

# **Fortum Oyj (FOJCF) Q2 2024 Earnings Call Transcript**

Seeking Alpha - Earnings Call Transcripts

August 16, 2024 Friday

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**Length:** 8059 words

**Byline:** SA Transcripts

**Body**

Fortum Oyj (FOJCF)

Q2 2024 Earnings Conference Call

August 15, 2024, 04:00 AM ET

Company Participants

Ingela Ulfves - Head, IR

Markus Rauramo - CEO

Tiina Tuomela - CFO

Conference Call Participants

Wanda Serwinowska - UBS

Harry Wyburd - BNP Paribas Exane

Artem Beletski - SEB

John Campbell - Bank of America

Harrison Williams - Morgan Stanley

Deepa Venkateswaran - Bernstein

Louis Boujard - ODDO BHF

Harry Wyburd - BNP Paribas Exane

Presentation

Ingela Ulfves

Good morning, everyone, and a warm welcome to Fortum's joint webcast and news conference for the investor community and media on our second quarter and half year results. My name is Ingela Ulfves and I'm Head of Investor Relations at Fortum. As always, this event is being recorded and a replay will be available later today on our website.

With me here in the studio are our CEO, Markus Rauramo; and our CFO, Tiina Tuomela. Markus and Tiina will present the group's financial and operational performance during the second quarter and the first half of this year. After the presentations, we will open up for questions and we will start with the capital markets audience and international media, after which, if needed, we switch to Finnish and take potential questions from the Finnish media.

Okay. I now hand over to Markus to start.

Markus Rauramo

Thank you very much, Ingela. A warm welcome to our investor and media call also from my side. I will start by going through our financial performance, the market fundamentals, and our strategy execution. After that, Tiina will provide more details, especially on the financials and how this turned into results in the first half of 2024.

Let me now start with the quarterly highlights. The normal patterns applied to the second quarter, which is seasonally smaller result wise. Typically, power prices are low at this time of the year due to melting period and warm weather.

This was also the case now. Our second quarter performance shows resilience, and despite lower power prices, we managed to record relatively good results supported by successful hedging and physical optimization. Considering external factors, I am satisfied with our performance.

During the second quarter, we continued to implement our strategy determinedly. One of our strategic priorities is to deliver reliable clean energy and we focus on optimizing and strengthening our core operations for power generation.

This includes investments like Loviisa nuclear power plant's low-pressure turbine modernization as part of the plant's lifetime extension. This modernization, announced in May, increases both the total capacity of the plant and the output during its lifetime. As part of the Espoo Clean Heat program, we closed down our last coal-fired unit used for district heating production in Suomenoja in Finland at the end of April. This means that our heating and cooling business phased out coal in Finland one year earlier than planned.

In May, we inaugurated our wind farm in Pjelax on the West Coast of Finland, which is the third largest in the country. From the beginning of July, it started its commercial operations through the power purchase agreement with Finnish Helen.

Our second strategic priority is to drive decarbonization of industries. During the second quarter, we announced the development of several potential new sites across Finland, among others in Jyväskylä. These we can offer to customers for data center or industrial use.

We have a new slide on the site developments in our latest investor presentation, if you would like to dig deeper into this topic. We also started preparations for a 2 megawatt hydrogen pilot production plant to be built in Loviisa, scheduled for commissioning in late 2025.

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Within the scope of our third strategic priority, to transform and develop, we continue the implementation of our efficiency improvement program with the target to gradually lower annual fixed cost by €100 million excluding inflation by the end of 2025 with the full run rate from the beginning of 2026.

In addition, we successfully divested our stake in the 185 megawatt solar portfolio and recorded a sales gain of €16 million in our comparable operating profit. This was our last operational renewables business in India. The remaining businesses are a renewables development platform, EV charging services and some biobased solutions.

As the strategic review continues for the circular solution businesses, we are also evaluating alternatives for these other remaining Indian operations. The remaining net assets for all of these businesses total approximately €130 million, of which the Indian net assets, including guarantees, amount to approximately €30 million.

In July, after the reporting period, we signed an agreement to sell our recycling and waste business to Summa Equity for approximately €800 million. Based on the balance sheet at signing, we will record a tax-exempt capital gain of approximately €110 million. However, the financial capital gain will depend on the balance sheet value at closing, which is expected to take place in the fourth quarter of this year. Following this divestment, we continue with our priorities for capital allocation.

We have a very strong balance sheet with very low leverage. In the current investment climate, our investment outlook for next years is limited and we continue to apply shareholder returns based on our dividend policy with a payout ratio of 60% to 90% of comparable EPS. And as always, the Board of Directors will decide on the dividend proposal to the AGM in connection with the full year results 2024, which takes place on 11th of February 2025.

