

# **Enagás, S.A. (ENGGF) Q4 2023 Earnings Call Transcript**

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**Body**

Enagás, S.A. (ENGGF)

Q4 2023 Earnings Call Transcript

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Company Participants

Arturo Aizpiri - CEO

Luis Romero - CFO

Conference Call Participants

Javier Suarez - Mediobanca

Javier Garrido - JPMorgan

Alberto Gandolfi - Goldman Sachs

Fernando Lafuente - Alantra'

Ignacio Domenech - JB Capital

Jorge Alonso - Societe General

Presentation

Operator

Good morning ladies and gentleman, welcome to Enagás results presentation for fiscal year 2023 and 2024 targets. The relevant documentation has been published with the National Securities Market Commission CNMV and is available on our website www.Enagás.es. The conference will be led by Arturo Gonzalo, CEO of Enagás, and we expect it to last for about 30 minutes after which we will open the floor to questions and we will attempt to answer them as fully as possible.

Thank you for your participation and now I give the floor to Mr. Arturo Gonzalo.

Arturo Aizpiri

Good morning, ladies and gentlemen, and thank you for attending this conference call. Welcome to this annual results presentation where I will be joined by Luis Romero, our CFO; Diego Trillo, General Secretary and Board Secretary; Felisa Martin, General Director of Communications, Institutional Investor Relations; Cesar Garcia, Director of Investor Relations; and Natalia Mora-Gil, Director of Management Control and Business Analysis. I will divide my speech into 4 parts. I will begin by detailing the results for 2023. Secondly, I will reveal the progress of our strategic plan. I will then share our approach to the future growth of the company with you, and I will finish off by announcing our objectives for 2024 and offering a few conclusions.2023 was a great year for Enagás, exceeding the targets set for the period.

The Spanish Gas System worked perfectly well and continued contributing to the energy security of both Spain and Europe. Our financial results are well above the targets we set ourselves and just as we had announced, we were instrumental in making 2023 the year of hydrogen with major advances in both energy transition and these vectors development which will be key to the company's future. Now on an operational level, the gas system rendered 100% availability and guarantee of supply. The ultra-high flexibility offered by Spain's robust infrastructure network continues to be a competitive advantage for our country. In 2023, we received gas from 17 different countries and reinforced our role as a strategic LNG gateway to Europe. We ranked as the world's largest vessel refueling operator with 157 reloads completed, up 26% year-on-gear.

In addition, gas pipeline exports also grew by 23.7%. And for the first time in history, we reached 100% capacity in our underground storage facilities in early August. These figures testifies, plays key role in European security of supply. Now the total volume transported by the Spanish Gas System in 2023 was down by 7.3%, which was mainly due to the drop in demand for electricity generation. Industrial gas demand, however, grew by almost 4%. Specifically, there was a strong rebound of 22% in the second half of 2023.

Refining chemicals, pharmaceuticals, and cogeneration sectors were key for this purpose. This positive trend continues in these first months of 2024, which is a very good sign of space, industrial, and economic evolution. Let me now turn to our financial results and key figures. Enagás' profit after tax, PAT, in 2023 reached €343 million, exceeding the upper band of the target we announced in our strategic plan of €320 million. This PAT figure includes the net capital gains of €42.2 million from the closing of the sale of the Morelos pipeline in Mexico together with a contribution of around €5.5 million from the increase in our stake in Trans Adriatic Pipeline, TAP. Our EBITDA totaled €780 million, which is also above our target for the year. I would like to highlight 2 underlying factors that explain this good response, the effectiveness of our efficiency plan, which has enabled us to maintain recurring operating expenses at 2022 levels and improve our financial results; and the positive performance of our affiliates generating €200 million of profit and €193 million of cash flows to our income statement. We have a solid and prudent debt structure with more than 80% of debt at fixed rates and we closed fiscal year 2023 with a net debt of €3.347 billion, and to say, we have brought it down compared to 2022 and significantly so when compared to the target set for the year of around €3.7 billion.

Among other factors, this reduction in debt has been achieved, thanks to the positive performance of working capital, due chiefly to the premiums earned for the high demand for reserve capacity of the Spanish regasification plants. The average cost of gross debt stood at 2.6% at year end, in line with expectations. As you are aware, January the 15 saw us successfully complete a 10-year €600 million bond issue. This transaction enabled us to take advantage of favorable market conditions to extend the average maturity of our debt to 4.9 years and also cover upcoming maturities. Using the proceeds of these bonds at the end of January, we were able to cancel €450 million maturity in 2025. The company's leverage and extraordinary liquidity position of €3.309 billion are consistent with the ratios required by the rating agencies to maintain our BBB rating. As for our affiliates, I would like to highlight their good performance over the year.

In the U.S., Tallgrass reported adjusted EBITDA of USD 820 million, exceeding the target of between USD 775 million and USD 815 million set out in its business plan 2023. So 2 major milestones for the company. The acquisition of the Ruby Pipeline on the one hand, which already made its contribution in 2023, and on the other hand, the progress made in our first major decarbonization project, the transformation of the Trailblazer pipeline into a CO2 transportation infrastructure. Tallgrass is prioritized in its energy transition related investment plan as a key pillar to the company's future growth. For that reason, we have not included dividends from these affiliates in our projections for the period 2024-2026.In Europe, TAP, Trans Adriatic Pipeline, generated a dividend of €76 million.

