

# **Naturgy Energy Group, S.A. (GASNF) Q2 2024 Earnings Call Transcript**

Seeking Alpha - Earnings Call Transcripts

July 24, 2024 Wednesday

Copyright 2024 Seeking Alpha Provided by Syndigate Media Inc. All Rights Reserved

**Length:** 7197 words

**Byline:** SA Transcripts

**Body**

Naturgy Energy Group, S.A. (GASNF)

Q2 2024 Earnings Conference Call

July 24, 2024 05:00 AM ET

Company Participants

Abel Arbat - Head-Investor Relations

Steven Fernandez - Head, Financial Markets

Rita Ruiz de Alda - Head, Control

Francisco Reynes - Executive Chairman

Manuel García Cobaleda - General Counsel

Conference Call Participants

Presentation

Abel Arbat

Good morning everyone. This is Abel Arbat speaking from the capital markets team at Naturgy. Thank you for joining our Results Call for the First Half of 2024.

Next to me sits our Executive Chairman, Mr. Francisco Reynes; the General Counsel of the Board, Manuel García Cobaleda; the Head of Financial Markets, Mr. Steven Fernandez; and the Head of Control, Ms. Rita Ruiz de Alda.

We're going to cover the presentation first. And at the end we will be addressing questions from analysts and investors. Please remember to submit your questions through the webcast platform in written form.

So without further ado, I'll hand it over to Steven to move past the presentation.

Steven Fernandez

Thank you, Abel. Good morning, everyone. Today we're going to be explaining our results for the first half of 2024, but also providing some guidance for the remainder of the year and introducing some relevant considerations for what we think is going to be an exciting future for the company.

If I can take you quickly to slide 4, what we're going to see first, we'd like to underscore the strong results in the period, reaching an EBITDA and net income of €2.8 billion and €1 billion respectively which is in line with the first half of 2023, historical record highs for the company despite the more competitive scenario.

Investment in the period remained in line with that of last year and reached almost €1 billion with capital discipline as a cornerstone for the company's strategy and CapEx deployment. In this sense CapEx was deployed mainly in renewable growth and networks businesses as you will see throughout the presentation.

Net debt declined to €11.8 billion versus €12.1 billion at the end of 2024. And it should also be noted that in the period the company redeemed €500 million of hybrids, further reinforcing our balance sheet strength.

Some of the highlights for the period include, reaching a definitive price agreement with Sonatrach for 2024, which secures competitive procurement prices in the current market also higher installed renewable capacity, a reduction in OpEx despite higher activity and a higher asset base; regulatory proactivity and proactive risk management achieving higher margins than initially expected in hedged volumes; and of course capital discipline including demanding investment return hurdles and efficient debt and liquidity management.

So in summary these results in a more competitive scenario compared to the past couple of years highlight our efficient operational and risk management as well as our capital discipline.

Subscribe to Seeking Alpha for more content like this

If we turn on to the evolution of the energy markets on page six what we'll see is that the first half of 2024 has been marked by lower energy prices compared to the first half of 2023 both in gas and electricity, resulting in a more challenging energy scenario.

Following the volatility experienced in recent years, energy prices have rebalanced towards pre-energy crisis levels but they do remain sensitive to ongoing global developments as you can expect. Gas prices on major hubs experienced relevant declines with the TTF, JKM and Henry Hub comparing on average 49%, 45% and 29% below the first half of 2023, respectively.

Wholesale electricity prices in Spain for their part compared 56% below on average versus the first half last year. And finally the average Brent prices were 5% higher than the same period last year. So in summary as you can appreciate we've had substantially lower prices notably in gas and Spanish electricity.

If we move on to the P&L, despite the less favorable backdrop, Naturgy's efficient operational risk management contributed to deliver strong and resilient returns, again, strong and resilient returns.

During the period the group's EBITDA reached €2.8 billion flat versus the first half of 2023, which again I remind you was a record year for the company, maintaining a balanced EBITDA contribution between regulated and liberalized activities, which represented approximately as you can see 51% and 49% of total EBITDA, respectively. The results by activity and geography were also balanced, contributing to the group's overall resilience. Net income for the period reached €1 billion in line with the record highs of the first half of last year.