Next I will go through our main figures. These are the familiar comparable headline KPIs for Fortum Group's second quarter and first half year of 2024. All numbers in this presentation are for continuing operations, if not otherwise mentioned. Last year, we had higher power prices. So this year, our comparable operating profit was lower both for our first half year and second quarter, the main reasons being lower spot and hedge prices in the generation segment.

On a positive note, our hydro volumes increased and both the consumer solutions and other operations segments improved their comparable operating profits. Our comparable EPS declined slightly in the first half of this year, but increased by 25% in the second quarter. Our operating cash flow decreased somewhat compared to last year and was €876 million in first half year and €338 million in the second quarter.

And finally, the balance sheet, and most importantly, our leverage. Defined as financial net debt to comparable EBITDA, it was at 0.5 times for the last 12 months, which is on the same level as at the end of last year.

Then over to the commodity markets. I also want to say a few words about the market development. Here you see the main commodities. After having seen a significant decline last winter, European gas prices moved higher during the second quarter. This was also reflected in the continental power prices, while the impact on the Nordic prices was modest. In the Nordics, the volatility of the spot power price remained high, especially in Finland, as the market witnessed several days with very high and very low prices.

The volatility was influenced by prolonged nuclear plant maintenance at Olkiluoto, significant outages in transmission capacity and strong spring water inflows. Despite the effect from these temporary issues, we believe that this elevated spot volatility will continue. The futures market overall developed sideways over the quarter, although volatility driven by weather conditions also played a part.

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So with this, I end my part and hand over to Tiina for more details.

Tiina Tuomela

Thank you, Markus. Good morning, everyone, also on my behalf.

I will now go through our financials in more detail. Let's start with the key financials. So let me first comment on some of the comparable KPIs for our continuing operation. In the second quarter, our comparable net profit and comparable EPS increased. That was mainly due to the better result from our associated companies.

Last year, the associated company result was impacted by the lower profits of associates, mainly caused by inflation adjustment in Swedish nuclear waste related provisions in co-owned nuclear companies.

All other KPIs declined somewhat, mainly affected by lower power and hedge prices. Our comparable EPS for the last 12 months was at €1.26 compared €1.28 in 2023, so slightly down. As Markus already said, our leverage continued to be very low at 0.5 times.

Now over to the income statement to look into certain items a bit more detail. As we have disclosed related to our efficiency improvement program, you can see from this income statement that our annual fixed costs are slightly above €1 billion. The target is to reduce the fixed cost base by €100 million excluding inflation. During this year, our fixed costs have increased somewhat, but with the actions in place, the fixed cost base will start to go down.

As we have disclosed, we will lower our recurring costs base by more than €50 million by the end of this year. In July, we announced the divestment of our recycling and waste business and it is estimated to close in the fourth quarter this year.

Once this is done, our fixed cost base will be approximately €150 million lower, meaning that the new fixed cost base excluding the recycling and waste business will be €850 million. Despite this new lower level, we keep our target to reduce fixed cost by €100 million by the end of 2025 with the new run rate from 2026.

In the second quarter, our finance cost net was positive. The main reasons were the pre-tax interest income of €19 million from a tax case that we won in Belgium and €11 million from the nuclear related items.

Taxes have been at the normal level this year. Last year, in the second quarter, income tax expenses included €225 million of adjustment related to one-time tax impacts from the impairment of the Russian asset mainly recognized in Ireland and in the Netherlands. Non-controlling interest was €2 million negative in the second quarter. This is related to the Pjelax wind farm.

So then let's look at the waterfall of the second quarter comparable operating profit for our segments. Compared to the previous year, the result of our generation segment decreased while both consumer solutions and the other operations segment slightly improved.

In the generation segment, comparable operating profit decreased by €40 million to €264 million, mainly due to the lower spot and hedge prices. Lower nuclear volumes due to the extended outage in Olkiluoto's third unit and higher fixed costs negatively affected the result, while there was a positive effect from the higher hydro volumes, which partly offset the decline,

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The result of the renewable business was positively impacted by the sale of our remaining share of the Indian solar power portfolio. This comprised four solar power plants in India with a total capacity of 185 megawatts. From this divestment, we recorded a sales gain of €16 million in connection with the closing of the transaction. This was booked in the comparable operating profit.

The result of the district heating business improved mainly due to the higher sales price for the power in Poland. Lower fuel and CO2 cost supported by higher share of the electricity-based heat production in Finland also contributed to the result improvement. In the quarter, the Pjelax wind farm contributed negatively to the result.

In our consumer solutions segment, comparable operating profit increased by €2 million to €12 million mainly due to the improved electricity sales margin. There was some negative result effects from lower gas margin and higher fixed cost. Last year, the result was burdened by the regulated electricity price cap for the end users in Poland applied in 2023.

