

# **Scatec ASA (STECF) Q1 2024 Earnings Call Transcript**

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**Body**

Scatec ASA (STECF)

Q1 2024 Earnings Conference Call

April 30, 2024, 3:00 AM ET

Company Participants

Terje Pilskog - Chief Executive Officer

Hans Jakob Hegge - Chief Financial Officer

Andreas Austrell - Vice President of Investor Relations

Conference Call Participants

Andreas Nygard - Nordea

Jorgen Bruaset - Nordea

Presentation

Terje Pilskog

Good morning. A warm welcome to all of you attending our first quarter presentation. I'm excited to take you through a strong quarter for Scatec. The first quarter has been eventful, with many significant achievements, including the inaugurations that we've had for Mendubim in Brazil and Kenhardt in South Africa.

In the quarter, we have continued also to make good progress on our strategy. We have reached a number of important milestones that we will get back to and also the financial results are strong. So as usual, I will take you through the highlights of the quarter and then Hans Jakob will take you through the financials. And at the end, as usual, we will also open up for questions.

So then let's start with going through the key highlights of the quarter. And I'm pleased to say that this quarter was a good quarter with strong overall results with proportional revenues reaching NOK1.2 billion and EBITDA reaching NOK848 million. Power production reached 901 gigawatt hours and EBITDA in the Power Production segment increased to NOK870 million, up from NOK707 million same quarter last year.

And we finalized construction and started commercial operation of Mendubim in Brazil and Sukkur in Pakistan, moving 681 megawatts from construction and into operation in the quarter. And also we embarked on the next growth phase with moving 333 megawatts of projects into construction. And I will also get back to more information about this project later in the presentation.

We also significantly improved our debt maturity profile. We issued a 1.75 billion bond and used this to buy back a large portion of our EUR250 million bonds. And on top of this, we also refinanced our RCF and our Green Term Loan, moving the maturity of both of these debt instruments into second half of 2027.

And finally, we also launched Lyra Energy. This is a C&I platform that we have established in partnership with Stanlib and Standard Bank in South Africa in order to move into the growing deregulated private energy market in South Africa.

And then to demonstrate some of these achievements, we have also this quarter put together a small video. So this quarter, we finalized our largest construction program to date and we have celebrated this through inaugurations several places around the world.

First of all, Mendubim, 531 megawatts, close to 1 million panels. And we are from Mendubim delivering energy to Alunorte and supporting Alunorte, a significant alumina refinery in their decarbonization journey.

Then we have Kenhardt, 540 megawatts, also close to 1 million solar panels, but not only that, also 225 megawatts of energy storage, 456 storage containers. And this project, we believe, is providing a glimpse into the future, providing dispatchable baseload renewable energy to Eskom.

Finally, we also have Sukkur, albeit only or smaller at 150 megawatt, still a significant achievement and a significant milestone in Pakistan delivering competitive, affordable renewable energy in the country.

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And we are celebrating the performance of our project teams related to this. During 2023, we have completed a massive construction program on budget, on schedule and with strong HSSE performance, and we are immensely proud of the performance of our project teams as you will see here in the picture.

And now, we are turning the page. And these projects are already contributing to the Power Production segment with them being a key reason for the growth in generation in EBITDA in the segment this quarter. The new projects added 194 gigawatt hours. And in total, we delivered 901 gigawatt hours in the quarter. And this is an increase of 20% when we adjust for the divestments during last year.

EBITDA is up 37% to 870 million compared to last year adjusted also for divestments. And this is mainly due to start-up of Mendubim and Sukkur and Kenhardt. These three projects contributing 135 million in the quarter.

We have further recognized a one-off of 85 million in Honduras. This is based on a settlement with the off-taker ENEE, which included a one-off payment which we have recognized also in the quarter.

And then there are also positive contributions from Ukraine and again from the sale of 3.3% of Mendubim to the off-taker, Alunorte. This is something that has been pre-agreed between the parties and Alunorte is now owning 10% of Mendubim. Finally, as expected, the EBITDA from the Philippines came in below same quarter last year, but still overall, there is very strong financial results in the Power Production segment in the quarter.

