

# **Snam S.p.A. (SNMRF) Q2 2024 Earnings Call Transcript**

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**Body**

Snam S.p.A. (SNMRF)

Q2 2024 Earnings Call Transcript

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Company Participants

Francesca Pezzoli - Head of IR

Stefano Venier - Chief Executive Officer

Luca Passa - Chief Financial Officer

Conference Call Participants

Jose Ruiz - Barclays

Javier Suarez - Mediobanca

Stefano Gamberini - Equita S.I.M.

Marcin Wojtal - Bank of America

Bartlomiej Kubicki - Bernstein

Alberto De Antonio - Exane BNP

Emanuele Oggioni - Kepler Cheuvreux

Presentation

Operator

Good morning. This is the Chorus Call conference operator. Welcome and thank you for joining the Snam First Half 2024 Consolidated Results Conference Call. As a reminder, all participants are in listen-only mode. After the presentation there will be an opportunity to ask questions. [Operator Instructions]

At this time, I would like to turn the conference over to Ms. Francesca Pezzoli, Head of Investor Relations of Snam. Please go ahead ma'am.

Francesca Pezzoli

Good afternoon ladies and gentlemen and welcome to Snam H1 2024 consolidated results conference call. Today's presentation will be hosted by our CEO, Stefano Venier and by our CFO, Luca Passa. In the presentation, Stefano will provide you an overview of the key highlights of the period. Luca will walk you through the financial performance. Then back to Stefano for closing remarks and finally, the Q&A session.

And now, I will hand over to Stefano.

Stefano Venier

Thank you, Francesca, and good afternoon. I start on slide two. In the first half we delivered strong growth with adjusted EBITDA up 16% year-on-year at a 1417 million, mainly thanks to the weighted average cost of capital uplift, the ROSS effects and the WACC growth. The adjusted net income at 691 million is up 11% year-on-year. Investments reached the 1159 million, up 60% versus first half 2023 and the net debt at 16.4 billion with 2.5 average net cost of debt. Last week we signed the agreement with Edison for the acquisition of Edison Stoccaggio. The deal will further strengthen our industrial and strategic position while accreting the net profit. I will provide more details on the deal, financials and rationale later on. At the same time, we continue to extract value from our existing portfolio of associates and from our financing strategy. First, the new reference price methodology in Austria was approved after long negotiation and embed volume risk stabilization. It will bring back to profitability our Austrian associate TAG from 2025 providing visibility throughout next regulatory period that goes from 2025 to 2027. Second, Enagas, GRTgaz and our associated Terega in cooperation with OG sign an agreement for the development of the BarMar H2 infrastructure that is part of the H2 Main [Phonetic] corridor. Moreover, we continue to optimize our cost of funding. We have issued 1 billion sustainability credit line in May replacing more expensive credit facilities. We have obtained €100 million from EIB to support our subsidiary Renovit in the energy efficiency projects and our Board of Directors today has approved the issuance of up to 1.25 billion hybrid bond to finance Edison Stoccaggio acquisition and the relevant CapEx plan while keeping the full financial flexibility.

At global level, as you probably know, gas demand is up 3% driven by industrial recovery, while in Italy gas demand declined by 4.3%. This, along with a well supplied market and historically high gas storage level in Europe, contributed to keep average gas prices 34% below last year. Italy has filed -- the European filed to Europe the climate and energy plan that envisages about 58 bcm of gas demand by 2030, of which 5 bcm or 9% biomethane and the key role of H2 and CCS to reach the decarbonization target sets for 2030. We are keeping to present updated scenario by September aligned with the climate and energy plan and we continue to contribute to the working groups set by the Italian Ministry of Energy and Environment, which has the target to release the H2 strategy and to define the carbon capture strategy framework by the next September.

Moving now to page three, we can highlight the, let's say, progressive deployment of our strategy that is focused on becoming a pan European multi-molecular operator leveraging on synergies between gas infrastructure and energy transition businesses. Then starting from the gas infrastructure, we can summarize that the 2025 tariff has been approved for transport, LNG and recently the storage. The storage level, as I mentioned, is at about 86%, well above the historical levels for this period of the year and with 100% of the 12.4 bcm of storage capacity for the thermal year 2024-2025 already allocated and we are on track to have the full facilities full by the end of October. For the Adriatic corridor, the backbone to strengthen the south to north capacity, the first phased works have started and we are progressing with the Ravenna floating vessel terminal works expected to be operational by the beginning of 2025. The short term milestone for the assigning of the Repower EU grants to the Adriatic Line and Export were met in time. The two projects have to be completed by the end of 2026.

