Eesti Energia Unaudited Financial Results for Q2 2024

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Transcription

Introduction by Kristjan Toomela

Ladies and gentlemen, thank you for standing by. My name is Kristjan Toomela, I'm the Senior Treasury Specialist of Eesti Energia. Welcome and thank you for joining Eesti Energia 2024 unaudited second quarter financial results investor conference call. Throughout today's recorded presentation, all participants will be in a listen only mode. Should you have any questions, you may write them in the chat, or after the presentation we are available for a questions and answers session.

We will be also showing the slides on the screen as we go along. The report together with the presentation are available at our website. Today's presentation will be presented by the CFO of Eesti Energia, Marlen Tamm and I will gladly hand over to her.

Slide 3

Good afternoon, ladies and gentelmen. My name is Marlen Tamm and I'm glad to present you results of Eesti Energia Group in second quarter of 2024.

Beginning with slide number 3, we present an overview of selected operational metrics. The prevailing trend of slightly declining energy prices continues to shape both the markets and the group's operations. Sales volumes in the retail business outside of Estonia have continued to grow, now constituting 66% of total volumes, up from 64% a year ago.

The group's electricity production has seen a decline from fossile sources, while production from renewable sources has increased. Renewable electricity production now accounts for 59% of the group's total electricity output. In Enefit Green, subsidiary of the Group, new and under-construction wind farms have contributed an additional 121 GWh to the quarter's wind energy production. At Enefit Power, a subsidiary where are located our older power generation units, a growing proportion of electricity is being generated from renewable sources as well, primarily from biomass.

Distribution network volumes have remained stable year on year. Shale oil production volumes have decreased compared to the second quarter of last year due to the overhaul of the oldest oil plant, Enefit-140.Further details about the segments' results will be provided later in the presentation.

Slide 4

Turning now to slide number 4, a comprehensive overview of the main financial figures is presented, highlighting significant changes across various areas. The sales revenues of the group for the second quarter of 2024 reached 415.1 million euros, consistent with the figures from Q2 2023.

Group's EBITDA amounted to 153.5 million euros, representing a 43% increase compared to the same quarter last year. The adjusted EBITDA, which is marked on the graph with shaded area, was 158.9 million euros, marking a 37% increase compared to the second quarter of the previous year. Adjusted EBITDA excludes the impact of fluctuations in the fair values of long-term power purchase agreements.

Operating cash flow increased by 207 million euros, primarily influenced by the rise in EBITDA and also changes in working capital and derivative instruments.

Investments by the group reached 212.2 million euros. The majority of these investments were allocated to renewable energy production, with a portion also directed towards the distribution network.

Slide 5

To cover the markets, please refer to slide number 5. We begin with the electricity market, where the prices have generally declined compared to last year. Notably, the Nord Pool Estonia price, which significantly impacts Eesti Energia, increased by 2% compared to Q2 2023.

An important aspect is represented by the dark blue dotted line on the graph, indicating the Clean Dark Spread, which is the electricity price minus the CO2 price minus the cost of oil shale. This spread has remained low due to relatively low electricity prices and is currently in negative territory. This indicates that oil shale based power units are not competitive in the market, leading to decreased electricity generation from fossil sources.

Slide 6

Proceeding to slide 6, we present a brief overview of the oil markets. In the second quarter of 2024 market prices of brent and fuel oil were approximately 9-10% higher than a year ago.

Liquid fuel prices were primarily influenced by OPEC's production cuts and increased demand for fuel oil. The fluctuations in oil product prices and fuel oil prices in Q2 2024 are comparable.

Slide 7

Turning to slide number 7, we begin the financial overview of the Group's results. As previously mentioned, overall sales remained relatively stable. While most segments experienced growth, this was offset by a slight decline in the electricity and other segments. The Group's EBITDA increased, with the shale oil segment contributing the most significant growth.

The electricity segment, however, experienced a decrease in EBITDA, primarily due to the effects of realized derivative transactions, which will be discussed in subsequent slides. The distribution segment's profitability declined, negatively impacted by higher maintenance costs aimed at improving network quality. The shale oil segment's EBITDA increase was mainly driven by higher sales prices and a one-time effect of 65 million euros from additional free CO2 emission quotas. The natural gas segment's EBITDA rose by 10%. EBITDA of the Other segment was largely positively influenced by one-time income from insurance compensation.

Slide 9

Let us start with the analysis of the electricity segment by turning to slide number 9. Sales volumes increased by 18% compared to Q2 2023, primarily driven by wholesale volumes, while retail sales volumes remained stable. Sales revenues experienced a slight decrease of 1.4%, amounting to 263 million euros. This decline was mainly due to a lower electricity sales price, which fell by 16% year-on-year, despite a significant increase in renewable electricity production, which rose by 38% year-on-year.

