

# **VERBUND AG (OEZVF) Q2 2024 Earnings Call Transcript**

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July 26, 2024 Friday

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**Length:** 8496 words

**Byline:** SA Transcripts

**Body**

VERBUND AG (OEZVF)

Q2 2024 Earnings Conference Call

July 25, 2024 5:00 AM ET

Company Participants

Peter Kollmann - Chief Financial Officer

Andreas Wollein - Head of Group Finance and Investor Relations

Conference Call Participants

Wanda Serwinowska - UBS Group AG

Olly Jeffery - Deutsche Bank

Harrison Williams - Morgan Stanley

Thibault Dujardin - Bernstein SG Group

Louis Boujard - ODDO BHF

Piotr Dzieciolowski - Citigroup Inc.

Teresa Schinwald - Raiffeisen Bank International

Presentation

Operator

Ladies and gentlemen, welcome to the conference call on the Half Year Results 2024 of VERBUND AG. I'm 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. The presentation will be followed by a question-and-answer 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 half year 2024. And let me thank you for joining today's conference call. I'm here with Andreas Wollein, our Head of Finance and Investor Relations.

After a record year in 23, VERBUND started the financial year 2024 as a strong, resilient and well-positioned company. But as you know, the energy environment remains highly uncertain. In particular, the most important value driver for VERBUND, the wholesale power price is highly volatile. We have an increase in the second quarter following the sharp correction in the first quarter 2024. And overall, the level of wholesale prices remains higher than before the start of the Russian-Ukrainian war, but well below the highs of 2022 and 2023.

But now, let's move on to the details of the first half year 2024. At the beginning, as always, let me highlight the most important influencing factors for the results development in the first half year 2024 at a glance. Based on our hedging strategy for our own electricity generation from hydropower, the average achieved contract price decreased by €68.8 per megawatt hour to €113.3 in the first half year 2024.

The hydro coefficient determining the generation from a run-of-river hydropower plants was well above the long-term average at 1.12. Generation from wind and PV was up compared to last year, mainly driven by the commissioning of new power plant capacity in Spain, Germany, and Austria.

The sales segment also contributed positively among others due to lower procurement costs for energy. Contributions from the Grid segment decreased coming from lower results of Gas Connect Austria as well as Austrian Power Grid. The same applies to all other segments whose contributions also decreased mainly because of higher gas procurement costs due to the increased use of CCGT Mellach.

Contributions from flexibility products were lower mainly due to a decrease in congestion management and control energy, but substantially higher than in the first quarter 2024. And in the half year 2024, we had to book an impairment loss for Gas Connect Austria because of the final cost decree setting the regulatory framework starting from the January 1, 2025.

Now, the impact of these influencing factors on the key figures of VERBUND in the first half year 2024 are as follows. EBITDA decreased by 21.9% to €1.762 billion, and the reported Group results decreased by 29.3% to €910 million. The adjusted Group result decreased by 22.9% to slightly above €1 billion, and the operating cash flow also decreased to a level of €1.85 billion. The free cash flow after dividends was negative at a level of €600 million. Net debt increased by 41.9% to a level of €2.496 billion.

Now, let me give you our updated guidance for 2024. Based on average hydro, wind, and PV generation in the quarters of 3 and 4, as well as the actual opportunities and risk situation of the Group, VERBUND expects reported and adjusted EBITDA between approximately €3 billion and €3.3 billion, and the reported Group results between approximately €1.5 billion and €1.65 billion for 2024. The payout ratio will be between 45% and 55% of the adjusted Group results between approximately €1.6 million and €1.75 billion.

Now, on the next page, as always very important, our hedging volumes. Let me go into more detail here, and let me start with the volumes and the hedging prices, which you know are highly relevant for our results. €1 per megawatt hour plus or minus has a sensitivity of approximately €25 million in our EBITDA line.

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Now, as of June 30, 2024, we reached an average achieved contract price for our hydro generation of €123 for 2024, and we have hedged approximately 88% of our own generation volumes. For 2025, we have sold 51% of our own generation at a price of €121.9; and for 2026, we have sold 33% of our volumes at €78.7 per megawatt hour.

Now, very important, on a mark-to-market basis with prices as of the 15th of July 2024, the average achieved contract price for 2024 is at €116.6, for 2025 at €107.4, and for 2026, at slightly above €80.

Now, on the next page, let me comment on some developments in the various business segments of VERBUND, and I will start with the Hydro segment on this page. As I already mentioned, at 1.12, the hydro coefficient, which is an index quantifying the hydropower generation of the run-of-river power plants, was 12 percentage points above the long-term average, and 17 percentage points above the level of the first half 2023.

The production from our annual storage power plants, however, decreased by 3.1%. Own production from hydropower, therefore, overall increased by 2,239 gigawatt hours of 14.9% to 17,292 gigawatt hours compared to half year 2023. Now, lower average achieved price prices could not be compensated by the increase in volume and are the main reason for decreased EBITDA in the Hydro segment. In addition, flexibility products decreased by €16.1 million.

