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The AES Corporation (AES) CEO Andrés Gluski on Q3 2019 Results - Earnings Call Transcript

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Q3: 11-06-19 Earnings Summary

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EPS of \$0.48 beats by \$0.08 | Revenue of \$2.63B (-7.47% Y/Y) misses by \$-271.97M

Earning Call Audio



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The AES Corporation (NYSE:AES) Q3 2019 Earnings Conference Call November 6, 2019
9:00 AM ET

Company Participants

Ahmed Pasha - VP of IR

Andrés Gluski - President and CEO

Gustavo Pimenta - EVP and CFO

Conference Call Participants

Julien Dumoulin-Smith - of Bank of America

Greg Gordon - Evercore ISI

Christopher Turnure - JPMorgan

Ali Agha - SunTrust

Charles Fishman - Morningstar

Gregg Orrill - UBS

Operator

Good morning, and welcome to the AES Corporation's Third Quarter 2019 Financial Review Conference Call. [Operator Instructions] Please note, today's event is being recorded.

I would now like to turn the conference over to Ahmed Pasha, Vice President of Investor Relations. Please go ahead.

Ahmed Pasha

Thank you, Andrea. Good morning, and welcome to our third quarter 2019 financial review call. Our press release, presentation and related financial information are available on our website at aes.com. Today, we will be making forward-looking statements during the call. There are many factors that may cause future results to differ materially from these statements. Please refer to our SEC filings for a discussion of these factors. Joining me this morning are Andrés Gluski, our President and Chief Executive Officer; Gustavo Pimenta, our Chief Financial Officer; and other senior members of our management team.

With that, I will turn the call over to Andrés. Andrés?

Andrés Gluski

Good morning, everyone, and thank you for joining our third quarter 2019 financial review call.

Today, I will walk through the highlights of the quarter and how we are delivering on our commitments and successfully executing on our strategy. Gustavo will then follow with a detailed description of our third quarter and year-to-date financial results.

Our adjusted earnings per share for the third quarter was \$0.48, which is 37% higher than our results for the same quarter last year. On our prior call, we mentioned that much of our growth would be in the second half of the year, and our strong third quarter results are in

line with our expectations.

We are on track to deliver on our 2019 adjusted EPS guidance with the midpoint of \$1.34, and our apparent free cash flow target with a midpoint of \$725 million, and we are confident in our ability to deliver 7% to 9% average annual growth through 2022. I am pleased to report that we're making good progress on the strategy we laid out on our previous calls. Allow me to walk you through step-by-step.

First, turning to Slide 4. Let us talk about our progress towards becoming investment-grade. As you may have seen in this morning's press release, we received an investment-grade rating for the first time in the AES' history. I'm very pleased to have achieved this milestone, reflects a multi-year transformation strategy to make our business simpler and more predictable. We not only significantly strengthened our balance sheet, but we have also materially reduced our exposure to risks such as hydrology, foreign currencies, and commodities.

Moving to Slide 5, and our growth in renewables. This quarter, we signed over 900 megawatts of new renewable power purchase agreements, bringing our year-to-date total to 1.9 gigawatts. We are fully confident that we will consistently deliver 2 gigawatts to 3 gigawatts of new renewable capacity every year.

As of today, our backlog of projects is 6 gigawatts, half of which are under construction and half have signed PPAs. As anticipated, about half of these projects are in the U.S. and half are international. We see ourselves as uniquely positioned in the renewable space to take advantage of synergies and economies of scale, while also benefiting from sufficient geographical diversity.

Looking at this from another perspective on Slide 6, approximately 80% of our 6-gigawatt backlog or 4.8 gigawatts is renewables, split between hydro, solar, wind, and energy storage. We expect the majority of our backlog to be online by the end of 2022. Now on to specific large projects.

On Slide 7, we can see that the 1.3 gigawatt Southland repowering project is virtually complete, and we are currently in the final commissioning stage. We're on track to begin commercial operations in early 2020.

