



Transcript

Investor presentation: full-year 2023 results

28 February 2024, 1 pm Vilnius / 11 am London

Earnings call transcript

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Corporate participants

Darius Maikštėnas, Chair of the Management Board, CEO
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, ladies and gentlemen, and welcome to Ignitis Group's earnings call for 2023. I'm Ainė Riffel-Grinkevičienė, Head of Investor Relations, and today I will moderate the call. During this annual results presentation, Ignitis Group's CEO will review the strategic highlights, and CFO – financial performance. Afterwards, a Q&A session will be held. Before we begin, I would like to remind that today's presentation contains forward-looking statements that are subject to risks and uncertainties. These statements are based on the management's current views, expectations, and assumptions, and actual results may differ materially from those expressed or implied. With that, I would like to hand over to Darius Maikštėnas, CEO of Ignitis Group.

Darius Maikštėnas, Chair of the Management Board, CEO

[Slide No 5]

Good afternoon, all, and welcome to our 2023 results call. In 2023, we have delivered a strong strategic and financial performance. On strategy delivery, we witnessed accelerated growth of our Green Generation business segment, with renewables portfolio increase, which now stands at 7.1 GW, and Secured Capacity growth to 2.9 GW. We also achieved a number of significant milestones on the project development front, including entering the offshore wind market by winning three offshore wind auctions in the Baltic states. Next, on the sustainability front, we are consistently continuing our decarbonisation efforts, which are also reflected in our strong ESG ratings. Finally, our growth is also reflected in our financial results as we have exceeded the top range of our Adjusted EBITDA guidance, again, made strong record-high investments and continued to fund these investments at attractive terms as a result of our strong balance sheet supported by our 'BBB+' credit rating. Let me now take you through each of highlights in more detail.

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First, on our strategy execution. In 2023, we increased our Portfolio by 2.0 GW from 5.1 GW to 7.1 GW. This is a result of acquisition of onshore wind development projects Kelmė WF I and II in Lithuania with a total capacity of 300 MW. We secured seabed sites for the expected capacity of from 1 to 1.5 GW in Estonia offshore wind tender, and the greenfield capacity additions of around 0.7 GW. Our Secured Capacity grew by 1.4 GW from 1.6 GW to 2.9 GW as the number of projects with total capacity of around 670 MW reached the construction phase, and the 700 MW Lithuanian offshore wind farm project reached the awarded/contracted stage. In terms of split of our renewables Portfolio, it continues to be dominated by onshore wind and solar projects with the share of 4.2 GW. Most projects are being developed in Lithuania and Latvia. However, we have significantly increased our Portfolio in Estonia, which now stands at 1 GW. On a project-by-project basis, despite significant milestones achieved across all Portfolio development phases, the most significant achievement, we believe, is the offshore market entry with three auction wins with a total potential capacity of 1.7 GW to 2.2 GW. For those who did not dial into our previous earning calls, I would like to remind you that we won the 700 MW Lithuanian offshore wind tender together with our partner Ocean Winds in Q3 2023. On top of that, in December of 2023 and January of this year, we won another two offshore wind tenders in Estonia with our partner Copenhagen Infrastructure Funds. We have secured two seabed sites in Liivi 1 and 2 areas and plan to develop these sites as a single offshore wind project. The capacity of offshore wind farm is expected to be between 1 and 1.2 GW, and it is expected to become operational around 2035.

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By securing an offshore project in Lithuania with COD until 2030 and another one in our home markets with COD post-2030, we have achieved the Group's strategic goal and made a significant step towards increasing our Green Generation installed capacity four times, from 1.2 GW in 2022 to 4–5 GW by the end of 2030. Moving on to the remaining technologies, on the onshore wind front, our 50 MW Silesia WF I in Poland supplied electricity to the grid for the first time. We expect to reach the COD in March of this year. And finally, Vilnius CHP biomass unit achieved partial COD for the capacity of 50 MW energy and 149 MW in thermal capacities.

