

# **RWE Aktiengesellschaft (RWEOY) Q2 2024 Earnings Call Transcript**

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**Body**

RWE Aktiengesellschaft (RWEOY)

Q2 2024 Earnings Conference Call

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Company Participants

Thomas Denny - Head of Investor Relations

Markus Krebber - Chief Executive Officer

Michael Muller - Chief Financial Officer

Conference Call Participants

Peter Bisztyga - Bank of America

Alberto Gandolfi - Goldman Sachs

Ahmed Farman - Jefferies

Olly Jeffrey - Deutsche Bank

Deepa Venkateswaran - Bernstein

Harry Wyburd - Exane BNP Paribas

Wanda Serwinowska - UBS

Piotr Dzieciolowski - Citi

Louis Boujard - ODDO BHF

Presentation

Operator

Welcome to the RWE Conference Call. Markus Krebber, CEO of RWE AG, and Michael Muller, CFO of RWE AG, will inform you about the developments in the First Half of Fiscal 2024.

I will now hand over to Thomas Denny.

Thomas Denny

Thank you, Jess, and good afternoon, ladies and gentlemen. Thank you for joining RWE's conference call on the first-half of 2024. Our CEO, Markus Krebber, and our CFO, Michael Muller, will first guide you through our presentations before we will start our Q&A session. And I'm pretty sure, you brought many questions today.

And with that, I'll hand over to you, Markus.

Markus Krebber

Yes. Thank you, Thomas, and also from my side, a warm welcome to everyone. Despite strong headwinds at the start of the year, we have delivered a good financial performance in the first-half of 2024. Our investments in wind, solar, and batteries are leading to year-on-year growth in renewable energy production and earnings in the renewable segment.

We have made significant progress and remain on track to deliver on our growing green strategy. And we have supported market fundamentals. European power and carbon markets have stabilized. Demand for green power remains strong across all our markets. And election results in the European Union and U.K. confirm continued policy support for our business. And we deliver.

Last Monday, we were successful in the recent German offshore auction, adding 4 gigawatts to our offshore wind pipeline. We FID'd almost 3 gigawatts of renewable projects in the first-half of 2024. As we speak, we have in total more than 10 gigawatts of capacity under construction. The returns for these projects are in line with our return targets we set ourselves at the Capital Market Day back in November 2023.

We therefore confirm our long-term target. Our strategy will lead to attractive bottom-line growth and a rapid decarbonization of our company in line with the 1.5 emission reduction pathway. Adjusted EBITDA stood at EUR2.9 billion, and we have already reached more than 50% of our EBITDA guidance for the full-year 2024. Adjusted net income stood at EUR1.4 billion, with more than 70% of our full-year guidance. Based on the earnings in the first half, we confirm the outlook for the rest of the year at the lower end of our guidance, and we are now even more confident that we will achieve that.

We continue the transformation of our company with profitable growth through our investment. We have invested EUR4.5 billion net in the first-half of the year, with 95% of our investment being taxonomy-aligned. The largest share of investments is currently in offshore. Despite the challenging supply chain environment, our construction projects Sofia and Thor are on time and on budget.

For our Sofia project on Dogger Bank, offshore construction started in May with the installation of the project's first turbine foundation, and since then, we have added 20 more. The offshore converter platform has arrived on site as well and is currently being installed.

At our Danish offshore project Thor, onshore cable works have commenced, and we are actively managing our offshore development portfolio. At the beginning of the year, we closed a transaction where we sold a 49% stake in our U.K. 3 gigawatt offshore project Dogger Bank South to Masdar. And our Dutch system integration project OranjeWind, TotalEnergies is now on board as our partner.

OranjeWind is our first offshore wind project in the Netherlands with a very attractive characteristic. Given its innovative concept, it is a blueprint for an integrated offshore wind project with items such as electrolyzers, battery storage, heat boilers, and smart charging solutions. We took the final investment decision for this project in July, and we have started the marketing of the project already with a clear intention to fully contract the project via PPAs ahead of COD.

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This week, we further expanded our offshore pipeline thanks to our success in the German offshore auction. We have been awarded two attractive sites with a total 4 gigawatt for a total bid price of EUR250 million. This low price demonstrates again our bidding discipline. With EUR62,000 per megawatt, our award compares very favorably to the awards of the German offshore auction two months earlier with EUR1.2 million per megawatt. We will explore the possibility of developing the offshore projects together with TotalEnergies.

The supply chain remains a key focus area. In offshore, projects under construction have been de-risked on the procurement side with all key components being secured. Here, we make use of synergies across our portfolio and our strong relationships with strategic suppliers. To give you an example, in our Thor project, we will utilize the same supplier for foundations as we will use for our Nordseecluster project.

And we will also use the same turbine model in Nordseecluster as in OranjeWind. We have also made significant progress in derisking the supply chain for our U.S. solar and battery projects. Today, we have already secured our solar build-out targets for '24 and '25 and largely for '26 by contracting capacities and securing access to local manufacturing. Our contracted capacities have also been de-risked in terms of AD/CVD and bifacial tariff risk. And on the battery side, we are largely derisked and have secured our demand for '24 and '25 among others through local supply chain.