In total, EBITDA in the Hydro segment decreased by 24.4% to roughly €1.5 billion. Now, regarding CapEx, our main hydro projects, the 480 megawatt Limberg III pumped-storage power plant and the 45 megawatt Reißeck II pumped-storage power plant project, as well as the 11 megawatt Gratkorn run-of-river power plant project, are progressing very well and will start operation in 2024 and 2025, respectively.

Now, let me continue with an analysis of our own generation from new renewables. The new renewables coefficient and index quantifying the generation from wind power and PV amounted to 0.94 in the first half 2024 compared to 1.01 in 2023. Generation from wind power increased by 81.1% to 443 gigawatt hours and amounted to 989 gigawatt hours in the first half of 2024. New installations in Spain, in Austria and Germany more than offset overall less favorable wind conditions. Generation from PV amounted to 210 gigawatt hours in the reporting period representing an increase of 30.5% and stemming mainly from PV installations in Spain.

Now, taking a look at the EBITDA development and new renewables segment, we see that the EBITDA decreased by 19.4% to an EBITDA amounting to €88 million. Although volumes increased due to the acquisition of wind power installations in Spain in the third quarter 2023 and in Austria and Germany in the first 2 quarters of 2024, lower average achieved prices led to this decrease in EBITDA.

Although approximately 80% of the total renewable volumes are either protected by tariffs or hedged with long-term PPAs, there is a remaining exposure to spot market prices which were obviously lower in the first half 2024. Now, the chart also provides an overview on current developments in the renewable segment.

Now, let me continue with an analysis of the Sales segment, which, as you know, comprises a trading and sales activities of VERBUND. Now, taking a look at the EBITDA development here in the Sales segment, we see that EBITDA increased strongly due to a slightly positive value of €15.9 million after the minus €143 million in the first half 2023. The €15.9 million EBITDA contribution from the Sales segment consists of minus €43.5 million from the retail business, so still a significant loss, but €59.4 million from the trading business. The increase in the segments EBITDA mainly due to lower procurement prices for electricity and gas.

In addition, flexibility products decreased by €2.7 million. VERBUND delivered electricity and gas to approximately 480,000 end customers in 2024, representing a decrease of approximately 5.5% year-on-year.

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Now, next page, we're discussing all other segments. The generation from thermal power plants was up by 81 gigawatt hours of 23.5% to 423 gigawatt hours due to an increased use of our CCGT Mellach. The strong decline in EBITDA is mainly due to negative effects from devaluation of energy derivatives in connection with future energy supplies of approximately €54 million and increased fuel expenses due to the increased use of our CCGT Mellach. The contribution from KELAG, the provincial utility of Carinthia, increased from €38.3 million to €52.2 million due to a better hydro situation as well as higher margins in the trading business.

Finally, let me remind you that our Mellach CCGT is no longer contracted from APG for future congestion management. Line 10 and line 20 are operated on a market-driven basis at least until the April 1, 2025. The district heating power plant in Mellach has been contracted by APG for the period from the October 1, 2023 to the September 30, 2024.

On the next page, we will give you more detail on the Grid segment. As you know the Grid segment consists of our regulated businesses Austrian Power Grid as well as Gas Connect Austria, the EBITDA for the half year 2024 from the electricity grid business according to IFRS was approximately €128 million and, therefore, €55 million lower than last year. The reduced earnings contributions from options had a negative impact.

In addition to significantly higher tariff rollout of previous years in the area of EPM [ph] provisions, there is also a significant increase in the other provisions compared to the previous year, mainly due to a volume-related reduction of national grid revenues.

The EBITDA guidance for the electricity grid for 2024 was decreased very slightly from approximately €235 million to approximately €230 million. The reason for the slight decline into lower national revenues due to lower volumes, the planned amount of the regulatory account at the end of 2024 is expected to be more or less unchanged at around €510 million, which as we have discussed in the last conference call, is a pretty high number.

Let me also remind you that starting from January 1, 2024, a new regulatory period started, APG received a WACC of 4.16% for old assets with a commissioning date up to 2022, a WACC of 4.88% for new assets with a commissioning date in 2023, and now it's very important, a WACC of 6.33% for new assets with a commissioning date in 2024. So the total WACC for 2024 is approximately 4.5%. There will be a yearly update of the WACC for new assets for each tariff-setting process until 2028.

Now, with regard to the results contribution of Gas Connect Austria, we report an EBITDA of approximately €47 million for the first half of 2024. The main reason for the decrease of lower transmission revenues due to the war in the Ukraine, particularly from the commodity tariffs because of a tariff-related overcompensation in 2023, you will remember that in 2023 gas prices, I guess we need for the compressor stations went up dramatically and were compensated by the regulator with the commodity tariffs.

The guidance for 2024 with regard to Gas Connect Austria increased slightly from approximately €75 million to approximately €80 million under IFRS. The increase is due to slightly higher transmission revenues. Overall, we see a strong decrease in the EBITDA of the Grid segment from €295.5 million, which we had achieved in the first half of 2023, €275.9 million in the first half of 2024.