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Next, I would like to highlight the progress we have made in continuing our decarbonisation initiatives to minimise our environmental impact. In 2023, we have reduced our Scope 1 and Scope 2 emissions, although the total emissions increased by 2.5% as a result of Vilnius CHP biomass unit's COD. Also, 85% of our electricity generation was green. On the health and safety front, which is our top priority, total recordable injury rates for both employees and contractors were well below the target level. Finally, we are proud to share that we have maintained leadership in sustainability, as evidenced by high ESG ratings, such as 'AA' from MSCI and 'B' from CDP, placing the Group among the top utility peers globally. With that, I conclude the strategic overview for now, and I will hand over to Jonas to continue with the financial performance.

Jonas Rimavičius, Member of the Management Board, CFO

[Slide No 10]

Thank you, Darius, and hello to you all. Let me start with the follow-up on our 2023 guidance. Our Adjusted EBITDA in 2023 reached EUR 484.7 million and exceeded the top range of our guidance, which was EUR 430–480 million. It was driven by outperformance across all business segments, with the biggest effect coming from Reserve Capacities, which exceeded the expectations the most, due to better market conditions in Q4 2023.

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Next, the financial highlights for the year. Adjusted EBITDA grew by 3.3% YoY, with growth across all business segments, except Green Generation, as expected due to lower captured electricity prices. However, Green Generation remains the largest contributor to the Group's Adjusted EBITDA, representing 46% of the total. Adjusted Net Profit increased by 12% to EUR 287 million.

In 2023, we have substantially increased our Investments, reflecting our progress in the Green Generation Portfolio, where we currently have 1 GW of projects under construction. Compared to last year, Investments increased by almost 80% and reached a record high level of EUR 937 million.

Return on capital employed decreased by 0.9 pp to 9.8%, mainly due to the time lag between the deployment of capital in investments and subsequent realization of returns. In other words, it takes a few years until the capital invested starts generating EBITDA.

Our leverage metrics remain strong with FFO/Net Debt at 29.4% and Net Debt/Adjusted EBITDA at 2.7 times. The Group's balance sheet strength is also underpinned 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 over the four-year strategic period.

Finally, in line with our Dividend Policy for 2023 we intend to distribute a dividend of 1.29 EUR per share, which is 3% higher than last year and results in a dividend yield of around 7%.

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Now let's take a closer look at our KPIs. Starting with Adjusted EBITDA, the growth from 469 million last year to almost 485 million this year was driven by, firstly, EUR 15.5 million EBITDA increase in Networks, mainly due to higher regulated asset base, which results from our substantial investment program in the electricity network, and, secondly, EUR 15.3 million EBITDA increase in the Reserve Capacities segment, where we successfully utilised the option to earn an additional return in the market on top of the regulated return. Third largest growth of EUR 14.8 million came from the Customers & Solutions segment due to better results in electricity B2B and natural gas businesses. The growth in the pre-mentioned segments was partly offset by the decline in Green Generation, which was expected due to historically high power prices in 2022.

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Now let's deep dive into the EBITDA of each segment. Starting with Green Generation, it remains the largest contributor to the Group's Adjusted EBITDA, accounting for 46% of the total, despite an 11.8% YoY decline from EUR 252 million last year to EUR 223 million this year. The main drivers behind that were lower captured electricity prices due to two main reasons. First, a decrease in overall electricity market prices, which have declined more than two times in the Baltics and by 35% in Poland, and second, the sale of 100% of electricity generated by the Pomerania WF in Poland under CfD subsidy scheme, which is lower than the market price. As a reminder, last year we sold only 20% under the CfD and 80% was sold at high market prices. Another reason for EBITDA decline in this segment was the increase in OPEX, which is natural as we continue our intensive expansion work.

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Moving on to the Networks segment, Adjusted EBITDA grew by 9.4% and amounted to EUR 180 million. The increase was mainly due to the higher value of the electricity regulated asset base, and the overall asset base increased by 6.2% from 1.3 to 1.4 billion euros due to investments made. It is worth highlighting that values for RAB and WACC are already known for the year 2024. The RAB will grow by 11% to 1.6 billion, and WACC will grow from 4.2% to 5.1%.