On our way to becoming a global leader in the new energy world, we already see today significant success in the decarbonization of our portfolio. Electricity production from renewables was on record levels in H1, 26 terawatt hours. And renewable power now accounts for a record 45% of total electricity production at RWE, up from 33% in the same period last year.

In the current year, we have also reduced our CO2 emissions significantly by 27% versus last year. By shutting down five lignite units, there's a total capacity of 2.1 gigawatt and through lower utilization. We do see the market fundamentals for our business being supported. European power and carbon prices have recovered from the lows in February and have stabilized since around four months.

Since then, German Calendar '25 Baseload prices are hovering around EUR90 per megawatt hour and Calendar '25 EUs are trading around EUR70 per ton, supported by the confirmation of the EU auction calendar. And we have observed a rise in power demand, especially in the U.S., where year-on-year demand rose by 4% on the back of a positive economic trend and the expansion of energy-intensive infrastructure like data centers.

We clearly see that demand for green power via long-term PPAs remains strong. The current year, we have already contracted PPAs with a total volume of 1.6 gigawatt of capacity. Only today, we have announced a new 374 megawatt PPA that we have concluded with Meta in the U.S. And when I look at our PPA pipeline, I expect significantly more to come for the rest of the year. The PPA market is healthy and remains attractive for renewable developers.

The policy support for the energy transition remains intact. The European Green Deal has been confirmed following the European election. German government just published a white paper on the electricity market design of the future, underlining continuous support for renewables and the need for a fundamental capacity remuneration scheme.

Also in Germany, we have just been granted funding for two large hydrogen projects in support of more than EUR600 million. The funds will be used for the construction of a 300-megawatt electrolyzer in Lingen and a hydrogen storage facility in a nearby airport. In the U.K., the new labor government aims for 100% clean power by 2030, and they have announced an ambitious program to achieve these targets.

In onshore wind, the de-factoban on construction has been revoked. For solar, as well as onshore and offshore wind, our targets have been increased significantly. And for the current CFD auction, the auction budget has been raised by around 45%. To sum up, we see continuous policy support for the energy transition and therefore our strategy.

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We are set to continue to deliver profitable growth. As we speak, we have more than 10 gigawatt of capacity under construction. About half of the projects are in offshore wind. The other half is in onshore wind solar battery and flexible generation. These projects represent roughly EUR20 billion of total investment volume.

As of June this year, EUR6 billion have already been spent for these projects under construction. Our investments will deliver the targeted earnings growth. All investment decisions fulfill our strict return requirements with an average investment portfolio IRR of 80% and EBITDA yield of at least 10.5%. That means EUR20 billion of investment will represent earnings of more than EUR2.1 billion in EBTA. Let me sum up. RWE will be a global leader in the new energy world. We are on track to deliver on our target set at the Capital Market Day '23.

By the end of this year, we estimate that we will have an operating portfolio of approximately 38 gigawatt excluding the phase-out technologies. Our capacity development will result in attractive bottom line earnings growth. For the current year, we confirm our EPS target of about EUR2.6 per share growing to EUR4 per share by the end of the decade.

Our transformation will also lead to rapid decarbonization. We expect carbon emissions to be in the range of 45 million tons to 50 million tons per fiscal year 2024, which means a reduction of more than 40% compared to 2021. From 2024 until 2030, we expect to further reduce our emissions by almost 60% in line with the 1.5 degree SBTI emission reduction pathway.

I'm sure you will have some questions about what I presented and maybe some with regard to other topics. But first, I now hand over to Michael. As usual, he will present the financial in all detail. Please, Mike.

Michael Muller

Yes, thank you, Markus, and also good afternoon from my side. Let's take a closer look at the financial. EBITDA in H1 2024 stood at EUR2.9 billion, thanks to good performance across all segments. In offshore winds, adjusted EBITDA was EUR828 million. Earnings were up, mainly on the back of better wind conditions.

Onshore wind and solar recorded an EBITDA of EUR730 million. This was driven by organic growth, the full contribution of CEP assets, higher hedge prices, and better wind conditions. Adjusted EBITDA of the flexible generation business was EUR1.014 billion.

As expected, earnings are lower in line with normalized market conditions after the exceptional year in 2023. Our supply and trading business had a solid performance in the first half of 2024, after an outstanding performance in the prior year.

In H1 2024, results stood at EUR318 million. On the back of the good operational performance, adjusted net income amounted to EUR1.36 billion in the first half of 2024. The adjusted financial result is lower due to increased net financial debt. For adjusted tax, we applied the general tax rate of 20% for the RWE group.

Finally, adjusted minority interest reflects lower earnings contributions of minority partners. The adjusted operating cash flow was EUR3.3 billion at the end of H1 and is driven by seasonal effects in operating working capital. Changes in operating working capital were marked by positive effects from the reduction of trade receivables and seasonal withdrawals of gas in storage. This was partly compensated by a reduction of trade payables. Net debt increased to EUR11.4 billion due to investments and high timing effects.

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Net debt for H1 is on a similar level as Q1. In total, we invested EUR4.5 billion in our growth. This includes the acquisition of the Norfolk offshore project portfolio from Vattenfall and our sell-down of 49% of the Dogger Bank South project to Masdar. Other changes in net financial debt amounted to EUR2.9 billion. This includes timing effects from hedging and trading activities.