As you're aware, we acquired an additional 4% in 2023. That's taken our stake to 20% and aligning it with that of the other partners. And now in 2024 Enagás will take the Chair of the Board of Directors of TAP. In Peru, TGP plays a key role in security of supply and has been operating at 100% availability. As for GSP, according to the arbitration court, the award will be issued in the first half of 2024, putting an end to the arbitration proceedings. I will end this first section on 2023 results with a review of the progress of our ESG positioning.

And as you are aware, our primary commitment is to be a carbon neutral company by 2040, and in 2023 still saw continued progress in the decarbonization of our operations and our value chain. Two weeks ago, we were awarded the highest rating A List in CDP's annual climate change ranking, recognizing us as one of the world's leading companies in sustainability and environmental management. This is just one example and as you can see from the presentation, we rank among the leaders in the major global sustainability and ESG indices and rankings. Thanks both to our concrete commitments and progress and to the detail and transparency in the way we report such progress. Let me now turn to the progress of our strategic plan 2022-2030, which we are implementing well ahead of schedule. We achieved significant milestones in 2023 in all 3 pillars of the plan, which I will remind you of next.

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The first one is a focus on Spain and Europe, prioritizing investments in regulated assets, so as to contribute to the guarantee of supply and energy transition. Some lines include Enagás GTS' implementation of the Guarantees of Origin system for renewable gases, our entry into Germany as both shareholder and an operator of Hanseatic Energy have to roll out their study LNG plant, the commissioning of the Gijon LNG plant under the name of Musel E-Hub, in partnership with Reganosa, after the agreement reached in February and which marked yet another major milestone for the year on the operational launch of 2 LNG supply vessels through our affiliate, Scale Gas, a specialist is more scale services. In addition, we maintained our asset rotation strategy, divesting noncore international assets whose value has already been capitalized on as in the case of Gasoducto Morelos. This enables us to take advantage of other strategic opportunities such as TAP, as mentioned earlier. The second pillar is the control of operational and financial costs through our efficiency plan. We remain committed that the CAGR or recurring operating expenses will not increase by more than around 1% over the 2022-2026 period. I would also like to underline that the Enagás Group's fourth collective bargaining agreement, which we signed last week is perfectly aligned with the objectives of this strategic plan.

This is yet another testimony to the good understanding between the company and the workers' representatives, built on dialogue and collaboration. Against this background, today, and as part of the flexible remuneration plan, we have announced that the company's employees will be able to receive a portion of their remuneration by way of shares in line with other peers. To this end we have set into motion a temporary program for share buyback. The third pillar is our push for decarbonization through renewable hydrogen. This is where we saw exponential progress in 2023, both in terms of regulations in Europe and Spain and regarding the progress made by Enagás itself, especially during the second half of the year. In September and in fulfilling another commitment, we launched a call for interest for the Spanish hydrogen infrastructure. In October, we presented H2Med in Berlin in an event that enjoyed maximum institutional and business support.

On that occasion, the TSOs of Portugal, France, Germany, and Spain signed an agreement to jointly promote this corridor. And in December, we closed the year with 2 excellent pieces of news, namely the inclusion of H2Med and the Spanish hydrogen infrastructure in the European Commission's list of Projects of Common Interest or PCI and the appointment by the government of Spain of Enagás as provisional manager of the hydrogen backbone through Royal Decree-Act 8/2023 of December 27. This provisional appointment until the implementation of the European directive on hydrogen and decarbonized gas markets in Spain is fully in line with the steps that other European countries are taking and confirms that TSOs, such as Enagás, will be key players in hydrogen infrastructure. As provisional HTNO, we have to comply with the mandate. We have been entrusted with by the government as per such Royal Decree-Act, which sets forth 3 key responsibilities for Enagás. To present a proposal for space hydrogen backbone infrastructure development with a 10-year horizon. This proposal must be submitted to the Directorate General for Energy Policy and Mines by April 29, and this will be the first step for the development of a binding planning by the government of Spain.

Second, to serve as our country's representative in the creation of the European network of network operators of hydrogen, ENNOH. Thirdly, to develop the hydrogen backbone within the scope of the projects of common European interest or PCIs. In doing so and as we have been mandated, the call for the interest that we have carried out will help enormously and present in this first proposal for Spanish hydrogen infrastructure has provided us with detailed information on the real needs of the hydrogen players in Spain. If you were present at or connected to the second Enagás Hydrogen Day a few weeks ago, where we presented the mere size of this market study, you already know the details. But let me remind you of the fundamentals. The call for interest process enjoyed very high participation from across the hydrogen value chain, 650 projects were submitted by 206 companies. We put together 3 scenarios, supporting our vision of the hydrogen infrastructure in 2030 and 2040 on what we have called the call for the interest scenario.