If we take a closer look at EBITDA, during the first half, liberalized activities experienced lower profitability and contribution compared to the same period in 2023. Energy management activities including gas and LNG procurement and supply experienced a significant margin contraction following a very strong couple of years in 2022 and 2023.

On the other hand, the distribution activities proved resilient and experienced growth supported by the positive regulatory developments in some LatAm regions and growth in electricity distribution in Spain.

Renewable generation experienced higher production supported by additional installed capacity, while the supply business in Spain benefited from a favorable final court ruling on the electricity subsidies and margins resilience in gas together with growth in service contracts. All in all, EBITDA was in line with H1 2023, the record highs despite the less favorable scenario that we've just seen.

If we look at the EBITDA by key drivers, the evolution shows that there is a less favorable macro and energy backdrop. FX movements had a negative impact of €108 million in the period and depreciation was most acute in Argentina and to a lesser extent in Chile. The US dollar and the Brazilian reais remained stable versus the euro while the Mexican peso appreciated moderately.

The energy scenario and lower gas and electricity prices in Spain that we've just seen had a negative impact of approximately €325 million. And all these effects have been compensated by management and business activity including recent efficient operational management as well as the risk management we mentioned previously, especially on the gas side.

Subscribe to Seeking Alpha for more content like this

If you move over then to the cash flow, during the first half of the year, the company's cash flow generation remained strong. Free cash flow stood at €681 million in the period after net investments and the €500 million hybrid redemption in the period. This allowed the company to comfortably deliver on dividend commitments and reduce its net debt levels. Investment was mainly devoted to renewable generation, roughly around 44% and distribution networks another 40% as exhibited on the right side of the page.

If we move over quickly to the net debt evolution, Naturgy's net debt as of the end of June stood at €11.8 billion compared to around €12.1 billion at the end of last year, with a net debt-to-EBITDA at around 2.2 times, which is the same level as the closing of 2023. Note that the decrease in debt level takes into consideration the €500 million in April and therefore, Naturgy's overall indebtedness and balance sheet has further strengthened in the period.

The company distributed €384 million in April 2024 that corresponds to the final dividend of €0.40 per share payable against the 2023 results for a total dividend of €1.4 per share in 2023 as committed.

Cost of net financial debt increased slightly to 4% due to a higher average cost of gross financial debt in the period. And as of June 30, it's worth highlighting that 70% of the gross debt is at fixed rate, so we've increased the amount of floating rate positioning the company well ahead of potential rate declines. 65% of the company's debt is denominated in euros.

Liquidity, as of the end of June, stood at €9.7 billion. That includes around €4.1 billion in cash and equivalents and around €5.7 billion in undrawn and fully committed credit lines.

And with that, I'll hand over to Rita for an analysis of the results by business.

Rita Ruiz de Alda

Thanks, Steven, and good morning, everyone. Starting with gas networks on page 11. Gas networks reached first half 2024 a total EBITDA of €961 million, contributing approximately to one-third of the group's EBITDA in the bill.

In Spain, gas networks experienced a remuneration adjustment foreseen and the siren regulatory framework as well as lower demand in residential segment affected by mild temperatures. In Mexico, the period and title regulatory tariff effects lower operational expenses and positive FX impact. In Brazil performance was driven by tariff updates in line with negative inflation indexation as well as lower demand in vehicle and residential segments.

In Argentina, tariff increased to compensate for inflation on higher demand compensated FX depreciation effect. Finally, in Chile gas, the comparison versus H1 2023 is due to higher tariffs and demand in distribution as well as the positive impact from transported gas and North litigation. In summary, growth was mainly driven by LatAm business.

Continuing with electricity networks on Page 12, electricity networks EBITDA reached €499 million in the year, up 19% versus H1 2023. In Spain, EBITDA increase driven by higher regulated asset base as well as lower penalty and energy losses. And have benefited from both higher demand due to higher temperatures and the approval of the fourth tariff review with visibility after 2026.

Subscribe to Seeking Alpha for more content like this

Finally, Argentina benefited from relevant tariff increase, reflecting inflation from prior periods as well as higher demand, turning into an overall positive performance despite FX depreciation. In summary, growth across all electricity networks compared to H1 2023.