Our net position from variation margins from power generation hedging stood at minus EUR0.5 billion. This includes net variation margins from the sale of electricity as well as the purchase of the respective fuels and CO2 certificates. We expect other changes in net financial debt to revert over the course of the year and net debt to be at a similar level at year end like in H1.

For 2024, our outlook is unchanged. Adjusted EBITDA is expected between EUR5.2 billion and EUR5.8 billion. Adjusted EBIT is assumed between EUR3.2 billion and EUR3.8 billion. Adjusted net income will range from EUR1.9 billion to EUR2.4 billion. We confirm the outlook for the rest of the year at the lower level -- at the lower level end of our guidance. Based on the earnings from the first-half, we are now even more confident that we will achieve that. The dividend target is EUR1.1 per share for this year.

And now, let me hand back to Thomas.

Thomas Denny

Thank you, Michael and Markus. We will now start the Q&A session. Operator, please begin.

Question-and-Answer Session

Operator

[Operator Instructions] Our first question comes from the line of Peter Bisztyga from Bank of America. Please go ahead.

Peter Bisztyga

Yes, hi, good afternoon. Thanks for taking my questions. So, inevitably, I have to ask, do you have any comment on the recent Calpine speculation? And assuming that's going to have a one-word answer, can I venture two other questions, please? So, the first one is, you know, you have talked in the past on several occasions that you would consider flexible power generation in the U.S., so can you remind us the criteria that any such investment would need to meet, in particular, to make sure it fits with your growing green strategy? So, that's my first one.

And then, you mentioned that you signed some solar PPAs with META. I presume these are as-generated PPAs and there's no premium in there. So, I was wondering, can you describe your current ability to market 24/7 PPAs to data centers in the U.S.? And do you think there's an advantage to the incumbent U.S. power generators in being able to meet the demands of data centers? Thank you.

Markus Krebber

Yes, thank you, Peter. Of course, we are not surprised by your question, and you're absolutely right. I mean, on the rumors, the two-word answer is no comment. Of course, we answer your strategic part of the question, how we think about a U.S. flex. And actually, nothing has changed from what we already discussed at the CMD. There is, of course, a strategic angle of that. First of all, the U.S. power market is highly attractive, with significant growth, and that is the only of our big core markets where we currently don't have an integrated position.

And you know that we believe an integrated position of renewable and flexible generation can make sense. But we will definitely take our time to consider it. I think this is nothing which will happen overnight. The question is what to consider is, of course, the quality of the asset, the location of the asset, but also the earnings profile of the asset. So what can be contracted? What is contracted? How much merchant exposure remains? And then, of course, it needs to fit and be in line with our decarbonization strategy.

On the PPA, the PPAs we just announced are unit-continuous, so pairs produce the PPAs, so not 24/7. But current PPA prices in the U.S. for green power are also on this structure, so renewable only, highly attractive because there is significant demand and a shortage of supply. Well, it's not a shortage of supply, but demand is even higher than supply of new projects. So for us, very attractive conditions for these two assets.

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Peter Bisztyga

Thank you. And sorry, sorry, just to clarify, are you able to market 24/7 PPAs in the U.S., or is that just not possible?

Markus Krebber

So, Peter, from our asset base, as you know, it's not possible because we don't have any flexible assets. We have batteries, but batteries are not good enough for 24/7. But still, what you can do and what we also actively do in all markets is simply buy into your portfolio what is missing, bundle, and then market it. But we don't sit on the asset itself. And of course, there are limitations what you can do in liquid markets, yes.

Peter Bisztyga

Understood. Thank you very much.

Thomas Denny

Thank you, Peter. Next question, please.

Operator

The next question comes from the line of Alberto Gandolfi from Goldman Sachs. Please go ahead.

Alberto Gandolfi

Thank you so much for taking my questions. And again, I apologize in advance for actually starting from external growth. I'm not asking about the press report, but I understand, Markus, the strategic angle you made about providing 24/7 power and you're not integrated in the U.S. But I think your strategy right now is called growing green. Your organic CapEx is 2.5 times your market cap. So is there room for large-scale M&A in your plan? I'm sure, it can be constructed quite cleverly, but can you contemplate large-scale M&A? That, I think, is the first question.

The second question is, I couldn't help notice that particularly in your part of the presentation, you probably mentioned 4 times to 5 times the word decarbonization. And acquiring or developing or building whatever gas plants in the U.S., that doesn't seem to be decarbonizing your portfolio. Or am I missing something here? I don't know, the hydrogen conversion, for example, or the fact that maybe you look at every region compared to your current portfolio. And over time, you use lignite and you replace with CCGTs. So can you tell me, please, how you're thinking about decarbonization in the context of an integrated 24/7 portfolio across the Atlantic? Thank you.

Markus Krebber

Yes, thank you, Alberto. I mean, you're absolutely right. I mean, we just laid out a strategy at the Capital Market Day end of last year. And as you can see from current presentation, our clear focus is on delivering on that strategy. On all aspects, as I have laid out in my presentation, managing the portfolio, the development portfolio, especially in the current environment, delivering on the project, so without delays, without budget overruns on the construction side, and also preemptively managing the supply chain. Especially where we see potential risk like in the U.S. and in long-term offshore. And that is the focus.

