

# **VERBUND AG (OEZVF) Q1 2024 Earnings Call Transcript**

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**Body**

VERBUND AG (OEZVF)

Q1 2024 Earnings Conference Call

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Company Participants

Peter Kollmann - Chief Financial Officer

Andreas Wollein - Head, Group Finance and IR

Conference Call Participants

John Campbell - Bank of America

Olly Jeffery - Deutsche Bank

Harrison Williams - Morgan Stanley

Martin Tessier - Stifel

Wanda Serwinowska - UBS

Piotr Dzieciolowski - Citigroup

Presentation

Operator

Ladies and gentlemen, welcome to the Conference Call on the Quarter One 2024 Results of VERBUND AG. I am Vasilios, the Chorus Call Operator. I would like to remind you that all participants will be in listen-only mode and the conference is being recorded. I would like to remind you that the presentation will be followed by a Q&A session. [Operator Instructions]

The conference must not be recorded for publication or broadcast. At this time, it's my pleasure to hand over to Peter Kollmann. Please go ahead.

Peter Kollmann

Thank you very much. Ladies and gentlemen, let me welcome you to the presentation of VERBUND for the first quarter 2024. And let me thank you for joining today's conference call. Before we move into the analysis of the business development of VERBUND, let me make a few general comments.

VERBUND can look back on an extremely successful year 2023 with the best result in the company's history and is starting the year 2024 as a strong, resilient and well-positioned company. However, the energy industry value drivers relevant to VERBUND's earnings have deteriorated compared to the highs of 2022 and 2023. Thus, VERBUND earnings declined slightly in the first quarter.

The fall in gas prices with its consequences on electricity wholesale prices is due in particular to the lower demand for gas as a result of the mild winter and the rather weak economy in Europe, as well as the comparatively high filling level of gas storage facilities.

Now, despite the changed framework conditions in the energy industry, we're working consistently on the implementation of our Sustainable Strategy 2030, which focuses on strengthening our integrated position in the market, the expansion of New Renewable Energy generation in Europe and the development of a green hydrogen economy.

Now, before I continue with the Q1 presentation, let me state that the interim report for the first quarter differs slightly from previously published interim reports due to a comprehensive change in the Group-wide platform for data processing and the preparation of management information.

Now, let's move on to the financial details of the first quarter 2024. At the beginning, let me highlight the most important influencing factors for the results development. Based on our hedging strategy for our own electricity generation from hydropower, the average achieved contract price decreased by €84.7 to €118.1 per megawatt hour in the first quarter.

The hydro coefficient determining the generation from run-of-river hydropower plants was very strong with 1.29 compared to last year and far above the long-term average. However, production from our hydro reservoirs was lowered by 4.8%.

Generation from wind and PV was up compared to last year, mainly driven by the commissioning of new power plant capacity in Spain. Thermal generation also increased due to the increased use of our Mellach CCGT.

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The Sales segment also contributed positively, among others, due to lower procurement costs for energy. Contributions from the Grid segment decreased, mainly coming from lower results of Gas Connect Austria. The same applies to All Other segments whose contributions also decreased, mainly because of negative measurement effects. The contribution from flexibility products was lower, mainly due to a decrease in congestion management and control energy.

Finally, a minor negative impact on our results was coming from the levy on excess profits in Spain. There were no impacts in the other countries of operations in the first quarter from levies on excess profits.

The impact of these influencing factors on the key figures of VERBUND are as follows. EBITDA decreased by 8.7% to €883 million and the Group result decreased by 4.3% to €506 million. The operating cash flow also decreased to a level of €929 million. The free cash flow after dividends was positive at a level of €675 million and net debt improved by 35.8% to a level of €1.129 million.

Let me now give you our updated guidance for 2024. Based on average hydro, wind and PV generation in the quarters two to four, as well as the actual opportunities and risk situation of the Group, VERBUND expects a reported and adjusted EBITDA between approximately €2.8 billion and €3.3 billion, and a reported Group result between approximately €1.45 billion to €1.75 billion in 2024. The payout ratio will be between 45% and 55% of the adjusted Group result between approximately €1.45 billion and €1.75 billion.

Now on the next page, let me start with the hedging volumes and hedging prices. As you know, highly relevant to VERBUND results, you know that €1 plus or minus has a sensitivity of approximately €25 million on the EBITDA line.

As of the 31st of March, 2024, we reached an average achieved contract price for our hydro generation of €129.5 for 2024 and we had sold approximately 77%, for 2025, we had sold 45% of our own generation at a price of €126.6 and for 2026, we had sold 32% of the generation volumes at €79.4.

On a mark-to-market basis, with prices as of the 16th of April, 2024, the average achieved contract price for 2024 is at €118.7 per megawatt hour, for 2025, it is at €112.4 per megawatt hour and for 2026 it is at €82.7 per megawatt hour.