Let's now move on energy transition. The market test result to assess the auto abate industry's appetite were supportive and we will provide more details in the following pages. The pilot project for CO2 capture and the sequestration in Ravenna is going to start soon. Several progress on South H2 corridor, the Italian, Austrian, German TSOs met in Rome, the last 18 July, and to define the project governance and the next steps along with the three different governments. The Renovit backlog is stable at 1.2 billion and on biomethane eight plants won the tariff options equivalent to about 18 megawatt and we have been successful for 100% of the plant submitted. We will submit a further couple of projects at the end of August and the rest by the end of the year.

On the sustainability side, the CapEx aligned to EUC, Taxonomy and SDGs represent respectively the 32% and 52% of the total H1 CapEx 2024. We continue then to reduce the scope 1 and 2 emissions and the full year 2024 is foreseen being down 17% with respect to the 2022 levels. MSCI has confirmed our AA rating and we are engaging with current and potential shareholders on our first transition plan that will be published before the year end with the objective to align in a single document this NAM climate and biodiversity strategy, key achievements, further targets and key metrics including physical and transition risk assessment. Finally explaining how our assets will contribute in securing affordable energy along and beyond the transition to net zero.

Let's now spend few words on the Edison Stoccaggio acquisition on page four. As you know, after the submission in June of a binding offer last week, we have reached an agreement for the acquisition of the 100% stake of Edison Stoccaggio from Edison. As known, the perimeter comprises three storage sites located nearby our facilities with a total capacity of about 1.1 bcm operating under a fully regulated regime. The enterprise value for the acquisition is equal to 560 million, subject to adjustment at closing. The last update is until Q1 2025 following regulatory approval in details refers to antitrust and golden power authorizations. The agreement also provides for an earned out mechanism based on the outcome of the administrative dispute with ARERA relating to the past remuneration of the San Potito and Cotignola assets for an amount up to 45 million, which is a full pass through. The deal implies a premium on the 2024 RAB of about 12% that is close to the one at which Snam is trading at the moment and below recent comparable M&A transactions. Since the acquisition was not envisaged in our strategic plan, to maintain the current financial flexibility, we have decided to finance the deal by issuing an hybrid bond, thus maximizing the net income accretion that is foreseen in between 1.5% to 2% already from the closing, while EPS contribution will be neutral to positive. The strategic rationale is sound as now will consolidate its strategic role in securing Italian gas supply, increasing exposure to Italian regulated activity consistently with investment strategy outlined last January and exploiting operating efficiencies, leveraging on stock scale, asset proximity and expertise and know-how. The fit is strong. Also looking at the asset carbon footprint as Edison Stoccaggio plants have are already equipped with electric compressors. We have included about 1.5 million of revenues and cost synergies equal to about 3% of the EBITDA in the valuation that we deem conservative and we will work to extract further value from the deal.

Let's now move on page five to have a snapshot on H2 and the carbon capture market test results. In the past months we carried out a market test to assess the appetite for both H2 hydrogen and carbon capture in Italy and neighboring countries. More than 120 companies submitted the questionnaire. We have analyzed the data gathered and the results are very supportive, pointing to about 37 million of avoided emissions per year in Italy and 11 million in Austria and Germany by 2040, thanks to the use of hydrogen and the carbon capture. With regard to hydrogen, about 80% of expected consumption will come from hard to abate sectors and power generation. By 2040, production hubs will emerge in south of Italy but not enough to fully meet the projected demand. Therefore, Italy will play an important role as transit country from North Africa to north of Italy and central Europe as the south H2 corridor encompasses.

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As far as CCS is concerned, more than 60 non-binding expression of interest were submitted from 172 industrial sites in Italy, mostly concentrated in the Po Valley clusters and from some industrial districts in the southern part of Italy. Strong interest came from building materials, refining steel waste to energy and power generation. The results of the market test along with the ongoing progress on regulatory front and the strong institutional backing are very supportive to our strategy and the PCI projects just mentioned the South H2 Corridor and the so called Callisto four [Phonetic] CC for carbon capture project in Ravenna that is developed jointly with ENI.

