

# **Uniper SE (UNPRF) Q1 2024 Earnings Call Transcript**

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**Body**

Uniper SE (UNPRF)

Q1 2024 Earnings Conference Call

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Company Participants

Stefan Jost - EVP, Group Finance and Investor Relations

Jutta Donges - CFO

Conference Call Participants

Anna Webb - UBS

Louis Boujard - ODDO BHF

Ingo Becker - Kepler Capital

Presentation

Operator

Dear ladies and gentlemen, welcome to the Uniper Analyst and Investor Conference Call First Quarter Results 2024. At our customers' request, this conference will be recorded. As a reminder all participants will be in a listen-only mode. [Operator Instructions]

I will now hand over to Stefan Jost to start the meeting. Please go ahead.

Stefan Jost

Thank you, operator and good morning, everyone. I'm pleased to welcome you to our first quarter results of fiscal year 2024. So we are here in our regular setup. And next to me on today's call is Jutta Donges, our Chief Financial Officer. Jutta will lead you through the presentation today. And as usual there will be a Q&A session at the end.

Now let me hand you over to Jutta Donges, please.

Jutta Donges

Thank you, Stefan. And good morning, everyone. A warm welcome also from myself. Let's kick it off with the highlights and major achievements in the first quarter. We have successfully started the fiscal year 2024. In the first three months, Uniper's new KPI as of January this year, the group adjusted EBITDA amounted to EUR885 million following on an exceptionally strong first quarter in the prior year.

The development was mainly driven by declining achieved gas and power prices in less volatile markets. The bottom-line came out even stronger. The group's adjusted net income has risen to EUR570 million. The performance is fully in-line with our expectations, and today we confirm our outlook for the full year for adjusted EBITDA and adjusted net income.

Before I'll provide more details on our figures during the presentation, let me highlight some remarkable achievements during the first quarter which underpin our financial stabilization. I am pleased to emphasize that we recently achieved a meaningful milestone in our financing leeway. We have refinanced and extended our syndicated credit facility from 2018 of EUR1.7 billion to EUR3 billion. This is our first credit facility with anchor our sustainability targets, namely our carbon reduction targets and the strategic expansion targets in renewal energy.

The new sustainability linked credit line has a maximum maturity until 2029, including two options to extend for an additional year each. The new RCF gives Uniper financial heading needed to support our operations going forward. At the same time, we were very delighted with the high level of demand and the confidence of our lenders. The order book was well oversubscribed which is a clear signal for Uniper's regained stability.

As a result of our accelerated financial recovery and our exceptional strong performance in 2023, the rating agency S&P Global confirmed in March, our corporate investment-grade rating at BBB-minus with a stable outlook for the third time in a row. Notably, our stand alone rating improved by three notches. Correspondingly S&P revised this assessment of the so-called likelihood of extraordinary government support downward, thereby reducing the government uplift from five to two notches. Ladies and gentlemen, the high rating uplift for our stand-alone credit rating confirmed our efforts and ambition of further strengthening our financials, as well as our business risk profile by derisking our business activities.

A further improvement and higher predictability of our earnings streams are essential steps on the way to become a standalone investment-grade company again. As announced during our presentation for the financial year 2023, we have implemented the new IFRS segment structure to reflect how we see our business going forward, which we report for the first time today. And our strategy is to transform Uniper into a leading provider of green energy in Europe. We have adjusted our segment accordingly. This enhances our steering towards our green transformation.

Pro forma segment, European generation is split into two segments; green generation which contains our existing carbon-free generation and our overtime increasing renewable business. Flexible generation under all generation activities that contribute to ensuring grid stability and security of supply, a key pillar of the energy transition in Uniper's core markets. The former segment Global Commodities has changed into Greener Commodities. As said earlier our aim is also to transform our commodities business over time into a Greener Commodities business, with increasing shares of green gases like hydrogen for our PPA activities.