This scenario only takes the more mature projects into consideration. It is based on information provided by the promoters involved in the process as they either already have a hydrogen contract in place or in the construction or development phase or are in the pipeline with already established development companies. Feedback from industry stakeholders validates the overall hydrogen transport infrastructures we present as PCIs and the objectives of the National Integrated Energy and Climate Plan, or PNIEC. It also enables us to estimate a total gross investment in Spain of €5.9 billion taking into account the projects that we have submitted as PCIs. Besides the projects that have already been confirmed as PCIs, this figure also includes the Guitiriz-Zamora hydroduct, which we will resubmit at the next call that is expected at the end of 2024. A detailed timetable up to 2030 can be found in the presentation for the next steps. In the near future, we will have this final list of PCIs published in the official journal of the European Union. Our hydrogen infrastructure proposal have been submitted to the ministry and we will be able to apply for the European CEF or Connecting Europe Facility funds for the Spanish infrastructure and H2Med research. Therefore we now have a much clearer picture of hydrogen supply and demand in Spain, the infrastructures needed to connect them together with investments required and of their eligibility for EU funding.

If you take a look at the preliminary map of hydrogen infrastructure in Spain that we presented with our strategic plan in July 2022 and then compare it with the map of projects submitted as PCIs, which is already aligned with the PNIEC and endorsed by the results of the call for the interest, you will see that it has changed considerably. Consequently, Enagás' estimated net investment in hydrogen is also increasing from the €690 million forecast in the strategic plan to the current figure of €3.2 billion, estimating an average public funding of 40% and -- but our financing structure comprised of 60% debt and 40% equity.

The appointment of Enagás as provisional HTNO by the Royal Decree-Act is a huge responsibility for the company and also a great opportunity to secure future growth built upon renewable hydrogen. Enagás must strengthen its balance sheet if it is to be able to guarantee the hydrogen investments and the Spanish government will include in the binding planning. To this end, we must pursue several lines of action, namely a continued focus on efficiency and cost control, maintain our asset rotation policy and adapting our capital structure with a dividend policy in line with our cash flows, so that it is sustainable in the future and in line with work peers. We must maintain a capital structure that is compatible with both our planned investment effort and the requirements of the rating agencies in order to ensure our BBB rating, that rating is maintained.

In this context, Enagás' Board of Directors approved yesterday adopting the company's dividend payout policy for the 2024-2026 period in order to be able to face our important investment plan, and it has established a future dividend of €1 per share for that period. This dividend is compatible with a payout of 40% of the average estimated FFO for the 2024-2026 period, that is a ratio that is sustainable beyond 2026.The dividend for 2023 remains as planned at €1.74 per share, which will be paid out in the usual way in July after the first payment made in December.

The presentations graph shows how we are strengthening the balance sheet from now until 2026 in order to face in a robust position, this new growth era for Enagás based on hydrogen investments. That's based upon this new hypothesis and after 2 years of our strategic plan, the company will generate €1 billion of cash flows for the period 2022-2026 on a discretionary basis over what we expected in our strategic plan in July 2022.I would expect a cash flow generation in this period is fully compatible with our priorities, maintaining our BBB rating, developing future hydrogen investments and offering our shareholders an attractive and sustainable dividend going beyond 2026. These are cash flows based on very prudent assumptions, offering the high visibility and robustness of our traditional business. Dividends from Tallgrass Energy and cash flows from GSP have not been included in these cash flows. However, and according to our advisers and lawyers, we expect a favorable outcome in the coming months. Looking ahead to 2024, we expect a number of important developments and milestones for the company, regulatory, and otherwise, including the following: The publication of the final PCI list, the final draft of the PNIEC, the Spanish government's transposition of the gas and hydrogen directive getting underway, submission of their proposal for the development of backbone infrastructure as established in Royal Decree-Act 8/2023.

This, in addition to other elements such as securing a favorable award for GSP, advancing our asset rotation policy, having greater visibility of the evolution of new business segments such as ammonia or CO2, as well as of current non-regulated businesses. Once these developments have been achieved, we will provide an update on our strategic plan during this fiscal year 2024. The capital structure we have defined is compatible in all cases under the different scenarios we have considered. We are also adapting the company from an organizational perspective in order to face these challenges. Against this background, in order to be efficient, in order to provide an integrate digital approach to developing hydrogen infrastructure, the Board of Directors approved my proposal of the creation within the Executive Committee of the General Directorate of Technology, Engineering, and Digitalization. Before concluding, I would like to announce our objectives for fiscal year 2024. And they are as follows: Achieving a profit after tax of between €260 million and €270 million, and EBITDA of between €750 million and €760 million, closing the year with a net debt of around €3.4 billion, maintaining our funds from operations, net debt ratio of about 14%, and that's consistent with our BBB rating and paying out to our shareholders €1 per share on account of dividends. I will end by highlighting a number of conclusions.

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Today, we have presented to you some very good results exceeded the target set together with an implementation level of our 2022-2030 strategic plan that is also ahead of schedule. 2023 was the year of hydrogen for the entire sector and especially for Enagás, which alongside the mass trends and advances has been appointed as provisional HTNO pursuant to Royal Decree-Act 8/2023. The results of the call for the interest as well as a confirmation of the projects submitted as PCIs involve an estimated investment of €3.2 billion to be made by Enagás, some that is comparable to the robust investment plans of previous decades. This new investment cycle is an extraordinary opportunity to reinforce the company's sustainable and sustained growth over time, centered on green hydrogen, key vector for both Spain and Europe. Successfully undertaking the role of provisional HTNO entrusted to us by the Spanish government and guaranteeing the hydrogen infrastructure investments to be set out in the binding planning. This calls for us to adapt the company's capital structure accordingly.