Turning to Slide 8. AES Gener is also making good progress on the Alto Maipo hydroelectric project. The project is 82% complete, including 37 miles of tunnel and both cabins are caverns for the powerhouses. Less than 4 miles of tunneling remain to finish Phase 1 by year-end 2020 at which time the construction of all 531 megawatts of capacity will be completed. In parallel, they are progressing well on the tunneling of Phase 2, which will provide additional water to the project.

Let us now discuss the advances we are making on our LNG strategy and turn to Slide 9. Last month, we received approval from the Government of Vietnam to develop and build a 2.2-gigawatt combined cycle gas turbine project alongside our previously approved 480 tera BTU LNG regasification and storage terminal. This complex will have a 20-year U.S. dollar denominated contract with no commodity exposure. We expect to achieve financial close in 2021 and commercial operations in 2024. We see the expansion of our LNG infrastructure business as complementary to our renewables growth strategy by offering a clean, predictable, and low-cost fuel that provides capacity and flexibility to the system.

We are focusing our LNG business on three markets, the Caribbean, Central America, and Southeast Asia. In all of these markets, there is rapidly growing demand for natural gas to supply new generation and to displace higher cost diesel fuel oil. A good example of how we are benefiting from this growing demand is the Dominican Republic.

As shown on Slide, 10 this quarter we finalized a joint venture with other local generators. As a result of this JV, we will build a second LNG storage tank, expanding our capacity in the Dominican Republic by 80% or an additional 50 tera BTUs.

We have already signed or in advanced negotiations for 30 tera BTU of this additional capacity under long-term U.S. dollar denominated contracts. This expansion will require minimal investment from AES, and we expect to break ground in the first quarter of 2020 with completion in late 2022. As we had previously mentioned, our LNG business is easily scalable, which allows us to increase our margin, while requiring relatively little investment from AES.

While we are delivering on our commitments in our guidance periods, we're also making investments to maintain our leadership in new technologies, which will contribute to our earnings growth in future years. We are currently the global market leader in energy

storage and the market leader for cloud-based energy efficiency solutions in the U.S.

Turning to Slide 11. Today we're announcing a strategic alliance with Google to collaborate on innovation across our business line. We will be working together to find new solutions to accelerate the broad adoption of renewables and energy storage and to improve the experience of corporate customers.

AES will collaborate with Google Cloud on energy management and opportunities to develop, own, and operate projects in targeted markets in the U.S. and Latin America that have the potential to help Google meet its clean energy objectives. In addition to providing the potential for additional revenues for AES, this alliance will put both of us on the front line of innovation in the industry allowing us to further reduce costs, optimize operations, and meet changing customer expectations.

On Slide 12, we can see that our strategic investment in the leading U.S. cloud-based digital solutions provider in our sector, Uplight is progressing well. This is a business that is growing rapidly from a base of \$100 million in annual revenue. It is cash and margin positive and will provide broad insights into customer behavior and energy efficiency.

Our energy storage business Fluence, continues to be the global market leader, through Fluence our 50-50 joint venture with Siemens. We are able to capture the accelerated growth in demand for this technology.

As you can see on Slide 13 in the first three quarters of 2019 alone, Fluence won contracts for 806 megawatts, compared to the third quarter of 2018 Fluence has tripled its backlog, which now stands at a record high of more than 1 gigawatt with a combined value roughly a 1 billion. Fluence is cash and variable margin positive and continuing to expand its capabilities in order to meet the scale requirements of the business.

Our leading position in energy storage is providing us with a competitive advantage in other aspects of our business. We are seeing that nearly half of all solar projects in the U.S. include a storage component. Based on our scale and more than 10 years of experience in integrating energy storage we are very well positioned to capitalize on this growth opportunity.

Now I'll turn the call over to Gustavo to discuss our financial results and capital allocation in more detail.

Gustavo Pimenta

Thank you, Andrés. Today our overall financial results outlook for 2019 and capital allocation.

Overall, we are very encouraged by our performance to date and remain confident in our ability to deliver on our strategic and financial objectives.