Now, with that, I would like to hand over to Andreas, who is going to discuss non-recurring effects and the key financial figures. Please, Andreas.

Andreas Wollein

Yeah. Thank you, Peter. So, a quick word to the non-recurring effects, which you may not have expected. So, we booked impairments amounting to around €195 million, stemming from an impairment of the CCGT Mellach, as well as an impairment of Gas Connect Austria. The declining weighted short- and medium-term contribution margins due to lower clean spark spreads are the reason for the Mellach impairment.

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At GCA, the reason for the impairment loss is the adjustment of the long-term business plan with regard to the new regulatory system for the upcoming regulation period starting from 2025. Because of the changed business environment and the inherent risk of future gas flows, starting from 2025, Gas Connect Austria will be moving to a risk-free tariff system. A risk-free system is [not a lower future] [ph] result contribution, because the regulator [Technical Difficulty] in addition Gas Connect Austria has to repay these 30 collected risk premiums for these [Technical Difficulty].

Gas Connect Austria has had a repeat against the cost rate. The measurement of an obligation to return an interest of Donaukraftwerk Jochenstein had a negative effect of around €17 million on the other financial results. In total, effects on the financial results were minus €17 million. After considering the effects on taxes and minorities, the non-recurring effects on the group research level amounted to minus €98.5 million.

On the next slide, on Slide 10, a quick summary of the development of the key financials. Because of the aforementioned developments, the EBITDA decreased by €492.8 million to €1.762 billion, depreciation increased by 13.4% to €285 million, mainly due to the acquisition of Spanish assets and the increased investments into the high-voltage grids.

The financial result improved to €24.7 million. This was attributable to higher earnings contribution from our participation KELAG, higher interest income and lower interest expenses, mainly caused by the repayment of Schuldscheindarlehen, as well as lower interest expenses from money market transactions. So taxable income decreased also to an amount of €297 million. The Group result, therefore, decreased by €377 million to €910.1 million. Finally, I would like to mention the increase in additions to tangible assets in total from €311 million in half year 2023 to about €444 million in half year 2024.

On Slide 11, you see development of operating cash flow and free cash flow, as well as our gearing of VERBUND operating cash flow in the first half year decreased to €1.85 billion, mainly due to a lower average achieved price for electricity, as well as lower cash return flows from margining payments for our hedging transactions in the electricity business, which were deposited with the gearing house of the electricity exchange as collateral for open positions.

The free cash flow after dividends over show the negative development from €927 million in half year 2023 to a level of minus €600 million in half year 2024. The lower operating cash flow and higher investments in property, plant and equipment, as well as higher dividend payments, were the reason for this development.

In Q2 2024, we paid in total dividends to VERBUND [ph] and minority shareholders in subsidiaries of approximately €2 billion. Net debt increased from €1.759 billion at the end of 2023 to €2.496 billion at the end of first half year 2024, gearing correspondingly increased to a level of 24.4% compared with 15.7% at the end of 2023.

So with that, I'll hand over to Peter for the outlook, so the last chart of the presentation before we go into Q&A.

Peter Kollmann

Thank you, Andreas. Yeah, as always, last page, our outlook. And as always at this point, I would like to highlight the sensitivities for 2024 as of the 30th of June. A deviation of plus/minus 1% in the generation from hydropower has an impact of plus/minus €6.9 million. In our Group result, a deviation of plus/minus 1% in the generation from wind and PV has an impact of €0.6 million, and a deviation of plus/minus €1 in the wholesale price has an impact of plus/minus €2.1 million in the Group result as we are already hedged to very large percentage.

Now, let me repeat our guidance for 2024. We expect a reported and adjusted EBITDA of approximately between €3 billion and €3.3 billion, and the reported Group result of approximately between €1.5 billion and €1.65 billion under the assumption of average hydro, average wind and PV generation in the quarters 3 and 4, as well as the actual chances and risk situation of the group for the remainder of the year.

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For the financial year 2024, we plan to payout between 45% and 55% of the Group results after adjustment for non-recurring effects of approximately between €1.6 billion and €1.75 billion.

Now, with that, I would like to move on to Q&A.

Question-and-Answer Session

Operator

We will now begin the question-and-answer session. [Operator Instructions] The first question comes from the line of Wanda Serwinowska with UBS. Please go ahead.

Wanda Serwinowska

Hi, good morning. Wanda Serwinowska, UBS. Peter and Andreas, thank you very much for the presentation. Three questions from me. The first one is, let's start with the KPIs, Peter, if you could disclose the latest hedging levels and hedging prices, that would be – and hydro levels here today, that would be extremely helpful.

The second question is, on your guidance, you raised the lower end of the 2024 guidance by €200 million at the EBITDA. It's not great, probably it's not new renewables, so what has changed? Is it better hydro, better power price or sales or retail that is performing better that you see it in May?

And the third question is on the GCA. It's the third year when you compare the assets. So I think Andreas mentioned the change in the remuneration. So what is the third value or book value of the asset right now? And how should we think about the EBITDA development beyond 2024? Thank you.