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Next, in the Reserve Capacities segment, Adjusted EBITDA increased by EUR 15.3 million and reached EUR 49.9 million, mainly as a result of utilised optionality to earn an additional return in the market on top of the regulated return. As a reminder, the assets in this segment are providing system reserve services, therefore, they stand still most of the time. In both 2022 and 2023, the load factor of these assets was only around 3%. For these services, the regulator essentially covers all the costs associated with these assets, including the depreciation. However, the regulator does not pay return on capital, but allows us to earn it ourselves by operating these units in the market when the price balance between electricity, gas, and emission allowances is right, also known as Clean Spark spread. And this is precisely the optionality that we successfully utilised in 2022.

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Lastly, our Customers & Solutions segment's Adjusted EBITDA increased by EUR 14.8 million and reached EUR 30.4 million. We saw an increase in both electricity and natural gas supply businesses. In 2023, the electricity B2B segment turned positive, mainly due to the result in effective hedging, while natural gas business recorded a positive effect from adjusted methodology for calculation of income related to customer over-declaration.

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Next, as already mentioned in the beginning, our Investments increased by almost 80% YoY, reaching a record-high level of EUR 937 million in 2023. The main drivers for this increase were the following. Firstly, more than twofold increase in Green Generation Investments, which exceeded half a billion euros and were mainly made in new wind farm projects in Lithuania and Poland as well as Vilnius CHP biomass unit and Kruonis PSHP expansion project. And secondly, higher Investments in electricity network expansion driven by new connections and smart meter rollout. It is worth highlighting that Investments made in Green Generation accounted for 58% of the Group's total Investments.

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Turning to our Net Working Capital numbers, lower energy market prices led to significant reduction in Net Working Capital. It has decreased by 60% since the end of 2022, down to EUR 175 million at the end of 2023. The main drivers for lower Net Working Capital, both caused by lower energy prices, were decrease in inventory value and decrease in trade receivables.

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Adding it all together, our free cash flow metric was negative in 2023 at EUR 212 million, driven by Investments made.

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Regarding the leverage metrics, our Net Debt increased by 33% and stood at EUR 1.3 billion at the end of 2023, mainly due to negative free cash flow influenced by high Investments. Despite the increase, the Group's FFO/Net Debt remained at solid level of 29.4%, remaining well above the 23% threshold required by S&P for 'BBB+' credit rating. Net Debt/Adjusted EBITDA also remains very healthy at 2.7 times and continues to be well below the five times threshold of our four-year strategic plan.

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Finally, our guidance for 2024. For 2024, we expect our Adjusted EBITDA to be in the range of EUR 440–470 million, driven by our two largest segments, Green Generation and Networks. In Green Generation, we expect our Silesia WF I and II in Poland with a total capacity of 187 MW to reach

COD this year, while in Networks, the result is expected to be driven mainly by higher WACC approved by the regulator. In terms of Reserve Capacities and Customers & Solutions segments, we expect lower EBITDA in 2024 due to better-than-usual results in 2023. On top of the Adjusted EBITDA guidance, we are also providing a full-year Investment guidance, and for 2024, we expect Investments to be in the range of EUR 850 million to EUR 1 billion, mainly driven by Green Generation and Networks. In Green Generation, the main Investments will be related to construction works of Kelmė WFs with a total capacity of 300 MW in Lithuania, Latvian solar portfolio I with a capacity of 239 MW and Kruonis PSHP expansion project with a capacity of 110 MW. And in Networks, as usual, we will continue to invest in the electricity grid expansion and maintenance. With that, I will hand back to Darius to conclude our earnings call.

Darius Maikštėnas, Chair of the Management Board, CEO

[Slide No 23]

Thank you, Jonas. Let me summarise Ignitis Group's performance in 2023. We again delivered strong strategic performance, evidenced by our Green Generation Portfolio increase from 5.1 GW to 7.1 GW and Secured Capacity growth from 1.6 GW to 2.9 GW. Also, we secured the largest renewable energy projects in the Baltics. We won three offshore wind auctions with a total potential capacity between 1.7–2.2 GW. And lastly, our projects under construction as of now stands at 1 GW.