Now on the next page, let me comment on some developments in the various business segments of VERBUND and let me start with the Hydro segment. At €1.29, the hydro coefficient, as you know, that's our index quantifying the hydropower generation of the run-of-river power plants, was an impressive 29 percentage points above the long-term average and 36 percentage points above the level of the first quarter 2023.

The production from annual storage power plants decreased by 4.8%. Own production from hydropower therefore overall increased by 1.8 terawatt hours or 29.6% to 7.893 terawatt hours compared to the first quarter 2023.

Lower average achieved prices, however, could not be compensated by the increase in volume and are the main reason for the decrease in EBITDA in the Hydro segment. In addition, flexibility products decreased by €17.8 million. In total, EBITDA in the Hydro segment decreased by 18% to €714.4 million.

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Regarding CapEx, our main hydro project, the 480-megawatt Limberg III pump storage power plant and the 45-megawatt Reißeck II pump storage power plants are progressing well. The 11-megawatt run-of-river project Gratkorn as well and the COD is expected in 2024.

Now let me continue with the analysis of the own generation from New Renewables. The New Renewables coefficient, that is an index quantifying the generation from wind power and PV, amounted to 0.89 in the first quarter 2024, compared to 1.03 in the first quarter 2023. The generation for wind power nevertheless increased by 65.6%, up 221 gigawatt hours and amounted to 558 gigawatt hours in the first quarter. New installations in Spain and Austria more than compensated for less favorable wind conditions. Generation from PV amounted to 77 gigawatt hours in the reporting period, stemming mainly from PV installations in Spain.

Now, taking a look at the EBITDA development in the New Renewables segment, we see that the EBITDA decreased by 6% to an EBITDA amounting to €56.7 million. Although volumes increased due to the acquisition of wind power installations in Spain and in Austria, lower average achieved prices led to a slight decrease in EBITDA. The chart also provides an overview on current developments in the renewables segment.

On the next slide, you will find an update of our renewable activities. The chart outlines our New Renewable assets in operation and construction in our market split by technology, as well as our targets for 2030.

With that, I would like to hand over to Andreas Wollein, who is going to take us through the Sales segment, the other segments and will continue with the key figures. Please, Andreas.

Andreas Wollein

Yeah. Thank you, Peter. So, on Slide 6, you see the development of the Sales segment in the first quarter. So, the EBITDA development in the Sales segment increased strongly to a slight positive value of €6.8 million after minus €103.5 million in the first quarter of 2023. The increase in EBITDA is mainly due to lower procurement prices for electricity and gas. However, lower earnings contributions from flexibility products had an opposite and opposing effect. Flexibility products decreased by around €8 million. For both delivered electricity and gas to approximately 586,000 end customers in Q1 2024.

Moving on to the next slide, you see the development in All Other segments. So, generation from our thermal power plants was up by about 6.7% to 328 gigawatt hours due to the increased use of the CCGT Mellach for electricity and district heating production. The decline in EBITDA is mainly due to negative effects from the evaluation of energy derivatives in connection with future energy supplies.

The contribution from our participation in Kelag, the provincial utility of Carinthia, increased from €14 million to around €21 million due to a better hydro situation, as well as higher contributions from the trading and heating business. Finally, let me remind you that Mellach is no longer contracted for future congestion management. So, both lines are operated in a market -- on a market driven basis at least until April 1st, 2025.

The next slide shows the development in our important regulated Grid segment. So, as you know, the Grid segment consists of the regulated business Austrian Power Grid, as well as Gas Connect Austria.

The EBITDA for Q1 2024 from the Grid business according to IFRS was approximately €85 million and therefore more or less equal to last year. EBITDA guidance for the electricity grid for 2024 was increased from approximately €220 million to €235 million. The reasons for the increased guidance are lower procurement costs for control energy and lower congestion management procurement counterbalanced by lower revenues from the yearly auctions.

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The planned amount of the regulatory account at the end of 2024 will only slightly increase to a level of approximately €515 million. Let me also remind you that starting from January 1st, 2024 a new regulatory period has started. APG receives a weighted average cost of capital of 4.16% for old assets with a commissioning date up to 2022. Weighted average cost of capital of 4.88% for new assets with a commissioning date in 2023 and a WACC of 6.33% for new assets with a commissioning date in 2024. So the total WACC for 2024 is approximately 4.5%.

With regard to the result contribution of Gas Connect Austria we report an EBITDA of approximately €26 million in the first quarter 2024. The main reason for the decrease are lower transmission revenues particularly from the commodity tariff. The guidance for 2024 increased from approximately €60 million to approximately €75 million because of lower procurement costs for gas.

On the next slide you see the key financial figures. So I think Pete already outlined the development of the EBITDA so it was up by €84 million -- it decreased, sorry, by €84 million to 8.7% to €883 million. Depreciation increased by 10% to €138.6 million due to the acquisition of Spanish assets and increased investments into the high voltage grid.