Based on the transparency and commitment that has always distinguished our relationship with our shareholders and investors and which like -- the foundation of their trust in Enagás. So these are all the actions that we are setting into motion in order to bring our balance sheet into line with this new investment phase. These actions are always in line with our goal of keeping our ratings as a result of which Enagás will be more resilient and will enable us to guarantee our dividends over time. This is above all an exercising responsibility to ensure that this company continues to grow and create value in the years to come. As testimony to our commitment to value creation, the objectives for 2024 that we have presented to you today exceed both market expectations, market consensus, and those under the 2022-2030 strategic plan. Thank you for your attention, and we are now available to answer any questions.

Unidentified Company Representative

Thank you very much dear CEO, and now we start with the questions and answers, please.

Question-and-Answer Session

Operator

[Operator Instructions] The first question comes from Javier Suarez from Mediobanca.

Javier Suarez

Thank you for the presentation. There are several questions I have. First of them have to do with the guidance for the investments that Enagás will have to carry out with a new investment cycle that you have mentioned on Slide 28 that would start from 2026 onwards. This €3.2 billion of CapEx for Enagás, could you please explain to us over which time period do you expect this to take place, so that we know more or less the annual CapEx related to the development of the hydrogen backbone. Well, I would like to know the annual figure.

This €3.2 billion, in which time period do you expect this to be implemented? That's the first question. The second question is about the guidance for 2024. I was surprised by the EBITDA because it's between €20 million, €30 million above where the market consensus. Could you please specify why the EBITDA is higher than what you -- the market considered to be expected? And what's the explanation for this stronger EBITDA? And in terms of debt, it's also lower than the market expectation, which was €3.7 billion in 2023, you had a working -- positive working capital impact.

Do you expect that effect to continue or to fall back in 2024-2025?And with regards to the dividend, the company has cut back the dividend in order to prepare for this new investment cycle. I would like to know how much this account in terms of payout for 2026, not adjusted to PPA. What is the payout this corresponds to? And do you think that dividend will be sustainable for a company that under any case, has a strong investment cycle, I think the dividend could be above 100%. How do you consider that dividend to be compatible with a company that has such a strong investment cycle ahead? And the last question is if you could share EBITDA or net income guidance for 2026, please?

Arturo Aizpiri

Thank you very much, Javier. I'm really sorry, it took us a bit longer to have the answers to your questions. First of all, with regard to the deployment or implementation of the €3.2 billion of CapEx and how we divide it per year. This is an estimate for this period, for the period to '27 to '30, 2027 to 2030. Because as you know, the PCI projects are under a process that has that date as an estimated target.

It is true that the proposal for hydrogen infrastructures that was requested from us by the ministry, so that we presented it before the 29th of April has a 10-year horizon, which means that it extends to 2033.The details of the planning of this infrastructure will have to present to the ministry for the consideration is longer. The horizon is longer, and it's possible that part of this infrastructure instead of being commissioned in 2030 could be commissioned up to 2033. So we will have to wait for the final planning by the Spanish government in order to give an accurate answer to your question, but we could be prudent and say that we will be able to carry out this CapEx in the period between 2027 and 2030.Secondly, we have an expected EBITDA for 2024, which is higher than expected by the -- because of the regulatory reform, the impact of the regulatory reform in 2024 leads to a reduction by €48 million. However, this is partly offset by an improvement on the CapEx revenues, which we expect will be about €20 million and then also is offset by the effect of El Musel's plant and the hub. As for the question on working capital, that will be answered by the CFO in greater detail. But what's behind this effect is a high degree of use of our plants and high demand, high-capacity demand in our plants sustained in future time.

We have used a very high use of our plants as allowed up to 2038, but the CFO will answer that question. With regard to the dividend, we estimate that in average for this period, we'll have a payout of 40% of the funds from operation and 90% from profit from non-adjusted profit after tax. So those are the figures. And as we have said, we believe that this dividend payout -- we will have to have more information on the subsequent regulatory period, but we believe it can be sustainable in the future even beyond 2026.With regards to the EBITDA guidance on 2026 is €660 million. And I'll give the floor to the CFO, so that he can talk to you about the debt and working capital.

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Luis Romero

With regard to the working capital, the main effect, as CEO has said, has already said it, has to do with the healthy status of our gas system and what we expect to generate because of the premiums that are being paid by users for the use of the terminals, both with regards to the slots for unloading of tankers, but also for the storage on the LNG tanks. We expect that this surplus will generate in 2024 can be turned around in the period 2024-2026. And those are the flows that we have mentioned with the working capital for 2026 that will be turned around. This is not an effect that will take place fully in 2024, and the working capital will be negative by €100 million in 2024. But in '25 and '26 million, it will turn around fully as we expect.

Thank you.

Unidentified Company Representative

Thank you very much. Thank you to the CEO and CFO. Let's move on to the next question, please.

Operator

The next question comes from Javier Garrido from JPMorgan.

