023 and 2026 based on? Could you provide the sensitivity of EBITDA guidance to electricity price?”

Jonas Rimavičius, Member of the Management Board, CFO

Yes, so, regarding both 2023 and 2026, so we based our EBITDA guidance on forward prices which we see at the time of publishing the report or the guidance. And, in terms of 2023, since the majority of our Green Generation Portfolio is contracted, the market price does not have a significant impact. So, if you would look at the numbers, 78% of our 2023 Portfolio is fixed and only 22% is exposed to electricity prices. For 2026, naturally, the sensitivity is bigger because lower part of the Portfolio is fixed for 2026.

Ainė Riffel-Grinkevičienė, Chief of Staff to CFO and Head of Investor Relations

The following question: “Does Ignitis Group plans to take part in the next offshore wind farm tender in Lithuania? Is it necessary with subsidies?”

Darius Maikštėnas, Chair of the Management Board, CEO

As announced earlier, Ignitis Group does not have, currently, plans to participate in this tender. Having said that, we have plans to secure at least two offshore wind farms across the three Baltic states. Currently, we are focusing our efforts toward Estonian seabed lease tenders.

Ainė Riffel-Grinkevičienė, Chief of Staff to CFO and Head of Investor Relations

As there are no further questions, we will conclude our call. Thank you for joining us today. If you have any questions, please contact our IR team. Thank you and enjoy the rest of your day.