As shown on Slide 15, in the third quarter adjusted EPS was \$0.48, primarily reflecting contributions from new businesses including AES Colon in renewables in the U.S. and a lower tax rate. The timing of outages, net of related insurance recovery also had a positive impact on the results in our MCAC region. In the third quarter of 2018 a freak lightning strike caused major damage at our Andrés plant in the Dominican Republic forcing it offline with roughly \$0.04 impact.

In Panama our Changuinola plant has been on an extended plant outage for most of this year. While we have insurance to offset the large portion of this outages. The timing of recognition is not always evenly distributed throughout the year.

On our second quarter call, we indicated that we expected a recovery in the second half related to this outages. And in fact the majority of this occurred in the third quarter. This was about \$0.05, which effectively catches us up for the first half of the year.

As seen on the Slide 16 on a year-to-date basis, the net impact of losses versus insurance recovery is slightly negative at \$0.01. Importantly, our Andrés facility is fully online in our Changuinola plant is on track to come back online in early 2020.

Turning to Slide 17. Adjusted pretax contribution or PTC was \$426 million for the quarter, an increase of \$99 million or 30%. I will cover our results in more detail over the next four slides, beginning on Slide 18. In the U.S. and Utilities SBU increased PTC reflects contributions for new renewable projects as well as the resolution of regulated rate cases last year.

These impacts were partially offset by the exit of 360 MW of coal-fired generation at Shady Point. Regarding DPLs DMR extension filing, we remain on track for an expected ruling in the first half of 2020 and continue to feel confident about the merits of our case. In Indiana, IPLs plan to modernize its electric grid which calls for \$1.2 billion of T&D investment over seven years we go to hearing on November 14.

Cost would be recovered through an 80% tracker mechanism between rate cases and AES equity investment would be roughly \$200 million. If approved, the plan would be a key component of the mid-single digit rate base growth we have discussed in the past. A final ruling in the case is expected by early 2020. At our South America SBU, higher PTC was largely driven by improved margins at Guacolda and lower interest in Chile, as well as higher pricing in Colombia.

I would like to take a moment now to discuss recent developments in Argentina. As you know, Argentina recently elected Alberto Fernandez, as the new President as expected. The policies of the incoming government are yet to be defined but we do not expect a meaningful impact on our outlook.

Especially given the quality of our assets in the material improvement we have achieved in AES portfolio over the last several years. Right now current controls are in place and we will face restrictions incentive dividends out of Argentina. But as a result of our diversified portfolio, you'll be able to mitigate the impact and continue to deliver strong cash flow growth to our shareholders.

Turning back to our quarterly results. As we discussed it earlier higher PTC at our MCC SBU reflects the outages in the Dominican Republic and Panama, net of related insurance recovery as well as the commencement of operations at AES Colon. Finally, in a ratio lower results primarily reflect a one-time transmission charge and lower capacity doing testing and commissioning at OPGC 2.

Now to Slide 22. To summarize our performance in the first three quarters of the year we earned adjusted EPS of \$1.02 versus \$0.80 - \$0.88 last year. In the fourth quarter, we expect the higher quarterly tax rate versus a 24% we saw last year. And an impact from the planet outage at our water run facility in the U.S.

On a full year basis for 2019 we feel very confident and reaffirming our adjusted EPS guidance of \$1.30 to \$1.38. Further, based on our achievements to date and current outlook, we are also reaffirming our 7% to 9% average annual growth through 2022. Consistent with our prior proxy, we will provide specific guidance for 2020 on our fourth quarter call.

Turning to 2019 Parent Capital allocation on Slide 23. Beginning on the left hand side sources reflect the \$1.3 billion of total discretionary cash, which is largely consistent with our last call. Additionally, we are able to take advantage of available debt capacity at one of our subsidiaries spring \$200 million in return of capital to the parent. The majority of our discretionary cash continues to come from the roughly \$725 million of parent-free cash flow and \$350 million of asset sale proceeds.