Peter Kollmann

Yeah, you're welcome, Wanda. Now, first of all, in terms of the most recent numbers on our hedging levels for 2024, we are 89% hedged with a mark-to-market at 116, so there nothing has changed. For 2025, we are 51% hedged with a mark-to-market level of 107. And for 2026, we are one-third hedged, i.e. 33%, with a level of €79 per megawatt hour. So that's on your first question.

On the second question, yes, we have a strategy that every quarter, we obviously, with more data points and with more information, we are looking at our full-year numbers and we try to narrow our guidance. So this is why we have narrowed our guidance here as a result mainly of very, very good hydro coefficient. That is one very important reason. Another reason is that power prices, as you know, have gone up. So we have seen lower power prices and, particularly, with the gas prices going up, not so much the CO2 prices, but with the gas prices going up, power prices have gone up, remains to be seen how sustainable that is, but that had a positive effect. And then there were a few other areas that sort of like added up to us being slightly more positive on the full year numbers, one area, for example, flexibility products.

Yeah, on Gas Connect Austria, there I need to give sort of like a slightly fuller explanation. Gas Connect Austria has moved from the old regulatory system that had a volume risk component to a risk-free cost-plus system. You will ask, what is the reason for that change? Well, the reason is that the business model of Gas Connect Austria has changed dramatically. Why? The float from Russia has come down. The transport capacities have come down as a result of that.

The revenues of Gas Connect Austria are very volatile, uncertain, as far as the future is concerned. We don't exactly know how future trends for capacities out of Russia are going to evolve. And we immediately entered quite some time ago, actually, negotiations with the regulator, and we said to the regulator, we would like to move away from sort of like the volume risk system to a risk-free system.

The risk-free system has an impact in the sense that we earn less, because we have no risk anymore. Although I must say in all transparency, the regulator has been everything else but generous with us. They basically adjusted book values down because in the old system, we had an inflation adjustment which basically gave us a boost on the book values, so the book values came down. There was one important point.

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The other important point is that we earned excess returns, which we made for the risk which we were willing to take, and the regulator has now said that we have to repay what we have taken in for additional risk returns. We have to pay it back, because now we are in a risk-free system.

Now, we disagree with that, and we are taking legal action against the decision of the regulator, and we think that we are having a very strong case, but it might take quite some time before we get a decision as a result of that according to the impairment regulation we had a catalyst and we have as a result of that we have basically looked at the future cash flows as the percent themselves today and this is why we had to do the impairment. That impairment obviously means that our sort of like the book value of Gas Connect Austria in our balance sheet is coming down accordingly.

Andreas Wollein

So one of the quickly numbers of the book value starting from next year for the total GCA business will go down to around €550 million and the average EBITDA contribution for the next 3 years starting from 2025 will roughly be on average €17 million.

Peter Kollmann

Yeah.

Wanda Serwinowska

Thank you. Can I just ask a quick follow-up? Peter, do you have maybe the hedging price without mark-to-market, so basically we have like a clean hedging price? And on hydro here today, if you have it handy, that would be also very helpful. And then the last one on the guidance, I remember you were pretty cautious on the retail EBITDA this year. Has anything changed? I think at some point earlier this year you expected negative €100 million or retail has been performing better and you are more neutral on it right now.

Peter Kollmann

No, on the retail side, we are between a rock and a hard place. On the one hand, we still have the high procurement cost from the higher power prices of the past. And at the same time, we have tremendous pressure, not just us, but the entire utility sector in Austria, tremendous pressure from the government, actually from stakeholders, that we should have relatively low retail prices for electricity. So we have a classic, as I said, between a rock and a hard place. And as a result of that, we're still – I mean, we have an improvement, a big improvement, but we're still approximately minus €100 million.

Yeah, more than happy to give you even more detail on the hedging side. We have hedged for 2024, the 89% at €123. There you see that obviously here we have the old hedges, which were done at higher power prices in contrast to where we would sell today. The same is true for 2025, where we have hedged 51% at 122. There we are exposed with about half on future power price developments. The exposure in 2026 is even higher, with two-thirds which are unhedged. The 33 which we have hedged, has been done in approximately €80. This is the reason for the declining power price estimates between 2024 to 2026.

What was the other point, Wanda? I think…

Wanda Serwinowska

Hydro. Just Hydro year-to-date, and that's it for me. Thank you very much.

Peter Kollmann

Yeah, the Hydro year-to-date is 1.11 and when you assume that the rest of the year is going to be our long-term average, you would come out with the 1.06 hydro coefficient for the entire year 2024.

Wanda Serwinowska

Thank you very much, Peter.

Peter Kollmann

You're welcome.

Operator

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

Olly Jeffery

Thanks very much. So I just coming back to the Sales segment and €100 million at the beginning of the negative valuation effect assumption within the guidance is minus €100 million. What is the current thinking and what can you view that figure to be for the full year? And depending on how you view that, what could cause that to be zero by the year end given you don't seem to have much of negative valuation effect in the year-to-date?

