Transcript.

Investor presentation: 9M 2024 results

13 November 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]

Good afternoon, ladies and gentlemen, and welcome to Ignitis Group earnings call for the first nine months of 2024. Thank you, for joining us today. I'm Ainė Riffel-Grinkevičienė, Head of Investor Relations, and I will moderate today's presentation, during which the CEO and CFO of Ignitis Group will present 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. With that, I would like to hand over to Darius to start with the strategic highlights.

Darius Maikštėnas, Chair of the Management Board, CEO

[Slide No 5]

Good afternoon, everyone. Let me start with the highlights of the first nine months of 2024.

First, on our strategy delivery, we continued to expand our Green Capacities Portfolio, in total adding around 600 MW to 7.7 GW, of which we increased both the secured and installed capacity. On top of that, we achieved significant milestones when delivering the projects. The first power to the grid was supplied in Silesia WF II and Kelmė WF, and a Final Investment Decision on Tume solar farm was made.

Next, on our sustainability efforts, our Green Share of Generation amounted to 83.6%. We reduced Scope 2 emissions by 34.5%. Our recorded TRIR is below the target threshold, both for employees and contractors. And we maintained high rankings in ESG ratings.

And finally, on our financial performance, we increased our Adjusted EBITDA by 15.0% to EUR 397.0 million, maintained a strong balance sheet, as evidenced by S&P's affirmation of our 'BBB+' credit rating with a stable outlook. Also, for 6M 2024 we proposed to distribute a dividend of EUR 0.663 per share. In line with our Dividend Policy, we have paid dividends for the first half of this year. And following the strong performance of our Green Capacities segment, we increased our full-year 2024 Adjusted

EBITDA guidance and updated Investment guidance. Let me now take a closer look at each of the highlights.

[Slide No 6]

As just mentioned, so far this year, we increased our Green Capacities Portfolio by around 600 MW, from 7.1 GW to 7.7 GW. This is mainly due to the greenfield capacity additions as we secured land for the development of hybrid projects in Latvia and secured grid connection capacity for our first BESS projects in Lithuania. We also increased our Secured Capacity by around 200 MW, from 2.9 GW to 3.1 GW. Tume solar farm in Latvia has reached the construction phase, and compared to the end of 2023 we increased our Installed Capacity by around 100 MW, from 1.3 GW to 1.4 GW, as three of our projects reached the commercial operation date: Silesia WF in Poland and Vilnius CHP biomass unit and Tauragė solar farm (both in Lithuania). 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 6.3 GW.

[Slide No 7]

Next, our progress on project execution. In addition to two projects, a 300 MW Kelmė WF in Lithuania and a 137 MW Silesia WF in Poland, which are progressing on schedule, with construction underway and electricity already being generated, a final investment decision was made for the 174 MW Tume solar farm in Latvia. After the reporting period, we took decisions to participate in Lithuania's second 700 MW offshore wind tender and seek partners. Previously, tender did not convene due to the limited number of participants. The second tender is set to begin on 18 November 2024, and the National Energy Regulatory Council should announce the winner by the end of April 2025.

[Slide No 8]

And finally, on our progress towards sustainability, we increased our Electricity Generated (net) by 35.0% YoY to 1.89 TWh as a result of the generation of our new Green Capacities assets, such as Mažeikiai WF and Silesia WF I as well as Vilnius CHP biomass unit. Despite that, our Green Share of Generation decreased by 5.3 pp to 83.6% due to proportionally higher electricity generation of our Reserve Capacities' asset, Elektrėnai Complex.

On our GHG emissions, our market-based total emissions increased by 19.7% YoY, mainly due to the increase in out of scope (biogenic) emissions from Vilnius CHP biomass unit's operations. Despite that, we reduced our Scope 2 emissions by 34.5% due to the use of renewable energy guarantees of origin for a share of Kruonis PSHP's electricity consumption and a share of the electricity distribution network.

