

# **Metlen Energy & Metals S.A. (MYTHF) Q2 2024 Earnings Call Transcript**

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**Body**

Metlen Energy & Metals S.A. (MYTHF)

Q2 2024 Earnings Conference Call

July 25, 2024 10:30 AM ET

Company Participants

Evangelos G. Mytilineos - Chairman of the Board of Directors and Chief Executive Officer

Eleftheria Kontogianni - Chief Finance Officer

Christos Gavalas - Chief Treasurer

Conference Call Participants

Fani Tzioukalia - Euroxx Securities

Vangelis Karanikas - NBG Securities

Ioannis Noikokyrakis - Alpha Finance

Nestoras Katsios - Optima bank

George Grigoriou - Wood & Company

Athanasoulias Nikos - Eurobank Equities

Presentation

Operator

Ladies and gentlemen, thank you for standing by. I'm Konstantinos, your Chorus Call operator. Welcome and thank you for joining the Metlen Energy & Metals Financial Results Conference Call, to present and discuss the Metlen Group First Half 2024 Financial Results.

At this time, I would like to turn the conference over to Mr. Evangelos Mytilineos, Chairman of the Board of Directors and Chief Executive Officer and other senior executives. Mr. Mytilineos, you may now proceed.

Evangelos G. Mytilineos

Thank you very much. Welcome to all our friends and analysts from Greece and overseas. We are here this evening to discuss the financial results of the first half of 2024.

We had a relatively good first half. I think our shareholders are pleased with the results. And, our earnings per share exceeded EUR2, which is up 5% year-on-year. Net profitability at EUR282 million also 5% up. EBITDA is EUR474 million up 8%. Current liquidity of the company is EUR2.6 billion which is 15% up year-on-year. And, the leverage to net debt is 1.76. Remind you that dividend of EUR1.55 has already been paid earlier this month.

The background of the first six months was a difficult background. That's why we attach a lot of importance to the results that were achieved these six months. It's been the first semester that we have seen energy prices going all the way down. It's remarkable what we have seen in the energy prices actually, which has affected directly or indirectly almost all our results, either good or bad, good for metals, definitely bad for gas trading, etcetera. That is probably the most important thing.

The other, of course, is the extremely low power prices in Greece. Also the ever widening amount of zero pricing for power, which you have all of you, I'm sure you have noticed and you have analyzed. And, it's a very interesting subject to discuss as well. July is a different month especially for generation, but the government has caught up with us and has applied a tax as you know, which after six difficult months, the first month, you have a good month, you get a tax. It's one way to look at the business.

We have a lot of questions, which I think are all very interesting. I'll go straight to the questions that have already been submitted. And then, of course, anyone who wants to ask anything afterwards can ask to be heard immediately.

Question-and-Answer Session

Evangelos G. Mytilineos

I'll start with Ms. Fani Tzioukalia from Euroxx Securities.

Fani Tzioukalia

Congratulations on another strong set of results. Given H1 EBITDA performance, are you confident that you will meet the targets set in June AGM for a 2024 EBITDA range of EUR1 billion to EUR1.2 billion and net earnings of EUR600 million to EUR700 million. How do you expect the second half profitability to unfold among sub-segments?

Evangelos G. Mytilineos

After the results of the first semester, of the first half, our confidence has, of course, grown. I always avoid to speak with certainty when I make forecasts, because anything can happen in these difficult times. But, I can say that our confidence has grown stronger that the results for the whole year will be easily within the range that we set as a target in our AGM in June. And, the H2 in general, we expect to come stronger.

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And, according to our interim budget, we have also a quite stronger performance on the topline, we're going to see a much bigger turnover, that's why I advise you not to multiply the turnover of the first half by two, to bring the total for the year. It's not going to be like this, the same for medium line and bottom line. About the segments, as you know, there is an inherent seasonality of the Greek utility, including generation, including retail and so on.

And, the third quarter especially, it includes the two hottest months of the year, July and August, which are favorable months for a utility. On the renewable side, we had the robust first half. I think the second half performance would be at least as good as. We also have good visibility for a significantly stronger performance from the M Power projects as well as on from the METKA side for the second half of the year.