The financial result improved to €16.6 million. This was attributable to higher earnings contributions from interest accounted for using the equity method mainly Kelag, higher interest income and lower interest expenses mainly caused by the repayment of a Schuldscheindarlehen in November 2023 and the amount of around €500 million, as well as lower interest expenses from money market transactions. So taxes and income decreased to an amount of €175 million. The Group result therefore decreased by €22.9 million or 4.3% to €506 million.

Yeah. Moving on to the next slide, we see the development of the cash flows and the gearing situation. So, VERBUND operating cash flow in the first quarter decreased to €929 million, mainly due to a lower average price achieved for electricity, as well as lower return flows from the margining payments for hedging transactions in the electricity business which were deposited with the gearing house of the electricity exchange as collateral for open trading positions. In addition, higher income tax payments contributed negatively.

The free cash flow after dividends showed a negative development, but it's still very attractive at the level of plus €675 million. The lower operating cash flow and high investments in property, plant and equipment were the reasons for this development.

Net debt decreased again from €1.758 billion at the end of 2023 to €1.129 billion at the end of the first quarter 2024 due to the positive free cash flow. Gearing correspondingly decreased to a level of 9.4%, compared to 15.7% at year-end 2023.

So now we are coming to the last slide, the outlook and I will hand over again to Peter.

Peter Kollmann

Thank you. Andreas. Yeah. On our earnings outlook 2024, I would like to give you both the outlook and our sensitivities. Now on the sensitivities the deviation of plus minus 1% in the generation from hydropower has an impact of plus minus €8.9 million in the Group result for the whole year, a deviation of plus minus 1% in the generation from wind power and PV has an impact of €0.8 million and a deviation of plus minus €1 in the wholesale price has an impact of €4 million in the Group result for 2024.

Our guidance as I mentioned before for 2024 is as follows. We expect a reported and adjusted EBITDA of between €2.8 billion to €3.3 billion and a reported Group result of between €1.45 billion and €1.75 billion under the assumption of average hydro, average wind and PV generation in the quarters two to four, as well as the chances and risk situation of the entire group.

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For the financial year 2024 we are planning to pay out between 45% and 55% of the Group result after our adjustment for non-recurring effects on the results of €1.45 billion and €1.75 billion.

Now, with that, I would like to move on to our Q&A, please?

Question-and-Answer Session

Operator

[Operator Instructions] The first question comes from the line of John Campbell with Bank of America. Please go ahead.

John Campbell

Hi. Good morning. Thanks for taking my questions. We look at Fortum, one of your peers and they actually happen to provide some guidance on their expected optimization premium. They actually quote a figure of about €6 per megawatt hour to €8 per megawatt hour that they can achieve over wholesale prices. Is this something that VERBUND is likely to offer in the future? And would you say actually as you sit here now that a €6 to €8 premium is something that VERBUND could achieve? And so that was my first question. And then I was also interested on the topic of APG. So, could you clarify where you see the movement in the regulatory account going to, was it €515 million? And then any comments you can give on allowed returns for 2025 assets would be helpful. Thank you.

Peter Kollmann

Yeah. Sure. The first one is an interesting one on the -- I think you called it the optimization premium. We have heard similar points, similar discussions around how can you achieve a higher contract price above sort of like the wholesale price that is given by the market and the definitions vary.

When you look at the flexibility products and when you look at congestion management, control energy, intraday trading, pumping and turbining in a way that is an optimization, because what you do is, you use your power generation in order to create a premium to what would under normal circumstances be the normal price.

So in a way you could basically take our flexibility products, you could then, of course, take the optimization from our reservoirs and you could say, and that comes in addition to our quote-unquote normal generation.

We don't call it optimization. We are -- we very simply say, this is what we make out of selling our generation. This is how much we make in our flexibility products and that is some sort of an optimization.

On the second one, Austrian Power Grid, yes, you're right, the regulatory account is high at €515 million. We feel that we should reduce it simply because we want to have a more linear development in the future in terms of the regulatory account.

You might remember that already two years ago we said that we are discussing with the regulator to take an approach where every year we reduce the regulatory account. The reduction of the regulatory account of course would mean that the tariff would get reduced, which for the system is a good thing.

So far the regulator has decided to keep the regulatory account the way it is. So this is something where we will hopefully over the next few years see a reduction and not an increase in the regulatory account.

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Andreas Wollein

John, the return on the investments. So, for 2024, as outlined, we will get for all the investments 6.33%. For 2025 this is open. You know that the regulator or the regulatory system has changed in a way that the regulator will now adjust the risk-free rate every year. So I would say in September, October this year when the grid company receives the cost decree for the coming year the WACC will be set for 2025, but the current expectation is that it will roughly be the same number for 2025. And these numbers -- these returns for each year will then be fixed until the end of the regulatory period.