One example for our role in security of supply and delivering green, bespoke solutions is the recent expansion of a power purchase agreement with our long-standing customer, Deutsche Bank for a further five years. This means we will supply around 88 gigawatt hours per year of green electricity from our Swedish hydropower plant.

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Let's now move on to Slide 4, which highlights our strong progress in strengthening our financing base. Before we will dive into our financial numbers, I'd like to take the opportunity to have a closer look at Uniper financing instruments. As I mentioned in my opening remarks, I'm proud that we have successfully expanded Uniper's access to financing by our credit markets in recent weeks. In our approach, we were guided by four key financial objectives.

First and foremost we want to ensure that Uniper always has sufficient liquid funds available. This is particularly important to support our operating businesses for the adequate liquidity. On the one hand, we've developed strategies to better manage our margining requirements, and that minimize the potential liquidity risk. And on the other hand, we have credit facilities with a broad range of plans in place to cover collateral for marginal obligations, if appropriate and serve working capital needs.

Secondly and just as importantly, we want to ensure that we have sufficient access to

diverse and flexible financing instruments that will enable Uniper to pursue significant transformation investments in-line with our strategy. Reporting these two goals, Uniper has a new revolving credit facility of EUR3 billion agreed since March replacing the previous one of EUR1.7 billion. The new credit line, serves as a constant liquidity reserves and the flexible financing needs of working capital.

As mentioned before the new credit facility agreement has been signed for the first time as a so-called sustainability-linked credit facility. Financing conditions are partly due to the achievement of carbon reduction and strategic expansion targets in renewable energy. This is a major achievement and a clear sign that the financing market is recognizing Uniper's regained stability and new strategic direction.

In addition, in April, we completed the reestablishment of our EUR2 billion debt issuance program which has listed at the Luxembourg Stock Exchange. This provides the next fundamental step to regain credit market readiness and was seen as a technical access to the Eurobond market. On top, I'd like to briefly remind you that we have already prolonged our Euro commercial paper program in the amount of EUR1.8 billion in the second quarter of 2023 to have effectively a short-term liquidity. These key financing instruments provide us with considerable financial headroom to support the green transformation of Uniper going forward.

Bear in mind that is due to our very comfortable economic net cash position of EUR4.5 billion at the end of the first quarter 2024. We're not yet making use of any of these credit facilities, with the exception of a base issuance of our commercial paper program to be visible in the market. Back to our financial objectives. The third assumption aspect is the full redemption of the utilization under KfW facility credit facility already in 2023. KfW facility expiry in 2026. After our financial turnaround in the financial year 2023, we are less dependent on the KfW facility, and together with our new RCF, we are confident to further downsize it.

And accordingly, we also have been able to take a major step forward and have reduced the KfW credit line from [$11.5 billion] (ph) to EUR5 billion at the beginning of May. Fourth, our ultimate goal is to achieve a solid stand-alone investment grade rating. As already mentioned, the latest update from S&P has brought us considerably closer to this target. We are working hard to achieve our goal, as quickly as possible also to make Uniper fit for the capital markets again.

Now over to the key financials for the first quarter of 2024 on the next slide. Looking at adjusted EBITDA of EUR885 million for the first quarter of this year the earnings trend is with inside of prior year's record figures, despite substantially lower achieved power and gas prices. I'll explain the result drivers in detail in the next slide.

Operating cash flow doubled year-on-year and stands at EUR1.45 billion. Main driver and the reason for the significant deviation from the operating performance is the absence of effects from liquidity measures during crisis years that had burdened the first quarter of 2023 operating cash flows. Adjusted net income of EUR570 million in the first quarter of 2024 is EUR112 million higher than the already good prior year figure and our operating results. The largest effect comes from a very good economic interest result, in-line with the development of our cash position and driven by lower utilization of financing instruments. And I'll come back to adjusted net income in more detail during my presentation.