So as usual, let me then also explain some of the main elements when it comes to the Philippines in the quarter. So EBITDA in the Philippines came in at NOK75 million. This is above the outlook range we provided at the last quarter presentation, but it's down from 130 in the same quarter last year.

And also when it comes to net revenues, they were down to NOK116 million from NOK161 million same quarter last year. As you will see from the chart, ancillary services revenues were basically in line with last year while it is the spot and contract revenues that came down. This quarter, spot prices came down to the same level as SNAP's contract prices.

So the short position that we typically talk about in terms of the first quarter has a limited effect this time around. Still, it is good to see that contract volumes, as we have communicated, continue to come down, which is visible at the top right end of this graph.

And then let me also add some comments on the ancillary services market and segment in the Philippines. There is still regulatory uncertainty in this segment, and we are currently taking a cautious approach in terms of recognizing revenues in this segment. So there's two parts of this segment.

First of all, last year, as you might remember, we secured long-term ancillary services contracts, but the new contract price is still pending regulatory approval. So what we're doing is we are expecting this to come later this year with a retroactive effect. But we continue to recognize revenues based on the old prices and we're not taking the new higher prices into account yet. We will wait for this to be confirmed before we do that.

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Then secondly, in the first quarter, the spot market for ancillary services was launched. This is what we call the reserves market, but they were suspended already after two months due to high price volatility during the first two months of operation.

An audit is currently being performed on the market, and we are also here not recognizing revenues until we see that the results of this audit has been confirmed. The unrecognized revenues related to these two situations amount to about 250 million. We believe it is likely that both situations will be concluded in our favor by the end of the year and therefore these amounts are also included in our full year outlook in total.

Then let's move to the D&C segment. We continue to grow our renewable energy capacity according to our disciplined, self-funded growth strategy. And I'm pleased to say that we have started construction of 333 megawatt in South Africa and in Botswana.

In South Africa, it is the 273 megawatt Grootfontein project. And in Botswana, it is Phase 1 of the Mmadinare Solar Complex, which is 60 megawatts. I'm now very pleased also that on the groundbreaking ceremony that we had in Botswana, we also had the President present in that groundbreaking ceremony which shows the level of commitment and importance these projects have for the countries we operate in.

The equity returns of these projects exceed our hurdle rate of 1.2 times cost of equity. And this is demonstrating our commitment to continue to add at profitable growth above our hurdle rates and also with attractive margins.

Construction activities are still in an early phase and we recognized NOK152 million of revenues in the D&C segment in the quarter. The gross D&C margin came in at 49% and this includes the release of NOK65 million of contingencies from the EPC contract. Again, an evidence of the strong performance that we're having in the EPC construction activities and we are coming in at budget and on schedule.

The combined gross margin for new projects under construction was 9% in the quarter. And this is in line with our guidance of 8% to 10% D&C gross margin going forward. So the remaining EPC contract value related to projects in construction is NOK2.3 billion and the projects represent about NOK350 million in gross equity investments.

So when we have completed these projects in first half of 2025, we will reach 4.6 gigawatts of renewables capacity on a 100% basis in operation. This represents an increase of 35% since the first quarter '23, and that is also taking the successful divestments of 415 megawatts into consideration. Our backlog now stands at 685 megawatts and the projects are progressing positively. Adding this brings us up to a total potential capacity of 5.25 gigawatts also on a 100% basis.

So last week, we signed a 10-year PPA with Scatec for a new 142 megawatt solar project in Brazil and the project is now added to our backlog and is part of this 685 megawatts. It is expected to reach financial close and start construction this year with COD at the end of 2025.

And the benefit of this project coming now is that we are in the process of demobilizing our EPC teams from Mendubim. And we can basically use the same teams moving them over to the new project, taking the experience that we have from Mendubim into this new project.

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So this is our third solar project in Brazil, which solidifies our position as one of the leading IPP's in the country. Later this year, we also expect to reach financial close and start construction of 103 megawatts of BESS in South Africa and the second phase in Botswana of 60 megawatts.

We also see significant progress over 120 megawatt project in Tunisia, which are advancing towards financial close. And we also see a positive development of our green hydrogen project for the globe in Egypt, where we see potential -- several potential offtake opportunities emerging. So I am excited about 2024 and I believe that we will continue to have significant activity in the D&C segment through this year.