And then on 2026, I know if you haven't really increased your incremental hedge since Q1, is there anything to stick to the reason for that? And I'll leave it there for now. Thank you.

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Peter Kollmann

Yeah, sure. Yeah, on the sales segment, I wish I could tell you that there is going to be an improvement until the end of the year. We don't think so. So the best estimate would be for approximately €100 million for the rest of the year. It is as I have said that we don't, and when I say we, in that case, I really mean the entire Austrian utility sector, we don't have huge pricing power, because of the pressure which we have from all sides from the government, from the regulator, et cetera, et cetera. So, we can't really go out and increase, that would obviously mean immediate improvement. So we still have to be very competitive from that side. And we can't change the procurement.

We have basically entered our hedges about 18 months ago. And as a result of that, there's still relatively high prices, which flow into our numbers. Now, that of course is going to improve. So, when we talk next year, and then the year after, we should obviously have, I would hope quite a dramatic improvement in our retail business.

In terms of 2026, yeah, I mean the reason is that sort of like 2 years out, we still have quite some flexibility in terms of if we either accelerate our hedging or if we slow down our hedging, this has something to do with if we think that there might be some improvements, but as you know, we have a pretty stable hedging strategy in terms of starting 18 months forward. And in 2026, when power prices were still higher, we have accelerated and now we have slightly slowed down. But you shouldn't read anything specific into that hedging number.

Olly Jeffery

That's helpful. But can I just confirm to the minus €100 million for the sales unit for this year. There's nothing changed in your view, and that from the beginning of the year. It's not that some of the parts within that the negative valuation effect, for example, has become got better that other parts have got worse, the assumptions within that still the same from the beginning of the year.

Peter Kollmann

Yeah, it hasn't changed dramatically. And it is still very similar for the reasons which I have outlined before.

Olly Jeffery

Okay. Thank you.

Operator

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

Harrison Williams

Hi. Good morning, everyone. Thanks for taking my questions, and two from me. Firstly, on the GCA impairment and you mentioned that you had in some excess returns from taking risks that you are now having to pay back. Can you confirm that the quantity of that and what's the timeframe that will be paid back?

And secondly, coming back to the sales segment. I mean, what is the way out of this situation for you. Is it that you need power prices to fall? Is it something that you're allowed to put through a certain amount of cost increase every year? I mean as you look to this hopefully normalizing what needs to happen and what is the timeline? Thanks.

Peter Kollmann

Yeah, sure. Now, I'm more than happy to discuss the situation with Gas Connect Austria. So the risk returns, which we have received in the past, which we have to pay back aren't the total quantum is €190 million, which we basically have to pay back over the next 15 years. We – as I say, we're taking legal action against that. So we are – I can't give you a probability, because you never know how a judge would see that. All I can say is that we feel that we have very, very strong legal arguments that should not be, that there should not be a clawback of that specific amount. And, if we get that back, that would obviously increase EBITDA directly. And then of course, the same is true for the book value adjustment. If our legal arguments win on that point, that would basically improve the EBITDA of Gas Connect Austria as well.

I mean, but please be aware, and their Austria is not very different from any other countries in Europe. Those legal actions take a long time. I mean, we also have legal action on Austrian Power Grid, because of the WACC. We feel that the WACC is too low, particularly for the old investments. There we have also taken legal action already like more than a year ago, and this is very slow. That's just the way the courts work in Europe. And we obviously hope that we're going to get results as soon as possible.

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Now, could you remind me of your second question? Was that related to Gas Connect Austria as well?

Harrison Williams

Sure. No, that was on the Sales segment. So I mean, just what needs to happen for you to, I guess, in terms of profitability within that, is it power prices falling? Is it something that just takes time, same color on that?

Peter Kollmann

Yeah. Okay. No, fair enough. That on the Sales segment, I think what we need is, when the old hedges run out, we are going to benefit in our procurement from lower power prices. If we assume that the retail prices, which we're charging remain relatively stable, obviously, we are going to have an immediate impact. So that is the key, that would be the key factor for returning to profitability.

Harrison Williams

That's clear. Thanks.

Peter Kollmann

You're welcome.

Operator

The next question comes from the line of Thibault Dujardin with Bernstein-Société Générale. Please go ahead.

Thibault Dujardin

Hello, can you hear me?

Peter Kollmann

Yeah. I can hear you well. Thank you.

Thibault Dujardin

Yeah. Thank you. Just a question to understand regarding the guidance on the cells and to differentiate between the retail and trading activity, the guidance of minus €100 million is at the global sales level and at the retail level wide?

Peter Kollmann

Yeah, the minus €100 million on the retail side encompasses everything, our entire retail activity, if that was your question.

Thibault Dujardin

Thank you very much.

Peter Kollmann

You're welcome.