Next, on the safety, our employee and contractor TRIR stands at 1.18 and 0.37 respectively, both below the targeted threshold. Also, no fatal accidents were recorded.

And lastly, on ESG ratings and rankings, we continue to maintain high rankings compared to our utility peers.

I will now conclude the strategic performance review 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 for the first nine months of 2024.

We have again delivered a strong set of results. Adjusted EBITDA increased by 15.0% and Adjusted Net Profit by 10.5%, driven by better results in Green Capacities and Networks segments.

Our Investments remained at historically high levels, and amounted to EUR 583.7 million.

Return on Capital Employed increased to 10.3%, mainly due to the growth in Adjusted EBITDA.

Leverage metrics remained strong, with FFO/Net Debt at 34.2%, and Net Debt/Adjusted EBITDA at 2.7 times. Accordingly, S&P has reaffirmed the Group's 'BBB+' credit rating with stable outlook.

Finally, the extraordinary general meeting held in September made a decision to distribute a dividend of EUR 0.663 per share, or 48.0 million euros in total, for the first half of 2024, fully in line with the Dividend Policy.

[Slide No 11]

Now let's take a closer look at each of our main KPIs.

Starting with Adjusted EBITDA, which grew by 15.0%, and reached EUR 397.0 million. Green Capacities' EBITDA grew by 17% to EUR 181.0 million as a result of new asset launches and higher captured electricity prices, due to flexibility of our assets. Networks' EBITDA grew as well and reached EUR 165.6 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 reverse in the last quarter of the year. Reserve Capacities generated EUR 36.7 million EBITDA, which is lower by EUR 1.6 million compared to last year. And Customers and Solutions' EBITDA was lower by EUR 9.8 million and dropped to EUR 11.1 million, driven by lower B2B natural gas supply EBITDA. The negative impact was partly offset by lower loss from B2C electricity supply in Lithuania and better B2B electricity supply results in Latvia and Poland.

[Slide No 12]

Next, let's deep dive into the EBITDA of each segment.

Starting with Green Capacities, it remains the largest contributor to the Group's Adjusted EBITDA, accounting for 45.6 % of the total. The main drivers behind 17% growth YoY, were these: 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 flexibility of our assets; thirdly, higher electricity volumes, driven by Kruonis PSHP, due to higher price fluctuations in the market. 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, the main reasons behind Adjusted EBITDA growth in this segment were as follows: a temporary volumes effect, which will reverse during the last quarter of the year; higher WACC set by the regulator, which increased from 4.1% in 2023 to 5.1% in 2024, reflecting the higher interest rate environment; and higher RAB, which increased by 10.8%, from EUR 1.4 billion to EUR 1.6 billion as a result of continued investments into electricity network. It's worth to mention that, after the reporting period, the regulator set the allowed income level for 2025, which includes RAB growth of 13.3% to EUR 1.8 billion, reflecting continued Investment programme, and WACC growth of up to 5.8%.

[Slide No 14]

Next, in Reserve Capacities segment, we delivered strong performance in both first nine months 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 38.3 million to EUR 36.7 million.

[Slide No 15]

Lastly, Customers & Solutions' Adjusted EBITDA was lower by EUR 9.8 million YoY and amounted to EUR 11.1 million, driven by several factors. The decrease was driven by lower B2B natural gas supply results. However, it was partly offset by lower loss from B2C electricity supply activities and better B2B electricity supply results in Latvia and Poland.

[Slide No 16]

Next, Investments. Our Investments amounted to EUR 583.7 million and remained at a historically high levels despite a YoY decrease of 7.9%. 57% of our Investments were made in the Green Capacities, and 37% in the Networks segment.

Green Capacities' Investments amounted to EUR 335.2 million and recorded a decrease of 7.4%, mainly because of successful completion of several major projects, Silesia WF I and Vilnius CHP biomass unit, while Silesia WF II has reached its final development stage, with COD expected in Q1 2025.