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The net income of EUR462 million is in part with adjusted net income. The enormous swing with a negative year-on-year effect of almost EUR6.5 billion, was mainly caused by the absence of the release of longer provisions for onerous contracts. To remember the significant provision has to be recognized in 2022 for potential future losses in the gas portfolio following the discontinuation of Russian gas supplies and was reversed at the end of the first quarter of 2023, as a consequence of significantly lower market prices.

As already mentioned following the enormous financial turnaround in 2023, Uniper has achieved an economic net cash position at the end of last year. Thanks to a very good operating cash flow this position was further expanded to more than EUR4.5 billion at the end of the first quarter 2024. On the next slide, I'll dive into the key drivers for adjusted EBITDA. While flexible generation, as in the prior year was the most important earnings driver in the first quarter 2024, in absolute terms this waterfall graph clearly shows that the most positive earnings improvement compared to the prior year resulted from our Gas Midstream business as part of the Greener Commodities segment.

The gas business was able to achieve a significantly more positive contribution in Q1 2024 compared to the first quarter of 2023, which was extraordinary burden mainly by the liquidity measures taken in fiscal year 2022. In general Gas Midstream delivered improved earnings compared to the previous year, that remained a negative territory. The decline in the Greener Commodities Power Trading business, shows that the trading results has returned to more normalized levels after a particularly positive previous year in which Uniper benefited considerably from a volatile market price environment.

The adjusted EBITDA of the Green Generation segment shows noticeably -- noticeable lower contributions compared to the same period of the previous year. Break it down further, Swedish nuclear energy benefited from price-related higher earnings because of successful hedging transactions. In addition, nuclear energy was able to increase its generation volume in the first quarter of 2024 due to the improved availability of Ringhals 4.

However, these positive effects were more than offset by lower margin contributions with Swedish hydro and German hydro, mainly due to lower prices. Also, the contribution from our pump storage and storage hydro plant had been lower due to less favorable peak day spreads. Nevertheless, the outlook for Green Power is overall positive. As announced in February, we are still convinced that we will achieve a higher result for green generation for the full year 2024 than in the previous year.

The negative data in the first quarter will turn positive towards the end of the financial year, later as the fourth quarter of 2023 was negatively impacted by the recognition of nuclear provisions. Flexible generation. Even though this [block] (ph) is negative on a year-over-year comparison, I would like to emphasize that we have achieved a very good operating result here. Nevertheless the extremely good result of the previous year, in which we achieved record high spreads, has not been imputable as we have indicated in prior phases.

In addition, due to the lower prices compared to the previous year, the production of gas and in particular coal-fired electricity was less profitable and therefore lower. Accordingly, we did not only experience a negative price effect, but also a lower volume effect. In contrast, the impact of the temporary carbon saving effect on the earnings and flexible generation was positive in the first quarter 2024 on the back of lower carbon prices.

For the outlook, it should be taken into account that this positive driver will settle at the end of the year. Slide seven shows the reconciliation of adjusted EBITDA to adjusted net income for the first quarter 2024. Main messages are; first we have a positive economic interest result of EUR52 million, which was boosted by our high cash position and lower commitment fees for our credit facilities which also has a positive impact on the adjusted net income.

And second at EUR154 million, we see significantly lower depreciation and amortization than in the first quarter of the previous year. This is due to the high impairments, mainly in our fossil fuels booked during 2023. And third, the income tax of EUR206 million corresponds to a tax rate of 26.3% for the first quarter of 2024. The tax rate reflects the mix between local and international results.

Now over to the operating cash flow on the next slide. Slide 8. In the first three months of this year, the operating cash flow came in at EUR1.45 billion. In relation to the operating profit, Uniper has a cash conversion rate of well above 100% in this period. The waterfall clearly shows that this is due to the changes in working capital of almost EUR1.1 billion in total, which follows a pattern of seasonal growth from our gas inventories.