On M&A, let me comment, I mean, that in the end, M&A is not about the size of the effort, but it's always about finding the right target for your strategy at the right price and at the right time. And that's what we have done also in the past. And we will also do that in the future with this paradigm.

The decarbonization, I mean, I do not speculate on the decarbonization of assets which are not part of our portfolio. And of course, the decarbonization of the gas assets we currently own in the U.K. and on the continent will, of course, depend on the policy framework. But what we already see is, if you exclude Germany, which is a specific situation because of nuclear and coal exit, that the utilization of these assets will go down.

So for us, it's especially interesting to discuss now with the U.K. government what kind of policy framework we get, where we more or less operate half of our fleet. And of course, the two options you have is abatement or hydrogen. But it always needs an infrastructure. It needs some kind of support. And that is a political decision. Let me make a last comment because you asked a highly hypothetical question. I mean, we're going to stick to our decarbonization strategy as a group, as we have laid out at the CMD last year.

Thomas Denny

Does that answer your question, Alberto? Thank you.

Alberto Gandolfi

Yes. It does answer. Thank you.

Operator

The next question comes from the line of Ahmed Farman from Jefferies. Please go ahead.

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Ahmed Farman

Yes, hi. Thank you for taking my questions. On a similar topic, maybe, obviously, could you just sort of help us remind us of the EUR65 billion CapEx plan? Is that a largely sort of, you know, the way you approach it, is that largely based on organic projects? Or is there within that there is enough flexibility in that CapEx to consider M&A?

Because I heard, I think you mentioned earlier that you have about EUR20 billion associated to the project, the 10 gigawatts of projects that you have under construction. So is that really a part of the CapEx that's firmly locked in? That's my first question.

My second question is on the other side. As you sort of you're seeing the business develop and the market conditions evolve, are there parts of your portfolio that you would think that could be, would create value for the shareholders to exit? Thank you.

Michael Muller

Yes, thank you, Ahmed, for the question. The EUR55 billion, which we laid out at the Capital Market Day was an organic investment program. Of course, we constantly optimize the portfolio. So when we see opportunities to add great projects like the U.K. offshore project which we bought from Vattenfall, now fully supported by the direction the U.K. government is going. And then partly optimizing by selling down 49% on the more longer term projects. So an ongoing portfolio optimization is of course always part of our investment plan. But out of the EUR55 billion, there was not the plan to acquire existing assets.

And then the question on exiting, I think it will be important given that the market, that is the current sentiment, how we perceive it, has question marks around value contribution from investments in renewables, that from time-to-time crystallizing value by partly selling down the portfolio and making also visible to the market how valuable some of the big projects are that we have collected, or we have under construction, is part of the strategy. So part should calm down. And you should also expect us over the next 12 months, 18 months that we crystallize some of the value in our offshore portfolio.

Ahmed Farman

Thank you.

Thomas Denny

Thank you. Ahmed. Next question, please.

Operator

Your next question comes from the line of Olly Jeffrey from Deutsche Bank. Please go ahead.

Olly Jeffrey

Thank you very much. So a couple of questions. So the first one is just on looking at the results of the first half. Other consolidation has come in a positive, you know, EUR9 million versus a four-year guide of minus EUR150 million. Minorities have come in significantly below the four-year guide of EUR250 million. Might be able to give an updated view of how you see the figures, minorities, financial expense and other consolidation for the full year? That's the first question.

And the second is on the trading business. In Q2, the performance there below EUR70 million is the lowest result you've had there going back, you know, looking at numbers to the start of 2019. Is there any particular reason that there was such low performance within trading this quarter?

I guess I'm asking that, structurally, has anything changed from the beginning of the year, which would mean it would be more challenging to have profits within supply and trading that are above the EUR75 million a quarter guidance going forward? I'll just leave it with those two for now. Thank you.

Michael Muller

Yes, Olly, I take the question. I mean, if you have seen that we haven't adjusted the guidance on other consolidations and then also on the minorities, well, I think you can still stick to the numbers. It's more the overall picture, as we said. The guidance we currently have out is probably more on the conservative side.

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If you think about trading, indeed, results were low. But as I said, that was kind of it's now back to a normalized level. You need to bear in mind that we just have seen extremely high volatility in the market in recent years. And that has led to strong outperformance. And that's, by the way, also what I always communicate.

When we look at trading and also guiding trading, we assume kind of a normalized earnings profile. And looking at the current order, I would say, this was a typical normalized trading order. And now it depends, obviously, what happens in the next quarter. So are there additional opportunities or are we on a kind of normalized level? And with a normalized level, we should be fine with the guidance we're given.

Olly Jeffery

Okay, thank you very much.

Thomas Denny

Thanks, Olly. Next question, please.

Operator

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

Deepa Venkateswaran

Thank you for taking my questions. So my two questions. The first one is more a clarification on something you said at the press call on the E.ON stake, something to the effect that it's an attractive asset, but it's not strategic. And you would naturally look to see if you can generate attractive results with the asset. So in the context of that statement, could you let me know, how you would think of this in terms of losing the optionality to fund the Lignite Foundation if you sold E.ON now to generate attractive returns? How would you look at that?