Asset sales include Northern Ireland and the sPower sell down, both of which have closed, as well as Jordan, which is expected to close by year end. Now to the uses on the right hand side, including the 5% dividend increase we announced in December. We'll be returning \$361 million to shareholders. We allocated \$450 million to parent debt pay down versus our prior target of \$150 million for this year to celebrate our credit improvement in reinforce our commitment to achieve investment grade ratings.

As a result, we expect that to end the year at 3.5 times parent leverage and 22% FFO to that. Comfortably within the investment grade thresholds of four times and 20% respectively. To that end, as Andrés mentioned, we are very pleased to see positive actions by the rating agencies included an investment grade rating from Fitch. We are also investing \$450 million in our subsidiaries leaving about \$50 million of unallocated cash.

Finally, moving to our capital location from 2019 through 2022 beginning on Slide 24. We expect that our portfolio to generate \$4.2 billion in discretionary cash, which is again consistent with our last call, plus the additional \$200 million in return of capital, I just mentioned, more than 3/4 of our discretionary cash is expected to be generated from parent-free cash flow. The remaining \$800 million comes from asset sale proceeds about half of which has been announced or closed this year.

Turning to the use of discretionary cash on the Slide 25. Roughly 40% of this cash will be allocated to shareholder dividends. Looking forward, subject to annual review by the board, we expect the dividend to grow 4% to 6% per year, in line with the industry average. We have completed \$450 million of parent debt prepayment this year, this is an increase versus our prior target of \$300 million.

We are also expecting to use \$1.9 billion to invest in our backlog, new project at PPAs, T&D investments at IPL and the partial funding of our Vietnam LNG project. Once completed, all of these projects will contribute to our growth through 2022 and beyond. The remaining \$300 million of unallocated cash will be used it in accordance with our capital allocation framework to achieve our financial objectives.

With that, I will turn the call back over to Andrés.

Andrés Gluski

Thanks Gustavo.

Before we open the call to your questions, please allow me to summarize our key points. Our strong third quarter results demonstrate our successful execution, and we remain on track to meet our 2019 guidance and longer-term expectations. We are uniquely positioned to drive long-term shareholder value through strengthening our balance sheet and credit ratings, reducing our carbon intensity, growing our backlog of attractive renewable opportunities, and rapidly expanding our LNG infrastructure business.

We are taking steps to consolidate our position as a technology leader, through technologies such as energy storage and cloud-based energy solutions and most recently, creating a strategic alliance with Google. We believe that our strategy and execution, position us well to offer double digit total returns to our shareholders.

Operator, we're now ready to take questions.

Question-and-Answer Session

Operator

[Operator Instructions] First question comes from Julien Dumoulin-Smith of Bank of America. Please go ahead.

Julien Dumoulin-Smith

So I - perhaps, can you elaborate a little bit in the context of the quarterly earnings here. How much is coming directly from renewables and perhaps to take that a step further, how do you think about the cadence of renewable contributions from here on out, obviously we're starting to see it pick up. How do you think about that rolling into the 4% to 6%, or I know not to get ahead of 20, but how do you think about that even year over year here?

Gustavo Pimenta

Hi Julien, Gustavo. So, in the - particularly in the quarter, most of the growth is in the MCAC region as I mentioned in my remarks. So, the U.S. on the renewable space, probably, we have a \$0.01 to \$0.02 in the quarter no more than that. And so that's probably what it should be seen on an annual basis, maybe \$0.04 to \$0.05 growth because we are deploying around \$300 million globally, most of that in the U.S. So that's what you will be seeing going forward.

Julien Dumoulin-Smith

And then perhaps more importantly here in the near term, you talked about some new LNG opportunities, a JV effort. Also from what I understand, you have some excess marketing volumes, if you will, in Panama, going into 2020 given the IMO regulations. How do you think about the timing to monetize some of those remaining volumes and also the earnings profile of your latest expansion on LNG, perhaps you can address it more holistically on LNG?