As far as metals are concerned, that should maintain the current profitability base. Thus, most, if not all, sub-segments should see an even stronger second half, with some of the segments posting significantly higher performance for the second part of the year. As far as trading, gas trading is concerned, I think the miserable performance of the first half will may improve slightly in the second half, but as much as that.

Operator

Mr. Vangelis Karanikas from NBG Securities.

Vangelis Karanikas

Number 1, could you please provide an update on your potential listing to the [loan and] (ph) stock exchange? What could be considered to make you having second thoughts about pressing the go ahead button?

Evangelos G. Mytilineos

Mr. Karanikas, the go ahead button has been pressed a few months ago. And, as far as I know, it has not been unpressed. Therefore, there's no change on this one.

Vangelis Karanikas

Number 2, on a more technical aspect, could you please explain what causes the spikes of dump prices during the evening hours? And should one consider this positive for your profitability factor to be maintained in the future?

Evangelos G. Mytilineos

Okay. What I'm going to tell you is not what happened in July. What happened in July was a totally different state of events, which all resulted in 15 year to 20 year spike in the power prices and was an East European phenomenon rather than Greek. Usually, the spike of the evening hours is due to the solar generation. And, please note that what I'm saying, I'm not talking about renewables, I'm talking about solar, because the wind generation can be 24 hour generation.

The solar cannot be 24 hour, as foreseen by nature. The solar is there when the sun shines. And, as you know, the sun doesn't shine in the evening. So, when we have such a massive, indeed massive production of solar power during the day, when the sun sets, it's like you turn off the lights. And, then when you turn off the lights, you need energy from other sources. And, you need energy not only you, but everybody.

So, everybody is going to get energy from other sources than what they get until that time of the evening. The immediate or so to say, very soon increase in the demand of electricity after the sunsets is the cause of the spike in the power prices. The dump prices that you mentioned reflect exactly this spike of demand.

Now, we try, the system try, the system operator tries to maintain adequate supply, at this time of the evening in order to provide energy to the people, power, but also to make sure that there are no blackouts or other any other problems. And, I think we have made huge progress in Greece in the last few years in the sense that;

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Number 1, there is adequate supply, thermal mostly. Number 2, there are adequate interconnections with neighboring countries, both in the North of Greece and in the West to Italy. So, there is power, but at the higher price. Why? Because the demand, as I said, is going through the roof at this particular two or three hours after the sunset, and the supply is not increasing as much as the demand. That's a very pure and simple economic theory explanation.

Now, what happened in July is a totally different phenomenon. A lot of things have happened in the East and Northeast and Southeast parts of Europe. There's a big problem in the Ukraine, where a lot of generators have been damaged because of the war. And Ukraine, which was always a big exporter of power, is now a big importer of power.

So, there's a black hole over there, which descends down to Hungary. And, then we have other phenomena like in Romania, there has been drastic decrease of wind power, which is very important in Romania, in all the Balkan area. And, then if you go a little bit south, you had Bulgaria, where the Kozloduy, the major nuclear power plant in the Balkans was almost 50% or 6% out of operation.

So, if you combine all these forces, Greece had no supply problems, or very little anyway. Greece was the market that all the traders try to secure quantities, especially in the evening hours. During the day, we had on top of what we mentioned, in all the areas that we mentioned, we had extremely high temperatures. So, if you combine all this, Greece was a recipient of the results of this situation. It was not the country that caused these problems to happen.

So, in the after sun hours, all the traders, they're trying to secure Greek power because it was cheap and it was available. And, that in order to secure the quantities, they raised the prices very much. That's why I think that the overreaction from the part of the government should have been avoided.

These things happen in markets these days, especially during the times of climatic change and extreme phenomena like the 15 day of heat waves that we have seen in such a big area of Europe.

As you see now, prices are slowly coming back tomorrow. We have a much lower average dump price. I think it's about EUR114, if I remember well. So surely, the phenomenon will come back to seasonal normal, I think. I cannot make any focus for August. But, there is every possibility that we can see again very hot weather for some days.