And my second question is on the IRR. So in the chart, you show the 8% IRR target and achieved. So my question is for these projects, such as the offshore wind projects in Europe where you don't have PPAs at the point of FID. I guess these are your projections. So how confident are you on getting the right PPA levels to meet those hurdle rates? And could you share some data points or anything that gives you and can give investors' confidence that you will achieve the PPAs required to meet those hurdle rates? Thank you.

Michael Muller

Yes. Deepa, just on the E.ON stake, indeed, I was asked this question in the press conference and I reiterated what I already said previously in those conferences here. E.ON is not a strategic asset. It's a financial investment for us. We've seen, yes, great returns on that asset. I mean, since the asset swap with E.ON in 2019, since then, the share has performed greatly. So therefore, we're very happy with that participation.

I mean, your question on the Lignite Foundation, I mean, that is speculation. I mean, we always said we would be ready and prepared for such a situation. But yes, we need to see if something happens and then obviously we also would then tackle that appropriately.

Talking about the IRRs, I mean, 8% is the average return of our portfolio. And then Markus reiterated that we are very confident with the current projects under construction to achieve that average for our portfolio. And that includes obviously also the investment decisions we have taken on the offshore assets. Offshore, we guided between 7% and 11%. That is an effect.

I mean, German assets obviously with a lower WACC you should expect rather than the lower half of that range, but they are in the range. And talking about the PPAs, I mean, look, we just contracted almost 1 gigawatt of our offshore assets close to Heligoland to industrial customers at very attractive prices. And so therefore, we are in good contact with the market and also have a good feeling and understanding of the price appetite of our customers.

So therefore, we are very confident that we also close PPAs for Nordseecluster and translating also into attractive returns of those offshore products.

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Deepa Venkateswaran

Thank you.

Thomas Denny

Thank you Deepa. Next question please.

Operator

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

Harry Wyburd

Hi, thank you. Two questions from me. So one, I guess is one of the last residual questions on U.S. FlexGen or potential U.S. FlexGen. So is it important to you to have a controlling stake if you make an acquisition or would you be happy with a minority stake but perhaps some kind of operational agreement to have dispatching access to flexible generation capacity and perhaps that could be a way of indirectly perhaps reducing your economic exposure to carbon emissions.

And then second, on the recent German offshore lease auctions, clearly they take a much lower price. I want to understand, do you think this is a direction of travel? Clearly the industry has been lobbying very hard for more qualitative criteria in these lease auctions. Do you think we've now seen the end of extremely high lease auction prices being paid in Germany or more widely in Europe? And do you think this is a positive signal for the industry overall? Many thanks.

Markus Krebber

Yes, thanks Harry for the question. I mean, I think you fully understand that I don't comment specifically on rumours so I can, of course, I'm happy to repeat what is important for us when we look at the potential U.S. flex opportunity but as we said before, I mean, it will take time and outcome is open. And we're going to look at the attractiveness of the assets, the location, the earnings profile and the decarbonisation, whether it fits to our decarbonisation as a tool. And everything has to be seen.

On offshore, to be honest, I was surprised about those options. The first one, I would have expected that the first German option earlier this year is much lower price. And then, I would have probably said, yes, now we are where we need to be that prices come down and markets act more reasonably. But I was also surprised that we actually got the award at the very low which we got and we still try to get our head around why that happened.

And it might have been because it was a different auction style with some quality type criteria, which were in the overall rating actually not so important but you had to meet them like quotas of apprenticeships and things like that which you can do if you have large operations here and we had maybe an advantage there. But I mean, we are very, very happy about the result and also when I compare the quality of the site to the others and of course the lease payments we have to work. We're going to get an upfront payment of EUR25 million now 4 gigawatt auctions and compare that to the other auctions.

I would hope for lower lease payments. I think in the long term these high lease payments are not healthy for the industry and that's why we have also abstained from taking any involved in this year's earlier auction but also last year. So we're going to be disciplined and if we then can get it for the money we think it's appropriate we take it otherwise we stay out of the game. But a projection how it evolves is very, very difficult.

I mean, putting myself in the German government if I still can collect billions to put it back into consumer bills as a relief why changing the regime? I think we probably need to see two or three auctions with low results as we have seen now or very low participation as we have seen in the Dutch auctions. I think that might trigger the reconsideration of the policy setup.

Last point, what is important because if you look at the European level -- the European framework really benefits CFPs. There is on European level earlier this year where they said the support mechanism should be CFPs double-sided and that is what we also think is probably best.

Harry Wyburd

Okay. Many thanks.

Thomas Denny

Thank you, Harry. Next question, please.

Operator

The next question comes from the line of Wanda Serwinowska from UBS. Please go ahead.

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Wanda Serwinowska

Hi. Two questions from me. One is on your CapEx plan. The EUR55 billion CapEx plan by 2030 put your leverage close to the top end of the range 3.5 times but since then you have 2 gigawatts offshore from Vattenfall, you have, let say, 2 gigawatt from -- in Germany because you can do it together with Togo [ph] but how can you finance it? I mean, is there any flexibility in the 55 gigawatts -- EUR55 million of CapEx, can you shifted or do you have partners or how are you going to basically, finance additional gigawatts of offshore by 2030, early 2030?

And the second question Markus, you mentioned very briefly, power market proposals in Germany, can you elaborate a bit more? Did you like it? Any concerns that you saw? And when can we expect clarity on the new CCGT in Germany? Thank you.