Javier Garrido

Yes, I have 2 questions. First is a very -- in the very long term, and it has to do with a comment made about the dividend that can be sustainable beyond 2026. I imagine that it's too early. We do not have a regulatory framework yet. But in concept, how do you think will be the balance between cash flow and CapEx??

For a network that will require a great CapEx investment effort initially and a very low use ratio initially. So how can you make compatible keeping that dividend when the CapEx will be increasing substantially and the cash flows will take logically time to come. So what's your long-term view of this balance between CapEx and revenues? And another question is if you could give us more detail on the performance of your affiliates because in 2023, the performance was more positive than expected. And that's the reason why in 2024, your EBITDA expectations. Maybe that would be the reason why you expect it to be more positive than the market consensus.

Arturo Aizpiri

With regard to the first one on the long term and how we see striking a balance beyond 2026 between cash flow and CapEx. First of all, we believe that the Spanish hydrogen infrastructure will be a regulated system. We believe that will be the position imposed across Europe. It is also what's set forth by the directive or something compulsory for 2030 and what we see is that member states are opting for a regulated system right from the onset. In the case of Spain, this is a decision that will have to be made by the government and parliament but we believe the fact that there will be a binding requirement means that this will probably be the option chosen by our country. If it is to be a regulated system, as I believe it will, then we will have to create a remuneration system that will be in line with creating a new infrastructure.

Therefore, solutions could be adopted just like in other member states that, in our case, for instance, will lead to the remuneration of the work in progress, which is a formula that CNMC has already used for the funding of certain infrastructure projects. Therefore, I'm believing that there may be a remuneration for the construction phase of this infrastructure. And if we consider the other cash flows from the company, we believe that we can assert that a dividend in line with our peers will be sustainable in time with the payout in terms of FFO of about 40%. Obviously, all of this will be explained in more detail, in the future, but we believe this is a cautious premise which takes into consideration the formula of creating a hydrogen infrastructure that goes across the EU member states. With regard to the performance of affiliates, I'll let Luis give us the details. Thank you.

Luis Romero

As you have very well said, the affiliates in 2023 had an exceptional performance. You know there are several of the affiliates that we have, have indexed tariffs, indexed to inflation, the TGP to PPA and that's also in years to inflation, and this has allowed us to improve our revenues. And thanks to the -- it has been a very good performance in 2023. And so we've had a total of about €200 million before PPA of affiliates and dividends of €190 million. For 2024, we also expect them to perform well. The total of affiliates will be about €180 million, €190 million, and the dividends will be around €160 million.

As you know, in 2023, TAP paid out a total of €70-something million, of which €30 million have to do -- because they were distributing or paying out reserves, something that will not happen again from -- in 2024. So the difference between the €190 million of dividends in 2023 and €160 million of 2024 is due to this difference of reserves payout. That's from TAP.

Arturo Aizpiri

Javier, I would also like to add, in line with what I was saying before about the dividend, another figure, which is also very important. When we look at what we presented in July 2022, what we can assert right now is that in 2026, we would have retained within the company about €1 billion more of cash than initially expected. That €1 billion is broken down because of the effort asked from our shareholders with adjusting the dividend by €470 million, more or less, about BRL 300 million of hydrogen investment that we had expected to take place for the period. But with a different philosophy to what we currently have with projects that would leverage on large off-takers and that is now turning into part of the backbone that will be created beyond 2026 and also the execution of our strategic plan for the period '22-24. And all of that has enabled us to face in better conditions in the future. And we will generate about €130 million more of FFO than expected in 2022 -- than what we expected in 2022.

And as Luis Romero said, this is thanks to the better performance, better contribution from our affiliates and also because of a significant increase on the remuneration from our cash deposits. So we have generated additional €1 billion of cash for the period, and this is very important in order to guarantee the sustainability of the dividend beyond 2026.

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Unidentified Company Representative

Thank you very much, Javier, for your question. We move to the next question.

Operator

The next question comes from Alberto Gandolfi from Goldman Sachs.

Alberto Gandolfi

My first question is about the regulated assets. What do you think will be a minimum expected regulated return in order to fulfill the investments given the current interest rates? Obviously, we don't know where interest rates will be for the period '27-30. But how do you expect the value creation to be on that CapEx? And do you think the investments will be included on the RAB method?

Or would you think that will be attributed differently? Another question. I think you said that you believe that the payout ratio on earnings will be about 90%. That means that the profit per share will be above €1.1. But the consensus will be below that. The Spanish infrastructure's revenues are still going down.

So if you do a payout of €1 that will be above 100% of that ratio before we adjust PPAs. So do you think this is correct? I guess, you're seeing the share asset ratio of the FFO. But I wanted to properly understand the calculation you've used. I think the payout ratio is still above 100%.My last question is with that dividend adjustment, can we assume that there's not going to be a reorganization of the portfolio or that the portfolio reorganization could happen still, because despite Tallgrass that currently is not contributing with dividends.

But regardless from that, any sale of assets will dissolve the revenues and will put more pressure on the dividend. So now that we've adjusted the dividend, does this mean that the portfolio will remain as it is?