Now, turning to Page 13 on energy management. EBITDA reached €384 million, a 56% decrease versus H1 2023 as a result of lower sales and margins due to less favorable energies in Europe compared to an extraordinary H1 2023.

The figures already reflect the price agreement for 2024 recently reached with Sonatrach. This agreement ensures that prices reflect current market conditions and confirms the solid relationship between Sonatrach and LatAm as well as Naturgy commitment to security of supply. At this point, 100% of LNG volumes are sold ahead for 2024, providing with significant visibility into year.

Finally, worth noting that the comparison versus H1 2023 is also affected by the reversal of financial hedging ineffectiveness registered in 2022 and reversed in 2023. That's procurement commitments situate 50 terawatt-hour per annum as a contract with Nigeria and part of Trinidad and Tobago ended in September 2023. All-in-all, the period experienced lower sales and margins as the market rebalanced and prices stabilize closer to historical [indiscernible].

Continuing with thermal generation on Page 14, EBITDA reached €285 million in H1 2024, up 19% versus H1 2023 due to strong contribution from Mexico, while Spain was weaker compared to last year.

Spain experienced lower production on margins due to higher renewal results, which translated into lower terminal needs in the period. Mexico for its part benefited from higher availability and production translating into higher revenues.

Thermal generation remains essential to guarantee security of supply. In this aspect, European Union regulatory discussions are progressing to introduce capacity payments by 2024. Finally, in Mexico, our negotiations focused on the extension of existing PPAs beyond 2027.

Let's turn now to renewal generation on Page 15. Renewable generation reached an EBITDA of €305 million during the period, an increase of 30% when compared to H1 2023.

Spain benefited from higher hydro and wind production as well as the commissioning of new capacity. In U.S., our first solar plant began operations in Texas. The period however faced higher expenses to support the start of operations and the management of the development platform. The construction of our second solar plant in Texas is expected to become operational in 2025.

LatAm experienced higher production and prices in the region. Finally, Australia benefited from higher installed capacity and the positive evolution of the mark-to-market valuation of existing PPAs. All-in-all, grow installed capacity and production translating into higher EBITDA.

Subscribe to Seeking Alpha for more content like this

Finally, let's turn to supply activities on Page 16. EBITDA reached €452 million, up 30% versus H1 2023, benefiting from the favorable and final ruling on the collection of the electricity subsidies in the period 2016-2021.

Power supply experienced lower margins -- prices and margins due to scenario compensated by the termination of regulatory cuts in 2023. Gas supply for its part experienced margin resiliency, supported by higher visibility and procurement cost and growth in service contracts.

Meanwhile, the company has recently launched a digital platform to transform client interactions with new artificial intelligence tools. It is also worth to highlight that Naturgy has been the first company in Spain to redeem energy efficiency certificates.

I will now hand it over to Steven to wrap-up on consolidated results.

Steven Fernandez

All right. Thank you, Rita. We move over to Slide 17, what we want to highlight here is the progress that the company has experienced in terms of sustainability metrics.

In this sense our emissions free installed capacity continues to grow and currently stands at around 41%, supporting reduced emissions intensity which is down 10% relative to the first half of year 2023. With regards to people, the percentage of Women in management positions continues to increase and currently stands at 37%, on track to meet the 40% target by 2025.

Likewise, employee satisfaction metrics continue to improve as evidenced by higher Net Promoter Score metrics, CNPS. And indeed it's worthwhile also highlighting that Naturgy has recently been awarded a relative certificate A Great Place to Work in a family responsible company.

So in summary, Naturgy has posted record results in the first half of 2024, despite a less favorable scenario. We've seen a continuous point of operational and risk management that has contributed to the business resilience. Capital discipline has remained and will remain a cornerstone amid the higher uncertainty. And the company has continued to optimize and reinforce its capital structure.

Finally, we are very proud to progress in the energy trend and decarbonization in a responsible manner and with a clear commitment to investment. As the Chairman will explain in the following sections, we believe that the company is a position of strength to continue moving forward in its transformation.

With that, I hand over to, Mr. Francisco Reynes.

Francisco Reynes

Good morning everyone. Thank you, Steven and thank you, Rita for your presentation. It's now my turn to talk about the future, the next coming future, on the next six months and the progress within that the company may do in the next five years.