Operator

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

Louis Boujard

Thank you very much. Good morning, everyone. Maybe two question. One clarification, again, sorry for that one the impairment aspect. I think that you mentioned one of the Q&A, and one of the answers that you provided €190 million that need to be paid back related to the GCA risk-free rate assumptions, at the same time the impairment is 195. So my question would be if you could maybe give us a little bit more details on the 195 stuff? You could understand if and where is the room for potential reversal depending on the decision that could be taken in the future, including also the part related to the Mellach CCGT as well? It would be interesting to have the detail if you can provide it.

My second question would be more on a strategic point of view related to the MoU that you signed recently over the past few weeks, not only regarding Tunisia and regarding Spain specifically on the hydrogen aspect. Just would like to understand if you're focusing more on the production side, at in Tunisia and in Spain? And if you're also interested into the transportation side of the green hydrogen future molecules considering that you signed two MoU recently, I guess that most likely you start to have quite an idea on what you want to do in this field going forward? Thank you very much.

Peter Kollmann

Yeah. I will start with the second one as far as hydrogen are concerned. I will start with the transportation side. One of the reasons why we acquired Gas Connect Austria was hydrogen, hydrogen transportation. The position of Gas Connect Austria in the heart of Europe really being at the crossroads of north, south, so actually I should say south/north and east/west means that the network of Gas Connect Austria for any future transportation would be critical.

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As you probably know, there is so-called south corridor. That south corridor would bring hydrogen from the southern region, including Northern Africa, all the way through Italy, into Austria, and through Austria into the rest of Europe, particularly into Germany. And there, the transportation is part of a regulated hydrogen business, which means that any investments into Gas Connect Austria, be it new hydrogen-ready compressor stations, be it the lining of existing natural gas pipelines, or indeed, even new pipelines would be added to the regulatory asset base and the result of that get a regulated return. So this is why we think that any future hydrogen infrastructure as is being discussed by the European Union almost on a daily basis is something that would add to our regulated business. So that is on the transportation side. And this is only Austria.

On the production side, we feel that wherever we have an activity with renewables, like for example in Spain, that the production of hydrogen can be added value in addition to PPAs, in addition to selling electricity, particularly when you have excess production, something that has been discussed a lot, particularly on the solar side. This is where you should see also the joint venture announcements, which were made recently.

And then, of course, what we have on the radar screen would be even production on a greater scale of hydrogen. But this is something that is, as I say, on the radar screen, where a lot of conditions, preconditions need to be ready for a big production happening and hydrogen flowing into Europe. The demand of hydrogen also needs to evolve and there's still some uncertainty. So you probably know that the European audit office has come out with a very large report. I think it's just a few weeks ago, where they basically reassessed the strategy of the European Union vis-à-vis hydrogen, and they feel that there might be some delay. So this is something where one needs to be very smart to basically look at the developments, but the one area where we feel that we definitely want to be ready is on Gas Connect Austria on the regulated side.

So that brings me ready to your second question, where you basically asked me for more details, sort of like what could change in order to increase the value of Gas Connect Austria? Well, if we succeed with our argumentation in the courts, and obviously we are hopeful, otherwise we wouldn't have done it. Then there could be a number of changes that would basically increase our future cash flows in Gas Connect Austria, and thus our results, our EBITDA.

And in my view, there are sort of like three key areas that would have an impact. Number one, it would indeed be what I mentioned, the risk premium, which we have made in the past and which we would have to repay, number one. Number two, the book values, which would mean that we had an increase in the regulatory asset base. And then of course, the WACC. So the more generous the WACC would be, I shouldn't even say more generous, the fairer, we're just talking about the fair WACC. I'm not even talking about the generous WACC. The fairer WACC would be, again, the higher future cash flows.

Louis Boujard

Okay. Thank you very much.

Operator

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

Piotr Dzieciolowski

Hi, good morning. It's Piotr Dzieciolowski from Citi. Thank you for the presentation. I have two questions, please. So first one, I wanted to ask you whether you had a chance to look into this idea of introducing a pricing zone in Germany, and what could be the potential impact on the Austrian power pricing? I presume the Bavaria region would trade lower and, therefore, could impact your pricing, just wanted to hear your views on this subject.

Second question I had was on the Gas Connect Austria, but in a slightly different context. Assuming we have a choice with Russia, post-U.S. election, so it's scenario, who knows what that will be. But would you be ready technically to import gas via southern route, given the knowledge that's showing them is technically possible and how much you could ship to Germany?

And then maybe a third question, can you please tell us what are the PPA levels available to you on your Spanish new project, whether you can sign anything creating a value? Thank you very much.

Peter Kollmann

Okay. Now, I had a pretty bad line at the beginning. You were talking about the variant power prices. Sorry, do you mind repeating the first question?

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Piotr Dzieciolowski

I wanted to ask you whether you would attempt to look into this aspect of introducing a pricing zone in Germany. If that was introduced, what could be the impact on the Austrian power pricing?

Peter Kollmann

Yeah. Okay. Now, that's an important question, because you're right. Price zones have been discussed for many, many years. From a purely technical point of view, one should actually introduce price zones, because they would make the management concessions, control energy and all that easier. However, in the past, and I personally believe that it will continue, there is a huge political resistance against price zones. The reason is that power prices are obviously a competitive factor for the industry. So wherever you have higher prices, those states would feel a disadvantage versus other states. They would then possibly conclude that industry could move from, let's say, Baden-Württemberg to Schleswig-Holstein and all that creates a big discussion. And I can tell you, I personally would be very surprised if Germany introduced specific price zones.