Next, on the sustainability front, we decreased our scope 1 and scope 2 emissions and maintained the vast majority of our electricity generation to be green, improved operational health and safety metrics, also retained employee satisfaction, reflected in Top Employer certificate for third consecutive year. And, in turn, maintained leadership in sustainability as evidenced by high ESG ratings, placing the Group among the top utility peers globally. Finally, our financial highlights. We again exceeded full-year guidance of EUR 484.7 million in Adjusted EBITDA, made record-high investments amounting to EUR 937.1 million, maintained a strong balance sheet with a 'BBB+' credit rating with stable outlook referred by S&P. And for 2024, expect our Adjusted EBITDA to be in the range of EUR 440–470 million and Investments in the range of EUR 850 million to EUR 1.0 billion.

With that, I would like to thank you for listening and we are now open for your questions.

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

This concludes Ignitis Group's annual results presentation and opens the floor for questions. We will start with the ones we have received in advance.

The first question is: "Kruonis PSHP hydro unit's major repair was delayed to the end of March. What are the reasons? Would that date be final?"

Jonas Rimavičius, Member of the Management Board, CFO

Yeah, so regarding Kruonis PSHP, it's business as usual. When we did a detailed evaluation for the planned maintenance work, we found that some additional work is needed to be done, hence the maintenance was extended. Regarding the date, yes, it is the current estimate of the final date.

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

Next question: "Ignitis Group has a EUR 37.7 million treasury shares reserve. Are there plans to launch share buyback in the foreseen future? If not, why this reserve is still held?"

Jonas Rimavičius, Member of the Management Board, CFO

Yeah, so there are currently no plans to launch a buyback programme and this reserve will be cancelled this year, and it's actually one of the questions in the general shareholders' meeting.

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

The following question: "Saare 1 Estonian offshore wind auction ends tomorrow. "Ignitis Renewables Projektai 6" is also participating. Are you planning to place bids, participate actively? Does Ignitis Group see possibilities to expand its offshore wind portfolio even more than already announced winnings?"

Jonas Rimavičius, Member of the Management Board, CFO

Yes, so regarding the first one, so since the auction is still ongoing, we will not comment, but I will say that our Liivi 1 and Liivi 2 plots are preferred ones to this one. In terms of the second part of the question, again, we are constantly evaluating the opportunities, but currently there is no new information regarding that.

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

Next question: "Would Ignitis Group participate in the second offshore wind auction in Lithuania?"

Darius Maikštėnas, Chair of the Management Board, CEO

As we already achieved our strategic targets, at the current moment we do not have such plans.

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

One more question: "What are the reasons that Vilnius biomass units still have not reached the full COD? When is it planned to reach it?"

Jonas Rimavičius, Member of the Management Board, CFO

Yes, so the reasons, first of all, the Vilnius CHP has reached partial COD at the end of the year for the majority of the plant's capacity, to be precise, for around 85% of that capacity. The delay is related to the ongoing testing procedures. That's the current status. We are expecting to finalize the project as soon as possible, but it is already operating with a large share of potential capacity and providing the heat to Vilnius city.

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

Next question: "All the turbines in Silesia WF II project are already installed. When should we expect the first energy production there?"

Jonas Rimavičius, Member of the Management Board, CFO

We expect the COD in Silesia WF II to take place in the second half of the year. Regarding the first power, currently we are working with the Polish network operator because now the outstanding works are on their side, so as soon as they are done, we will be able to generate the first power. On our part, all the works in Silesia WF II are done.

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

Following question: "Solar PV prices went down sharply. Are you making steps to speed up or expand solar installations using this opportunity?"

Jonas Rimavičius, Member of the Management Board, CFO

Yes. In short, we are working on our solar project, which we have in the pipeline, and yes, we have already locked in those favourable rates for our Latvian solar portfolio I and we plan to do more of that in the near future.

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

Next question: "H2 projects' start in Lithuania. Are you also planning to start your own or partnered projects in the foreseen future in this direction? Are there already flexible electrolysis units available?"