Arturo Aizpiri

As for the remuneration of the hydrogen infrastructures in Spain, our best hypothesis at the time is to be able to move, as I said, to a regulated system. And for that, we believe the regulator will include an update on its view of what is needed in order to create an infrastructure as the one set as a target by the EU. We believe that in a period of high interest rates, the financial remuneration rate should include times or rates closer to the time when we will have this regulation. I think if they are too far away, they will not actually be close to the reality of what we need to build in Europe. If we hypothesize cautiously about this, we believe that the remuneration rate of pretax, pretax obviously, should be above 7%. We believe it will be between 7% and 8%.

We believe that to be very reasonable and cautious. The Spanish backbone will have -- should be included into the hydrogen RAB system. We believe that the directive says that there will be some regulated assets for gas and regulated assets for hydrogen, and we believe that the Spanish backbone will have to be in that regulated asset base for hydrogen. But the [BarMar] and the international connections, which will be funded differently. But if we focus on the backbone, which we believe we will need to have by 2030, if we have executed those €3.2 billion, of which €3 billion is for the Spanish backbone. Then we believe the RAB of Enagás would have evolved to about €2 billion of gas infrastructures and €3 billion for hydrogen infrastructures.

I believe this is a very clear expression of the change that will be -- that the company will undergo over the next few years with a reduction on the gas RAB but with a high predictability of the gas system revenues, which are a basic pillar of the financial size of the company, and that will continue to be so. And beyond 2026, we believe there will be remuneration formula that will guarantee the financial feasibility of the gas system, either maintaining the supply continuity remuneration or with any other regulatory changes. So Alberto, we see this evolution as a combination of a growing RAB for hydrogen with a reasonable contribution. But at the same time, with a declining but still important gas RAB on RAB with great certainty and visibility with an updated remuneration in the next regulatory period. With regard to the details, on the sustainability of the dividend and the ratios that we expect I'll let Luis give further information. But before that, when we talk about the asset portfolio maintenance, we maintain the strategic ideas that we had. We do not see the need to accelerate any divestment or asset rotation.

But we are still attentive 2x when our divestment may be made, capturing our asset value. But that does not mean that we will not make other investments that we believe fit properly with Enagás with good financial returns. So our asset rotation policy is an option whenever we consider this suitable with noncore assets, but we will also look into other positions in Europe and in Spain focused on decarbonization and security of supply. Luis, you have the floor.

Luis Romero

I think that in terms of payout, the company will have a payout based on the funds from operations, FFO. As we have said for the period '24 to '26, it'll be about 40% and we believe that this percentage of 40% can be sustainable in the future for the period '27-30. If we differentiate both periods, I would say that for the '24-26 period, this has a very large visibility of flows. We have taken out GSP and Tallgrass from our expectations in order to be cautious. So our figures are based on very predictable flows. For '24-26, the payout on profit after tax will always be around 90%, That's also sustainable if we compare it to other peers.

And the only thing that I would say about the period '27-30 is that 40% on the FFO payout, well, that's based on the traditional business that will stay very stable post 2027, the FFO of the regulated business without considering the affiliates is about €300 million. This dividend post '27 of this 40% of the FFO also has other levers for its funding, as Arturo has said, with the additional €1 billion that we have generated during the period. The expected flows from Peru, we also have the potential to use hybrid facilities that are always available if the costs are appropriate. And we're doing all of that without the need of asset rotation, which is included in our strategy, but it's not something that will set the future capital structure.

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Thank you, Alberto, for your question. We are ready for the next one.

Operator

The next question comes from Fernando Lafuente from Alantra.

Fernando Lafuente

Two questions. First, about the dividends of the affiliates. Could you give us an idea performance on the €160 million for this year? Could you give us an idea from now till '26? And beyond '26, what you expect it to be? And the second question is about Tallgrass.

I understand that the company is now immersed in a large investment cycle, very much in line with the decarbonization and energy transition. What are the impacts that could mean that this could be a very interesting asset for a third party? And the need for CapEx, maybe the need for CapEx means that you would have to provide equity to it as well as the other partners? And the third question is a confirmation. In the cash bridge that you present on Slide 31, GSP still 50%, accounts still for 50%. So you maintain the estimate of the 100% recovery.

I imagine during the subsequent period, it will be different according to your estimates?

Arturo Aizpiri

Thank you very much, Fernando. Luis will answer first in greater detail about our dividend policy beyond 2024. And then I'll answer the other 2 questions.

Luis Romero

Fernando, in terms of affiliates dividend for the 2 periods that you've mentioned, the first period '24-26, the dividends will remain similar, average of what we're expecting for 2024, around €160 million, bearing in mind that we do not receive the dividends from Tallgrass. Post 2027, this dividend base without Tallgrass of €160 million still compatible for the period '27-30, so we have to have average dividends of Tallgrass from 2027 of about €150 million for that period, for the period '27-30. So in total, €300 million dividend for -- from the affiliate for that period.

Arturo Aizpiri

About the other 2 questions. Fernando, about Tallgrass, I think this is a first message, which is very important, which is the very good performance of that company in their traditional business. The acquisition of the Ruby Pipeline had a very positive effect. It's an acquisition that has contributed significantly to the company in 2023 and will continue to do so over the next few years. And its performance is also very positive from the re-contracting in the REX, in the traditional business and Pony Express. We believe that the impact of the closing of some important contracts such as [indiscernible] will be offset fully with larger investments on the re-contracting capacity for the East and West and services in this infrastructure.