Markus Krebber

Yes, thank you Wanda. On the CapEx plan, we have -- we have, of course, room to manoeuvre. We gave you at the CMD what we intend to do in offshore what in the U.S. what on the continent on shore and solar battery, but of course there is flexibility and we always have flexibility let's call it optimising the portfolio also partially calm down, and I would be surprised if we deliver the 4 gigawatt, which we just got in the German auction 100%.

I think, that is not the intention. So we materialised part of the project by selling down. And depending, where we are -- we also have, of course, flexibility in the overall portfolio but currently we have no real intention to move away from the split which we have communicated at the CMD. So the technology and regional split is more or less constantly revisiting that what we currently aim for.

And the flexibility with (inaudible) is always in the portfolio. And you have also seen that some of the projects we have pushed out now, like, Dublin Array, which we communicated at the CMD, within the 2030 timeframe might probably come a bit later. So there is always flexibility and optimisation possible.

On the German white paper, it addresses four points. One is the renumeration scheme for renewables. So an active discussion whether they want to move to CFD's? How to more integrate the renewables in the market that they have an incentive to dispatch market rationale, which would be a big benefit for us because you need operations to be able to do that.

Second aspect is capacity renumeration. So capacity mechanisms and the like, I come to that in a minute. And the other aspects are about how to better integrate flexibility into the market and how to use local price signals because we have huge dispatch issue in Germany because of the delayed grid built. For us, the most important two pieces are renumeration and the capacity market.

So on the capacity market, there is a discussion about central -- decentral capacity market. What is most important for us is that we get as fast as possible clarity how to incentivize new bills. And what is now lacking is all pointing in the right direction, It's all supported by all parties, even the opposition party. But we need the details and we are urgently waiting for the details for the consultation process. That is currently still in discussion. And you also hear that I'm slightly annoyed about the delays but it's still in discussion between the German government and the European commission.

We expected it already for last month but now the commission is on vacation and I can only say, I'm expecting it every day. Let's hope we don't have another call passing and we still have lots of details. Because I want to see it and then we can clearly tell you how attractive it is. I think, we have excellent sites, we have a clear advantage in Germany to build firm capacity but we need the framework first.

Wanda Serwinowska

Can I ask a quick follow-up, sir? On the sell downs, what is the appetite from investors? Basically, currently, because one of your competitors, Oster is basically, which we haven't seen any major sell downs. And at least for me, it looks like you need sell downs. And at least for me, it looks like you need sell downs to basically deliver the 6 gigawatts of the CapEx.

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And the second point, you said, you will constantly adjust the CapEx, but you're happy with the breakdown given during the CMD. But when I look at it, offshore wind, 35% of net cash investment out of EUR55 billion. But when you add 4 gigawatts from Vattenfall, it rebalances it, right. It's hard to (inaudible) keep the 35% share of offshore after additional 4 gigawatts in the U.K. So what I'm missing?

Markus Krebber

Yes. We have said that the target for offshore total was around 10 gigawatt, if I remember it correctly, at the CMD. And that is a net figure. So you cannot simply add the 4 gigawatt Vattenfall and the full Nordseecluster and the full Thor, because we are in the process of constantly optimizing the portfolio. So you can expect us also to farm down on these projects. And that it's always with an eye, what do we actually add net per region to our portfolio And we have already started some of the processes so we know the interest. And from our end today, there is no concern that we're going to achieve the necessary sell downs.

Wanda Serwinowska

Thank you very much.

Thomas Denny

Thank you, Wanda. Next question please.

Operator

The next question comes from the line of Piotr Dzieciolowski from Citi. Please go ahead.

Piotr Dzieciolowski

Hi, good afternoon. Thank you for presentation. I have two questions. So, the first one, I wanted to ask you about your flexible generation midterm target, because since CMD we've seen a pretty low demand for thermal generation utilization, including a gas capacity. We've also seen a delay on the thermal capacity market introduction and so on. So if you were to do the target scale, would you be a little bit more cautious on the EUR1 billion to EUR1.3 billion EBITDA or you have the other investments ideas, how to really bridge the -- to get to this target.

And the second thing, I wanted to come back a little bit to the U.S. So would you consider some type of an assets work to get a stronger foothold into the U.S. market? Yes.

Markus Krebber

So let's start with flexible generation. I mean, look, we have always said this is a normalization that we had expected. If we look into the years to come, we see a strong pickup, especially on what we call system services. I mean, if you see the capacity income of our assets already this year, it's higher than we had previous years, and especially in the U.K., that will increase. And you know, we have already auctioned capacity premiums until 2028.

And also in Germany, we have seen this auction where three assets this time won a two year contract with significant contribution. And we also have the Beebless [ph] assets running. So we see an increase in system services here. And then on the, what we call running the assets, we are seeing currently a normalization, but still at healthy levels and any tightness in the market. And especially with further decommissioning, we should see further tightening also then provide upside to the asset fleet. So nothing has changed on flexible generation. Rather, we have a positive view on that segment.

Michael Muller

And I mean, the last thing that's no comment. I mean, you are now speculating on something which is a rumor in the market and we don't comment.

Piotr Dzieciolowski

So thank you very much.