In the other segment, comparable operating profit improved by €9 million and was €43 million negative. The main reasons for the improvement were higher internal charges for enabling function services and higher earnings in the circular solution business.

When looking at the comparable operating profit for the first half of the year, the same trend continues. The generation segment result declined, while both consumer solutions and other operations segment improved. Unfortunately, the deviation for the generation segment is much bigger.

The generation segment's comparable operating profit decreased by €250 million to €777 million. The main reasons for the decline in the generation segment were the clearly lower spot and hedge prices, which were partly offset by higher hydro volumes. The result was also negatively affected by a weaker energy mix resulting from the higher cost nuclear volumes from Olkiluoto third unit.

The result of the renewable business was positively impacted by the €16 million sales gain from the divestment of India solar assets. The result contribution from the Pjelax wind farm was slightly positive in the first half year. The result of the district heating business improved mainly due to the lower fuel and CO2 cost, supported by more electricity-based heat production in Finland and higher sales price for the heat and power in Poland.

Comparable operating profit in the consumer solutions segment increased by €38 million to €54 million, mainly due to the higher electricity sales margin, discontinuing of the regulated electricity price cap for the end users in Poland effective during 2023 and higher sales margin of value-adding services. This positive effect was partly offset by lower gas sales margin in Poland and higher fixed cost.

In the other operations segment, the comparable operating profit improved by €50 million and was €68 million negative. The improvement was related to higher internal charges for enabling function services and higher result in the circular solution business.

Then some comments on our financial position, debt and liquidity. Our financial position is very strong, and this supports our objective to maintain a credit rating of at least BBB. When considering our capital allocation, we balance between the leverage, investments and dividend, we always keep the rating in mind.

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Next, let's go through the reconciliation of our financial net debt in the second quarter. In the opening balance sheet at the end of first quarter, our financial net debt was €528 million. In the second quarter, the operating cash flow was €338 million. This effect was slightly offset by investment of €117 million.

In the second quarter, we paid our first installment of the dividend, €520 million. The change in interest-bearing receivables amounted to €28 million, while FX and other effects totals €5 million. So at the end of the second quarter, our financial net debt was €851 million and the ratios for the financial net debt to comparable EBITDA is at 0.5 times for the last 12 months.

Looking at our debt portfolio and the maturity profile, I want to highlight a few things. We use bonds as our primary source of our funding. Our maturity profile continues to be very balanced and there are no large majorities in any single year. All in all, our gross debt excluding leases totals €5.3 billion, €4 million down during the quarter.

At the same time, our liquidity position is strong. We have ample liquidity reserve of €7.4 billion with €4.1 billion of liquid funds and €3.3 billion of undrawn committed credit facilities and overdrafts.

With the strong liquidity position, we will continue to optimize our cash and credit lines. The overall objective is to have sufficient and optimal liquidity while at the same time trying to minimize funding cost. We are constantly monitoring and adjusting our liquidity based on various scenarios to ensure sufficient liquidity in order to meet required needs.

The cost for our €5.3 billion loan portfolio is 4.2% while the interest income that we get for our €4.1 billion liquid funds is 3.8%, which means that the net interest costs are in good balance.

So with this, or -- let's look at the outlook section. The outlook section comprises in essence four elements; guidance for outright hedges, an optimization premium, taxes, CapEx guidance and our fixed cost reduction program.

First, a reminder that our annual outright volume is approximately 47 terawatt hours and we have also disclosed new rates for different price areas. These were disclosed already in connection with our first quarter result, but this, just a reminder.

Starting with the hedges, at the end of the second quarter 2024, the hedge price for the remainder of 2024 was at €43 per megawatt hour and the respective hedge ratio was 75%. The hedge price for 2025 is at the same level than the last time at €42 and respective hedge ratio increased by 10 percentage point to 60%. The annual optimization premium continues to be at the level of €6 to €8 per megawatt hour and for the total volume of 47 terawatt hours.

While the guidance is for the annual level, there might be quarterly variations. Our corporate tax rate guidance is unchanged. We expect the comparable effective income tax rate to be in the range of 18% to 20%. In Sweden, there will be a revision of the property taxes for next year. For Fortum, the increase of the property taxes will be approximately €25 million for the years 2025 to 2030. This means that the increase is €25 million from 2024 to 2025 and then stays at that level for a five-year period, including 2030.

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Then a recap of the guidance for our capital expenditures. Our capital expenditure for 2024 is expected to be €550 million. This includes maintenance CapEx of €300 million. As we disclosed the divestment of the recycling and waste business on 18 July, we also lowered our capital guidance from 2025 onwards.