Starting from outlook on 2024, if we move to page 20, I think that it's important to remark two important messages. Number one is, we are seeing in a scenario based on realities up to June and forward up to the end of the year, where the energy commodities scenario is moderating after two years of extremely high-volatility.

Subscribe to Seeking Alpha for more content like this

As you can see in the page, in both Spanish electricity pool, TTF for gas, Brent for oil, and CO2 we are foreseeing a scenario that helps the – helps to forecast more stable forecast for the rest of the year.

Positive outlook for 2024 and if you allow me now to say, this is only thanks to the extremely high efforts of all the team. I want to highlight that all teams in all different businesses together with the corporate support are now prepared to deliver again a very good year.

Starting from the top networks, we are seeing positive regulatory reviews in Latin America and stability in gas and growth in electricity for the second half.

We will move to Thermal generation as Rita has explained, the reality of the thermal gap is reduced because of the first six months and we are not seeing higher production in the next coming six months. In comparison Latin America and LatAm, in particular in Mexico, we experienced higher availability and therefore higher margins included in the figures we will see later.

Renewable gases, is our important bet. And we are progressing on biomethane contracts in our development on the portfolio and more visibility of this evolution will come soon.

Energy management two important issues to consider for the next six months, number one, as it has been already said 2024 prices for gas coming from Algeria Sonatrach are now closed.

Therefore non-risk, non-volatility, non-concerts for the rest of the year and the figures both control already in the first half and included in the guidance for 2024, includes already the agreement set up with Sonatrach.

On the other side, the LNG volumes in the market are fully sold or hedged non-incorporating any volatility on this regard.

Renewable generation is moving ahead and higher production is coming into operations month-by-month. And this is what is going to continue happening in Spain, in U.S. and in Australia. And on the supply side, the most important message is the resilience of the business. Margins are resilient, and we have included in this guidance, the positive resolution on electricity clients subsidies that were incurred.

Important to say, as it has been already explained at the beginning of this strategic calendar five years plan in 2021 that the shareholder remuneration for the year has a floor of €1.4 a share, subject to five year rating. And that includes for the 2024, the financial impacts of two dividends, one variable in summer this year and the other one in the fall.

Subscribe to Seeking Alpha for more content like this

All in, give us to four important messages on EBITDA. Our guidance for the year is a floor of €5.3 billion, clearly above consensus of yesterday. Our net income, the floor is €1.8 billion above consensus as well.

Gross investment, we think that we can be around €2.6 billion, depending on how some of the permitting process is ongoing may be in place on the right time. And as a consequence of all these three figures, we are seeing a net debt figure of €13 billion or around €13 billion by the end of the year considering that at the end of the year, only €4.5 billion of hybrids will be included in our own standing balance sheet.

Two additional comments, one about the share price evolution as, of course, you have been following the share price as we did, three important dates to consider or to help on the analysis of what happened with the share price evolution. One of them was in January 2024, when MSCI has started its review and that finished with the exclusion of Naturgy share on the MSCI indexes, producing a relevant flow of shares and impact on the share price.

Second important date, the 16 of April, when it has been confirmed some takeover talks over the company that finally two months late were ended, 10th of June. And well, since these three important dates, you have seen the share price of Naturgy decoupling from the evolution of the euro stock utilities index.

We have internally analyzed what may have happened in the market and two important messages for you. One is about what happened in 2021 and what is happening in 2024. Our analysis is that on previous years, Naturgy was trading with a premium over peers that was around 29%, that it represents in terms of EBITDA multiple a discount today of around 12%. It will move to another valuation figure as the price earning ratio. We have also experienced during a certain period, a premium of 25% that has today translated into a discount of 6%.

I just wanted to spend some minutes talking about this last period, 2021 and 2024, what we have call it track record. Just to remember you what we have done in the last four years and to prepare the company for the next coming six years.

In 2021, as you remember, we have disclosed our strategic plan where we have fixed important and ambitious goals in different directions capital discipline, decarbonization, risk management, regulatory management, security of supply and progress on ESG. All of these different directions have already incorporated achievements and that's what I'm going to summarize only.

Number one in capital discipline. Net debt reduction is a fact including the amortization of hybrids and the network reduction during the period is accounted to around €2 billion. In this period, we have reduced debt including investment for around €8.4 billion and dividends of €5.3 billion.