In the Networks segment we invested EUR 217.1 million, mainly in electricity network expansion and maintenance. The investments decreased YoY by 12.0% due to smart meter installation project approaching completion.

[Slide No 17]

Turning to our Net Working Capital numbers, it has decreased by 46.4% since September of 2023 and by 33.7% since December 2023, down to EUR 116.2 million at the end of Q3 2024. The main drivers for lower Net Working Capital were lower trade receivables, mainly due to lower energy prices and lower volumes sold, and lower other amounts receivable.

[Slide No 18]

Adding it all together, our Free Cash Flow metric was negative, but better than expected, and amounted to EUR -124.5 million as a result of Investments made exceeding the Adjusted EBITDA and the Net Working Capital change.

[Slide No 19]

Next, our leverage metrics, our Net Debt increased by 10.0% and stood at EUR 1.4 billion at the end of Q3 2024. FFO/Net Debt improved to 34.2%, well above the 23% threshold of S&P credit ratings agency required for 'BBB+' credit rating. Net debt/Adjusted EBITDA remained stable 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 nine months of the year, we increase our full-year Adjusted EBITDA guidance to EUR 480–500 million. There are no changes in the directional Adjusted EBITDA guidance for business segments.

In terms of Investments guidance for this year, we update it to EUR 750–900 million. This is mainly due to the timing effects of our Green Capacities' Investments.

With that, I hand over the word to Darius.

Darius Maikštėnas, Chair of the Management Board, CEO

[Slide No 22]

Thank you, Jonas. Now, let me summarise Ignitis Group's performance in the nine months of 2024.

On our strategic performance, we continued to expand our Green Capacities Portfolio, in total adding around 600 MW to 7.7 GW, of which we increased both the secured and installed capacity. On top of that, we achieved significant milestones when delivering the projects. The first power to the grid was supplied in Silesia WF II and Kelmė WF, and a Final Investment Decision on Tume solar farm was made.

Next, on our sustainability initiatives, our Green Share of Generation amounted to 83.6%. We reduced Scope 2 emissions by 34.5%, recorded TRIR below the target threshold both for employees and contractors and maintained high rankings in ESG ratings.

And finally, on our financial performance, we increased our Adjusted EBITDA by 15.0% to EUR 397.0 million, ensured a strong balance sheet, witnessed by the affirmation of 'BBB+' with stable outlook credit rating by S&P.

In line with our Dividend Policy, we paid dividends for the first half of this year.

And, following the strong performance of our Green Capacities segment, we increased our full-year 2024 Adjusted EBITDA guidance and updated Investment guidance.

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. We will now open the floor for questions. Our first question is: "In Q3, Green Capacities saw electricity production surge by 31% YoY and revenue grow by 13.7% YoY, while EBITDA was up by just 2.4%. Could you please provide a bit more granularity on modest EBITDA development during the period?"

Jonas Rimavičius, Member of the Management Board, CFO

So, in short, the trend on EBITDA is positive, and on top of it we have an explanation. This difference, the growth rate, lies in the OPEX and there are two things in our OPEX, so one part is one-off expenses, related mainly to our project financing exercises, which we've been running this quarter, and the second one is related to OPEX increase in relation to organisational buildout, so effectively, hiring new people for projects, which are currently in development.

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

Next question we have is: "Did Ignitis had to purchase more substantial (than usual) amounts of electricity from the market to fulfil its PPA commitments in Q3?"

Jonas Rimavičius, Member of the Management Board, CFO

So, in general, the rule we apply is to secure around 60–70% of wind or solar plants' generation with baseload offtake agreements, which means that there is a quite substantial buffer included in there. And, in this quarter, we haven't seen any deviations from the historical levels of buying additional power in the market.

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

Next question: "Did Ignitis Group got hurt by deepened wind profile discounts in the market when selling electricity in the core markets (merchant exposure)?"