So then in terms of the overall pipeline, this now stands at 10.8 gigawatts. And we continue to high grade and mature our pipeline to fuel further growth in our business. And in line with our self-funded growth plan, we continue to focus mainly on solar, onshore wind, battery storage and hybrid projects because these are the projects that have the best fundamentals and are the projects with the shortest development cycle.

During the quarter, we have increased the share of solar. It is now representing 63% of our pipeline and projects related to our focus markets are representing 93% of our pipeline at the end of the quarter. We also continue to selectively work and develop our projects within green hydrogen in Egypt.

And here, we are only focusing on brownfield projects and also within hydropower through our JV with BII and Norfund in Africa and the JV SNAP with Aboitiz in the Philippines. So in terms of the total pipeline, around 5 gigawatts of the pipeline is currently related to South Africa and we see significant growth opportunities in this country.

I would therefore like to spend some time on South Africa to give you some further insights into the opportunities that we are currently seeing there. So in South Africa, we have developed and we have constructed about 1 gigawatts of solar projects in total. And currently, we have 730 megawatts in operation.

Obviously, the capacity was significantly increased by the addition of Kenhardt into the operational mix towards the end of last year. We now also have Grootfontein under construction. And we have the best project in backlog, expecting it to reach financial close later this year. So with this, we will add another 376 megawatts to the portfolio in operation in South Africa.

And then on the back of the 5 gigawatts that we currently have in the pipeline, we see significant opportunities both in the traditional public segment, but also now strong emerging opportunities in the private sector in South Africa. So in terms of the traditional public segment, we see several tender opportunities coming up.

We have the REIPPPP Round 7, which is tendering out 5 gigawatts of solar and wind, which is expected to come later this year. And we are also expecting this year BESS Round 2 and BESS Round 3. And we have good projects available for all of these tender opportunities.

And then in terms of the private segment, as I said, we are very excited about the Lyra Energy platform, which we launched during the quarter in partnership with Standard Bank and with Stanlib.

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The intention with Lyra is to offer renewable energy from utility scale projects to private, commercial and industrial customers that have significant electricity demand. The project will be developed and built by Scatec, and we will also operate the project. And then together with our partners Standard Bank and Stanlib, we will work on securing the offtake and also work on the financing together with them.

And our customers will then benefit from green and attractively priced energy, which will support them towards the increasing demands when it comes to decarbonization, which is obviously also relevant in South Africa. We have a very strong team with a strong track record in South Africa. We have a good pipeline. We see good opportunities. And I believe that we will see some attractive announcements from South Africa through 2024.

So with that I will hand it over to Hans Jakob to take us through the financials.

Hans Jakob Hegge

Thank you, Terje. Good to be here and let me take you through the financials. We reported total proportionate revenues of NOK1.2 billion in the quarter. The revenues from Power Production increased by 20% to NOK1.1 billion, driven by new plants in operation. The settlement in Honduras and Ukraine that outperformed. We also booked a gain from sale of 3.3% of Mendubim to Alunorte. Power Production EBITDA increased by 163 million to 870 million.

D&C revenues of 152 million reflects early stage construction activities in South Africa and Botswana compared to last year when we were ramping up construction for these three large projects which are now finalized. The D&C EBITDA was 7 million, including contingency release for Kenhardt. This compared to an EBITDA of 96 million year-on-year. Total proportionate EBIT was NOK429 million in the quarter, including a NOK60 million impairment in Honduras following the PPA amendment. This is up from NOK405 million year-on-year.

Let's have a look at the consolidated financials. We delivered total revenues of NOK1.3 billion compared to NOK919 million year-on-year, an increase by 39%. Revenues from power sales increased by 45% to NOK1.2 billion, mainly driven by NOK285 million from new plants in operation and NOK152 million from the settlement in Honduras.

Net income from JVs and associated were down from NOK78 million to NOK62 million, driven by the performance in the Philippines. This led to an increase of 62% in EBITDA to NOK1 billion compared to NOK629 million in the same quarter last year. EBIT ended at NOK643 million compared to NOK353 million, including our NOK81 million impairment in Honduras due to lower tariff in the amended PPA. The net profit was negative NOK26 million compared to negative NOK98 million last year.