Electricity generation reached 0.8 TWh, marking a 7% increase. This growth is mainly attributable to the newly completed wind farms and those under construction, which together generated nearly 121 GWh of wind power. The share of renewable electricity production increased and now constitutes almost two-thirds of the total electricity production.

Slide 10

Moving to slide number 10, we analyze the development of the electricity segment's EBITDA. Electricity segment contributes to 28% of Group's total EBITDA.

The solid green column represents the EBITDA, while the striped column shows the adjusted EBITDA, excluding the effects of revaluation from Power Purchase Agreements (PPA). Electricity EBITDA has decreased by 37 million euros year on year. Decrease of EBITDA is mainly caused by margin impact and gain from derivatives. Margin impact to EBITDA was approximately 10 million euros negative. However, this contains significant movements in both directions, detailed in the first bullet point on the slide.

Most significant negative effects arose from realized hedging impacts, illustrated in the "Gain on derivatives" column. In Q2 2023, the realized profit from derivatives was +47 million euros, whereas in Q2 2024, it was +3 million euros. Exceptionally high realized gain from derivatives last year primarily originated from matured derivative contracts established during the 2022 energy crisis, a period characterized by exceptionally high electricity prices. Positive impacts to EBITDA result from higher sales volume, lower fixed costs and change in value of derivate instruments.

Slide 12

Turning to slide number 12, we examine the performance of the distribution segment. During the quarter, distribution sales revenue experienced a modest increase. Volumes saw a slight rise of 2.2%, while the average sales price increased by 0.6%. Network losses were recorded at 4.2% of the electricity entering the distribution network. This represents a slight improvement from the previous year and is considered a good result overall.

Slide 13

Proceeding to next slide, the overview of distribution EBITDA has been provided where we can see a decrease compared to Q2 2023. Distribution segments EBITDA amounted to 21,1 million which is a decrease of 36%.

Largest negative impact in year on year comparison comes from margin impact which was negatively affected by higher transmission tariffs. Additionally a negative impact came from increased fixed costs which were mainly due to higher maintenance costs. The aim of increasing maintenance costs is to improve network quality.

Slide 15

Next, let's move on to shale oil operations on slide 15. In Q2 2024, there was an increase in sales revenues and prices despite a marginal decline in sales volume. Sales price rose by 13%, which resulted in a 20% increase in sales revenues.

During the second quarter of 2024, the Group's shale oil production amounted to 110.6 thousand tonnes, representing an 11% decrease compared to Q2 2023. Lower production is attributable to the overhaul of the Group's oldest oil plant, Enefit-140.

Slide 16

Moving to the next slide, we analyse shale oil EBITDA by observing notable figures in the columns labelled "Margin Impact" and "Other." The "Margin Impact" column reflects the effects of market price fluctuations without the influence of hedging. Here, we note a reduction in variable costs coupled with an increase in the average sales price, resulting in a positive margin impact of €12.4 million.

Meanwhile, the "Other" column captures a one-time gain of €65 million attributable to additional free CO2 emission allowances. Due to one-time impact of mentioned CO2 free allowances shale oil segment EBITDA accounted for more than 50% of the group's EBITDA in this quarter.

Slide 18

Turning to slide 18, we will now examine the natural gas operations. Gas sales volumes experienced a substantial increase of 37% compared to the previous year. Despite a 20% decline in sales prices, revenue from these sales grew by 10%, reaching a total of €17 million.

Slide 19

Proceeding to the next slide, we review the overview of natural gas EBITDA. The most significant positive impact in the annual comparison is attributable to changes in variable profit, which amounted to €7.8 million. Specifically, revenues increased by €1.6 million, while variable costs decreased by €6.2 million.

Slide 20

Please turn to slide 20, where we cover the segment for other products and services. This slide illustrates a decline in revenues accompanied by a notable increase in EBITDA. Specifically, EBITDA for this segment rose by €8.1 million, with the most substantial increase recorded under the "Other" category. The primary driver of this improvement was a one-time income from insurance compensation received by Enefit Power in the second quarter of 2024, amounting to €7.5 million. Additionally, heat sales revenue increased by 15%, attributed to higher sales prices.

Slide 21

On the following slide, number 21, we present a comparison between EBITDA and operating cash flows, with the latter being 269.2 million euros.

Changes in working capital amounted to +48 million euros, with significant internal movements. During the quarter, the decrease in trade receivables positively impacted cash flow by +56 million euros. Conversely, the increase in inventories negatively affected cash flow by -12 million euros.

The impact of CO2 allowances was +41 million euros, resulting from mark-to-market adjustments and entering into a swap contract. This contract involves selling allowances in the current year and repurchasing them in the following year.