Jonas Rimavičius, Member of the Management Board, CFO

So, in short, we are seeing bigger capture discounts in the Baltic market, but that was expected by us, so it's not a surprise to us. However, what was a positive surprise was on the Polish side. They are actually, especially for the projects with CfD tariffs, we are seeing quite low capture-rate discounts. Overall, when we look at the portfolio level, capture discounts have been even lower than we expected, mainly due to the Polish market.

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

Next question we received is as following: "Could you please indicate what average prices you are signing new PPAs at?"

Jonas Rimavičius, Member of the Management Board, CFO

So, in terms of new PPAs, this quarter we had one sizable external PPA signed, and we can't disclose the level due to the conditions of that agreement, but we continue to sign them at the levels which meet our return requirements.

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

Next question: "Given that bond yields trend down and power prices seems to stabilize, do you register higher interest in asset rotation deals from potential investors? When one can reasonably expect more news?"

Jonas Rimavičius, Member of the Management Board, CFO

So, I will answer this one shortly. We don't have any updates on our asset rotation plans and, as usual, we will communicate to the market only when we sign binding agreements.

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

The following question: "Considering the revised and narrowed investment capex to EUR 750–900 million for this year, can we expect a higher dividend growth rate than the anticipated 3% per year?"

Jonas Rimavičius, Member of the Management Board, CFO

So, regarding the Dividend Policy, what we can say is that we remain fully committed to our Dividend Policy, which means at least 3% growth rate every year, and that's what we intend to stick to.

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

Next question, again on the investments: "Could you provide any guidance on the potential investment range for 2025?"

Jonas Rimavičius, Member of the Management Board, CFO

For 2025, we will be communicating our guidance together with annual results, so the beginning of next year. The best guidance as it stands right now is our most recent strategic plan, which indicates the level of investments for the four-year period, from which you can expect, more or less, similar investment levels as in 2024.

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

Our next question: "Given the negative free cash flow for 2023 and 2024, do you expect to reach neutral or positive free cash flow by the time of the plan (4 GW of green energy) in 2030?"

Jonas Rimavičius, Member of the Management Board, CFO

So, in terms of free cash flow, 2030 is probably a reasonable year to expect free cash flow to be positive. That being said, we don't have such a target per say, to have free cash flow positive. So, we approach it in a way that we want to balance our investment programme, our Dividend Policy and our credit metrics. So, as long as these are balanced and ensures that our shareholders are happy, our creditors are happy and investments plans are in place, we are ok to proceed in that format. And if we continue to find projects with positive value creation to our shareholders, we will continue doing them. If we don't find those projects, we will not do them and return cash to the shareholders.

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

Next question: "How the testing phase before commercial production works? Does Silesia WF II and Kelmė WF projects produce at market price during the testing phase? Are during the testing all the turbines working?"

Jonas Rimavičius, Member of the Management Board, CFO

So, yes, they produce at the market rate, and the testing usually works that there is a ramp up. We start with the first turbine, then the second gets connected, the third one, the fourth one, etc. So, it is a gradual increase in the testing revenues. When we start the first power, it's usually produced with one turbine, and the gradually, until COD, reaches full capacity.

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

The following question: "The decrease on investments made, is that temporary?"

Jonas Rimavičius, Member of the Management Board, CFO

So, the investment guidance update is the result of timing effect. There were no changes in the projects, which we decided to do. The change is just that some of the payments will take place later. So, it is a timing effect. That's why we updated the investment guidance for this year.

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

Next question: "Tume SF is planned with a solar tracking system. Is it one-axle or two-axle tracking? What is the planned yearly production from 1 kW?"

Jonas Rimavičius, Member of the Management Board, CFO

So, the load factor, which we expect from Tume, ranges between 13–14%. And, whether it's one axle or two, I would need to check with my technical team. We can get back to you on this one.

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

That concludes today's earnings call. If you have any follow-up questions, please don't hesitate to reach out to our Investor Relations team. Thank you all, again, for joining us today and we will be looking forward to speaking with you at our next earnings call.