In terms of decarbonization, we have just followed what we said and walking the talk of being more and more prepared for decarbonized the company increasing renewable capacity in the areas where we operate creating a new platform for renewable gases and also boosting the possibility for our clients on self-consumption installations.

Risk management as it has been explained before it has been a very active proactive risk management approach giving stability to the results of our Energy Management division and optimizing risk and return via a combination of physical sales of financial hedging.

Subscribe to Seeking Alpha for more content like this

Important has been set all the work made around regulation with productivity and given partnershipping with our regulators to get more visibility in all the different countries where we operate. And this has been already explained by Rita capacity payments for our gas turbine electrical producers in Spain is now in the process of being approved through different a road in the European Union.

Security of supply. It has been clearly known by everyone that we took a decision of installing what we call it tarifa compromiso -- commitment tariff with our clients. That was clearly focused to a small price volatility. At the same time security of supply has also been hedged with free agreements with Sonatrach that were adapting conditions of the contract to the market.

And on ESG important to highlight different measures were it clearly makes a point the CO2 emission reductions and CO2 emission street installed capacity which are driven clearly our aim for investment in the energy transition. In this regard, I would like to highlight what has happened to this company in the last years.

We have clearly changed the mix from a combination of high emissions, low emissions and non-emissions installed electricity generation capacity to only low emissions and non-emissions generation capacity in where we have already not accounted in the figure of 18.1 gigawatts today in installation, 2.2 additional gigawatts which are under construction and 15 gigawatts with different projects that has already great access.

We really think that during this period of four years including the guidance of 2024, we have created value in -- what in regards to investment and depreciation and amortization evolution you can see in this graph that we have invested more than depreciated which demonstrates a clear commitment towards investment.

And at the same time, we have considered investment vis-à-vis dividends that has permitted to maintain a level of debt as it started the period. Altogether, it's reflected into important measures. The return on invested capital or the return on equity that both have clearly increased compared to the figures of 2021.

I want to finish highlighting the future. We have talked about the next coming future, six months ahead, guidance for the 2024, but it's time now after this stability on the energy market and this transformation that is more and more established within the culture of this company to think about the next coming years, and that's why we have decided to prepare a strategic plan for the coming years.

It is true and is a fact that decarbonization is clearly unstoppable. And from our point of view, it will require all available resources and technology. We see decarbonization addressing three important issues. One is maintaining a sustainable growth. Second is to warranty energy security. And number three, to make all together around a price competitive scenario. We don't want to rebalance any of these three factors and maintaining an equilibrium among the three of them.

For this reason, our view of the future is that we have different routes to address these three questions. Number one is around the adaptation of the infrastructures, the distribution infrastructures. Second is continuing the investment in renewable electricity generation.

Third is introducing biomethane and hydrogen at competitive prices at the time that they would be feasible. Fourth is assuring security of supply of electricity with a solid backup on the existing fleet of gas turbines.

Subscribe to Seeking Alpha for more content like this

Fifth is warranting competitive and flexible gas procurement. And for this reason, we are holding important long-term agreement of gas supplies in particular with our partner Sonatrach, which are clearly addressing this topic. And finally, we have just started the development of storage solutions with batteries and renewable gases that will provide for sure stability of the system in the coming years.

We don't need to forget the client, which we want to intensify the commitment with our clients and using all available technologies, including artificial intelligence to warranty a better service. This is the reason why our plan 2025 to 2030 is going to address all these topics with three important objectives. Number one, we want a plan that is ambitious and is attractive for all stakeholders. We want to address all the requests, and we want to be ambitious enough to consider this new plan 2025-2030 an important positive and solid step forward.

Number two, we want a plan that is focused on growth and value creation. Since 2018, we have made of capital discipline one of our cornerstones objectives, and we will maintain these objective as one of the key pillars of this plan. And number three, we want to continue to be committed with the decarbonization and being responsible on that. Therefore, it's clearly driving the transformation of the company, the commitment to a responsible decarbonization and the plan, for sure would need to address this objective.