John Campbell

Thanks for taking my questions. Thank you.

Operator

The next question comes from the line of Olly Jeffery with Deutsche Bank. Please go ahead.

Olly Jeffery

Thank you very much. Good morning. My first question please is on the snowpack level in Austria. I've heard a few different things on this regarding the snowpack level currently compared to seasonal norms and what that might mean to your ability to refill reservoir levels and what that could mean for hydro coefficient for the rest of the year. So is the snowpack level at the moment above norm in line or below? And the second question I have please is on Gas Connect Austria. I believe you were in discussions with the regulator very recently discussing a new business model taking effect from 2025 onwards. Could you please update on the outcome from that and what that might mean for EBITDA from that business going forward from 2025? Thank you very much.

Peter Kollmann

Yeah. Yeah. Surely. I will start with Gas Connect Austria and then talk about the snowpack, the skiing slopes in Austria which you mentioned as your first question. The -- on Gas Connect Austria we don't have a result. We are in the midst of discussions, I should say negotiations with e-control, with the regulator.

Obviously, we argue forcefully that the business model of Gas Connect Austria has changed dramatically as a result of the war and as a result of a dramatic decrease in capacity going through our pipelines.

We are -- as a result of that, we must, that's not an optionality, we must go from the old regulatory system to a new regulatory system which is a cost plus system, in a way similar to what we have at APG, Austrian Power Grid.

We will see what the result is going to be, but there is downside potential. So from an EBITDA development, and I cannot give you a number, I can only give you a trend, we feel that the trend for the future in Gas Connect Austria could be sloping rather down than up.

In terms of your first question, yes, you're right. We had an interesting situation where, first of all, everybody, including our sort of like hydrology experts were surprised about the very high levels of our hydro coefficient in the first quarter.

You're right, the result was a combination of different things. Number one, we had snow. Then we had warm weather. The snow, obviously, in the form of water, came down. It increased the hydro coefficient quite dramatically. At the same time, at the lower levels, we had a lot of rain. At the very high levels in the mountains, there is still snow and that snow eventually will come down as well.

You are asking yourself, and you're not the only one, what does it mean for the rest of the year? Does it mean that we are going to have a higher than normal hydro coefficient for 2024? The answer is, we don't know.

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I mean, we could have a very good start, followed by a very dry third quarter and a very dry fourth quarter. I mean, we have seen it before. And as a result of that, it could well be that the hydro coefficient at the end of 2024 is going to be somewhere around 1.

I mean, obviously, we are happy that we had a good start. That's a good thing. And as I mentioned in my presentation before, we were able to compensate the lower power prices with higher generation, with more volume. That's a good thing and that helped us. But at the end of the day, the weather is close to impossible to predict. Olly, would that be a response that explains your question on the hydro situation?

Olly Jeffery

Yeah. It's helpful. But just one follow-up on it. I appreciate there's a lot of moving parts. But would you say that the current level of snowpack in the Alps means that it should be easier than normal for you to refill the reservoirs, assuming normal rain during the summer or is it quite difficult to tell because of the height at which the snow is, and therefore, you can't really give a view?

Peter Kollmann

Well, it's difficult to tell. I always have an opinion, as you know. If I gave you the correct answer from a purely theoretical point of view, it is close to impossible to make a prediction. However, if you wanted to get a personal opinion, we have in the higher levels of the mountains, we have snowpacks that are relatively close to what we have seen in the last few years. And as a result of that, it should be, in terms of water coming down, both into the reservoirs and into the rivers, it should be not dramatically different from previous years.

Olly Jeffery

Thank you, Peter.

Operator

The next question comes from the line of Harrison Williams with Morgan Stanley. Please go ahead.

Harrison Williams

Yes. Good morning. Thanks for taking my questions. Two from me, please. Firstly, on the Sales division, clearly pleasing to see that return to profitability. And it'd be useful just to hear your expectations on that for the year and then what a maybe more normalized run rate would be for that on an annual basis going forward. So that's the first. And then on the second, we are hearing a lot of interest about data center demand growth on the power side. Is that something you see as kind of relevant for VERBUND at present or going forward? Any color there would be appreciated. Thanks.

Peter Kollmann

Okay. I'll talk about data centers, and Andreas will talk about the Sales segment. On data centers, I mean, almost everybody on this call has followed a number of trends over the last few years that were widely discussed.

We talked a lot about e-mobility. We talked a lot about hydrogen. In fact, hydrogen was probably the biggest trend in terms of a discussion around not just the European energy transformation, but the global energy transformation and now data centers.