Now I'll turn to Luca for more details on the financial results.

Luca Passa

Thanks Stefano and good afternoon everyone. We are now on slide six to comment on first half 2024 EBITDA. EBITDA for the period was €1.417 billion plus 16% versus last year or plus €106 million. The growth is mainly attributable to regulatory items for a total of around €119 million related to the WACC increase for around €86 million and ROSS effect the fastened slow money on transport of €33 million. Regulated revenue change was driven by transport and storage revenues increased by around €80 million. Recover of the 2023 LNG extra revenues for €29 million. Output base rise by €8 million related to the contribution of the output base on storage, partially counterbalanced by the decrease of the output base related to the default services, higher allowed OpEx due to inflation partially offset by the expected phase-out of input base incentives. Finally, PMB [Phonetic] FSRU started operation from July 2023 and contributed positively by €32 million to EBITDA. The increase in regulatory fixed cost is mainly attributable to labor costs, mainly inflation, and the extension of the employees' health insurance. With regards to the energy transition businesses, the end of the super-ecobonus incentive on energy efficiency along with the consolidation of 8 megawatt of biomethane plants, growth was likely negative contribution minus 4 million in the first half 2024.

Moving to slide seven, adjusted net income for the period was €691 million plus 11% compared to first half 2023 due to higher D&A by €44 million following a rising investment and €12 million write down on gas infrastructure. Net financial expense is higher by €43 million, mainly as a result of higher net cost of debt which moved from 1.7% to approximately 2.5% in first half 2024, as effect of the increase in interest rates partially counterbalanced by the increase in capitalized interest and the increase in financial income related to the full services and to the ecobonus. A substantially flat contribution from associates which was the result of slightly lower international associates contribution, minus 2 million, flat contribution of Italian associates. Finally, higher tax rate due to higher EBITDA and tax rate increase from 24.5% in first half 2023 to 26.8% in first half 2024, mainly as a result of the termination from 2024 of the so-called ACE Italian fiscal benefit and the lower weight of associates contribution to EBITDA.

Moving to slide eight, our international associates positively contributed to group net income by €111 million almost in line with the same period of last year. In details, TAP inflation-adjusted tariffs drove a slightly higher contribution compared to last year. In first half 2024, TAP covered 17% of Italian imports, recording a plastic increase in total volume of gas transported to Italy due to the higher short term bookings. Works for the 1.2 bcm expansion, the rallying from 2021 market tests are underway. C corridor benefits from the one-off release of a fiscal provision related to TTPC and a better product mix. With approximately 11 bcm transported towards Italy, it represents the main source of supply for Italy.

Terega performance already reflects new regulatory periods starting in 2024, in line with our expectations. Desfa lower contribution is the result of the lower option premium on LNG imports and on export towards Bulgaria now closer to historical trends. Desfa is progressing on its ambitions of 1.3 billion CapEx plan that will support the domestic line phase out and the Southeastern Europe market development. ADNOC performance is in line with expectation. Interconnectors contribution remains in line with the yearly regulatory adjusted by inflation. The capacity is almost 50% booked until 2026, thus providing medium term visibility. EMG performance benefits mostly from the recording of positive non-recurring items related to previous years.

Moving to Austria, TAG year-on-year delta is due to the slight booking decrease. GCA's performance has been impacted by lower bookings and higher revenues recorded in 2023 to recover previous year energy cost. As mentioned by Stefano, the new reference price methodology in Austria was approved and embed volume risk stabilization providing visibility for the 2025-2027 period. However, it has also entailed a risk premium reversal of past revenues that impacted TAG for 8 million and GCA for 22 million, which is included as special items in our net income adjusted. You will find in the annex a brand new detailed presentation of all our associates, including description of the business model and key financials. This, along with the disclosure that we provide on a quarterly basis will help you to better assess their value.

