



Transcript.

Investor presentation: 6M 2024 results

14 August 2024, 1 pm Vilnius / 11 am London

Earnings call transcript

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Disclaimer

In the event of any discrepancy between the Lithuanian and English versions, the English version shall prevail.

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]

Hello, everyone, and welcome to Ignitis Group's results call for the first half year. I'm Ainė Riffel-Grinkevičienė, Head of Investor Relations, and I will moderate today's presentation. We are also joined by the CEO and CFO of Ignitis Group, who will present both the strategic and financial performance for the reporting period.

This will be followed by a question-and-answer session. Before we begin, I would like to remind you that today's presentation contains forward-looking statements that are subject to risks and uncertainties. These statements are based on the management's current beliefs, expectations and assumptions and actual results may differ materially from those expressed or implied. Speakers, you may now begin.

Darius Maikštėnas, Chair of the Management Board, CEO

[Slide No 5]

Hello, everyone. Let me start with the highlights of the first half of 2024.

First, our strategic performance: we continued to grow our Green Capacities Portfolio, adding 0.6 GW to 7.7 GW. We increased our Installed Capacity by 0.1 GW to 1.4 GW and achieved significant milestones as we completed 3 projects.

Second, our sustainability efforts. We reduced Scope 2 emissions, maintained good occupational health metrics, and improved our ESG ratings.

And finally, our financial performance: we increased our Adjusted EBITDA by 14.3% to EUR 289.7 million. We grew our Investments by 4.9% to EUR 422.3 million. Next, S&P Global Ratings reaffirmed the Group's 'BBB+' credit rating with a stable outlook. Also, for 6M we propose to distribute a dividend of EUR 0.663 per share. And followed by our strong results, we increase our 2024 Adjusted EBITDA to EUR 450–480 million (from EUR 440–470 million). Our Investment guidance remains in the range of EUR 850–1,000 million. Let me now cover each highlight in more detail.

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Firstly, on the progress we have made in implementing our strategy in terms of green capacity additions: in the first half of 2024, we increased our Green Capacities Portfolio by 0.6 GW, from 7.1 GW to 7.7 GW. This is a result of greenfield capacity additions as we secured land for the development of hybrid projects in Latvia and secured grid capacity for our first BESS projects in Lithuania. We also increased our Installed Capacity from 1.3 GW to 1.4 GW as Silesia WF I project in Poland has reached COD in March and Vilnius CHP biomass unit has reached full COD for the remaining 21 MWth and 21 MWe capacity in May. After the reporting period we increased it further by 22.1 MW as the Tauragė solar farm in Lithuania reached COD in July. Our Secured Capacity stood at 2.9 GW. In terms of the breakdown of our Portfolio, it continues to be dominated by wind projects with a share of 4.6 GW. Most of the projects are being developed in Lithuania, accounting for 4.5 GW, and the generation part represents the largest part of our portfolio with a capacity of 6.4 GW.

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Next, our progress on project execution: I would like to highlight a few points here. First, Installed Capacity. Since the end of 2023, we have completed 3 projects after reaching their COD – Silesia WF in Poland with a capacity of 50 MW, Vilnius CHP biomass unit reached full COD and is now operating at full capacity of 71 MWe and 170 MWth, we also completed our first hybrid project in Lithuania. We built a 22 MW solar farm on the site of an existing wind farm. We have also made progress with projects under construction. I would like to draw your attention to the largest 300 MW wind farm under construction in the Baltic states in Kelmė, Lithuania, where we have installed the first wind turbine. It is 240 metres high and has an installed capacity of 7 MW. These are the largest and most powerful wind turbines to be built by the Group. The wind farm is expected to reach COD in 2025 and will generate enough electricity to meet the needs of 250,000 households in Lithuania. On top of that, we made further progress with early development projects. We have secured land for the development of 314 MW hybrid projects, so to say, we are planning to develop wind farms near our Latvian solar projects. And secured around 260 MW of grid capacity for our first BESS projects in Lithuania.

The implementation of the remaining projects in the Green Capacities Portfolio is progressing as planned, with no significant changes since Q1 2024 with one exception. At our 137 MW capacity Silesia WF II project in Poland, we have completed the construction works both on time and on budget, with all turbines erected, installed and fully prepared for operation. However, due to the delays in reinforcing the grid, we now expect the wind farm to be in partial operation in Q4 2024, with its full capacity COD and operation in Q1 2025. Previously we expected it in H2 2024.