Andrés Gluski

Sure. This is Andrés. So I think we've done exactly what we had been sort of saying that we could do in the Dominican Republic. So basically, we filled up our 70 tera BTU tank there. So, basically it's at full capacity. By signing this joint venture with other local generators, we need additional capacity.

So, we're going to build a second tank with 50 tera BTUs capacity and about 30 tera BTUs is that at - is either agreed to or in the process of that signing agreements for, so that's already quite taking up 60% of the new capacity of the tank.

So, this in the Dominican Republic, I think we have really followed through on what we said was possible. In the case of Panama, we have an 80 tera BTU tank. Right now, that's at most about 30% used and so there is considerable capacity to put other generators on gas, and so Panama does have other natural gas projects.

It also has a lot of diesel plants, not too far from our plant. So really, it's a question of how fast we can connect those. It also has the capacity for re-export just like we have in the Dominican Republic and also for CNG in terms of trucks and local - local industry.

So, I think the point is that in the Dominican Republic we do have capacity now for once we complete this tank for another 20 tera BTUs. And we continue to have about 50 tera BTUs in Panama that are available. So, it's going to be a combination of as we did in the Dominican Republic, local demand, additional power plant. It's going to be additional industries and transportation. And I think, growing over time is the re-export.

So, we are exporting natural gas from the Dominican Republic to for example, Guyana, Barbados, Haiti, and there are other possibilities as well, and obviously the Central American region has possibilities as well for the export of natural gas.

Julien Dumoulin-Smith

But not ready to quantify earnings contributions or earnings growth in that segment?

Andrés Gluski

We think - the potential is maybe \$0.05 to \$0.04 by 2022. Yeah, in the MCAC. I mean this is not counting, of course what we could be doing in Vietnam. So this is we have - is the Vietnam project it would be another \$300 plus million of equity going into the project, and we expect good returns on that as well. So, as you can see, that would be a big contributor to our earnings growth post 2024.

Julien Dumoulin-Smith

Right. The \$0.04 to \$0.05 is off of today is in terms of incremental growth through 2022?

Andrés Gluski

That's correct. That's the opportunity. So, you know in the past we had talked about \$0.05 what we basically filled up some of that in the Dominican Republic. So, the additional tank puts us back in another sort of \$0.04 to \$0.05 of potential upside.

Operator

Our next question comes from Greg Gordon of Evercore ISI. Please go ahead.

Greg Gordon

Couple of questions, I think you just answered, probably answered one of them, you have \$200 million allocated in your - on Slide 25 to Vietnam LNG and CCGT investment, but I was going to ask whether that's the total expected investment because the - I guess it comes online in '24 and you said you actually just said it would be \$300 million to \$400 million. Is that right?

Gustavo Pimenta

Gustavo here, Greg. That's right. So that is in 2022, so we're probably going to reach financial close into 2021, spend half of the equity in 2022 which is this 200 that we see in the chart and then 2023 will draw additional \$150 million to complement our investment.

Greg Gordon

Yes, and I know you have disclosed contract terms, but you would expect to target like a mid-teens levered equity return on projects with this risk profile. Is that fair?

Gustavo Pimenta

That's about right, yes.

Greg Gordon

And can you give us a sense of what a strategic alliance, like the one you've announced with Google means in terms of your competitive advantage, signing commercial agreements with them and how that translates into confidence in the growth profile at the renewables business. It's just hard to not to be cynical, but it's hard to separate what's a PR announcement versus what has tangible backlog implications?

Gustavo Pimenta

Yes, well, you know Greg, as you know that we've been, I think certainly not people to sort of chase shiny object. We really go to the fundamentals, what does this mean. Now this is a preliminary announcement it has many components to it and we will be providing color as things develop and things materialize. But realize first that we are sort of uniquely positioned to help Google meet its 24/7 renewable zero carbon energy across the globe.

So we are uniquely positioned to do that. We recently won a bid in Chile for about 125 megawatt to do exactly that. So this is - that was the first stage concrete, there will be others we believe, and as I said, it will be in targeted U.S. and Latin American markets.