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In addition the substantial fall in gas prices [extend] (ph) lower than -- lower working capital requirements, which has a positive effect on the operating cash flow. And now to related figures of Uniper's economic net debt. At the end of the last fiscal year 2023 Uniper had an economic net cash in the amount of almost EUR3.1 billion. And at the end of the first quarter of 2024, the net cash balance improved to EUR4.5 billion, in-line with the positive operating cash flow. Capital expenditures came out at EUR79 million.

The other block mainly includes the change in asset retirement obligations and a decrease in nuclear provisions due to positive FX effects, whereas pension provisions were stable and increased in the single-digit million range due to minimal changes in interest rates. Now I'd like to conclude my presentation today with the confirmation of the given outlook for fiscal year 2024. We continue to expect an adjusted EBITDA in the range of EUR1.5 billion to EUR2 billion.

And for the adjusted net income, we continue to anticipate a range of EUR0.7 billion to EUR1.1 billion. Looking at the remainder of the year, we still expect a very solid performance in 2024 on the back of an overall group absolute very good performing business. Before I hand over to Stefan Jost, let me briefly summarize. We had a good start into the year. We are delivering on our commitments and our priorities. Before we go into the Q&A session in a couple of minutes, I would like to take a moment at the end of my presentation to thank Stefan, for whom, today's call will be the last one as Uniper's Head of Group Finance and Investor Relations.

Much to our regret, Stefan has decided to take on a new professional channel outside of Uniper. I'd like to thank him for his truly outstanding contribution to Uniper. Stefan played an irreplaceable role during to Uniper's crisis in negotiating the [SQA] (ph) solution managing government and with regards to the stabilization and financial recovery pace in the past year. We will all miss Stefan a lot. On a personal note, I wish him great success and until and his family all the best for the future. And with that, I hand over back to you, Stefan, to kick off your last Q&A session. Stefan, please.

Stefan Jost

Thank you very much for your warm words, Jutta, and always a pleasure and always good fun with our analysts and investors with such a strong IR team, also [indiscernible] recall on the call by [indiscernible].

We can start our Q&A session now. I will let my -- operator, I'm handing it over to you please.

Question-and-Answer Session

Operator

Thank you. Now we will begin our question-and-answer session. [Operator Instructions] The first question comes from the line of Anna Webb from UBS. Please go ahead.

Anna Webb

Hi good morning. Thank you for taking my questions. There is two from me. Firstly, there were some reports in the press last week that the remaining Russian gas contracts you have could create risks for any re-IPO or return to the market process that I think has been discussed for 2025. So if there is anything you can comment on whether that would be an issue that would delay the time-line or if that is sort of a normal part of the business? If you could talk about that.

And I assume some of these Russian gas contracts will have rolled off anyway naturally since 2022. So if you can confirm how much you still have contracted with gas from Russia, that would be really helpful. And then secondly, sort of a related question. Is there any other conditions you have to meet before you can make any possible return to the market? I know you still have a number of asset sales to complete, including Datteln 4, as part of the nationalization EU approval. And -- but do you need to complete these before any potential return to the market? Or can you -- is that just sticking to the 2026 deadline? And then finally on that -- could you give us the latest update, if any on the remaining divestments. Thank you very much.

Jutta Donges

Thank you, Anna for your questions. Good to hear you. Let me start with the second question and then third and then come back to the Reuters article. The second question is with regard to any prerequisites for a potential return to the market and your question was relating to the list of disposals. Those two things are not linked. There is the obligation of the German government to exit by the end of 2028.

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And there's obviously a long list of prerequisites that need to be fulfilled to be able to go back to the capital markets to do a re-IPO if that would be the test that the German government would decide. But this is not linked to the other remedies that we have to fulfil. But regards to [disposals] (ph) this is -- as you mentioned they need to be completed by the end of '26. And with regards to the progress, you asked whether there is anything new, we talked about this back in end of February when we talked about the full year results for the last year.

And there was the announcement that we have been able to sign a contract to sell our Hungarian asset venue. This is basically where we stand right now, we are expecting the closing of that deal in the second half of this year. And other than that -- there has been made progress in terms of preparation for the other assets that need to be disposed. And you can expect to see some news flow over the next couple of months when we will bring those potential transactions for the market.