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And finally, our progress towards sustainability excellence. Firstly, on GHG emissions: our market based total emissions increased by 14.4% YoY due to increase in out-of-scope emissions as a result of Vilnius CHP biomass unit operations as it has reached full COD for the remaining capacity of 21 MWth and 21 MWe in May 2024. Despite that, we reduced our Scope 2 emissions by 41.9% due to the use of renewable energy guarantees of origin for a share of Kruonis PSHP electricity consumption and a share of electricity distribution network losses. Second, we increased Electricity Generated by 36.7%, mainly due to the generation of new assets, such as Mažeikiai WF, Silesia WF I and Vilnius CHP biomass unit. The growth was further supported by Elektrėnai Complex, where all three units were operating simultaneously in commercial mode for the first time ever due to the severely cold weather in the Scandinavian countries and decreased electricity production capacities in the region. This in turn resulted in the Green Share of Generation decrease by 7.7 pp to 84.8%. Third, the total recordable injury rate for our employees increased to 1.00 as the number of safety incidents increased from 3 to 4. No fatal incidents were recorded.

And on the ESG ratings and rankings. Sustainalytics improved the Group's ESG risk rating from 'medium' to 'low'. And ISS ESG improved the Group's rating from 52.7 points to 54.8 points, and the rating remained at a 'B-' level. For now, I will conclude the review of our strategic performance and hand over to Jonas for the financials.

Jonas Rimavičius, Member of the Management Board, CFO

[Slide No 10]

Thank you, Darius. Let me start with the financial highlights of H1 2024. We have again delivered a strong set of results. Adjusted EBITDA grew by 14.3% YoY. Growth was driven by better results in Green Capacities and Networks segments.

Adjusted Net Profit increased by 9.7% and reached EUR 164.6 million, driven by higher Adjusted EBITDA. We have continued our extensive Investments program. Our Investments increased by 4.9% YoY and reached EUR 422.3 million.

Return on Capital Employed decreased by 0.9 p.p. to 10.4%, mainly due to the lag between the deployment of capital in Investments and subsequent realisation of returns. Leverage metrics remained strong, with FFO/Net Debt at 32.0%, and Net Debt/Adjusted EBITDA at 2.7 times.

Accordingly, S&P Global Ratings has reaffirmed our 'BBB+' credit rating with a stable outlook. Finally, in line with our Dividend Policy, we propose to distribute a dividend of 66.3 cents per share, or EUR 48.0 million in total for H1 2024, which is 3% higher than last year. Of course, it is still subject to the decision of our EGM.

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Now let's take a closer look at each of our KPIs. Starting with Adjusted EBITDA, it has increased by EUR 36 million YoY and reached EUR 289.7 million.

Green Capacities' EBITDA grew by EUR 25 million, mainly due to the launch of new assets and higher captured electricity prices, due to the flexibility of our assets.

Networks' EBITDA grew by EUR 27 million, mainly due to higher RAB, as a result of continued Investments into our electricity network, and higher regulatory WACC, which reflects higher interest rate environment. It also includes a temporary volume effect that will level off over the year.

Reserve Capacities' EBITDA was lower by EUR 7 million, due to extraordinary conditions to earn additional return in the market during Q1 2023.

And Customers and Solutions' EBITDA was lower by EUR 10 million, driven by lower B2B natural gas supply result, which was partly offset by better B2B electricity supply results in Latvia and Poland.

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Next, let's deep dive into the EBITDA of each segment. Starting with Green Capacities: its EBITDA increased by 23% YoY and reached EUR 134.5 million. It continues to remain the largest contributor to the Group's Adjusted EBITDA, accounting for 46% of the total. The main drivers behind that were, firstly, the launch of new assets, Mažeikiai WF and Vilnius CHP biomass unit in Lithuania and Silesia WF I in Poland, secondly, higher captured electricity prices, mainly due to the flexibility of our assets. However, the growth was partly offset by OPEX increase as a result of continued intensive expansion.

[Slide No 13]

Moving on to the Networks segment, its Adjusted EBITDA grew by 30% and amounted to EUR 115.7 million. The increase was mainly due to higher Regulated Asset Base, which increased by 10.8%, from EUR 1.4 to 1.6 billion as a result of continued Investments into electricity network, higher WACC set by

the regulator, which increased from 4.1% to 5.1%, reflecting the higher interest rate environment, and a temporary volumes effect, which will level off during the year.