Second is to realize that the biggest, the fastest growing sector of corporate demand is web services. So, I believe, Google has announced about 6 gigawatts of need across the globe. So this is, it's a big target, it's growing, and this is the fastest growing corporate sector, what they want is renewable energy around the clock. We are uniquely well positioned to deliver that. So again there will be follow-ons to the Chile deal we believe and stay tuned to that.

In addition, there is some elements of energy management in these locations for us using our portfolio to provide carbon free around the clock energy. Then there is also, I would say on the - on our platform, the opportunity to optimize and continue to deliver cost, cost reductions. So we've been doing spending years quite frankly cleaning up data, because again, a lot of buzzwords that people throw out AI machine learning, it's only as good as the data you have.

So we've been cleaning up the laborious and very hard task of having the right data in place. So we believe by combining our two capabilities. We've been the leader in new applications in our sector. We'll give us really a boost to the cost saving initiatives we have

mentioned, it will also give us a boost in terms of delivering on what are continually changing customer expectations.

So, we expect this alliance to make very concrete announcements into the future. So this is not just sort of a feel good PR announcement, it really is that the two of us combined, were leaders in certain areas such as energy storage, energy efficiency solutions in the U.S. So I think it makes a whole lot of sense this is sort of two plus two equals six.

And this is really all of this will be basically upside to what we have and our numbers, and we're going to dedicate people and resources to make sure this is something very concrete. In terms of - what it would really make an impact on our earnings that's probably, I'd say, two or three years out, at a minimum, because and this is really sort of setting the groundwork, could even if you win new power purchase agreements you have to build on these are require additionality. So just to put that in context, I think it's very important, but it's not going to have an immediate impact cost.

Greg Gordon

Last question for you on the Fluence JV obviously making good progress. It doesn't sound like right now, it's actually creating any concrete economic value in terms of cash distributions or earnings contributions to AES Corp, but when do we get to a tipping point where it's either potentially a significant cash flow earnings contributor or is there another way that we monetize this value for shareholders like could this be a standalone sort of public market IPO at some point if it really gets to critical mass. I mean, what are the different ways now that you're really making headway selling the product globally that you can monetize that value for shareholders?

Gustavo Pimenta

Well, as you know, you hit the - I think the nail on the head, it's really how do we monetize that value. This is not - you know a regulated asset, it's a marginal contributor. We have to think about it differently. So we've created a market leader in the market that's growing at 100% per year. It's going to have a major impact on the future of our sector.

So again, it's not a sort of a marginal investment, you have to think about all the value we're creating by this. As I - we mentioned, we are not, it is cash and variable margin positive but that money is going into the business to prepare it for really scaling up, I mean it grew a 100% last year. So you have to scale it up.

So I think it's creating a lot of value for our shareholders directly in the business and some point it will probably make sense to really have a marker out there. So you guys can get a feeling for what it's worth, because we think we've created a lot of value in the business, there are various ways to do that, but I think a marker, would be very good to be able to put it into what's its value within the AES portfolio. But I have no doubt that this is going to be a major part of our business going forward. And I mean our sector going forward.

And do realize that it is giving us a competitive advantage in winning renewable PPAs, because we know as much as anybody about how to integrate energy storage and some very exciting developments coming in the Fluence space. So stay tuned, in terms of products, in terms of new ideas.

So for example, one in Chile, we making the world's first virtual reservoir or you can take a run of the river hydro, which is Las Lajas and really instead of having to dispatch the energy 24/7 you can quite frankly not dispatch it when energy prices are low, mostly due to solar and inject that energy when prices are much higher. So there's a lot of innovation going down it's very exciting.

Operator

Our next question comes from Christopher Turnure of JPMorgan. Please go ahead.

Christopher Turnure

I just wanted to go through the quarter a little bit here in 2019 as a whole in terms of kind of nonrecurring items. So \$0.48 for the third quarter, adjusted EPS, is it fair that the \$0.05 of insurance proceeds there are nonrecurring? And with, I guess, plants back online in Panama now, anything else to think about for the fourth quarter or continuing into 2020 in relationship to that?