On the first question, the Reuters article. Well I think it's known that we have been in arbitration proceedings with gas from exports since the end of 2022. The proceedings are still ongoing, and we are awaiting a recession by the tribunal during the course of this year, potentially at some point over the summer. I think that's just known news that has been in the public figure already.

And I can confirm that we still have the supply contracts with Gazprom and [indiscernible] until the middle of the 2030s. So they are in place, but we are waiting for the decision by the tribunal and would expect that we will be able -- based on the decision by the tribunal to further clarify our future position in relation to the contracts with GPE. And I can confirm, but that's probably also not really new. That's in [August 22] (ph). And until today as in our Russian gas flowing to Germany under these contracts. I hope that answers your question. I think there was a question also with regards to the volumes under those contracts, roughly 250 terawatt hour this year.

Anna Webb

Great. Thank you very much.

Operator

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

Louis Boujard

Yes, hi. Good morning. Thank you for taking my question. Stefan also best for your new endeavor and focus on challenge. Regarding the Russian contracts, sorry, I'd like to come back a little bit on this topic, if you don't mind. More to understand what would be eventually the mitigating factor that you could put in place, meaning that probably, I guess that the central scenario is to try to cancel this contract to make sure that you don't have that flowing back to you by 2035.

But if you could not, considering the liquidity in the spot markets that you have because I guess that some of your volumes are now supplied from the spot market. Maybe don't you have some possibility to mitigate the impact by using the flexibility that you have in your new contract and replacement in gas fuel, so that you have not too much impact into your supply business, you have to commit on your take or pay contract with the recent suppliers? This is the first question.

The second question is more regarding the flexible generation business and the evolution that we could expect. [indiscernible] downward oriented. Anyway, you have a very good contribution in the first quarter. We know that there is some phasing effect embedded in it. Could you give us a bit of color by the end of the year, how it could evolve going forward? And where do you see by the end 2024? Thank you very much.

Jutta Donges

Good morning. Great. Thank you for your question. I understand that the entire topic around the Russian gas contract results of high interest. But as I said before, we are in an arbitration procedure. And therefore I want to ask you for your understanding that we cannot speculate on any of these things -- any comment on how we continue to get anything, would be possibly not only to interest for you, but to anybody else. So that is something we rather prefer to be silent about. I hope that you understand that we have made.

And on the flexible generation I think according to our outlook, we -- I can confirm again that we expect a solid result for flexible generation. We have seen in the first quarter that the extraordinary result compared to the last year and to the first quarter of last year. It has not been repeated because of two effects, mainly lower spreads and also lower volumes and coal fired assets are less than before. So volume obviously also go down. We continue to anticipate that 2024 adjusted EBITDA in flexible generation and the Greener commodities segment will be significantly below the respective prior year level. I hope that answers your question.

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Louis Boujard

Thank you. Considering the first answer, do you mind if I have a follow-up on another topic, then, to have two questions? And the question would be more regarding your future development, notably regarding the CapEx plan and the investment plan. You only [post] (ph) $79 million CapEx in the first quarter, and you have $8 billion commitment for the year -- for the next six years. I would like to understand if and when you plan to actually increase and speed up these developments, notably in renewables green gas, et cetera. And if you have some firm development that you can seek at the moment and in which you could start to invest in the relatively short-term. Thank you very much.

Jutta Donges

Yes. I'm also happy to answer that question. I can understand if you look at the CapEx of the first quarter, that this is probably not in-line with the overall number for 2024 that you would expect to see. Still, there is a significant commitment to invest already this year a part of the $8 billion. The $8 billion target has not changed, but what we said before, this is true that we are dependent on clarity with regards to regulation. So the German [cut back] (ph) strategy for CCGT plan. You know that there has been an announcement that the term government has committed to having this 10 gigawatts of capacity. And we are ready for more information and clarity around -- also around the economics.