Operator

Mr. Ioannis Noikokyrakis from Alpha Finance.

Ioannis Noikokyrakis

Congratulations on another set of results. A question from my side, you stated back in January that your goal is to achieve the 30% market share in the Greek electricity supply. What are your expectations of profitability once you reach this level?

Evangelos G. Mytilineos

My God, Mr. Noikokyrakis, it's so difficult to reach the 30%. The last thing we think at the moment is how much money we are going to make when we get up to the 30%. We finalized today, yesterday or today the acquisition of Volterra. We will make an announcement shortly. It's something that the market knows anyway, but it has been formally completed. And, our market share is approaching now 20%.

We're working very hard, because if you want to have a utility, you have to have size. And, as far as our production facilities are concerned with the biggest thermal fleet in Greece after PPC. And, probably the biggest renewable fleet after the completion of the construction of our current round of solar parks, which are on the way.

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What we need to match this supply is demand. And, this demand is going to come from the retail side. But, going from 20% to 30%, it's going to be a huge task and a very difficult effort. Once, we get there, we will have to see what would be the basket of our supply, whether it is still going to be gas and solar or we are going to have a much bigger battery share and so on.

So, once we get closer to the 30%, we will be able to give you the numbers and be more confident to what we're saying.

Operator

Mr. Nestoras Katsios from Optima bank.

Nestoras Katsios

Hello. Two questions from my side. Number 1, what are your estimates on CapEx for the current year and also going forward?

Evangelos G. Mytilineos

Ms. Eleftheria Kontogianni, CFO, will answer this question, please. Eleftheria, please.

Eleftheria Kontogianni

Thank you, Mr. Chairman. And, thank you for your question. We report today a level of CapEx spending at EUR311 million. I will only take a few seconds to go back and compare this figure to what happened on 2023.

A year ago, we reported the CapEx of EUR0.5billion while for the end of 2023, this reached EUR1 billion. Approximately 90% of this spending is what we call internally growth CapEx. This CapEx is mainly spending for the construction and development of our renewables either in Greece or abroad. What we estimate for the year is that this today's reported figure will be at least double, if not higher, always depending on the progress of our investments worldwide.

Now, this level of approx EUR1 billion of spending is something that we will see decreasing going forward, especially from 2025 onwards. This downward pattern is something that will be maintained as today we have built a crucial mass of renewable assets that would potentially be disposed. Thank you.

Evangelos G. Mytilineos

Thank you, Eleftheria.

Nestoras Katsios

Question Number 2, following the profitability uplift over the last three years, I repeat the question. Following the profitability uplift over the last three years, do you think there is further room for improvement in the short-term and medium-term?

Evangelos G. Mytilineos

Well, if we don't hope for improvement in the short-term and medium-term, then we better go home. Why do the shareholders would pay us our salaries and bonuses and everything? We are here to deliver. We are very hopeful on all the segments, both separately and on a by now famous synergistic model that they are going to deliver better and better results.

And, it is interesting to note and you will see it even more in the full year results. How, for example, the decrease of the big profitability in gas trading, which is for reasons that you can all understand. The price of gas has gone down by probably 90%. It's one of the biggest crashes in commodity history that I remember. And therefore, the decrease is very, very much justified. But, that did not drag down our profitability. On the contrary, our profitability went up. And, it's going to go even up even more in the second half, despite the lagging gas performance.

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Now, if gas trading comes anywhere near to what was last year or the year before last, then you can realize what I mean by diversified model, where one segment helps the other and they all work together to produce and to be the basis of the synergies that are being delivered. I'm sure when we discussed the transformation of the company back in December 2022, and we tried to explain to all of you the synergies.

I'm sure a lot of you had questions, and I can understand this justified. But I think quarter-by-quarter, semester-by-semester, full-year-by-full-year, you all understand how right we were to do this transformation.