Darius Maikštėnas, Chair of the Management Board, CEO

You are right. H2 and green hydrogen investment direction has a real significant part in our further growth strategy. While saying so, we cannot announce any particular separate project at the moment, and we will announce them later on when we will be ready.

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

Next question: "Congrats on stellar results. Could you please share your power prices expectation for 2024 behind guidance and long-term?"

Jonas Rimavičius, Member of the Management Board, CFO

Yes. Thank you for good words. Regarding the price expectation for 2024, so our Green Generation Portfolio is 74% hedged at roughly 130 EUR/MWh. The remaining bit will be sold on the market prices, which we currently see similar, maybe slightly lower, than 2023, meaning between 80 EUR and 90 EUR. Regarding the long-term power price forecasts, this is, as usual, not an easy exercise, but as a general trend, we think prices will normalize around current levels and will slowly increase towards 100+ EUR in the longer term.

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

The following question: "Could you please indicate if EBITDA in hydro assets, Kruonis and Kaunas, were comparable to the level of 2022 or provide any kind of granularity?"

Jonas Rimavičius, Member of the Management Board, CFO

Currently, we don't split our Green Generation results by assets, so unfortunately, I cannot comment on this one.

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

Next question: "Any thoughts about share buyback?"

Jonas Rimavičius, Member of the Management Board, CFO

Again, as already mentioned, no plans currently.

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

One more question: "Could you please remind the CfD price for Pomerania WF?"

Jonas Rimavičius, Member of the Management Board, CFO

Out of the top of my head, it's around 62 EUR and it gets inflated annually, but this is disclosed in our annual report, so a more precise figure could be found there.

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

The next question: "What is total wind and solar power installed, gigawatts working already?"

Jonas Rimavičius, Member of the Management Board, CFO

So, in total, we have around 240 MW of wind in operation and around 1 GW of wind and solar under construction, meaning that they will be launched this or next year.

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

The next question: "Do you see a risk that rising costs will stop or delay your plans for new offshore wind farms in the Baltic region?"

Jonas Rimavičius, Member of the Management Board, CFO

Yes. Regarding the rising costs for the offshore, in general, we are now at the peak of the prices, so we even expect to see some normalisation. Right now, we are going ahead with our offshore plans and when the time comes to fix those CAPEX contracts, then we will do that only if we see the economic sense. So, currently, we are progressing as planned, and no changes there.

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

The following question: "Should the power bidding zones of the three Baltic countries be merged to facilitate a larger market for hedging future production and consumption?"

Darius Maikštėnas, Chair of the Management Board, CEO

You are right. There are plans of merging power bidding zones across three Baltic states. We are looking positively towards that development. Most likely, it will be implemented after the synchronisation to the European continental networks.

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

The following question: "Given your guide Reserve Capacities Adjusted EBITDA to be lower this year, are you expecting Clean Spark spread to be less favourable over the course of the year, or how do you view the performance, since the current natural gas and emission allowances' pricing should be rather favourable?"

Jonas Rimavičius, Member of the Management Board, CFO

Yes. The reason why we expect it to be lower is that it is not that much the average Clean Spark spread for the year, which is important, it is those periods with a very favourable Clean Spark spread. We had last year a few windows where it was very favourable, and this year, we don't expect it to be so. Even though the average Clean Spark spread might be better throughout the year, but the volatility which we have seen in Clean Spark spread last year was, in our view, a bit exceptional. This year, we do not expect that to happen. That being said, it could be the case. That is the beauty of our optionality in this segment. If it will be the case and if there will be those opportunities, we will be able to capture them.

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

The next question: "Estonian wind offshore options. Are there penalties if not constructed, if conditions would be not favourable at time of FID?"

Jonas Rimavičius, Member of the Management Board, CFO

No, there is no penalty. Currently, it is also the optionality which we have. The only sunk cost at the moment is the bid in the auction, which was 1 and 2 million for the projects which we currently won. That is the only exposure.

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

As we have no further questions, this concludes today's earnings call. Thank you, all, for joining us. If you have any further questions, please do not hesitate to reach out to our Investor Relations team. Thank you, again, for your participation and have a great day.