Naturgy is a company born in 1843. We have just celebrated our first 180 years, and it's our obligation to deliver to our shareholders a better future and the best -- a better testify that we have been awarded years ago. Therefore, the focus of the team is going to be the production of a very, very attractive plan that needs to be ready by year-end, and it will be properly disclosed to the market investors and analysts at the time that it is finished.

Thank you very much for your time and I give now the floor to Abel, who will coordinate the Q&A part.

Question-and-Answer Session

A - Abel Arbat

Thank you, Paco and thank you everyone for submitting your questions. Let's get started with some questions around the strategy and the future capital mark, our new strategic plan. First of all, could we update any developments on Project Gemini and whether or not management is still considering its implementation?

Francisco Reynes

Well, I can update you the strategic plan by year-end as we have said. We now need to work on that but I can just say that on the Gemini Project, there are still non-positive circumstances that – and conditions that may help for its execution. Having said that, the company has a clear future. The future is going to be reflected in the plan that is going to be probably disclosed and that's the reason why we will now be the time for preparation and will clearly disclose our plan when it's ready.

Abel Arbat

Thank you. Is the recent shareholder discussions and potential decor discussions going to have an influence on the preparation of that new strategic plan?

Francisco Reynes

Well, number one, as you have seen on the results of the first half and you can see with the guidance for the full year. The company has continued working independently on any discussion that may happen around the shareholding side. Having said that, of course, shareholders will be forming part of the strategic plan questions and decisions because the Board is the final decision-maker in the releasement of this strategic plan. And all relevant shareholders are forming part of the Board proportionally.

Therefore, whatever they may address questions, they will be done through this strategic plan exercise. And hopefully, at the end of this exercise, we will have included all the different concerns and proposals that all shareholders may have through their Board representatives.

Subscribe to Seeking Alpha for more content like this

Abel Arbat

Thank you very much, Paco. So now a few questions on guidance for 2024. And in particular, is the results that we provided today and the guidance for year-end including the renegotiation of the gas contract with Sonatrach? And combined with these will there be any expected one-offs that we consider for the second half of the year with regards to guidance as well? And finally there's a question that were related to the strong results which is whether or not we will be considering increasing the dividend distribution.

Francisco Reynes

Well on the dividend I may tell you, as we have explained in the presentation, we gave a dividend policy floor when the strategic plan in place today at 2024 is now commanding the decisions. It's always up to the shareholders and up to the Board to decide but we need to prepare our figures based on what we have and we have a floor. And therefore, that is always open for shareholders' decision to change it. On the details on the guidance Rita is going to give you

Rita Ruiz de Alda

On Sonatrach, first mentioned that – as I mentioned during the presentation, the first half figures already reflect the price agreement for Sonatrach. And this ensures that prices reflect current market conditions. And in order to give a guidance well, first we foresee LNG prices in line with forward curves as LNG balance will remain tight at the end of the year. And as we mentioned already before, 100% of LNG volumes are sold to hedge for 2024 and this can provide us more visibility into the year. And in this sense our expectations of results for the whole year for LNG management is around €700 million.

Abel Arbat

Great. Do we have any comment with regards to particular one-offs or nonrecurring items that we may foresee in the second half of the year that we think are relevant in the first half of the year?

Francisco Reynes

Well, our business is a business that it's natural. It's compound on positives and negative effects every year. And it's part of the reason why it happens is because we have long-term agreements that are subject to different ups and downs. Having said that, our guidance is already incorporating this way of making business. That's part of the business we have. And today, considering all the pluses and minus that may happen that some of them has already been included in the real results of 2024 first half, we may -- we feel comfortable that all the potential ups and downs that may come are already included in the second half of the year and that's why we have clearly bet for this baseline of guidance for 2024.

Abel Arbat

Thank you very much. So now, moving on to a few questions on accounting and the results itself. Can we detail the impact of the judicial ruling on the social subsidies collection that you obtained during the first half of the year?

Manuel Garcia Cobaleda

This ruling that arrived just by the end of the first half year is around €16 million, which is a figure which is very similar to the one that we won by the end of last year because the volume of customers is roughly the same. So it's around €16 million.

Abel Arbat

Thank you, Manuel. There are as well a few questions on the impact of the TGN litigation which I can say that at this moment, we are not in a position to detail because this is an ongoing litigation process. And as a result, we cannot provide further detail on the market. Moving on to other accounting questions, there's a question around the amount of tax equity instruments in our balance sheet as of 1H. And do we have any expectation of that amount increasing going forward?