[Slide No 14]

Next, in Reserve Capacities segment, we delivered strong performance in both first halves of 2024 and 2023 as we utilised the optionality to earn additional return in the market on top of the regulated return. However, due to extraordinary market conditions in Q1 2023, YoY EBITDA decreased from EUR 32 to 25 million.

[Slide No 15]

Lastly, Customers & Solutions Adjusted EBITDA was lower by EUR 10 million YoY and amounted to EUR 11.8 million, driven by several factors. The decrease was driven by lower B2B natural gas supply results and it was partly offset by better B2B electricity supply results in Latvia and Poland.

[Slide No 16]

Next, Investments. We have increased by 4.9% YoY and reached EUR 422 million. Two thirds of our Investments were made in Green Capacities, and one third in the Networks segment. Green Capacities' Investments increased by 15% and reached EUR 269.6 million, mainly because of the construction Kelmė WF in Lithuania. In the Networks segment, we invested EUR 135.8 million, mainly in electricity network expansion and maintenance. The Investments decreased YoY due to record-high investments last year and smart meter installation project approaching completion.

[Slide No 17]

Turning to our Net Working Capital numbers, it has decreased by 35% since the end of 2023, down to EUR 113.7 million at the end of Q2 2024. The main drivers for lower Net Working Capital were a decrease in inventory, due to lower natural gas volumes in storage, and lower trade receivables, mainly due to lower energy prices and lower volumes sold.

[Slide No 18]

Adding it all together, our Free Cash Flow metric was negative, as expected, and amounted to EUR -105 million as a result of Investments made exceeding Adjusted EBITDA and Net Working Capital change.

[Slide No 19]

Next, our leverage metrics. Our Net Debt increased by 7.1% and stood at EUR 1.4 billion at the end of Q2 2024. FFO/Net Debt improved to 32%, well above 23% threshold of S&P credit ratings agency required for 'BBB+' credit rating, and Net debt/Adjusted EBITDA stood at 2.7x. As a result S&P has reaffirmed our 'BBB+' credit rating with stable outlook.

[Slide No 21]

Finally, our guidance for 2024. Following our better-than-expected performance in the first half of the year, we increase our full-year 2024 Adjusted EBITDA guidance from EUR 440–470 million to EUR 450–480 million.

There are no changes in directional Adjusted EBITDA guidance for business segments. Our Investments guidance also remains unchanged, in the range of EUR 850 million to EUR 1 billion.

With that, I hand over the word to Darius.

Darius Maikštėnas, Chair of the Management Board, CEO

[Slide No 22]

Thank you, Jonas. Let me summarise Ignitis Group's performance in the first half of 2024. On our strategic performance, we increased our Green Capacities Portfolio by 0.6 GW to 7.7 GW and grew Installed Capacity by 0.1 GW to 1.4 GW. Next, on our sustainability initiatives, we reduced Scope 2 emissions, maintained good occupational health and safety performance and improved our ESG ratings. And finally, on our financial performance, our Adjusted EBITDA grew by 14.3% YoY and reached EUR 289.7 million. We increased our Investments by 4.9% to 422.3 million euros. In addition, S&P Global Ratings reaffirmed the Group's 'BBB+' credit rating with a stable outlook. Also, in line with our Dividend Policy, for the first half of this year we propose to distribute a dividend of EUR 0.663 per share. And finally, followed by our strong performance, we increase our full-year 2024 Adjusted EBITDA guidance from EUR 440–470 million to EUR 450–480 million. Our Investments guidance remains in the range of EUR 850 million to EUR 1 billion.

With that, I would like to thank you for listening to us today.

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

[Slide No 23]

Thank you to the speakers. This concludes our presentation and open the floor for Q&A session. The first question we have: "Congrats on the mind-numbing results! Could you please elaborate a bit on the asset rotation program? For example, do you see any signs that the environment is improving and appetite from financial investors for buying non-controlling stakes in renewables projects is gradually returning? Or is it still too gloomy out there? If so, what's hindering the market, in your view? Many thanks!"

Jonas Rimavičius, Member of the Management Board, CFO

So, in terms of asset rotation, we stick to our policy of commenting the progress only after binding agreements are signed.

To give you a general comment, the interest seems to be strong for our assets, which are well developed, well-built and contracted with bankable long-term PPAs.

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

Next question: "Could you also please elaborate a bit on the PPA pricing trend? It seems that the average PPA price in concluded agreements is crawling down a bit. I wonder what kind of average prices new PPA agreements are signed at (arguably lower) and what are the reasons behind that? And would also appreciate if you could indicate whether the average length of new PPA agreements is getting shorter or not? Thanks!"