Once we have that, we will be able to make decisions on investments. We are -- from an operating perspective, we are ready to get started on this one, and I just want to stress that our ambition to play a very important part in that -- the realization of the cutback strategy has not changed. There is also some other regulation outstanding with regard to the H2 transformation, the grid and on these things. So we are waiting for those things to becoming clearer. And at the same time, we are working full steam ahead on our renewable strategy and also with regards to our commodities business where we -- as we said before, want to add more greener gases and gas derivatives, and there have been a couple of announcements just recently with regards to partnerships.

So we are working on this. We have a couple of projects, also very significant projects in terms of CapEx in the pipeline that we would expect to take the financial positions till this year. And once we have done that, we will come back to you and inform you about that and provide more clarity on that.

Louis Boujard

Thank you very much.

Operator

[Operator Instructions] The next question comes from the line of Ingo Becker from Kepler. Please go ahead.

Ingo Becker

Yes. Thank you good morning. You were saying this morning that you see a normalization of your earnings. Can you elaborate a little on whether you mean in flexible generation as a whole? Or how the trends look like here in gas versus coal-fired generation? And also maybe what about [global] (ph)? Do you see -- would you say you see a normalization towards historical pattern in all those reporting lines? Or are there different trends? Thank you. And also, if I may -- sorry, you're saying that apparently, the coal and the gas-fired EBITDA numbers, which show coal almost flattish and gas down apparently are impacted by the carbon phasing effect, and I was wondering how did the carbon phasing impact the gas versus the coal-fired generation EBITDA trend year-over-year? Thank you.

Jutta Donges

Yes. Good morning, Ingo. Good to hear you again. With regards to the normalization among our reporting lines, I think this is -- I can only reiterate what we said before and also back in February when we made the outlook for 2024. Has not really changed. On -- but let's go through the segments each by each. On green generation part, we said that we will actually see a normalization. But overall, we expect 2024, to be even stronger than 2023. That is because 2023 was burdened by significant provisions for the nuclear business, which we are not expecting to see again this year for 2024. And greener generation, we stick with our previously given outlook that will come out from last year. Obviously market price development had an impact on this, but we have a very good hedge levels for the outside position. And therefore, we are confident that we can stick to the outlook.

On the flexible generation well I think that Q1 gives a good indication of the full year already. And in the UK, we still see good spreads on the coal generation side. We have seen in the first quarter strong indications it is front-end loaded. And as you rightly pointed out, and as I said before, there is -- when you look at the results for the co-generation part -- there is this complicating effect which is mainly due to some of the technical assets, we have low CO2 certificates prices right now.

We will -- as we produce generation, we booked the corresponding provision for that. And the hedges will only settle at the end of the year and then the positive effect that we see now in the first quarter will reverse back and will be equaled out. So that was the effect I was referring to when I mentioned the carbon phasing positive effect. Just to make sure that nobody is over estimating the coal contribution that we had seen now in the fourth quarter. But overall, we still expect growing results from [coal] (ph) in '24.

Ingo Becker

Thank you. Jutta, can ask you would still expect the coal trend to be less down than the gas trend on a full year basis post carbon phasing, similar to what we've seen in Q1?

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Jutta Donges

Well I don't think that at this point in the year we can specify that actually. Yes at least I [wouldn't] (ph).

Ingo Becker

Understood. Thank you.

Operator

[Operator Instructions] It seems there are no further questions. I hand the conference back to you, speakers.

Stefan Jost

All right. Then I think we can close the call. Thank you Jutta. And again, as this is my last quarterly call I would like to say thanks again the analysts and investors, yes for mainly -- for remaining so committed to Uniper during our hard times. In my view, it's definitely worth, stay tuned with the exciting Uniper journey also going forward. I will always certainly keep an eye on that. So thank you all, and we close the call for today. Thanks.

Operator

Thank you. Ladies and gentlemen, thank you for your attendance. This call has been concluded. You may now disconnect.

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