Turning now to cash flow on slide number nine, funds from operations for the period amounted to around €1.124 billion, bringing our EBITDA cash conversion to a very sound 80% and were only partially absorbed by 70 million of working capital. This was driven by a broadly neutral impact from a regular working capital with about minus 260 million absorption due to the balancing and settlement activity of which about 400 million residual reduction in balancing item payables, approximately minus 270 million related to cash deposits decreased due to the gas price reduction, around 120 million positive related to the default service receivables decrease, and about plus 190 million related to settlement activity. Partially, all this was counterbalanced by 240 million positive tariff related items, mainly driven by additional tariff components. Moreover, about minus 320 million of absorption mainly driven by the energy efficiency trade payables decrease in another cash deposit reduction. Finally, about plus 270 million of tax payables temporary increase. Net investments for the period amount to €1.122 billion and in the first half are fully funded by the FFO generation. Other outflows were related to the payment of the dividend for €937 million resulting in a change in a debt of about €1.082 billion.

Moving to slide ten, the change in the debt, as I said, amount to about €1.100 billion resulting in €16.352 billion of net debt at the end of the period. The average net cost of debt moved to 2.5% while the fixed to floating ratio stands at about 70% to 30%. Sustainable finance on committed financing is up to about 83%, thanks to the recent funding executed. In terms of financing, during the second quarter we secured €750 million FRNA bond which was swapped to fixed rate and 1 billion of sustainability linked RCF line which together replace the €1.8 billion pre-existing RCF line guaranteed by SACE, the Italian ECA, €200 million of sustainability linked banking facilities, and 100 million of EIB financing to support energy efficiency initiatives promoted by Renovit on public and private buildings and industrial activities. The financing is in line with the objectives of the repower EU. Financing needs for 2024 are almost covered. Based on the current forward curve, we expect the average cost of net debt for the year to remain stable at 2.5%, which is slightly better than what we forecasted for the year.

And now let me hand over to Stefano for the closing remarks.

Stefano Venier

Thank you. Thank you again Luca for this very detailed explanation of the different components of our results. In conclusion, we have delivered a solid growth in H1 and we are confident to reach our full year guidance that was recently upgraded in May. The CapEx will reach 3 billion driven by gas infrastructure, investments which include among others, the start of the Adriatic Line that started to be accounted in Q4 of this year and the mooring and connection investments for the second floating vessel in Ravenna. Those works will be completed by year end. The tariff RAB is up around 6% year-on-year at 23.8 billion. The EBITDA in excess of $2.75 billion driven by the weighted average cost of capital uplift and the deflator impact rose effects on transportation and the RAB growth, as we mentioned for the first half. The adjusted net income guidance at approximately 1.23 billion are up 5% year-on-year and the net debt is expected at 17.5 billion, including 400 million of working capital absorption and the cash out for the increase in stake in the Adriatic LNG.

So let me say in conclusion that visibility is high as regulation is set, tariffs has been approved, investments are approved and policies are evolving in line with our strategy. While we progress in delivering our strategy to become a real pan European multi molecule infrastructure, we continue to look for value creation opportunities also through M&A like the Edison Stoccaggio deal, and we aim at keeping a solid balance sheet to retain financial flexibility even after the recently announced acquisition.

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So then, thank you very much for your attention and the time spent with us and we are now available to take all your questions.

Question-and-Answer Session

Operator

This is the chorus call conference operator. We will now begin the question and answer session. [Operator Instructions] The first pair of questions is from Jose Ruiz with Barclays. Please go ahead.

Jose Ruiz

Yeah, good afternoon, everyone, and thanks for the presentation. Just two questions. The first one is if you could provide us the mark to market of WACC for the observation period. I know there are two months left, but if you could share with us what calculations you're getting. And secondly, I heard, and I think I'm right that VERBUND wrote off some of the stake in Gas Connect Austria. Is something you would be considering? Thank you.

Stefano Venier

Okay, good afternoon. Regarding the mark to market of WACC, yes, you're right. Only two months of observation are left currently on transport, which is the main one, we point -- the mark to market points to a 5.5% WACC for the next regulatory period, which is similar when we announced the first quarter results, and is 20 basis points lower vis-a-vis our assumption in business plan. As I mentioned, when we present the first quarter results, clearly we expect to offset this WACC decrease vis-a-vis our expectation by a lower cost of debt, because clearly this is impacted by lower interest rates. When it comes to GCA, yes, you're right, VERBUND, which is the majority shareholder of GCA, took an impairment on GCA. Currently, we only recorded in the first half for the reversal of the risk premium in total for our share. In total, 100% was 190 million, which is what actually VERBUND recorded. We recorded our share, which is 22 million, in basically special items, adjusting basically now, and I think I'm adjusted. Our current book value for GCA is €112 million. We will run the impairment test once we have the business plan finalized on the new regulation, which currently is not done yet, but let me say that having already taken this impact, this is a mitigant in the sense that we expect the impairment test to be neutral.