The one thing, I mean, let's differentiate between sort of like what is a given and what is an uncertainty. As far as I'm concerned, and I'm not a data center specialist, but as far as I'm concerned, the build-out of data centers to me is a reality, because it is a function of AI using way more energy than previous technologies, which is logical if you consider how much information has to be collected by AI and every piece of data collection requires electricity. As a result of that, with AI, the demand for electricity will go up. That is a certainty.

The one thing that to me is not certain at all is two things. Number one, what is the distribution of data centers? I don't think the data centers are going to be built where you have a lot of uncertainty because -- uncertainty of supply, because data centers need very, very stable generation.

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Yeah, as a result of that, you can either have a combination of intermittent power generation combined with battery storage in order to create synthetic baseload or you have data centers where you have a lot of baseload generation, like in some parts of Scandinavia, for example.

And then, of course, when you look at the location, you need to look at the data connections. Are the data connections stable enough and are they powerful enough to transport all the data that is required? That is around the location.

The next point would be when you consider that there will be a rational and logical approach to where you build the data centers and what the capacity of the data centers is going to be, it will probably be at locations where the impact is going to be manageable. Everything else would be irrational in terms of the planning.

As a result of that, we might, and I'm not sure, but we might overestimate the impact of data centers on the electricity price. So, that is all I can say at this point in time, but I obviously appreciate and fully understand the questions around data centers. With that, I would like to hand over to Andreas to talk about the Sales segment.

Andreas Wollein

Yeah. So, as you know, the Sales segment consists of the trading business and the retail business. For the full year, we have got in this segment a loss. So, for the full year 2024, we have got a loss or a negative EBITDA of around €100 million, which consists of around €100 million negative coming from the retail business and a plus or minus zero from the trading business.

The trading business, however, we assumed here, let's say, a negative valuation effect of around €100 million. Now in Q1, the situation was not as anticipated for the full year, so we had a positive contribution from the trading business of around 30 million and a negative contribution of the retail of around minus €20 million.

So, this is the current situation. Of course, we don't know exactly how the valuation effects will develop because this is clearly dependent on the wholesale prices as of the respective, let's say, date -- valuation date. I would say in a normalized year, so let's say we would assume the retail business to go back to normal and the trading business without any valuation effects, we would assume an EBITDA between €100 million and €150 million for a full year.

Harrison Williams

That's very clear. Thanks.

Andreas Wollein

Welcome.

Operator

The next question comes from the line of Martin Tessier with Stifel. Please go ahead.

Martin Tessier

Yes. Hi. Thanks for the presentation and I hope you can hear me well. One question on the New Renewables segment. Looking at the average unit, I saw a decrease of €110 per megawatt hour, meaning from around €250 million in Q1 2023 to around €140 in Q1 2024. So the magnitude of the decline is quite impressive. So I just want to know if you could provide us with some granularity on the breakdown of the volumes regarding whether it's a feed-in tariff or corporate PPA or merchant, because the decline implies quite an important merchant exporter in this segment. And a second question, could you provide us with the hydro coefficient in April? Thank you very much.

Peter Kollmann

Yeah. I will start with the hydro coefficient in April. In April, the hydro coefficient has been 1.05. And on the first one, I don't know about the other participants on the call, but at least here at our end, the acoustics were really bad. So let me paraphrase what I think I heard. You were asking about the EBITDA decline of our New Renewable business, correct?

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Martin Tessier

No. I was asking about the decline in the average selling price…

Peter Kollmann

Okay.

Martin Tessier

… in terms of €1 per megawatt hour.

Peter Kollmann

Yes. Okay. The result is a function of a certain percentage of our New Renewables being merchant and not PPAs or CFDs. As a result of that, we had a decline given the merchant production and the average fall is from €202 per megawatt hour to €118 per megawatt hour.

So what you see here is a reflection of a dramatic decrease in power prices, which we have seen across our generation. We have seen it in Spain on the solar side. Very, very significant, of course. But we have also seen it on the hydro side, which we have commented on before.

Martin Tessier

Okay. And maybe as a follow-up, could you provide us with the share of your volumes, which are considered merchant?

Peter Kollmann

Yeah. At this point in time, we don't give the exact percentage of how much we are merchant and how much is regulated.

Martin Tessier

Okay. Thank you very much.

Operator

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

Wanda Serwinowska

Hi. Good morning. Wanda Serwinowska, UBS. Two and a half questions for me. The first one is on your 2024 guidance. I mean, when I compare -- basically when I compare to your guidance that you gave us in mid-March, the retail business is much better. Power price for 2024 on the mark-to-market is higher. Hydro volumes are much better and I think in the guidance, you always assume 1 for the rest of the year and it was 1.29 in Q1. So at the same time, what you did, you only raised the bottom end of the guidance. So were there any offsetting factors or are you just cautious, given that we are still early in today? I'm trying to understand what prevented you from raising the total guidance, not only the bottom end. Question number two is on the data centers, sorry, Peter. I mean, have you seen any -- I mean, have you got any inquiries to sign a long-term PPA with data centers, because in theory, hydro is one of the best technologies because you can provide base load, but have you seen any inquiries? Have you signed anything or are data centers owners willing to pay any premium? And the third question, if you could give us the latest hedging for 2024, 2025 and 2026, that would be much, much appreciated? Thank you.