Jonas Rimavičius, Member of the Management Board, CFO

So, in terms of the PPA trends, we don't see any meaningful changes compared to the last quarter. So, our wind PPAs are being signed at similar levels. Maybe for solar, we are seeing a downward trend in terms of PPA price levels, but overall, no meaningful changes for now.

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

Following question, we have: "Could you please quantify the negative effect on Adjusted EBITDA in the Customers & Solutions segment from the normalised COGS levels (in B2B natural gas supply) in Q2

2024? And elaborate a bit on what this means, please? It seems that the natural gas prices have little changed in QoQ, so, it's a bit puzzling to understand what could have caused negative profitability in gas trade in Q2."

Jonas Rimavičius, Member of the Management Board, CFO

So, in terms of natural gas result, this year's result is actually more or less reflecting the true view, while last year we had positive impact from inventory write-down reversal, which means that last year the result was on the higher side due to this write-down reversal.

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So, we did a write-down in 2022, and then it was reversed in H1 2023, which means that the result in 2023 was slightly distorted, but this year, even though we see a decline YoY, the natural gas result itself is more or less in the normal range.

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

Next question: "H1 of this year Adjusted EBITDA reached around EUR 290 million, or 60% of the updated guidance. Last year H1 Adjusted EBITDA accounted for around 50% of total annual EBITDA. Could you please elaborate what makes you anticipate deterioration in result in H2, given that the comparison base (Adjusted EBITDA in H2 2023) is very manageable?"

Jonas Rimavičius, Member of the Management Board, CFO

So, firstly, this YoY proportional comparison is not always correct due to factors such as new asset launch dates, energy price development on a monthly basis and other things.

If I talk specifically about H2 of 2024, we expect some deterioration compared to H1 due to the following reasons: firstly, Reserve Capacities have stronger than expected result in H1, which we don't expect in the base case in H2, and, secondly, Networks business had a positive temporary volume effect in H1, which will reverse in H2. So, those two are the main reasons, there are some smaller ones as well, but we think that the current proportions are reasonable.

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

One more question: "105 MW Kelmė WF I is almost complete, 13 out of 16 turbines are installed. There are rumours that first electricity produced could happen already September/October. When should we expect the first electricity produced there?"

Jonas Rimavičius, Member of the Management Board, CFO

So, you are right. Hopefully we'll have first power in Kelmė still this year. However, the main goal is obviously not the first power, but the completing the project fully next year. So that's our focus, and if we achieve first power this year, great, if not, the main target is to complete the project within the time line, which is communicated, which is next year.

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

Next question: "Lithuanian offshore wind second tender, when should the auction start? Is Ignitis Group going to participate? Are there plans to have a partner for this potential project?"

Jonas Rimavičius, Member of the Management Board, CFO

So, regarding the start date of the tender, according to the draft legal act, it is expected to start this year. Regarding our own participation and partnership approach, we are currently in the analysis phase. So, no decisions have been made yet. So, nothing more to comment at this point.

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

Next question: "When should we expect first Ignitis Group's commercial battery projects? Also are there any steps already done towards hydrogen projects?"

Jonas Rimavičius, Member of the Management Board, CFO

So, in terms of first commercial battery projects, what we have communicated in our strategic plan, that we expect first commercial scale batteries by 2027, that still holds. We are working on multiple projects, but now we haven't made any final investment decisions regarding batteries yet. On the hydrogen projects, we are, again, in the analysis stage of exploring various options, and so, I think, nothing to comment at this point, but in the background there's a team, which is dedicated for that and working to make sure that we have those projects in the future.

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

Following question: "What are the reasons for Adjusted EBITDA being negative EUR 5.6 million from Customers & Solutions segment in Q2?"

Jonas Rimavičius, Member of the Management Board, CFO

So, the main reason continues to be the same. It's the negative result on the B2C electricity side.

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

One more question: "Given that the guidance uplift is direct from Reserve Capacities segment and updated performance direction hasn't changed in H1 2024 (or you see it changing in H2?), would it be fair to assume that the magnitude of Adjusted EBITDA declining in H2 of the year in the segment will remain on par with what we have seen in H1, that is approximately 20%?"

Jonas Rimavičius, Member of the Management Board, CFO

Regarding Reserve Capacities, we had better than expected H1, and in H2 we expect to, in the base case scenario, we expect to earn the usual level of EBITDA, which we are, in the typical year, we used to see around the EUR 20 million coming from Reserve Capacities in a year, so that's our base case expectations for the second half, so, half of that amount.