Jose Ruiz

Thank you very much. Very clear.

Operator

Okay, we'll take questions one at a time. The next question is from Javier Suarez with Mediobanca. Please go ahead.

Javier Suarez

Hi, good afternoon. Two questions related to the Edison deal. So the question is, if you can elaborate on the synergies, the operational synergies that you're expecting to extract from the acquisition of this asset, and how important this is for the stability of the overall Italian system, for the operations of Snam. And related to this question, among the options that you are considering to finance this deal, obviously you are considering division of hybrids. And the question is taking into consideration that the closure of the deal is going to be during first quarter 2025, the issue of new hybrid is going to be after the completion of the addition deal or we could see hybrid issues during the second half of 2024. Many thanks.

Stefano Venier

Okay, thanks, Javier. I'll take the second question first. Clearly on the financing of the deal, as we mentioned, and you recorded perfectly, we are thinking of issuing an hybrid. You know that from signing to closing, we need to complete both antitrust as well as the golden power approval. So we will see whether we're going to be in a position to actually anticipate the financing towards the closing or not, but it will depend on our basically discussion with both the antitrust as well as the government for the golden power rules.

With respect to the questions about what is the strategic role those assets can have in the existing stock in Snam portfolio, I think it's important to consider a couple of things. First, the location of those assets that are very nearby, the ones that we manage, so they are located in the corridors used also for our assets. I think the coordinated management of these additional three sites will provide benefits to the overall security and the availability of the storage capacity. Of course, as you know, these assets requires from time to time maintenance activities and the coordination and the best, let's say, settlement of these, let's say, maintenance plans can give and guarantee the adequate storage capacity available. The second, I think we will have opportunities to exploit some of the flexibility in allocating the capacity and selling the capacity, the reverse flow mechanism and all that stuff that helped to guarantee a fulfillment of the storages at the end of the thermal season at very high level, that is now guaranteeing the full completion and the full use of the available capacity by the end of October on one side and on the other side, of course, lower demand during summer period, that means, let's say, more competitive prices. So I think that from the operational side and also from the security of the Italian system, this can provide a tangible contribution.

In terms of synergies, of course, first comes the part related to, let's say, the cost synergies to coordinate and exploit the economy to scale the practices, know-how and the way how we do manage the largest asset portfolio we have, and on the other side, as I mentioned, the potential revenue synergies driven by the more flexible approach in the use and the allocation of capacity. The total amount that we have been considering, as I mentioned during my presentation, ranges on about 1.52 million per year that makes accumulated impact over the period of use of these assets up to 37 million.

Operator

The next question is from Stefano Gamberini with Equita S.I.M. Please go ahead.

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Stefano Gamberini

Good afternoon, everybody, and thanks for taking my two questions. The first, regarding the slide number six, could you repeat if there is a one-off among the revenues, if I understood correctly, there is something in the region of €30 million of LNG premium related 2023. And on the other side, regarding the OpEx, I would like to understand if the capitalized cost increased during this year due to the higher CapEx that you have. The second question is regarding your approach, regarding the financing of the acquisition of Edison through the issue of a hybrid bond. So this means that you increase your cost of capital and you issue more than double of the price you paid. So this means that you are increasing your flexibility that, if I remember well, was in the region of 2 billion and so this means that this will increase more. Why you do not choose to dispose part of your associates that are in the region of €4 billion in this mean, in this moment, and you prefer to, we can say, increase capacity for further future growth and where this growth should arrive. Thanks a lot.