The impact of derivative instruments was a+46 million euros, primarily driven by electricity derivatives, which contributed approximately 47 million euros. This includes significant collateral requirements covered in cash last year, which have since been transferred to over-the-counter (OTC) transactions, freeing up cash (+41 million euros in Q2).

Interest payments had an effect on cash flows amounting to -13 million euros.

Slide 22

Proceeding to slide number 22, we present a comparative analysis of Q2 2024 cash flows relative to the same quarter of the previous year.

Overall, total operating cash flows were 207 million euros higher than the previous year.

Changes in working capital had a positive impact of +28 million euros, reflecting significant internal movements. Specifically, trade receivables had a negative impact of approximately 6 million euros, and current liabilities also had a negative effect of 4 million euros. Conversely, inventories positively impacted cash flow by 12 million euros, while other current assets contributed positively by 27 million euros.

The impact of CO2 allowances on cash flow was positive, amounting to 13 million euros.

The most significant positive effect compared to previous year came from derivative instruments, totalling +124 million euros, with electricity derivatives contributing approximately 119 million euros. This includes the substantial collateral needs covered in cash last year, which have now been transitioned to over-the-counter (OTC) transactions, thereby freeing up cash.

The EBITDA figure contributed positively by +46 million euros.

Additionally, as no dividends were paid in Q2 2024, there was a positive impact from income tax, amounting to approximately +12 million euros.

Interest payments increased and had a negative effect on cash flow amounting to -6 million euros.

Slide 23

Turning to slide 23, we review the investment activities for the quarter. Investments increased from 181 million euros to 212 million euros compared to Q2 2023, primarily due to increased expenditures on various renewable asset developments. The current focus is on completing ongoing projects, which has resulted in elevated investment levels for this quarter. It is anticipated that investment levels will decrease slightly towards the end of 2024 as several projects reach completion.

Investments in renewable energy have emerged as the largest segment, with an increase of 55 million euros, or 74%, relative to Q2 2023.

The distribution network has also been a significant recipient of investments. While maintenance investments have remained consistent with the previous year, investments in new grid connections have decreased due to less applicants. Investments in this segment decreased by 9 million euros, or 20%, compared to Q2 2023.

Investments in the construction of the new Enefit-280 oil plant amounted to approximately 20 million euros. The plant is projected to become operational by the end of 2024.

Slide 24

Turning to slide number 24, we present an overview of the Group’s liquidity position. At the end of the quarter, the Group's cash position was 243 million euros, representing an increase of 112 million euros, or 85%, compared to the first quarter of 2024. Additionally, the Group has access to 505 million euros in undisbursed loans, of which 270 million euros are designated as liquidity loans.

Slide 25

Slide 25 provides an overview of the Group’s leverage ratios and debt repayment profile. The Group's net debt to EBITDA ratio has decreased to 3.2 times. We anticipate that the net debt to EBITDA ratio will remain below the long-term financial policy target of 3.5 times.

In July 2024, Eesti Energia raised 400 million euros of green hybrid bonds, listed on the London Stock Exchange to support its business and strengthen its financial position. The funds raised will be invested in ongoing and planned projects supporting the development of green energy.

The group's credit ratings remain unchanged, BBB- from Standard and Poor's and Baa3 from Moody's. Eesti Energia's financial policy is aimed at maintaining investment grade credit rating.

Slide 26

Turning to the 2024 Outlook on slide 26, the overall projection is stable. A slight decrease in the Group's sales revenue is expected due to lower electricity prices. However, this drop should be offset by higher sales volumes, thanks to the new renewable energy production units becoming operational.

Regarding EBITDA, a modest increase is projected. While the addition of new production assets is expected to increase profitability, this gain may be partially mitigated by a reduction in the competitiveness of oil shale based power plants.

Investments are forecasted to decrease relative to 2023 levels. The largest investments in 2024 will focus on expanding the renewable energy portfolio, improving the electricity distribution network, and developing a sustainable chemical industry.

Slide 27

To conclude today's presentation, please refer to the final slide, number 27. The Group's performance in the second quarter of 2024 resulted in a stable yet robust turnover. EBITDA increased by 42% overall, and by 37% on an adjusted basis, totaling over 150 million euros for Q2 2024. The quarter concluded with a substantial net profit of 103 million euros, and an adjusted net profit of 109 million euros. This strong financial performance supports the Group's ability to pursue investments focused on renewable energy solutions, in alignment with its long-term strategy. Investments for the quarter were 17% higher, amounting to 212 million euros.

Ladies and gentlemen, with this we conclude today's presentation, and we are now ready to take your questions. Anyone who wishes to ask a question, please use the "raise hand" feature or write a question to the chat.

Closing Comments

Seems that there are no (more) questions at this point. So, on behalf of Eesti Energia I would like to thank you for listening!