Peter Kollmann

Yeah. Sure, Wanda. I will start with the current up-to-date hedging levels, then I will talk about the data centers and then we'll talk about the guidance. Now, first of all, on the hedging, per now, we are -- for 2024, we are 81% hedged at a mark-to-market level of 116. For 2025, we are 47% hedged at a mark-to-market level of 108. And for 2026, we are 33% hedged at a mark-to-market level of 79.

On the data centers, in addition to what I said before, yes, data centers will have a tendency to want base load PPAs. You're right. What they need and what they want is a stability of supply for a given period of time, obviously, also with the price stability given through a PPA. That is correct and we will probably see all the build-out of the data centers over the next few years. There will definitely be participants in the PPA market, even focusing on longer-term PPAs, and I'm sure that they will basically focus on base load PPAs.

Secondly, yes, you're right that we, as a green producer of base load energy, we would be perfect as a partner for those long-term base load PPAs. And yes, we had some inquiries, but nothing where I could tell you, this is the structure that would be the kind of pricing at this point in time. Once that market has evolved further, obviously, we will let you know. But yes, it is an opportunity for base load producers.

And the third point on the guidance, I mean, yes, we are, I wouldn't say cautious, we are aware of the volatility, which we have in the various sectors. There is some uncertainty. Obviously, we have started with good -- with a very good hydro coefficient that has helped us.

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We have seen some normalization in terms of the price. We have seen gas prices going up because of a number of reasons, which you all know. We see at the moment a lot of LNG demand from Asia. That is something we discussed on our last conference call, where basically said the one thing, in my opinion, the one thing to observe is demand from Asia, because that is going to have an impact on LNG flowing into Europe.

But the one thing we shouldn't forget is the reservoirs, very stable. They are -- I wouldn't say they are full, but they are much fuller than under normal circumstances. There is LNG, there is a lot of LNG coming into Europe and we are going to see over the next few years more LNG capacity being built in Europe.

So I continue to think that we are going to have geopolitical impact on gas prices. However, structurally, I don't really see the gas price moving up dramatically. The CO2 price we have discussed last time, I think, not a lot has changed.

And then on Austrian Power Grid, Austrian Power Grid, because of IFRS, I mean, not in our local GAAP, but because of IFRS, where we don't have a regulatory account, all the changes. So when we have less congestion management, when we have less control energy, when we have less auction results, that has an immediate impact.

And therefore, at this point in the year, we think that there is quite some volatility around the APG results on the IFRS. Obviously not in the local GAAP, because there the regulatory account compensates for everything.

With that, we think that we have a solid guidance by having increased the bottom part. The guidance is still relatively wide. We appreciate that. But at the same time, when we have more data points and three months down the road from today, we will obviously give you a narrow guidance and a guidance based on the new data points, which we have.

Wanda Serwinowska

Can I quickly ask two follow up? So, as I understand, you haven't signed any PPA with data centers, because you talk about the opportunities, but you haven't signed anything yet. And then on the retail, would you be able to quantify what is baked into your guidance, because in March, you, I think it was something around negative €100 million. What is baked currently into your guidance?

Peter Kollmann

Okay. First of all, on the data centers. On the data centers, we have not concluded any data center PPAs. And on the second one, you were talking about minus €100 million on the Sales segment. Did I understand you correctly?

Wanda Serwinowska

Yes. Yes. I think in March…

Peter Kollmann

Okay.

Wanda Serwinowska

… you mentioned minus €104 million that is baked into the guidance.

Peter Kollmann

Yeah. Yeah. As Andreas mentioned before, the minus €100 million is still valid as a result of the retail prices, the procurement prices. Overall, there is upside on that one. Yeah, is the upside going to be already relevant for 2024 or are we going to see the upside on the retail business in 2025? Remains to be seen. But that is, the minus €100 million for the segment is still valid.

Wanda Serwinowska

Brilliant. Thank you very much, Peter.

Peter Kollmann

You're welcome.

Operator

The next question comes from the line of Thibult Duyadin [ph] with Bernstein. Please go ahead.

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Unidentified Analyst

Hello. Good morning. One question regarding the Hydro project in Spain. If you could give more info regarding the framework, CapEx and the framework associated and timelines?

Peter Kollmann

Could you -- did you -- did I understand you correctly? You were asking about the reservoirs, the pump storage?

Unidentified Analyst

No, no. Spain. Hydro project in Spain.