The annual maintenance CapEx is expected to be approximately €250 million in 2025 and onwards, which continues to be clearly below our depreciation level. Capital expenditure for the guided next three years 2024 to 2026 is expected to be €1.6 billion, including maintenance and excluding potential acquisition. The previous guidance was €1.7 billion.

Please note that if we would not disclose new investment project, our capital expenditure would go down over time towards €300 million after 2026. And also, as mentioned before, we target to reduce our annual fixed cost by €100 million, excluding inflation, gradually until the end of 2025 with the full effect from the beginning of 2026.

The divestment of our recycling waste business will reduce the group's fixed cost base by approximately €150 million. So from 2025 onwards, the new fixed cost base will be approximately €850 million. Despite this, the cost reduction target of €100 million is unchanged. And as I already mentioned, we expect to reduce our fixed cost base by more than €50 million already by the end of 2024.

This was all for my presentation and now we are happy to answer your question. So with this one, Ingela, over to you.

Ingela Ulfves

Thank you, Tiina, and thank you also, Markus. We're now ready to take your questions. So please state your name and company before asking the question. And we also ask you to limit yourself to two questions each. Then you can come back for more questions. So we're ready to start. Moderator, please go ahead.

Question-and-Answer Session

Operator

[Operator Instructions] The next question comes from Wanda Serwinowska from UBS. Please go ahead.

Wanda Serwinowska

Hi, good morning. Wanda Serwinowska, UBS. Just two questions from me. Congratulations first of all on the results. So the first question, on the new nuclear in Sweden. Earlier this week, there was a proposal around new conventional buildout in Sweden in nuclear. So the question is, is it something that Fortum would be interested in? Is Fortum interested in being in large new nuclear in Sweden, especially given lack of growth CapEx outside in the foreseeable future?

And the second question is on the cost cutting. I do appreciate you target €100 million over the next few years, but can you just quantify how much have you achieved in H1 this year versus H1 last year? Because that's how we compare. It would be really, really appreciated if we could understand what is the incremental benefit on the cost side versus last year, not versus what was before high inflation. Thank you very much.

Markus Rauramo

Okay. Hi, Wanda, and thank you for the congratulations. So I can start with the new nuclear in Sweden. We think Dillen's report is to the right direction. So the Swedish government investigation is basically addressing the points that we have been raising. So for new baseload to come to market, we need, of course, technology. So there needs to be relevant technology suppliers, plants available. So that's one thing that we are investigating in our study.

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We have been also raising the question that there needs to be a financing model because the construction times are long, there are cost uncertainties, and with today's market prices, new nuclear is not feasible. So some kind of market mechanism, capacity CFD, something is needed. So I would say right direction along the lines that we have been advocating, but I would say that this is kind of a high level indicative outcome. There needs to be much more detail for something really to happen.

Then I think also what is needed is larger discussion in the -- from the energy authorities' and ministries' point of view that what are the -- all the impacts on the whole energy system if ever these kind of mechanisms would go forward.

So what is the impact on the market, what is the impact on existing capacity, how about flexible capacity, how about the intermittent capacity. So directionally right, but a lot of detail still to come. We are interested in new capacity if conditions are fulfilled so that there's technical feasibility and financial feasibility and regulatory feasibility. And we are still continuing with our nuclear new build study. So that's a long way to go on all of these fronts.

Then for cost cutting, I would describe it so that we are very comfortable that we will achieve the €100 million comparable cost reduction. The actions are -- either they have been planned and already are being in execution or we are comfortable that they are coming now in the latter part of this year and next year to reach the run rate in 2026. So good commitment from the leadership of the company. We -- next I am discussing that with our senior leadership today and all of the staff tomorrow.

By and large, I would say that you will start to see the impacts mostly now the €50 million run rate. This will start to come in at the back end of this year because things we have been doing, for example, in consumer solutions and IT, the impacts, we will start to see only going forward. So impacts, a little bit backloaded actions will come more linearly. But Tiina, do you want to comment further on the cost reduction?

Tiina Tuomela

Yes, definitely. So this is pretty much on my focus and agenda as well, the follow-up, the actions, what we have done and how they, in a way, turn to our forecast and numbers. And as Markus said, so we are confident that the impact start to show the latter part of the year and then continue of course naturally next year.

Maybe one thing to highlight that if we look at the current numbers and fixed costs, so comparing either the second quarter or the first half year, so the fixed cost base have actually a bit increased. And the reason there is mainly coming from the inflation. So inflation has been very high, as we know, in 2023, and also that has impacted to our salary and personnel cost.