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

Next question: "Was it better clean spark spread that allowed to improve Adjusted EBITDA in Q2 YoY in Reserve Capacities segment?"

Jonas Rimavičius, Member of the Management Board, CFO

Yeah, you could say it like that, but what we are also seeing is, due to more renewable generation on grid, bigger volatility in generation volumes, it seems that the opportunities to generate with the Reserve Capacities' assets are more common, which is of course also reflected in positive clean spark spread in these periods but, due to the volatility in the market, there are simply more opportunities for these assets to generate.

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

Next question: "At which point will you consider tightening the guidance range for this year?"

Jonas Rimavičius, Member of the Management Board, CFO

Well, I mean, I cannot really comment on that. We provided the updated guidance with the range, where we feel comfortable with. We think it's already quite narrow, and we'll see whether we will gain more confidence as the year progresses. But currently, we can't really comment if we will narrow the guidance any time later on the year.

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

One more question: "You have about EUR 400 million in CAPEX remaining to be done to complete the projects that are currently under construction. Could you elaborate, how will this be distributed between further loan drawdown and equity, cash on hand plus operating cash flow? Is the external financing fully secured for all the projects under construction?"

Jonas Rimavičius, Member of the Management Board, CFO

So, a typical project for us is being financed by a 60–70% in debt, and then the remaining part in equity, which means our cash generated by the operations, and for the project financing part, for the debt part, we are currently in a number of active financing processes, so, not all of that debt has been secured yet, but we see no reason why it shouldn't be secured in the due course. If we have any delays in the financing, we have very sizable buffer of the liquidity facilities, which currently stands at EUR 700 or 800 million. So, we have a quite a big buffer of the liquidity facilities, and the project will be financed at 60–70% through debt, and the remaining through equity.

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

The following question: "Once the Networks 10-year Investment Plan is completed, what would you deem to be ballpark figure for annual maintenance CAPEX to maintain the grid? Or what's the maintenance CAPEX level today if one excludes all investments that are related expansion updates?"

Jonas Rimavičius, Member of the Management Board, CFO

So, in terms of, assuming that the 10-year Investment Plan is completed and there are no expansion investments, the maintenance is at similar to our depreciation charge levels, which currently are at around EUR 100 million. But that's, I would say, a simplistic assumption because to assume that after this 10-year Investment Plan for the Networks that the expansion investments would stop, it's a simplified assumption. We think that it will continue growing for the foreseeable future, knowing that the age of the network and the need for investment into the network if we want to successfully do the energy transition.

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

Next question: "EstLink 2" is expected to be operational again by mid Q3. Do you see this bearing the risk for your guidance as it assumed to lower Baltic spot prices meaningfully?"

Jonas Rimavičius, Member of the Management Board, CFO

No, we don't see a risk for our guidance because this is included in our estimate for the power prices in H2 of the year.

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

One more question: "How is going the process of sale of 49% of the shares in Vilnius CHP? Have you gained any interest or concrete offers to buy 49% of Vilnius CHP's shares?"

Jonas Rimavičius, Member of the Management Board, CFO

So, I already gave a comment on our asset rotation plan. So, again, we are not commenting the progress until binding agreements are signed but, in general, we see a strong interest for our assets, which are well developed, well constructed and with the long-term bankable PPAs in place, and Vilnius CHP is one of such assets.

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

The following question: "Solar investments, what the situation is now? Are prices for installations still going down? Is Ignitis Group still preferring wind as producing at higher average price?"

Jonas Rimavičius, Member of the Management Board, CFO

So, for solar, there is still some downward progression on the CAPEX, but we still see the average CAPEX of new solar at around EUR 0.5 million/MW. And yet for sure, we are still preferring wind as it is a more natural technology for our region, and solar is reaching the saturation point in our region.

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

And the last question: "Are you considering share buybacks as well, if not, then why?"

Jonas Rimavičius, Member of the Management Board, CFO

Well, currently, we aren't considering buybacks. The reason why is that our method for returning cash flows to shareholders is through dividend, and we have a clear Dividend Policy, which is our main method of returning cash to the investors, and we are sticking to it in the foreseeable future.

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

That concludes today's earnings call. Before we close, I would like to take this opportunity to invite all shareholders to our first International Investor Day 2024, which will take place on 13 and 14 September. During the event, everyone will have the opportunity to meet the management and visit our two sites. Registration is open until 2 September. Thank you for joining us and have a great rest of the day.