According to sort of like technical consultants, two price zones would not be enough. If you really wanted to do it right, you would have to introduce much, much more price zones that would basically reflect critical knots and critical areas in the grid. The answer will be that, and we have already heard it both from the government, but also from the grid companies in Germany, they will increase their investments. They will accelerate the build-out of the grid. And the more you have a strong grid infrastructure, the less needs there will be for price zones. And by the way, the same political argument goes for Austria. If you would introduce a price zone in Austria between east and west, that will certainly lead to very big political discussions.

So on the second one, on Gas Connect Austria, what was the key point basically was, I just want to paraphrase, because I want to give you the correct answer. You were saying that if you had changes, and if you basically wanted to import more gas from the south, would that be a possibility? Correct?

Piotr Dzieciolowski

No, I was thinking whether we could think about the scenario, whether we reinstate the southern route on the Russian gas import, whether that's technically possible?

Peter Kollmann

Yeah. I mean, the – well, let me take a step back. If you look at the pipelines around Austria and if you think about Austria and gas flowing into and through Austria the one thing that would be possible would be Italy. There is a connection between Italy and Austria. It's called TAG pipeline. And the TAG pipeline for decades has basically had a very, very large flow of gas from Russia going through Austria into Italy. Now, Italy has completely changed the procurement of gas. They are buying much, much more from Algeria. They are buying much, much more LNG. They have increased the LNG capacity. As a result of that the flow of gas into Italy is very, very small. And indeed, Italy will have more gas than the needs from probably 2026, 2027 onwards and that would basically allow us to import gas from Italy through a reverse flow.

In terms of Russian gas flowing sort of like through southern pipelines, well, I mean that is a – there are many different ways. I mean, for example, gas coming from Azerbaijan, from Kazakhstan, that is basically flowing into Europe and there is TurkStream as well. That gas could theoretically, but I don't want to achieve political discussion, that gas could theoretically come from Russia. So if there are states that are willing to buy Russian gas, gas doesn't have a color where you can say, this is gas from Russia, but this is gas from other sources, you could actually have a conversion in those specific countries, and basically just gas which they import from Russia, for example, they could then deliver on to Russia.

By the way, the same is true, and this is a discussion which we have had on the last conference call, the same is true for LNG. The imports of Russian LNG into Europe have gone up quite a lot. And as a result of that, it is unfortunately the reality is more complex and sometimes different from the way it is presented to us.

And PPA, so that is the third question. Andreas, could you comment on PPA?

Andreas Wollein

Yeah. I got the question right. I think with regard to PPAs for our existing portfolio, I think. Currently, we are selling roughly 50%, our volumes are protected by tariffs about 30% are contracted through PPA's and about 20% is sold also on the PPAs, but has a spot market pricing. So this is the current exposure. I mean going forward, we have, I think, as a target a specific target that we want to sell roughly 80% to 85% of our production, renewable production, especially related to the pipeline Spain on the basis of long-term PPA. Let's say at least 5 years better 7 to 10 years. And, I think, we would take about 15% spot exposure. Yeah.

Piotr Dzieciolowski

Okay. Understand. Thank you very much.

Operator

The next question comes from the line of Teresa Schinwald with Raiffeisen Bank International. Please go ahead.

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Teresa Schinwald

Thank you. It's kind of a follow-up to this question now. On the renewable side, because I get that the EBITDA outlook 2024 for Spain and Italy is coming down giving the spot market pricing come from that. But could you please, there's more reasons why the EBITDA expectations for Austria went up and why they fell for Romania to this large extent. That's my question.

Peter Kollmann

Yeah. Sure. Yeah, the EBITDA, both in Austria and Romania, is influenced by the volumes on the one hand, and then, of course, by the price development. The volumes we have shortly discussed before in terms of sort of like the last figures and the comparisons of 2023. Looking into the future, it is very similar to hydro. We have sort of like an average solar coefficient and wind coefficient as a result of our historical data, which we have. And obviously, if there is more wind than expected that has an immediate impact on our EBITDA. Similarly, we have some price exposure, both in Romania and in Austria and, therefore, sort of like price developments or our prognosis on price developments has an impact on our overall prognosis on EBITDA.

But what we are going to do, we will obviously sort of like when we report the figures as we have done now, we are going to explain impact of prices and impact of volumes through our coefficients.

Teresa Schinwald

Thanks a lot.

Operator

The next question is a follow-up question from the line of Olly Jeffery with Deutsche Bank. Please go ahead.