Peter Kollmann

Oh! The project in Spain. Okay, okay, okay. Sorry. Because we had a pretty bad line there. The -- yes, the Spanish project. Quite frankly, we, VERBUND, would not have made an announcement on this project because it's a very early stage and we feel that there are still so many variables, there are still so many ponderables which we need to work through, that it is, from our perspective, too early to make an announcement. However, we have a partner in the project, a Spanish partner, and the Spanish partner was very keen to make such an announcement.

So at this point in time, what I can tell you is that Prima Vista [ph], at first sight, we feel that this could be a very interesting project. Why? Because we see that system volatility in Spain will increase. We see that baseload availability is going to be an issue. We feel that intermittency cannot be fully compensated by a new generation of battery storage on scale. As a result of that, pump storage could actually have a very important function in that market.

We are experts in pump storage. As you know, we have pumps -- we have had pump storage in Austria for a very, very long time. We optimize pump storage on a daily basis, I should say on an hourly basis. So that is a technology that is highly complex, but we understand extremely well. As a result of that, we have entered this agreement and we are looking into those two projects very seriously. But they are many, many years away. There are still many approvals. There are technical challenges which we have to work through. As a result of that, it would be too early to give you more detail on that.

Unidentified Analyst

Thank you very much.

Operator

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

Piotr Dzieciolowski

Hi. Good morning, everybody. It's Piotr from Citi. I have two questions. So, the first one is, when I look at your slides where you provide a bit of details on the Renewable portfolio, there's a CapEx figure of below a €1 billion. And then when you provide a growth CapEx by division, it's €1.7 billion. So I just wanted to understand what is the amount of money you're planning to spend on the New Renewable segment and what kind of capacity commissioning we should expect either organically or inorganically in this segment in the next three years. And the second question I have regarding your forward guidance. When I look at kind of your hedge level and power prices, it may seem that the consensus beyond 2024 is somewhat optimistic about your numbers. So I just wanted to understand how you think about €2.5 billion profitability level for the Group at the low point of the hedging. And at what point you would issue a similar announcement that you issued earlier this year, warning the market that potentially it's not in the right place or if we don't see it coming, it means that you are comfortable with the number? Thank you.

Peter Kollmann

Sure. I will start with the last one. The ad-hoc announcement which we have made was a function of two things. Number one, a more formalistic one, the Austrian regulator in that regard is probably one of the strictest in Europe. As a result of that, when we see that there is a delta between the consensus and our understanding, our internal understanding where the numbers are going to be, we have to come out immediately.

Number two, we feel that the regulator has a point, because it is our style, and you know us, that whenever we feel that there is something important the market should know, we come out immediately. So we have a history over the last 10 years of having made regular ad-hoc announcements when we felt that there was an important information which we have internally, which we would like to share with the market.

The second point, the ad-hoc announcement was a result of a decrease in power prices that is absolutely historic. We have never seen anything like it, and I am brave now, I think, we will probably not see anything similar in the future. The fall has been from around €140 to around €70 within a very, very short period of time. So theoretically, you could have said, well, wait a second, everybody knows our business model, everybody knows that the power price has a dramatic impact on our earnings, so why hasn't the consensus been adjusted? Well, I think because it happened so fast.

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And obviously, it is when you have such a dramatic fall that has such a dramatic impact on the earnings, that is something that is very unusual, it is very rare, and as a result of that, we came out with our ad-hoc announcement, which by the way, at the end of the day, did not have a dramatic impact on the share price and some of the comments from research analysts, but also from investors was, well, we had a feeling that there would have been impact anyway with the lower power prices.

Now, going forward and looking into the future, at this point in time, I cannot see why we would have a dramatic delta between consensus and reality. Why? Because just before I have given the numbers for 2024, 2025 and 2026 for today, the hedging levels and the mark-to-market. Mark-to-market means that everything we have not hedged yet, we are using the future prices. The future prices are well known and that is exactly the uncertainty in terms of the impact on the earnings, on that unhedged level and the delta between today's future prices for those years, and where the development is going to be. Which one was or the next one was on the, would you like to do the Renewals, Andreas?

Andreas Wollein

Yeah. I think the CapEx in the Renewals in the next three years, 2024 to 2026, I think, we have marked around €1.8 billion into growth. This is mainly focused on, let's say, the pipeline we have in Spain, which is around a €1 billion and some other projects we have currently under development in Germany and in Italy.

Yeah, so, this is growth CapEx which we spend in Renewables. I think we have also shown in the chart, in the detailed chart, where you see the map of Europe, a figure of around €2.2 billion until 2030, but this is basically related to the long-term planning to reach our target. Maybe more in the coming years, but this is currently based on, let's say, projects which are already in our portfolio and which are likely to be realized.

Piotr Dzieciolowski

I understand. Thank you very much.

Andreas Wollein

Yeah.

Operator

We have a follow-up question from Olly Jeffery with Deutsche Bank. Please go ahead.