Rita Ruiz de Alda

So in terms of tax equity related to our plant in US, we currently have in the first half 2024, the recognition of the tax equity related to our first solar plant [indiscernible]. And we don't expect it to an amount of €120 million approximately. And we don't expect to have more recognition during the year of tax credit until 2025 when the operation of our second solar plant in US is taking place.

Abel Arbat

Thank you, Rita.

Steven Fernandez

Just to clarify, when it comes to the development of plants in the US, in the current conditions, we will continue tax equity as a way of funding those plants. So as far as we continue investing in the US, we would expect the tax equity portion to increase accordingly.

Subscribe to Seeking Alpha for more content like this

Abel Arbat

Thank you. Let's then move on to questions around business performance. So we're going to be further tackling questions around our regulated activities and distribution networks and then questions related to our liberalized activities, and so on. So, starting with distribution networks in Spain, can we detail any progress of our discussions, with the regulator for electricity networks or gas distribution?

Rita Ruiz de Alda

Okay. So at this point the data is centered around electricity, networks with consultation process ongoing. And we are expecting development in terms of financial remuneration, reflecting current interest rates, pick of -- on current investment caps to promote investment in energy transition. And finally, a recognition of unitary costs in line, with inflation.

Abel Arbat

Thank you, Rita. Specific question on the performance of gas distribution networks in Spain. What is the reason behind the reduction in gross margins?

Rita Ruiz de Alda

Okay. As I mentioned through the presentation, gas networks experienced the remuneration adjustments foreseen in the current regulatory framework, the one that was proven in 2021 and also a lower demand in residential segment, affected by mild temperatures.

Abel Arbat

Thank you. Now, moving on to the performance of LatAm distribution networks. Some of the analysts recognize the strong performance in the LatAm regions, and they like a little bit more color on the main drivers of this improvement in LatAm.

Rita Ruiz de Alda

Okay. So first, we had a tight update in Argentina that is a consequence of the protection -- the inflation protection mechanism in Argentina, applicable according to current regulation. Furthermore, positive review with increasing tariffs in Panama, that it's also entitling a significant investment over the period. And third, we had a better performance in Chile gas, first because of higher ties and demand due to lower temperature during the winter, although the profitability in this business is regulatory caught. And additionally, the extraordinary positive impact that you mentioned from the TGN litigation.

Abel Arbat

Thank you, Rita. There are again, a few questions on the outlook for LNG and gas procurement. I think that retail already cover the majority of it, in an earlier question. Can you comment again, on the LNG volumes that are already sold or hedged and our sensitivity to the evolution gas prices for the remainder of the year. And again, what's the sort of expectation for the remainder of the year in terms so far.

Rita Ruiz de Alda

So, throughout the first quarter 2024 prices decreased, but this trend changed in the second quarter, as potential events threaten the European gas market equilibrium. For the rest of the year, we foresee LNG prices in line with forward curves. As LNG balance will remain tight by the end of the year. And as we mentioned before, the group has a robust risk policy constantly considering opportunities to hedge positions and optimize margins. And in this sense, 100% of LNG volumes are sold or hedged for 2024, provides significant visibility and we consider we are well protected against market volatility.

Abel Arbat

Thank you. Now, let's jump into a few questions around thermal generation. Let's start, with the Spanish thermal generation. The questions are around the margins evolution, and what's our outlook for terminal generation in Spain, as well as whether or not we have any visibility in regulatory discussions and when the capacity payments may come into effect, and if we can already estimate what the amount of that impact could be?

Rita Ruiz de Alda

We believe that CCGTs continue to demonstrate its essential role to guarantee continuity of supply. And in this sense, we believe that there's a chance to raise that capacity payments that are currently in discussion in the European Union, and we expect to have more visibility during 2025, but it's early to quantify the possible impact.

Subscribe to Seeking Alpha for more content like this

Manuel García Cobaleda

We have a strong case on capacity payments. We've been following this for the last two, three years. We even won some rulings before the Spanish Supreme Court, which was accelerated in the last months the visibility of these procedures. We are aware that the procedure is familiarizing before the European Union, and there are some news even this morning that the European Union has lied us with the Spanish government to speed up the process not only for combined cycles, also for some technologies but mainly for combined cycles. This is the reason why we are expecting to start receiving those capacity payments that we have been requesting in the last years we would be able to receive them at some point in the beginning of 2025.