Olly Jeffery

Thank you. Just a couple follow-up, please. Can you please let us know what you think the GCA RAB will be now in 2027? I think from memory it was around €640 million last year. And then in addition to that question, what was the negative valuation effect in the first half? And the last question is just on coming back to the balance sheet question. I mean obviously you've got a very strong balance sheet. Is there any update you can give on targets that you might be looking at? Are you still actively seeking to deploy that balance sheet? Are you waiting for a particular reason? Any update you can give on that, because balance sheets clearly feel very strong. All right. Thank you very much.

Peter Kollmann

Yeah. Sure. I will start with the last one on the balance sheet. In fact, our balance sheet by the end of the year is going to improve slightly, because our free cash flow will be stronger as a result of that. By the end of the year, our net debt-to-EBITDA will be, I guess, around 0.8. Our previous estimate has been around 1. So yes, you're right. We have a very strong balance sheet. We have fire power for CapEx, in addition to our CapEx plan, which is for the next 3 years, €5.5 billion. However, it really depends on any opportunities that might arise. But if an opportunity arises, yes, we definitely have the balance sheet.

We recently had a rating agency upgrade. The one aspect which the rating agencies pointed out, and I think that is important, is that Austrian Power Grid is going to have strong investments over the next 10 years, something we discussed in previous conference calls. As a result of that, the regulatory component within our business model is going to increase, so there will be growth on the regulated side. That is something, obviously, that helps our strength from the point of view of the rating agencies.

And in terms of our target, we have – and target is probably the wrong word, but we don't want to go above 3 times net debt-to-EBITDA. So, right now, we are way below that, but we see sort of like the 3 times as a number we could live with, the rating agencies could live with, but either that has to go up quite a lot or EBITDA has to come down quite a lot in order to get to the three. Oh, yeah, and you asked about the regulatory asset base on Gas Connect Austria was around 520.

Olly Jeffery

Is that the view for what it would be by the end of the period?

Peter Kollmann

Yes.

Olly Jeffery

Thank you for that. The last question was on the negative valuation effect that you saw in the first half. Did you record one in your P&L tool for the first half or not?

Peter Kollmann

When you see the negative valuation effect, which one exactly are you referring to?

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Olly Jeffery

It's the negative valuation effect that lead your course, and commit mainly to your trading business that can oscillate depending on what direction in that price, the commodities move in. At the start of the year your outlook for that figure for the full year was minus €100 million, but given sales as a positive number for the first half, I suspect you might not have recorded a negative valuation effect, but I just wanted to clarify if that was the case.

Peter Kollmann

Yeah, Andreas has looked into that. He will give you the answer.

Andreas Wollein

Yeah. So in the first half year or if we have booked a negative valuation effect in the Sales segment of minus €18 million in the Thermal segment or in all other segments, we have booked minus €53.7 million as a negative valuation effect and in renewables we have a positive valuation effect of €8.4 million. So in total, the negative, let's say, for all three segments, the negative valuation effect is minus €63.2 million.

Olly Jeffery

That's great. Thank you very much.

Operator

The next question is a follow-up question comes from the line of Thibault Dujardin with Bernstein-Société Générale. Please go ahead.

Thibault Dujardin

Hello, thank you very much. I have a question back on GCA, I see that the impairment is of €170 million and you were referring to paying back €119 million plus lower return. And I'm just wondering how we could re-conciliate all those elements, I would have expected the impairment to be higher in this context.

Peter Kollmann

No, no, quite frankly, I think there's a pretty big impairment. So when we went through the regulation, I would have liked the impairment to be smaller, because we have done impairments in the past as well on Gas Connect Austria. But look I hate to repeat myself, we are, as I say, we have very strong arguments and we feel that the regulator has been too harsh with us on Gas Connect Austria. As a result of that, we think that there could be some upside there in the future once we have a result of our legal action. But what you were specifically referring to the risk premium, I mean, that is over 15 years. Yeah?

Thibault Dujardin

Yeah.

Peter Kollmann

Yeah. So that is over 15 years and when you consider future cash flows, they are going to be reduced by that number, by that annual number, which is obviously much, much smaller because it's a long period of time.

Andreas Wollein

But Thibault, it's the outcome of the impairment testing is always a function of a lot of different components influencing the calculation. So there are negatives and positives. The negatives are, of course, what we mentioned, the repayment of the risk premium. It's the reduction of the book value. Then we have a specific WACC, which may on a Group level for GCA. There are also some positive elements. We are not disclosing, let's say, all the details about the impairment calculation, but we have mentioned the main influencing factors on the outcome of the impairment test. And the outcome is to 100, let's say, roughly €190 million of impairment on EBITDA level.

Peter Kollmann

And coming back to your specific point is, as it is over 15 years, so we're talking about €13 million per annum, yeah, that are basically reducing the cash flow.

Thibault Dujardin

Thank you very much.

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. Thank you.

Peter Kollmann

Great. As always, I would like to thank you for your participation, for your great interest. You know, it's always exciting, because there was different points, which in our conference call we focus on today, it was clearly Gas Connect Austria. I'm sure next time it will be something else. So thank you very much for the lively discussion. I wish you all a great summer, recharge your batteries, and we very much look forward to talking to you in around 3 months' time. All the best. Bye-bye.

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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. Goodbye.

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