So the first message is that this is a company that is doing things really well in its traditional business. That means that we are able to face the large decarbonization project of Tallgrass, which is the Trailblazer project, which is one of the most important decarbonization projects currently ongoing in the United States. There has an approximated CapEx of USD 2 billion, sorry, and we expect that the company will be able to carry it out with its own funds. Bearing in mind that there's going to be a delay on the dividend payout beyond 2024-2026 period. So we believe that Tallgrass is creating value with its traditional business, but also with its project decarbonization -- its decarbonization projects portfolio, where we can clearly underline Trailblazer projects for which we had an FID, initial FID in 2023, and that is advancing as expected in terms of calendar and expected commissioning for 2025.With regard to the cash bridge, as we can show here on the Slide 31, we do not expect GSP flows in the period to '24-26 just because we want to be cautious, but obviously, we expect them to happen in the period '27-30 for 50% of the claimed amount. As we can see here, the €236 million, we believe that we will continue to recover 100% of the claimed amount, but the other 50% will happen beyond 2030, also because we know that this type of arbitration processes.

Well, once the award has been given, there is -- there will be a negotiation process with the Peruvian government in order to set the calendar for the payment. So we expect 50% to be received before 2030 and the other 50% beyond 2030.

Operator

Thank you, Fernando, for your question. We now move with a follow-on question. The follow-on question comes from Ignacio Domenech from JB Capital.

Ignacio Doménech

No, I don't have any further questions. Thank you.

Unidentified Company Representative

All right. So we are not going to move on with the follow-on question on the list. The following question comes from Jose Ruiz from Barclays.

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José Ruiz Fernandez

I have 2 questions. The first question is the following. Could you please clarify Slide 32? When you refer to progress in the asset rotation policy, based on your comments, I believe that you are talking about the procurement side rather than the sales side. And the second question is the following. Gas prices have changed dramatically.

Therefore, I would like to know which forecast do you have regarding gas consumption in the current lower gas price environment. Do you think that infrastructure, the use of infrastructure would be reduced in terms of storage?

Arturo Aizpiri

Regarding the asset rotation policy, let me go back to my prior remarks. We do not have any divestment forecast nor any specific acquisition forecast. Asset rotation continues to be a good way to fit our affiliates into our strategy going ahead. So the message for the market is that we will keep paying attention to either investment or divestment opportunities in order to gradually adjust our portfolio of affiliates according to our strategic focus. Security of supply and decarbonization in Spain and European a priority.

However, that doesn't mean that we have any expectations in the short term with regards to new acquisitions. We want to send a message of consistency in line with our strategic plan and strategic vision, and we will continue to execute that strategic vision. And during this year, if there is any news in that regard, that would be part of our strategic update. Secondly, and concerning your question about gas prices, it is true that there has been a significant drop in gas prices over the past period as a result of different factors, such as the fact that Europe did its homework by filling up its underground storage facilities, the way in which infrastructures have been streamlined across countries including Spain. Over the past year, in Spain, a new regasification plant has been commissioned. There has also been another effect as a result of a mild winter as a result of which gas consumption came down in some European countries, causing a big impact. At the same time, new requirements have emerged, new needs.

For instance, one of the effects with the greatest weight in Europe for the security of supply has been and compared to what happened 2 years ago, the startup of 7 regasification plans or 7 FRUs in Germany and Italy mainly. These RFUs allow for a different kind of operation compared to onshore terminals that have a great capacity of LNG storage, whereas these other facilities RFUs don't. Those countries with plenty of flexibility and surplus capacity for underground storage, underground storage facilities can play the role of LNG storage facilities. But when underground facilities are filled up, they cannot actually pay that role. What I'm trying to say, Jose, is that based upon this new number of RFUs, the storage capacity of LNG tanks in our plants becomes particularly important. Our plan of loading slots are becoming particularly important as well as our storage capacity in the medium and long term.

Therefore, we do not believe that the current gas price scenario or even a moderate drop in gas consumption might have a negative impact on the degree of use of our infrastructure because as I said before, contracting levels regarding our plans have reached maximum levels according to the systems operation capacity until 2038.

Unidentified Company Representative

Thank you very much, Jose Ruiz, please, next question.

Operator

The next question is from Alberto Gandolfi from Goldman Sachs.

Alberto Gandolfi

Just a quick follow-up. Based on your budget, do you believe that those investments in the 2027, 2030 or '33 period will be remunerated in the same year in which the investment takes place? Or should we consider this to be work in progress. So the remuneration will actually take place in 2027. Just to understand how you expect earnings to evolve.

Arturo Aizpiri

We foresee that it's going to be remunerated as work in progress considering a year plus 1 basis.

Unidentified Company Representative

Thank you, Mr. Jose. Thank you for the question. We now move on to the next question.

Operator

The next is JorgeAlonso from Societe General.

Jorge Alonso

My question is the following. What about the Spanish government's timing to confirm that the hydrogen infrastructure will eventually be regulated a mandatory. So do you have any visibility on that time line, because I think that, that is important?