Abel Arbat

Thank you, Manuel. There are a few questions as well around Mexico CCGTs and the ongoing negotiations for the PPA extension beyond 2027. But at this time, obviously, we cannot provide any guidance on EBITDA post-2027. But, of course, when we released the new strategic plan from 2025 to 2030 at that moment, we will be in a position to provide our best estimates with regards to Mexico and CCGTs negotiation and EBITDA approach.

So moving now on to performance of our renewable businesses. A few questions for the strong performance in renewables despite the fall in prices. Is it the internal PPA? What are the main drivers for the strong performance in Spanish renewables?

Rita Ruiz de Alda

Well, as we mentioned before we had exceptional hydro production during this first half of the year. Also we have the commissioning of new capacity. And we currently revised internal PPAs through market conditions and through market dynamics according always to our transfer pricing policy.

Abel Arbat

Thank you, Rita. Can we please comment on the rationale to you continue installing solar PV asset in Spain despite the recent trends around cannibalization in 80 hours do you have any sort of protection on that split?

Rita Ruiz de Alda

Okay. So, well, Naturgy has always kept a strict capital discipline at all things. And therefore it maintained a very selective growth approach in renewables. But in this sense Naturgy Group has an integrated player has to make trends.

The first one is that Naturgy has a diversified generation mix by technology, which mitigates the impact of implementation of the solar priced plants. And second, the group has a balanced position between marginal generation and fixed price clients, which allows to mitigate price fluctuations in the short-term.

Abel Arbat

Thank you. Big picture question around biomethane. Can we expand on the progress we are seeing on the biomethane space in Spain and the outlook going forward?

Francisco Reynes

Well, this is clearly one of the trends of our decarbonization strategy. That's why I mentioned before that biomethane is going to form clearly part of our future strategic plan to 2025, 2030. We have already the commissioning some plans. The third has been just put in operation last year -- sorry, last year last month in Valencia. Of course, we are having some of the same problems we already experienced with the permitting calendar. But for sure, it's going to be one of the growth factors of our strategic plan in 2025- 2030 because we are seeing biomethane as a very resilient vector of decarbonization because of three reasons.

Number one is, it can be used blended with natural gases on the same installations that today are in-house or in the factories. Number two, technology is already available. And number three, the raw materials for this type of combustion is really in-house and doesn't require any contracts with external parties which means increases the autonomy of the country to maintain security of supply. Therefore, it's going to form part of the new strategic plan. Allow me now to be more prudent in figures that we are fine-tuning at the present time. But for sure, you will see in the next coming plan a very important trend on biomethane in our plan.

Subscribe to Seeking Alpha for more content like this

Abel Arbat

Thank you, Paco. And now moving on to the last stack of questions around supply and our supply business in Spain. Can we comment on the supply margin evolution its drivers? And how sustainable within -- those are?

Rita Ruiz de Alda

Okay. So in terms of electricity, the group has supported the margin due to fixed price contracts, as we mentioned before as well as higher marginal production, due to more hydro production and new installed capacity. It is also relevant to mention that the electric prices capsule by regulator was not extended since December 2023. And in terms of gas, the group has also an integrated model with a diversified portfolio of supply contracts and has been able to sustain margins in both residential and industrial clients due to competitive supply contracts. The same as in electricity the group has adapted commercial policy offering price -- fixed price contracts to reduce volatility impact for clients. In order to sustain margins, the group realizing its integrated model both in gas and in electricity.

Abel Arbat

Thank you very much, Rita. And that concludes the main questions we have received during the presentation. Now there are -- we're aware that there are a few additional quantitative questions that have been submitted as well that the capital markets team is going to be addressing one by one and to give the detailed quantitative answers on those. So thank you very much for joining our results. We want to thank you very much. And the team remains at your disposal for any follow-up or any additional questions you may have. And with this we conclude our first half 2024 presentation. Thank you and bye-bye.

**Load-Date:** July 24, 2024

**End of Document**