Total proportionate net interest-bearing debt increased by NOK1 billion to NOK21.8 billion, mainly due to the weakening of the NOK against our main currencies. Our proportionate net interest-bearing debt consists of two different debt classes. We finance our power plants with non-recourse project debt, which is serviced solely by the cash flow from the individual power plant with no direct support to Scatec ASA. Additionally, we have debt on corporate level which is serviced by distributions from the power plants.

Total net non-recourse debt increased by 200 million, due to currency effects and change in cash. Non-recourse project debt related to Mendubim and Sukkur were reclassified from under construction to in operation in the quarter. And our corporate debt increased by 700 million with negative currency effects of 500 million and decreased cash of approximately 200 million, which I will come back to.

And finally, we had 179 million of net interest expenses on our corporate debt, an increase of 51 million year-on-year. During the quarter, we have significantly extended our debt maturity profile through several successful transactions. We extended 150 million green term loan to Q4 '27 and the 180 million RCF to Q3 '27 both at retractive terms supported by our core bank group.

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We also issued a four year NOK1.75 billion green bond. The bond is swapped to dollars with a fixed interest rate, which increased the interest hedging ratio to 36%. The proceeds from the bond were partly used to buy back 136 million of the 250 million Euro bond maturing in Q3 '25.

The remaining EUR114 million is now the only large debt maturity over the next three years. We will continue to amortize $25 million annually under the term loans. And additionally, as previously communicated, we are considering additional repayments from proceeds from upcoming divestments.

At the end of the quarter, we had close to 2 billion of liquidity, including undrawn RCF. I will now take you through the main movements in cash. In the quarter, we received 144 million in distributions from power plants. We had 178 million in negative working capital movements and invested 129 million in growth projects, both mainly related to Kenhardt and we reported cash flow from financing or minus 84 million.

And now let's have a look at the outlook. We have updated the guiding based on this good start of the year. In Power Production, we estimate a proportionate full year Power Production of 4.2 terawatt hours to 4.6 terawatt hours, unchanged from the previous quarter. The full year EBITDA is however increased by NOK350 million to a midpoint of NOK3.9 billion.

This reflects the overperformance in the quarter, the inclusion of services and foreign currency. The Q2 Power Production is estimated at 1,000 gigawatt hours to 1,100 gigawatt hours. In the Philippines, we estimate an EBITDA of NOK10 million to NOK70 million in the second quarter. This is reflecting continued low prices due to El Nino and high power prices, which has a negative effect as we continue to be a net buyer in the market in the second quarter.

In D&C, we have remaining D&C contract values of NOK2.3 billion, net of the revenues recorded in the quarter. We continue to report D&C gross margins of 8% to 10% for project under construction, in line with our guidance. And finally, the full year EBITDA estimate for the corporate segment is negative NOK120 million to negative NOK130 million, unchanged from the previous quarter.

And then I leave the word back to you, Terje, to take us through the final slide.

Terje Pilskog

Thank you, Hans Jakob. And then before we take questions, let me just sum up. We have grown significantly in the quarter. And we have completed our largest construction program in the history on time and on budget amid strong HSSE performance. The new power plants are now contributing substantially to our financials, and we are delivering a strong EBITDA in the quarter.

We continue to grow and we have started construction of two new attractive projects in the quarter and our pipeline and our backlog are progressing well. So finally, we are also maturing this. And we aim to start construction of several new projects during the year, which is in line with our self-funded growth plan that we have communicated and we continue to progress.

So thank you for listening. And then I think we will open up for questions.

Question-and-Answer Session

A - Andreas Austrell

Yes, we will then open up for questions. We will start with questions from the audience here in the room and then move over to our online listeners. So any questions?

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Andreas Nygard

Yes. Good morning. Andreas Nygard, Nordea. Could you give some color on how you're looking at refinancing your assets in operations? We see some of them coming down on leverage and you obviously could use some more cash to corporate. Could you give any color on that what you're thinking and what assets are the most likely to see refinancing going forward?

Terje Pilskog

We continue to work on both refinancing assets and also recycling capital through selling down or divesting assets in non-core assets as we previously communicated. It's a bit difficult to give sort of a precise timeline when this is going to happen. But we do have ambitions to do also some actions in this space during 2024. So that's where we are currently on that. I mean, clearly the ones that are more likely from a divestment point of view are the ones that are in our non-core markets.