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Arturo Aizpiri

Well, in answering your question, I will provide you with a view of this company that is, of course, subject to the government's future steps. And that will also depend on how the directive is transposed. The European directive sets out some common rules across Europe, establishing some critical aspects regarding the hydrogen system. For example, the fact that in 2033, the system should be a regulated one at the latest. You remember states can do this from the onset.

Also member states have the capacity to do their own planning with a 10-year horizon, even ahead of the directive transposition through Royal Decree-Act 8/2023, the Spanish government has set forth the basic schemes concerning, for example, activity separation. So the European directive is very clear in this regard. Now the Spanish government will have to set the relevant criteria and the next steps in order to transpose the European directive. We believe that the directive is likely to be transposed as an amendment to the hydrocarbon regulations. And as far as we know, the Spanish government played a critical role in the political agreement leading to the directive because let me remind you that in the very last mile of this Spanish presidency of the European Council in last year, the second half of last year, we know that the Spanish government gives places, lots of emphasis on the right transposition of the directive in order to lay the groundwork of a hydrogen system that provides a good opportunity for the country. Of course, this will lead to some public hearing processes, and the government will have to set the pace to that end. Now regarding the infrastructure as such, I believe that the government's mandate for Enagás to submit a nonbinding proposal for halogen infrastructure is very important.

And the fact that we have a deadline of 4 months to do so. We -- and this is just an assumption. We understand that the government thereafter will carry out a binding planning process following certain stages such as a public hearing stage and will, of course, request all the relevant reports. But the government is to answer. We believe that our nonbinding infrastructure proposal is nonetheless the first to binding planning by the Spanish government and the messages that are being sent by the Spanish government right now are in line with that, for example, the third Vice President of the Spanish government and the Vice President of Ecological Transition and Demographic Challenge during the II Hydrogen Day that was held on January 31, are in line with this approach.

Unidentified Company Representative

Thank you, Jorge, for your questions. We now continue with the following question.

Operator

The following question is from Javier Suarez from Mediobanca.

Javier Suarez

My apologies for having yet another question. What about the guidance for 2026? You have mentioned €660 million on account of EBITDA. Would that be compatible with a net income of 2026 of €230 million? I would like to know whether my calculation is correct.

And could you throw some light as regards reported net income. As for the cash flow generation bridge, I believe that for 2026, you expect debt to remain at around €3.4 billion, €3.5 billion until the 2024 through 2026 period. Is that assumption correct? And I was also wondering in view of your presentation, a company that based on reported income that is not adjusted according to PPA with a dividend of about 100%. And that beyond 2026, could have an investment cycle that might be critical as the CEO mentioned, resulting in an annual CapEx of above €1 billion a year because you spoke of more than €3 billion after 3 or 4 years. That dividend wouldn't be too high if the payout is about 100%.So once the new investment cycle starts, that dividend of €1 per share shouldn't be adjusted downwards in order to have a more sustainable capital structure over time?

Arturo Aizpiri

Let me first answer your question regarding debt and the CapEx-intensive approach beyond 2026, and Luis will afterwards provide us with more accurate details about your question concerning 2026 guidance for EBITDA. Now in answer your question about debt, as you know, in our strategic plan in July 2022 we estimated debt of €4.4 billion by 2026. As we explained before, we are going to withhold €1 billion in addition to what we estimated initially. As a result, we will be able to maintain our debt at around €3.4 billion by the end of the period. So that calculation is correct. As for the CapEx-intensive program, as we mentioned before, we foresee CapEx of approximately €3.2 billion for the period. That is up €2.5 billion compared to what we estimated initially.

But this has to be rolled out within a full-year period. If the total infrastructure is carried out in 4 years between 2027 and 2033. And this will also depend on the Spanish government's planning, and it will also depend on the proposal that we will be submitting in April. So perhaps a portion of this CapEx is extended until 2033. We should bear in mind the philosophy behind backbone infrastructure, each section of this backbone should be executed in such a way that the backbone can be operational over time.

That is the backbone cannot be built in such a way that then the difference [Technical Difficulty] It's easy therefore to imagine that a portion of this infrastructure might be executed after 2030 or between [2030] and 2030 according to the nonbinding infrastructure request mandated by the Spanish government. We do not imagine an annual CapEx of €1 billion. Actually, we stand at around €600 million approximately. That's our estimate. Luis, would you like to supplement the question.

Luis Romero

Yes, Javier. Concerning EBITDA and PAT, we expect €670 million by 2026, in line with guidance provided in Bloomberg. And as for net profit, we expect PAT by 2026 of €220 million. That is to say with a payout balance and funds from operations of 40% of payout over PAT of 90%. So these are average figures for the 2027-2030 period of around 40%.

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Thank you very much, Javier. We now move on to the next question.

Operator

We give now the floor to the next question. Maybe there's no more questions in the Spanish.

Unidentified Company Representative

So now let's move on to any questions from the English speakers.

Arturo Aizpiri

Okay. It seems that the questions that we had from the English speakers have been answered. And the list of analysts' pending questions has disappeared. So however, please do remember, and this is a reminder to all the analysts, that the Investor Relations team is always available to answer any questions you may have. So thank you all very much for your attention. Thank you.

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