Stefano Venier

Thanks, Stefano, for your question. So, on the first one, yes, we recover in revenues, basically 2023 LNG extra range revenues for €29 million, which is clearly a one off when it comes to cost, you know, basically the increase, which is 14 million, as I said, is mainly attributed to labor cost, which is driven by inflation, in order to basically align, you know, our collective contracts with the new inflation and to the extensions of employee health insurance, which is actually a management decision. We do not have an increase in capitalization of costs, if that was the question. On question number three, we have authorization for aggregations up to 1.25 billion. It doesn't mean we're going to utilize all the authorization. And generally, when you insert a new capital layer in our capital structure, we don't have to be to match exactly what is actually the acquisition cost of the assets, even because the assets will require further CapEx going forward. And again, the reason behind it is clearly to maintain the existing financial flexibility of the company. Bear in mind that we will update our industrial plan in January next year and clearly we see basically organic opportunities to increase our investment. Therefore we want to maintain that kind of flexibility. Let me also add that in terms of efficiency, hybrids at the moment are very efficient, being just slightly above cost of debt and, as you know, they are recorded in the equity from an accounting perspective. Actually is one of the best, I would say, period, in terms of the differential between vanilla debt and hybrids, and are very efficient because also they are tax deductible. So from a blended cost, actually the increasing cost is very marginal. And we also made certain assessments about options with respect to, for instance, the possible disposal that you mentioned, and we thought that this could be the most efficient way to finance this type of acquisition because, as you know, when you have to sell is not the best time for selling and to get the best return.

Stefano Gamberini

Okay, many thanks.

Operator

The next question is from Marcin Wojtal with Bank of America. Please go ahead.

Marcin Wojtal

Yes, thank you so much for taking my questions. So firstly, I wanted to ask you about inflation indexation of your regulatory asset base. My understanding is that the index that has been historically used for the indexation is slightly negative at the moment. So what could we expect for 2025? Is the regulator going to use the same index or they are perhaps going to use a different approach? And when do you expect to have clarity on this, please? Secondly, related to the acquisition of Edison Stoccaggio, could you just clarify -- I think you mentioned that, but could you just clarify that a net income accretion of 1.5% to 2%, does it include the issuance of the hybrid bond to fund it or this is just a standalone acquisition without considering the funding? Thank you.

Stefano Venier

As far as the first question is concerned, let me anticipate that we do expect by the end of this week the authority will release a consulting document to, let's say on discussion what should be or could be the best indicator for the inflation going forward. As you properly said, the deflator that has been used so far showed a certain decoupling with respect to the inflation rate and so then also emphasizing a sort of, let's say, mismatch with respect to the other parameters that are used for the remuneration of our activities. I am referring to the conversion of the weighted average cost of capital from nominal to real. Therefore, we raised -- we -- I mean, all the regulated operators raised the point to the authority. We had the first discussions with them and then the authority, with the endorsement of the Board, will release a consulting document. So we do expect that some changes will come up from this process and we hope they are going to be applied from 2025 onward.

Luca Passa

Let me add, but even if this change didn't happen, basically we can absorb the current deflator index effect for 2025 based on positive items that are coming still from some regulatory items, which is higher OpEx inflation for about 12 million expected in 2025, better fast money effect versus estimate for about 20 million and better allow depreciation on investment on fully depreciated asset for about 15 million. So even if the change didn't happen, but we think it's going to happen, clearly we can, let me say, mitigate offset this effect. When it comes to the acquisition of Edison, the calculation of accretion to net income, 1.5% to 2% starting from the closing of the acquisition clearly entails the financing through the issuance of hybrid bonds. You know that hybrids are accretive to net income while they actually are deducted when it comes to EPS calculation and therefore we gave a guidance of EPS to being neutral to positive from the closing of the transaction.

Operator

The next question is from Bartlomiej Kubicki with Bernstein. Please go ahead.

Bartlomiej Kubicki

Good afternoon. Thank you for taking my questions. Just I would like to push on those two topics we already discussed. Firstly on Edison and maybe two sub small questions to this one. Firstly, do you see any sort of organic expansion opportunities within Edison assets so that will add to your business plan in the future? And secondly, on this one, if you claim you can get some OpEx efficiencies, do you think the regulator in the next regulatory period will simply adjust the allowed OpEx to those efficiencies so that there will be only a short term effect of better cost performance? And secondly, on the Austrian assets, there is some kind of a framework already from 2025 to take place. Are you able to guide us on the Austrian associates contribution to your net income next year, at least if you cannot do it on the sort of absolute number, maybe relative to your business plan? Please. Thank you.