Then maybe other thing to mention, you might recall that 2022, we didn't pay any bonuses. So it impacted the level in 2023 a bit lower, and now luckily we have been in the position that also the bonuses have been paid. So this shows also that this kind of inflation and then some one-time impacts when we do this restructuring and changes shows in our numbers, but they will gradually decline.

Wanda Serwinowska

Can I just quickly follow up on the Sweden -- on the Swedish nuclear? I mean, I think the report was mentioning potentially a 40-year two sided CFD at SEK800 per megawatt in 2023 prices. Is it a framework that you would be happy with like a 40-year CFD or it's too early to say because you don't know the technology, CapEx and so on and so on?

Markus Rauramo

Exactly. So that's the case. We -- of course, we know, we are pretty well informed about construction costs and the available technologies. So we have been doing very thorough work visiting relevant suppliers and construction sites around the world. And we know that construction costs are high, construction times are long, and the technology and price uncertainties are high as well.

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So what we're really looking for is that is there credible technology, is there modularity, scalability, repeatability, how much confidence can one get on the construction cost and construction time and what is the division of risk.

Then when it comes to what would be exactly a level of a CFD or capacity mechanism, once you start to get the feeling on what is the technology, what are the equipment costs, then you can only really properly opine on what is the level of a compensation mechanism and total revenue. So we are not anywhere close to those points to even have educated opinions about that, not to mention about any investment decisions. So they are somewhere out in the future.

Wanda Serwinowska

Brilliant. Thank you very much.

Operator

The next question comes from Harry Wyburd from BNP Paribas Exane. Please go ahead.

Harry Wyburd

Hi, good morning, everyone. It's Harry Wyburd from Exane. So two from me please. So firstly, could you update us on whether you've made any progress on talks or have anything in the pipeline on PPAs? And specifically, you've obviously signed an agreement with Microsoft for waste heat on their Helsinki data center campus, whether there's been any progress there on potentially signing a PPA with them.

And then second one's on your balance sheet, and I want to understand whether the circular solutions sale being agreed and the India sale as well has altered your thinking there. I guess you're starting to get very close to effectively zero net debt. Have that changed your view on what you might do on special dividends, on share buybacks, on acquisitions or are we still just in, I guess, the habit of being at the top end of your dividend payout ratio? Thank you.

Markus Rauramo

Okay. Thank you for the question. So maybe I'll start with the circular solutions question, and then go to PPAs, and Tiina, if you want to comment on that as well. So indeed, the balance sheet is already strong, €850 million of net debt and the EV for the circular solution business was €800 million. So balance sheet even after that will be even stronger, and I noted that in my part as well.

So we continue to follow our dividend policy, 60% to 90% of the comparable EPS. And when the balance sheet is strong and there isn't a heavy pipeline of investments, we would then use the higher end of that payout range. And if the balance sheet would be softer and investments less or investments more, then we would use the lower end of that range.

With regards to any decisions or indications of the dividend to be paid out from this year, that of course is something that we then discuss with our Board and Board proposes to the AGM with -- in connection with the full-year results in the beginning of next year. So that's the time when we would start talking about that.

Then with regards to PPAs, yes, we see the strong decarbonization electrification pipeline in steel, chemicals, data centers, battery factories. The demand outlook seems very strong, and we get big amount of incoming inquiries. Then the actual PPA realization depends on how the investors are making their decisions. So the larger PPAs, we would typically announce as releases and there haven't been many now during this year that would have reached that level, but the customer pipeline seems to be strong. Anything you want to add on the PPA?

Tiina Tuomela

No. Well, I think it is important, as we have said, that this is one of our strategic targets to increase the long-term hedging up to 20% by 2026. So this is still in working and what we do.

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Operator

The next question comes from Artem Beletski from SEB. Please go ahead.

Artem Beletski

Yes. Hi, and thank you for taking my questions. I actually have two to be asked. So the first one is relating to optimization premium, and could you provide some further color on its level in Q2 of this year? So have you been, for example, beating €6 to €8 range as it is guided for the full year? And the second question is relating to topic of industrial sites what you have available with good grid connectivity. Could you maybe provide some color of interest towards potential investments on that front, how big it is and especially when it comes to data centers, are there many, for example, discussions what you are having right now relating to this potential offering, so to speak?

Markus Rauramo

Yes. Thank you, Artem, for the questions. So with regards to the optimization premium, we are guiding the full year €6 to €8 per megawatt hour. So we are not targeting to give quarterly guidance or quarterly outcome of that, but we are very comfortable giving the €6 to €8 guidance going forward. So that continues.

Then with regards to the industrial site development, so it is exactly like you implied in your question that the data center -- so apparently both the data use is growing fast and AI is one of the drivers there. So a lot of activity with the international data center operators, so data suppliers, that seems to be the most active segment in our customer portfolio.