Thomas Denny

Thank you, Piotr. Next question please.

Operator

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

Louis Boujard

Yes, hi, good afternoon. Thank you for taking my question. Maybe just, just would like to follow-up a little bit on the flex chain, if you don't mind. More particularly, I think that you forecasted for '25, '26, a bit more difficulties in February, March. Notably with regards to the current situation to the market in terms of poor market prices at that moment. Nowadays, poor market prices, the volatility is quite sustainable, is much better.

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I would say that what we could have expected a few months ago. Would you still be as cautious as what you were a few months ago on this topic? Or do you consider that maybe the current earnings that is to be expected in 2024 is something that could be a good base for the next year as well, or close to it at least?

And maybe the second one would be more short term in the current earnings, notably regarding offshore and onshore, and more particularly regarding the PV as well, contributions. We are now already mid-August. So you are quite far in the third quarter. How do you see the performance evolving on a seasonality point of view, notably in onshore and PV? With regards to your full year guidance, I think that most likely the third quarter should be quite good considering your footprint in PV in the U.S. So could you confirm that it's going in the right direction on this specific topic? Thank you very much.

Markus Krebber

Yes. Let's start with the flexible generation. I mean, you know that, I mean, first I said our view on flexible generation really hasn't changed. I mean, beginning of the year, obviously we saw a quicker normalization than we initially foresaw, but kind of the longer term trend is very much intact. And we also observed that. If you look at the earnings profile, we always said that 2024 would be kind of the earnings trough, simply because in 2024 we still also FlexGen have some higher hedge prices that realize. So therefore 2025 will be lower. But nothing has changed there overall at the segment and the attractiveness of this one,

Talking about onshore PV -- onshore and PV, I mean, indeed, if you look at the profile, we see strong Q1 and Q4 in onshore in Europe and on the back of wind and U.S., obviously the segment has a strong PV's footprint, which has a strong performance, especially in the third quarter. So that is fair. And we also don't have a different perspective on this one currently.

Louis Boujard

Okay, thank you very much.

Thomas Denny

Thank you, Louis. Next question please.

Operator

The next question comes from the line of Alberto Gandolfi from Goldman Sachs. Please go ahead.

Alberto Gandolfi

Hi, thank you for taking my follow-up. I just was wondering, following your replies throughout the day, could you please tell me what EBITDA you currently have from U.S. renewables for 2024 and 2025? And I was curious about your comments about strategic rationale or something along those lines to integrate renewables and CCGTs and batteries to provide 24-7 power. So, how many gigawatts of combined cycles would you feel comfortable with to provide an integrated strategy? And where should these gigawatts be located? Because I guess they need to be located relatively close to where your renewable assets are.

So, if you can give us the U.S. renewable EBITDA and a rough idea of the geographical split in percentage terms, then I guess we can all draw our own conclusions. And again, I'm not asking to comment on a deal or anything here. Thank you so much.

Markus Krebber

Thank you, Alberto. Now, I really have to disappoint you because, first of all, on the segment, we report externally as we have the segment split. And the segment split is offshore on the one hand side and onshore PV globally on the other side. We don't give any further details in that segmental reporting.

And the other questions you are asking are exactly the right strategic questions, which I also have and which is part of the exercise we are doing to get our head around what I said already at the CMD about the strategic questions around FlexGen. And we have an answer to that. We might come back.

Alberto Gandolfi

Understood. Thank you.

Michael Muller

Thank you.

Thomas Denny

Thank you, Alberto. Before we move to the next question on the line, I have one question by email from a credit analyst, Markus. Maybe that goes to you, Michael. Do we stick to our commitment to the current credit rating? That's question one.

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And question two is, surrounded by the M&A rumor that maybe you can comment on whether we intend to change our green bond financing framework in the future.

Michael Muller

So, happy to take the question. First, credit rating. No, clearly no change. So, we stick to the clear ambition. And that's actually also what we discussed with the rating agencies. Actually, one of them last week and the other one I think three weeks before that our clear ambition is to keep the current rating. And that's also in line with what we plan.

Second question on the green bond framework. No, it also stays intact. So, no intention to change that. And I think, I mean, especially the latter one is also very relevant because, I mean, if you look at the EUR65 billion investment program we have ahead of us, that is a green investment program, which nicely fits into the green bond framework.

Thomas Denny

Thank you, Michael. So we go to the next question.to the operator. We have seven minutes left for the call. Let's see whether we can go through all that questions.

Operator

The next question comes from the line of Peter Bisztyga from Bank of America. Please go ahead.

Peter Bisztyga

Yes, hi. So a couple of follow ups. One, I'm just asking about the capacity market in Germany. Do you think that that could extend to existing assets, or is it with the expectation that it will just be for new generation assets? And then sort of. Excuse me for this one, but your comment just now vis a vis your conversations of credit rating agencies, I was just wondering if that's kind of within the normal cycle of your discussions with the agencies. Kind of in August.

Markus Krebber

Yes, maybe I take the last one. That's the regular, I mean, you know, the rating agencies have annual meetings with us, and these are the ones, I mean, obviously, after our CMD, we had a brief discussion with them to give strategy update, and this was just a regular course of discussions with them on annual basis. Exactly.