Olly Jeffery

Thank you. So, a couple of follow-ups. Could you please just explain or just remind us the mechanics of the regulatory account, that if the regulator agrees over time to linearly reduce that account, how does that impact the IFRS numbers? I presume that results in a lower IFRS number but is non-cash. That's the first one. The second one is, you gave the hedge mark-to-market numbers, Peter, but could you please give the actual hedge number, because then we can update our power price assumptions to see where that comes out at? And then, last question, I'll be interested to see if you have a view on the current, in France, where we're seeing the interconnectors being limited at the moment and you can observe quite a large delta between the German and French power price, which normally trades relatively in line. If you think that interconnection were to be restored, do you have a view on the impact that could have on the German power price? Are EBITDA -- that delta would reduce, and therefore, you could see a flat softening in German power prices. I don't know if you have any view on that at all, but if you do, that would be great to share? Thank you very much.

Peter Kollmann

Unfortunately, I'm only a mechanical engineer and not an electric engineer. However, I will try to give you an idea on sort of like interconnector capacities and their impact on the power price. The objective of the European Union and of the European grid operators is to increase net transfer capacity. And the reason for that is that from a European perspective, the objective has been for a very long time that the delta in power prices between European countries would become much, much smaller.

The reason why we have the partly high differences in power prices is because of the very reason which you have just mentioned, that we don't have enough capacity. As a result of that, we have concessions. The concessions need to be compensated for re-dispatch, re-dispatch can be very expensive.

So from a system point of view, from a system stability point of view, that is exactly the reason why everybody talks about we need -- we can only have an energy transformation if we have a grid transformation.

And by grid transformation, we basically mean two things, no, three things. Number one, we need to increase net transfer capacity among countries.

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Number two, we need to work on the grid per se. So we need to get rid of critical branches, as they are called or concessions. So we need to have a free flow of electricity across the network, preferably across Europe.

And number three, and that is one thing we should not forget, we need substations. So we basically need to integrate the Renewables, we need to integrate the decentralized system into the transportation system. That requires tremendous effort, that requires a very smart approach by all the operators, that requires a lot of capital and is an absolute necessity in Europe.

The impact will be that countries that have a large production of base load, like France, through their vast nuclear industry, will have a very stable production of base load. And once they're able to export more into places where you don't have enough base load, like in Germany, that would have an impact on the power price and it would basically reduce the power price.

I'll give you another example. The German regulator has decided that more coal-fired power plants are required in Germany for the reserve, which is something we have discussed many times in those conference calls over the years, that we have basically said, when you get out of nuclear, when you want to get out of coal, when you don't like gas, you end up having a real base load problem.

And that base load problem can partially be solved by exports from France, which is a base load producer, as mentioned before, and of course, by having enough reserves within Germany. So sorry, there was a long answer to your question, but I didn't want to shortcut it, because I would have diluted the complexity of the subject.

Andreas Wollein

Yeah. The…

Peter Kollmann

The next one.

Andreas Wollein

Olly, just -- the hedging price -- the hedge price for 2025 is €124.6 and for 2026 it's, one second.

Peter Kollmann

It's €79.

Andreas Wollein

Yeah. €79 and for 2024 it's €126.4. So for 2024 we have €126.4, for 2025 we have €124.6 and for 2026, with only 33% hedged, it's €78.8. With regard to the regulatory account, I mean, you know how it works, basically. So let's say the regulated grid company has an allowed return and should the grid company earn more than what is regulatory allowed, then the difference is allocated to the regulatory account.

So the regulatory account currently stands at €500 million, roughly. As mentioned, it's basically a product or the sum of all the over-earnings which APG has achieved over the last couple of years. Sooner or later, this amount has to be returned or given back to the system. How the regulator will do that, we don't know how quickly. So there is no schedule implemented.

But should the regulator decide to reduce the regulatory account, of course this will have a negative cash effect and it will also have a negative results effect under IFRS, not under local GAAP, because here, the local -- under the local GAAP, the regulatory account can be used and can be accounted, basically.

Olly Jeffery

Thanks, Mr. Peter.

Peter Kollmann

Yeah.

Operator

Ladies and gentlemen, that was the last question. I would now like to turn the conference back over to Peter Kollmann for any closing remarks.

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Peter Kollmann

Yeah. We have -- we had a very large number of participants today. I would like to thank you all for your interest, even now at the level of the quarter numbers. Thank you very much for your questions, which are all highly relevant and for the discussion, which we always very much appreciate. And I look forward to either seeing you in the meantime on roadshows or hearing you on our next conference call. All the best and thank you very much.

Operator

Ladies and gentlemen, the conference is now over. Thank you for choosing Chorus Call and thank you for participating in the conference. You may now disconnect your lines. Good-bye.

**Load-Date:** May 9, 2024

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