So a lot of interest and that's why we have been also developing more sites in addition to the ones we already spoke about in the first quarter. And we are in the -- in our IR deck, we provide a bit more color on where are these sites as well. So what we are looking for is that we can find sites where you have strong grid connections. There's potential also for use of the excess heat that of course can apply to other than data center use as well.

And what we have seen is that -- I think we thought that we can speed up our customers or the investors' investment plans by two to three years. Some are even saying that it's three to four years speeding up. So that's how much faster you can come in if you have a site that is already under development with regards to zoning and permitting and the connections.

So we are doing this together with either private or communal landowners. So we may buy land and then sell it onwards or agree that there are back-to-back agreements, but this is something where we think we can really help with electrification and decarbonization investments.

Artem Beletski

That's clear. Thank you.

Operator

The next question comes from John Campbell from Bank of America. Please go ahead.

John Campbell

Hi. Good morning, everybody. It's John Campbell from BofA. Thanks for the presentation. I've got one question. I noted in your remarks you said that you believe elevated spot volatility in Finland will continue. Can I ask what you're seeing in the third quarter so far, as it seems to me volatility is somewhat softer? Thank you.

Markus Rauramo

Yes. Thank you for the question. So structurally, we see that what is coming to the market continues to be renewables, so building flexible power is difficult. So batteries, of course, batteries and storage and flexible use of electricity is growing, but flexible production is difficult. And that's actually a topic both in the Nordics and EU by and large to think that what can we do to promote that.

And then if I go back to the very first question about nuclear, so building baseload power is expensive and difficult as well. So structurally, the thing that comes fast to the market is actually intermittent power.

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So structurally, there are trends that will increase, continue to increase the volatility, and that is actually a topic that we also raised to the discussion both in Finland, the Nordics, and the EU that we don't -- we just don't walk there and then are surprised that consumers and industrial customers have difficulties with the price volatility. So this is the point.

And then it also comes back to the guidance on the optimization premium. So both the track record and the outlook, we feel very comfortable giving that €6 to €8 guidance based on exactly what kind of volatility we assume going forward.

John Campbell

Thank you.

Operator

The next question comes from Harrison Williams from Morgan Stanley. Please go ahead.

Harrison Williams

Hi. Good morning, everyone. Thanks for taking my questions. Harrison Williams at Morgan Stanley. So two from me, if possible. Firstly, just coming back to what you were just saying on elevated stock volatility in Finland, when you are looking at the PPA market, are you getting more interest from players currently in the market because of that looking to get a bit more price stability, or is it still predominantly dominated by new potential entrants such as the data centers, the batteries, the chemicals that you mentioned? So that's the first question.

And then secondly, on your balance sheet, once again, I think, as was pointed out earlier, you could be in net cash with the disposal. And so given your credit metrics allow you to go to, I think, 2 to 2.5 times net debt to EBITDA, how comfortable or how long would you be willing to sit below that or significantly below that threshold before you would consider that maybe investments aren't there at the moment and would look to accelerate distribution to shareholders? Thanks.

Markus Rauramo

Thank you. So good question about the -- so where is the hedging interest coming from. If I go to actually the short-term hedging ratios for this year and next year, you can see that we are pretty much following the historical patterns, so for this year, 75%, and next year 60% hedged, and that's with liquidity having been reduced massively in the electricity exchanges. So this is now bilateral hedging. So it seems that for the short-term volatility management, the energy-using industries are keen to continue to hedge their energy costs. So volatility is an issue that people want to hedge against.

Then for the longer term hedging, we -- so it's manifold. So we do see that we are having intense discussions with clients who have big investment plans and they need to fix their input costs. And then of course this will materialize when the investments are done.

Then there are incumbents who already are in the market, they may have some replacement investments and they want to hedge their costs; same thing there. So we see careful consideration with the industries when they are thinking exactly when to invest and when to lock in their costs.

If I go back a little bit, because I -- of course I think about, okay, so why do the questions come up? Our indication of the 10-year hedging targets and the hedged volumes, it's a result of both us of course wanting to give predictability to our cash flows, but it is an outcome of the incoming inbound interest. So if there weren't customer interest for the medium to long-term hedging, then it would be futile to put out such target.

So for me, it looks like very firmly that the long-term interest is there, but then the investors need to carefully -- or they are carefully considering when exactly they lock their investments and take the decisions and lock in long-term inputs.

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Then for the credit metrics, so we look at the balance of balance sheet, investments, and returns to shareholders. And balance sheet is in good shape. So ratings are BBB+ and BBB flat; debt levels are low and liquidity is good. We do see the prospect for investments going forward, but of course we need to evaluate that on a continuous basis.