Michael Muller

Then I take the one on capacity market. Peter. So you're probably familiar with the european rules. So whenever you introduce a capacity market or remuneration, it needs to be non discriminatory. So it needs to involve existing assets, also assets outside your own home country, which can deliver into the country with the capacity market. But, and here's the but the germ problem, because of the coal and nuclear asset, is to incentivize new builds. So my expectation is that the government going to focus on get the new bills.

So my expectation is also that in terms of payment, it will be channeled mostly to the new bills. Then maybe if we jump 510 years from now, you probably have a full fledged capacity market when the new builds have been incentivized. But we are not putting anything in the plan on existing assets.

Peter Bisztyga

Very clear. Thank you very much.

Thomas Denny

Thank you, Peter. Next question, please.

Operator

The next question comes from the line of Ahmed Fahrman from Jefferies. Please go ahead.

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Ahmed Farman

Yes, thank you for taking my questions. Two follow ups. First one actually to you, Michael. Michael, you just reaffirmed your commitment to the credit rating. Does it also mean that sort of very much the targets that you gave us in net debt to EBITDA terms, that sort of, they are very much as you see them, you're fully committed to those as well, or are those targets somewhat sensitive to how the portfolio is optimized and evolves? So that's my first question.

And the second one to you. Market in terms of, sort of, addressing the strategic question, you know, about, sort of, let's say, potential opportunities of U.S. selection, is the political, sort of, the political election cycle, is that an important clearing event that you, that has any bearing on your thinking around it? Thank you.

Michael Muller

So, Ahmed, I take the question. You're fully right. Our credit rating does depend on the net debt to EBITDA, or the FFO to EBITDA, the net debt ratio of the rating agencies. And, that is, in fact, if we want to keep the rating, we also need to keep it. So, we stick to the numbers we have communicated. Obviously, you can assume that, in the discussions, we try to push the rating agencies to increase those levels. Yes?

But, I mean, that's, I would call, kind of, the regular exercise you do always. Because, I mean, if you look at our cash flows, with investing into our green growth, and also with more PPAs and contracted income, we feel that our cash flows become more stronger and more reliable. And, that is something where we believe that, over time, also the leverage ratios we can afford for keeping the ratio, the rating should improve. And, that's obviously part of the regular discussions we always have with the rating agencies.

Markus Krebber

And, then, I take the second, Ahmed. No, the election cycle has no impact on anything. I mean, our strategy is for 2030 and longer. And, it is not about political tactics. So, this still outstanding elections will have no impact on what we do and when we do something.

Ahmed Farman

Thank you.

Thomas Denny

Thank you, Ahmed. Next question.

Operator

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

Deepa Venkateswaran

Thank you for my follow-up question. I had one question on Chart eight, where you show the emission target. This is slightly different from what you've shown before. So, I had a question on what do you assume for utilization of your gas fleet? For example, this year, we would expect, you know, in line with your emissions for '24, that emissions from gas would roughly be 14 million tons. So, by 2030, you won't have lignite, you won't have coal.

So, I would expect you to have been very easily sitting at the bottom end of that range. What explains the top end? And, surely, you're not assuming load factors of gas are going up between now and then. So, presumably, this is assuming some new unabated gas. So, could you please comment on particularly the upper end of that range? Thank you.

Markus Krebber

No, Deepa. I think that is too much of an interpretation. The numbers have not changed. And, I mean, when we discussed the presentation, I actually asked exactly that question. These are the same numbers as at the CMD, and they should be the same numbers at the CMD. We still have some gas in, and also in 2030, since we only closed lignite early 2030, there's also remaining parts of that in. And, this is fully in line with our submission to the SBTI, which we have done even before the Capital Market Day. So, the numbers have not changed.

Deepa Venkateswaran

Okay, thank you.

Thomas Denny

Thank you, Deepa. Let's go for the last question of the day.

Operator

The last question comes from the line of Olly Jeffrey from Deutsche Bank. Please go ahead.

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Olly Jeffery

Thanks. Just, again, one follow-up. My question is, is there a limit to how much gas generation you think you could add to your portfolio? So, before this could start to impact investor appetites that own RWE due to ESG reasons, either now or from 2030 onwards?

Markus Krebber

Maybe we need to redirect this question to our investors and to you. I mean, I don't have an answer to that. I haven't thought about it.

Olly Jeffery

Okay.

Thomas Denny

Michael, I'd be happy to follow-up with you, Olly, if you have an answer to that question. So, looking forward to that comment.

Michael Muller

But, let me make one. I mean, adding more gas was already part of the CMD strategy, right? And, there are only concrete plans, which are part of the capital allocation, have been to invest in new H2 ready CCGTs in Germany. And, I mean, according to the rumors, these might run on natural gas for the first eight years, and then you have to decarbonize them. So, what we already said, maybe it's not so much about the gigawatt. It's more about how much CapEx, how much earnings. So, what's part of the overall business mix? And then, of course, what is the clear path to decarbonisation.

Olly Jeffery

Thank you very much.

Thomas Denny

Thank you, Olly. Thank you, Markus. Thank you, Michael. And, thank you all investors and analysts for joining today. If there are any open questions, the IR team is at your disposal at any time. And, I wish you all a great rest of the day. Bye-bye.

Operator

Thank you for joining today's call. You may now disconnect your lines.

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