Also, a big number, a big a reasonable number of analysts had doubted that the uplift in our profitability, which I had said to you then, that is here to stay. You still had some doubts. I think 2024 full-year is going to dispel all these doubts big time.

Operator

Mr. George Grigoriou from Wood & Company.

George Grigoriou

Can you please comment on the recent article by Australia renewables portal, Renew Economy that Metlen has put its Australia renewable assets up for sale including eight solar farms in operation or under construction as well as a 2.9 gigawatt development pipeline including battery storage and hydrogen project. In addition, please provide some info on progress in the development of the Canadian solar projects?

Evangelos G. Mytilineos

So well, anyway, the article of this Renew Economy Portal, which is one of the most well-known series in this business was accurate. The portfolio is quite big. And, I think the valuation that we are going to achieve will be very attractive for us. It will be way above $0.5 billion anyway. So, stay tuned. Your second question.

George Grigoriou

In addition, please provide some information on progress in the development of the Canadian solar projects.

Evangelos G. Mytilineos

The way the permitting goes, I think everything is going to be ready to start building before the end of the year. Now, the actual building in calendar to start in Christmas maybe a little difficult, to be honest. It's a little colder. But, if we can't make it because of the weather in the heart of the winter, we would definitely start building in the spring.

So, that were the questions that we had in written so far. And, now everybody who would like to ask something, please do.

Operator

Ladies and gentlemen, we will proceed with questions from our audio participants. The first question comes from the line of [Masulhas Ioanaly] (ph) with Morgan Stanley. Please go ahead.

Unidentified Analyst

Yes, good evening. Thank you very much for the presentation. I've got a few questions. I'll take them one at a time if that's okay. So, first question on the power situation in the Greek market, as it has been fairly topical of late. So, you mentioned one-off tax that the government is contemplating for July, August impacting gas fired power producers depending on how prices develop in the coming weeks. How would that impact Metlen's power generation and power supply units? And, what actions have you taken to position the business in this environment? Thank you.

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Evangelos G. Mytilineos

Thank you, Mr. Masulhas. May I remind you what I said in our AGM at the beginning of June regarding our metal business unit, at that time in a similar question, I had said that all the cost parameters and the sales prices for 2024 have been hedged. Therefore, the crisis, the power crisis and the spike in prices that we have seen in July does not affect the aluminum production in any way. Thank you.

Unidentified Analyst

Thanks for that. And just to clarify, when it comes to the electricity supply part of the business, you made an announcement that the tariffs for low voltage customers in August will stay at the July levels. How does that impact the business, that specific segment? Can you still generate decent profitability? And, then on the thermal plants, can you still capture the higher prices that we're seeing in certain hours of the evening and boosting your profitability for at least the third quarter?

Evangelos G. Mytilineos

As I have said over and again, I am personally very proud about our Energy Management team, which I think is one of the best, if not of the best that I have seen. And, they make the best out of situations. The fact that prices may go up to, I don't know, whatever EUR200 or EUR300 per megawatt hour in August does not affect our overall basket.

You can be sure that the energy market, the energy segment and generation especially and management is taking all measures to approach all adverse impacts of heat waves or other things. Rest assured that our offer to our customers is an extremely well calculated move, both on the supply side and the numbers, as well as on the marketing side for the expansion of our retail business.

Unidentified Analyst

Great. Thank you very much for this. Second question, turning to the metals business. We've seen the bauxite and alumina markets tightening quite materially this year. Shall we expect this dynamic to benefit your earnings trajectory in the second half, specifically on the metal segment, given that you're net long alumina?

And, even beyond the second half, how close are you to pursuing some of the growth options you have in this segment, whether it's in Greece or whether it's even in Ghana when it comes to either bauxite or alumina? Thank you.

Evangelos G. Mytilineos

Thank you very much. Indeed, bauxite is getting tighter and tighter. I'm sure you're fully aware of the developments in Australia and other parts of the world, the problems in China and elsewhere. We have taken and we strive to take continuously the best we can to keep bauxite supplies intact. We bought most mines in Greece about a year ago. We set foot on Ghana about six months ago, and we are now slowly starting exploratory work in Ghana. We will have more news on that in the next few months.