So we try to give timely guidance on the investment pipeline. So now we're saying that for three years, it's €1.6 billion, and that can then change over time depending on whether there will be more or less investments.

And then for the question that when do we then come back to the issue, rather soon actually, at the latest or we will come back to that in connection with the full year results and the Board's proposal for the AGM for the dividend from this year. So that is a point to watch, but the dividend policy is standing today at 60% to 90% of the comparable EPS.

Harrison Williams

That's really helpful. Thanks very much.

Operator

The next question comes from Deepa Venkateswaran from Bernstein. Please go ahead.

Deepa Venkateswaran

Hi, thank you for taking my question. I had two questions. So you shared an interesting slide of the locations of the sites in the investor presentation. So I had a question. I don't see Loviisa in here. Would you also be considering any opportunities for behind the meter data centers with your fully owned nuclear plant? And the second question is, have you quantified in your -- the three regions that matter to you, Finland, SE1 and SE2, how many gigawatts of data centers? So not just your sites, but anybody else's are likely to connect and what's the impact on the power demand in terms of percentage increase compared to the current levels? Thank you.

Markus Rauramo

Yes. Thank you, Deepa, for the questions. So I know that the discussion, behind the meter discussion globally is very active. That's -- let's say in theory, that's an option, but not -- I don't see that there has been like customer demand for that particularly. So we are trying to follow where the demand could be, where there is land availability.

Otherwise, we are developing in Loviisa. So we are, for example, this hydrogen project, the 2 megawatts, so it's very small, but that's our first step into hydrogen. So that is happening actually in Loviisa. So overall, I would say Loviisa as such has the characteristics of a very welcoming society that is used to work with heavy industries and nuclear, but all in all, the development seems to be very broad. So the demand to discuss about sites seems to be very high.

And that takes to the very interesting question, which is the second point that, well, what are the indications and expectations of data center growth and demand growth in the Nordics. And I would say roughly that if I look at how most forecasters seem to see the issue is that it is steel and aluminum and metals, chemicals, data centers battery -- or battery factories, data centers, and e-mobility roughly in that order, give or take. And data centers don't seem to feature as high as you could maybe think on these demand expectations. So I think out of the growth, the TSOs are estimating that the data center demand growth would be 13 terawatt hours. Let's see what happens.

What we can see is that the steel, aluminum, hydrogen projects, they seem to take longer to materialize, and many of these are actually new companies who have a novel business model and they have their offtake contracts and they want to do the long-term procurement, but of course, it takes time when you need to raise the capital and new technology, whereas the data centers, even if it looks, the forecast looks smaller at the moment, but when you consider the global data center operators, of course they have the capital and they have the need here and today and they need no new contracting structures.

So the data demand is growing, AI is pushing that ahead, and they have the capital, so they can invest from their own balance sheet. So I would say maybe smaller forecasted volume, but more linear execution compared to the more chunky investments that then come from new types of businesses, even if in traditional industries.

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Deepa Venkateswaran

Okay. I mean, I think it would be helpful if you quantify it at a later stage, at least what it means for your region based on the pipeline you're seeing, just to put it in perspective of what's the demand increase, at least in the regions that matter to you because I think the 13 terawatt hours is for the entire North Pole, isn't it?

Markus Rauramo

That's correct. True. Yes. Okay, we'll see about that, if such indications are available from public sources, but thanks for the specific feedback. Appreciate.

Deepa Venkateswaran

Thank you.

Operator

The next question comes from Louis Boujard from ODDO BHF. Please go ahead.

Louis Boujard

Yes. Hi, good morning. Thank you for taking my question. Maybe two on my side as well. Maybe the first one directed to Tiina, I guess. It's regarding the comment on the CapEx after 2026 that you did. I think that -- I appreciate, of course, that you have €1.6 billion CapEx plan over '24 to '26, but beyond '26, my understanding is that you mentioned something like €300 million of CapEx envelope. Does it include the growth as well CapEx or is the total CapEx or only the maintenance CapEx? And if indeed, it is the total CapEx that is expected to be €300 million onward after '26, then why don't you think about some investment that could be more short-term in terms of potential new investments with renewables in the different regions where you could be?

The second question would be regarding the guarantee of origin, which have been a bit lower over the past few quarters. It's recovering a little bit over the last few months. I would like to understand if it has any impact into your optimization premium at the moment and if the mix in the optimization premium now more balanced toward flexibility and less balanced toward guarantee of origin. Thank you very much.

Tiina Tuomela

Very good. Yes. Let's start with our CapEx guidance. So basically, we updated our CapEx guidance based on the sale of the recycling and waste business, and there we reduced the maintenance CapEx. So maintenance CapEx has been €300 million yearly and we reduce it to €250 million from 1st of January 2025 onwards. Then the remaining €800 million what we have is related to growth.