Andreas Nygard

And secondly, Ukraine is performing really well. And is it possible to see the financing of Ukraine change from paying down on that to extending it to a normal maturing financing?

Terje Pilskog

Well, I think there are two elements in Ukraine. I mean, one is the portion of the projects that are financed through traditional non-recourse project finance. That's about half of the portfolio. And they are financed and they have a maturity synchronized with the tender of the contracts, FIT contracts that we have. So for the time being, I don't think it's possible to do anything with those. And the remaining portfolio is 100% owned by us and was financed by the Power China vendor loan. Currently, with the situation in Ukraine, I don't think it's likely to be able, on a short-term basis, to bring in more debt into those projects.

Andreas Nygard

Okay, thank you.

Jorgen Bruaset

Thank you. Jorgen Bruaset, Nordea as well. Just two questions on your EBITDA guidance. So, as I read the wording, it's predominantly driven by Q1 effects and not really any significant changes in your operational view for the coming quarters. Is that how I should read the NOK350 upgrade to EBITDA?

Hans Jakob Hegge

I can take it, Jorgen. As I said, there are three elements. The strong start of the year, the inclusion of the power, the services segment and the FX. That's the main elements for updating the 350. And also then Terje said that tariffs in Philippines is included in the overall for the year, but we haven't accounted for them in the actual accounts.

Jorgen Bruaset

Okay. Thank you. Also, just following up on Andreas' questions on Ukraine, what type of level of activity in Ukraine is included in the EBITDA guidance for H2? I can't recall what your previous comments was, if you assume zero EBITDA contribution from Ukraine, or if we should expect sort of the similar run rate as we've now seen for the last couple of quarters.

Terje Pilskog

We haven't changed the guiding for Ukraine, but we, of course, make a point of the strong performance of our team and a relatively high payment rate.

Jorgen Bruaset

So no EBITDA in Ukraine as a baseline for the guides for the coming three quarters. Is that how I read it?

Terje Pilskog

Yeah. We continue on the same conservative line.

Jorgen Bruaset

Perfect. Thank you.

Andreas Austrell

Any further questions from the room? Okay, I'll then read up the questions from the ones online. We have one question from Naish Cui from Barclays. Good morning. Congratulations for the strong results. Or two questions, actually. Could you please clarify on Philippines? What is the price difference between the old and the new regulation? What and how much EBITDA is included and not included in the full year guidance? And then secondly, could I get an understanding of your latest financing cost post refinance activities, please? Thank you.

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Terje Pilskog

Okay, let me at least take the first one on the Philippines, just to be clear on that, in terms of our outlook for the year, the ancillary services -- the expectations for ancillary services market were included in our guidance when we delivered our guidance at Q4 presentation, and it's also in our guidance now. So there's no difference in our guidance principles when it comes to the Philippines. So we haven't changed that since Q4. The change for that we did this time is that we are putting a number on how much is related to the unrecognized revenues in the Philippines related to this segment and that is NOK250 million for the year. So that, I think, is on the Philippines. In terms of the price, we are not sharing prices when it comes to ancillary services market in the Philippines as this is sensitive information.

Hans Jakob Hegge

Yeah. And I think on the -- if you take the EBIT on the consolidated as a starting point, the financial expenses was 685, 466 was new plants in operations and the net interest cost on the corporate debt was the remaining. So maybe that's one guidance to, Naish.

Andreas Austrell

Okay. We have one more question from Eivind Garvik from Carnegie. How comfortable are you with your funding capacity in relation to future construction programs?

Terje Pilskog

The current construction program that we are foreseeing going forward through 2024, including the backlog is what we've had in our plans all the time, also when we announced the self-funded growth plan. So there is no change in that and we are comfortable with the funding capacity that we have for the new project.

Hans Jakob Hegge

Yeah. And that's the headline of the presentation that Terje gave today. We are progressing our self-funded growth plan, so that includes the confidence in financing.

Andreas Austrell

There are no more questions from the web. So I think with that we finish today's presentation, and thank you all.

Hans Jakob Hegge

Thank you very much.

Terje Pilskog

Thank you.

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