Stefano Venier

Thank you. Thank you for the question. With respect to the Edison assets, of course we should consider that. So far we have looked at those assets from the outside in perspective. We haven't been able in the position to really analyze the way how they were running the assets. If there are some optimization that can be done, we count on that. We count on the fact that one of the three assets is very, let me quote, "young" in the sense that has to stabilize his performance. I'm referring to San Potito and Cotignola. And of course, we are also eager to transfer the know-how we have on the asset management into those three assets. So we are confident we can enhance the performance. We are also confident we can optimize the storage capacity available. As we said, we have been, let's say, on the safe side, very conservative in estimating the synergies. Of course, those you are mentioning can come and will come, I think.

And the second part of the question was about if there is some, let's say, additional capacity that can be extracted. Apart from the operational side, there is always the theme of getting the authorization to run the assets on overpressure conditions. That is something we obtained recently for two assets of the Snam portfolio. So that is another opportunity that we will explore.

Okay. On the Austrian assets, what I can say as of today is while TAG was envisaged in our current business plan contributing on a single digit with the new regulation it will contribute on the high double digit net income contribution for our share. While GCA, which was neutral in our estimates in the current business plan, with a new regulation, will be in the mid-single digit net income contribution.

Bartlomiej Kubicki

Thank you very much.

Operator

The next question is from Alberto De Antonio with Exane BNP. Please go ahead.

Alberto De Antonio

Hi, thank you so much for taking my call -- my question. Could you elaborate if you have after the Edison acquisition, any M&A on the desk or any potential divestment on your non-core assets? And my second question will be, if you could repeat the contributions, the relative contribution to your strategic plan from the Austin assets, because I didn't catch it very well. Thank you.

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Stefano Venier

Okay. On the second question, as I said, TAG is high double digit, so close to 20 million, I think, in contribution, which is almost double what we expect in our current business plan. While for GCA, mid-single digit, the 4 million to 5 million of contribution and that's for the Austrian, basically associates. Let me add on that side, I mean, let me add on that side that these numbers are those who come from applying straightforward the new regulatory framework. We have two other aspects that has to be, let's say, analyzed in more detail and will be part of the updated business plan that Luca mentioned with respect to TAG and GCA. Because, of course, given this new framework, we need to set up a new business plan also with respect to operating costs and all that stuff. So it's something we will work on. That is only, let's say, on as of today situation, and let's say one-to-one implementation of the new regulation and that is, I think, important. The second aspect -- there are some aspects of this new regulatory framework that didn't work so well for us, so we appealed as GCA on a couple of items and we will see if we will get, let's say, a positive return on that appealing.

When it comes to the first question, any other M&A after -- basically, we are in the closing of Adriatic LNG increase what will take to 30%, Again antitrust and golden power. Edison Stoccaggio, antitrust and golden power. Then, as you know, we have a portfolio of associates where we consider, basically, opportunities that we run basically some market test for potential interest around our stake in Interconnector UK, which is something that if, let me say, there will be some interest on valuation, which is attractive to us, is something we might consider, but that's what we have on the table as of now.

Operator

[Operator Instructions] Our next question is from Emanuele Oggioni with Kepler Cheuvreux. Please go ahead.

Emanuele Oggioni

Good evening and thank you for the presentation and for taking my two questions. The first one is still on associates. If you can guide us on the final contribution for 2024. It seems that year-to-date, compared with expectations at the beginning of the year, the delivery is slightly better than expected indeed. And the second question is still on the guidance on the financial charges and the cost of debt because also in this case, the delivery in H1 was better than expected. Thank you.

Luca Passa

Okay. On financial charges, Emanuele, basically what we expect for financial charges is around 300 million at the end of the year, which assumes an average cost of debt of 2.5, which is exactly what we recorded in the first half. And that is based on, I would say, financial charges on basically our debt for around 420 million. And then we have positives around capitalization for about 40 million, interest on defaults for about 40 million, and the ecobonus, which is positive for about 50 million. So those are the elements for our financial charge expected at the end. When it comes to expectation of the contribution of our associates, we expect 260 million more or less of contribution towards the end, which includes 170 for our international and about 90 million, which is flat vis-a-vis 2023 for our Italian associates.

Emanuele Oggioni

Thank you.

Operator

Ms. Pezzoli, gentlemen, there are no more questions registered at this time. Do you perhaps have any closing remarks?

Stefano Venier

No, I just want to thank all of you for taking part of this conference call and for those who still have to do the summer break, enjoy your break. Thank you.

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