And I think what we state that unless we say and announce of course then the new investments, so then the overall investment level will go to €300 million, meaning that roughly €250 million is the maintenance and some €50 million the growth path, but those are the decisions we have already made. So we know that those are coming and doing and there's no uncertainty.

But clearly, as Markus said, that we are planning and we are doing also the pipeline, looking, of course, our investment criterias, being very disciplined in this challenging market environment, so how we allocate our money. But this is just to indicate that this is what is in the pipeline at the moment, but of course, we are working with the new ones as well.

Markus Rauramo

Okay. And I can -- go ahead.

Louis Boujard

Sorry, just to be sure, so I should understand that it's a minimum growth CapEx that is €50 million beyond 2026, and then you have more CapEx that will come a bit later.

Tiina Tuomela

That's correct. So this is -- those are the investments with the growth we have already decided, and they are under completion like the Pjelax Bole is out of the CapEx at the moment.

Markus Rauramo

And in the long run, Loviisa is the kind of -- you could say that Loviisa remains there, so part of it -- part of that investment will be growth. So now, for example, already with the decided lifetime extension related investments, the capacity of Loviisa will be growing.

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But then over to the Guarantee of Origin being lower, of course, that's the case, and we show it on our slides as well. So does that have an impact? So the biggest part of the optimization premium comes from the physical optimization. Then we have the ancillary services, the grid services, frequency control and others.

And then in order of size, the GOOs, and also with these price levels, we are comfortable -- very comfortable giving the €6 to €8 guidance, which implies of course that the physical part is the biggest one, and we have been very successful and continue to expect that we can optimize with our flexible hydro capacity. And this is something also where we continue to put focus both on the availability and the flexibility and we'll be investing in that as well. So ongoing investments into hydro and nuclear will continue, and of course we are doing things to even increase the output and continuously improve and maintain the availability.

Louis Boujard

Okay. Thank you very much.

Operator

The next question comes from Harry Wyburd from BNP Paribas Exane. Please go ahead.

Harry Wyburd

Hi, everyone. Thank you very much for taking one short follow-up. So sorry to labor the point, but just wanted to come back to the balance sheet and dividend, given it's, I think, in my personal opinion, a very, very important topic for Fortum. So taking account of everything you said, and there's been a couple of questions on this, the impression I get is, you will stick to probably the high end of the dividend payout ratio range for the time being, whilst investments are low. And then you've got projects like new nuclear in the long run where CapEx might increase, and then you'd potentially review your dividend payouts when those start to ramp up.

And in the meantime, the sense I get, but you could confirm whether or not my thinking is right, is that you're sort of harboring your balance sheet to be ready for bigger investments in the future. So is that a fair way of thinking about it that basically we're going to have 90% payout ratio in the next few years, followed by a review thereafter, and potentially using that balance sheet on organic projects? Thanks.

Markus Rauramo

Yes. So thanks for the question. So I would put it so that, yes, the balance sheet is strong, so we recognize that. And it got stronger than we thought, faster than we thought after all the turbulence that happened and the market conditions where we were. So if I think about where we are today versus the 2 to 2.5 max level, then I think in this kind of geopolitical uncertainty and market fragility, I'd rather be a bit conservative.

So I would not, in these circumstances, go all the way to stretch it to the full. Then we will of course opine on the dividend in connection with the full-year results. Now the dividend payout is tied to the comparable EPS. So we follow that. But of course, we look at the balance sheet versus investment potential, and we will of course open our thoughts in connection with dividend proposal as well when we get there.

And then I'll mention one more thing. It's not directly relating to the balance sheet strength per se, but the liquidity, and that is that now the margining requirements have come down massively. So you could say that we are pretty much at historically normal levels, but we do want to be in a position that if there is market turbulence and liquidity needs would grow, we want to be in a position that we can then lock in also higher prices and would not have limitations on what the liquidity allows us to do. So here rather be a bit conservative with regards to liquidity at the moment and be able to take advantage of all possible conditions.

Harry Wyburd

Okay. Many thanks.

Markus Rauramo

Thank you.

Ingela Ulfves

Okay. Thank you all for your questions. In the beginning, I said that if there would be any questions from the Finnish audience or Finnish media specifically, then we could now switch into Finnish and continue with those. That is not the situation. So with this, I thank you all for your participation here today and wish you, on behalf of Fortum, a really nice rest of the day. Thank you so much and bye.

End of Q&A

Markus Rauramo

Thank you for the participation and all the very good questions. Thank you.

Tiina Tuomela

Thank you very much.

**Load-Date:** August 16, 2024

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