Alumina prices have indeed spiked a lot and that is helping to maintain the profitability of aluminum segment and maybe even increase further the profitability in the second half of the year. Thank you.

Unidentified Analyst

Great. Thanks very much. And, just the last question from my side. Looking at the balance sheet, you mentioned that leverage excluding non-recourse debt has risen to 1.76 times in H1 consistent with your growth initiatives. How are the conversations around the potential investment grade upgrade are developing? And, is there a hard ceiling when we look at your leverage ratio?

Evangelos G. Mytilineos

Thank you. This question will be answered by Christos Gavalas, Chief Treasurer and member of the Board.

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Christos Gavalas

Hello, I'm Gavalas. So, the starting by the latter, ceiling is set to three. It has been public and it has been observed and we were always below that. Still, we are at half, I mean, 1.7 or so. Currently, the rating that we're having is BB+, three notches higher than the level that we started five years ago, reflecting the performance and the evolution of the Group now.

We are awaiting FTSE and S&P to provide us with their annual, say, credit appraisal by the end of the year. 2024 is going to be the third year in the row proving the resilience and stability of [our] (ph) profitability, over EUR1 billion as has been stated and expected and of course, diversified business performance alongside with the improvement of domestic Greek credit risk.

The market already perceives Metlen's credit risk and standing as a BBB to BBB+ meaning IG level company. And, this is reflected in the spread that our bonds are trading in the secondary market, I'm sure that you know. So, we are fully confident that we do qualify already for an upgrade to IG and we hope that this is going to be provided to us by raters. Thank you.

Unidentified Analyst

Thanks very much for the answers and wish you a good summer.

Evangelos G. Mytilineos

Thank you, Mr. Masulhas.

Operator

The next question comes from the line of Athanasoulias Nikos with Eurobank Equities. Please go ahead.

Athanasoulias Nikos

Hello. Thank you very much for the presentation. Well, one of my questions has just been answered. So, only one short question from my side, and it is regarding the natural gas trading business that you discussed a while ago. So, was the effect of this drop only a price effect or also a volume effect? Because you, last year, you told us that the volume effect was large. So, going forward and beyond 2024, given that the prices if the prices were to remain around these levels, should we expect this to be the new normal? And also, do you expect a new resurgence of natural gas prices?

Evangelos G. Mytilineos

Natural gas prices, despite the fact that I consider myself as experienced in the commodity sphere, natural gas prices is one of the most difficult to predict. Therefore, I will be very hesitant at this stage to make any specific prediction. All I can tell you at this stage is that, the global supply and demand situation is balanced.

In commodities, when the supply demand situation is balanced, it is more likely that something will happen that will affect supply and therefore push the prices up, rather than something will happen that will provide out of nowhere unexpected supply. And, demand does not increase from one day to another.

This is the most I could say, and I repeat with a lot of caution. Also, in a tight balanced market like it is now, is going to be extremely important what is going to happen in the winter in Europe. Europe has had or actually has not had two winters in a row. We have hardly seen any snow. And, for those of you who like skiing, I'm sure you know very well what I mean. Is it going to be a third year? Or we're going to see the opposite of the heat waves in the winter in the form of extremely cold weather. I can assure you, but if we see extremely cold weather, we're going to see a really big spike in gas prices. Thank you.

Athanasoulias Nikos

Okay. Thank you very much.

Operator

Ladies and gentlemen, there are no further questions at this time. I will now turn the conference over to Mr. Mytilineos, for any closing comments. Thank you.

Evangelos G. Mytilineos

Thank you, all again for being here with us this evening. As I said, we are all here in the management of the company very pleased for the results of the first semester, which I want to repeat to you. It was not an easy semester. And, I want to close this conference call with a note of optimism regarding the results of the second half. If things go well for us, we may pleasantly surprise all the friends of our company and the shareholders and the stakeholders as well.

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Thank you very much, and I wish you all a good summer and some good rest that I'm sure you all need. Thank you very much.

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