Gustavo Pimenta

Chris, Gustavo here. No, not really, I think the \$0.05 is recurring because it's a catch-up from the first half, we may recall in the second call - second quarter call, as we mentioned that our first half was slightly weaker versus our expectation due to those outages and we expected to recover a large portion of that impact in Q3, Q4 and that's what happened, so it's - it's really a catch-up from the first half, you should read this as a first half figure and not as - as a one-time. So that's what it is.

Christopher Turnure

And then I think you said kind of net of the insurance, it would still be \$0.01 negative for you for the Panama outage, at least, so that why the kind of your 2020 number - or there would be kind of no residual effects going to 2020, the net '19 number would be almost not impacted?

Andrés Gluski

That's correct. That's correct.

Christopher Turnure

And any other kind of nonrecurring items helping or hurting Q3 in terms of having a meaningful effect?

Andrés Gluski

Not really, I think the one that I pointed out in my remarks, was tax, it's relatively within the range on a year-to-date basis, but you may recall, last year we had unusual low tax rate. So that is one thing for us, that would probably it won't be happening in the Q4 of this year, but a part of that nothing - no one-time-ish.

Christopher Turnure

And then just, I guess, a little bit longer term, when we look at what's occurred so far this year, after you introduced your kind of new long-term plan or rolled forward your long-term plan back in February. You've reached investment grade, maybe a little bit faster than the plan, interest rates have been kind of going in your favor and everyone's favor, some LNG

success certainly has materialized maybe partly offset by the Ohio DMR situation. I'm just wondering kind of where the bigger maybe surprises versus your plan have occurred, if any, your long-term plan, that is?

Andrés Gluski

Yes, Chris, I agree with everything except what you said about the DMR. We think that continue to feel good about the successful resolution of this, so we agree that we've had some upside. And I think quite frankly those things which are under control we've consistently I think over delivered whether it's paying down debt, reducing costs growing the LNG business are growing renewables. So, that's true, but we really don't see that the - I wouldn't put the DMR is - we continue to feel good about it and it remains on track.

Christopher Turnure

So kind of rolling all that together, it sounds like you feel like you're executing on your plan and really not getting ahead of yourselves at all in terms of some of the positives that have occurred?

Andrés Gluski

Again, we are executing on our plan and I think we've delivered some things ahead of schedule that is certainly true. I mean we have been talking about getting our sort of the investment grade stats this year and, but we upfronted that we paid down more debt. I think it's very important that we said we pay down \$150 million of recourse debt, we paid down of \$450 million. So we have been over-delivering.

Operator

Our next question is from Ali Agha of SunTrust. Please go ahead.

Ali Agha

Good morning, Andrés, first question, I recall, I think it was maybe last quarter or two quarters back when you roll forward your growth aspirations and came up with the 7% to 9% growth rate for '18 through '22. At that time, you had also told us that the old growth

rate, which was '17 through '20 and 8% to 10% that you would end up at the high end of that growth rate. I just want to confirm that that's still your conviction as we sit here today.

Gustavo Pimenta

Yes. Gustavo, here. The short answer is yes. We will be providing color on February, but as I said in my remarks, we are reaffirming the 7% to 9% and to your question, yes, that's our expectation.

Ali Agha

Second question, looking through your numbers year-to-date, you got about \$124 million of distribution from Argentina to the Parent. Is that a good number on a run rate for the annual Argentine cash flow subsidiary distributions and how should we think about the capital controls that are currently in place or your prior experience perhaps in dealing with the leftist government in terms of what the cash flow implications and offsets could be going forward?

Gustavo Pimenta

Okay. Yes. Regarding Argentina, no that's not a - the run rate, what we had said in the past, as you know that we had three years where we did not distribute dollar dividends from Argentina. And so there was a catch-up in recent years. Now having a portfolio like ours as Gustavo mentioned in his speech, we don't expect this to affect us and also in Argentina is one that is a little bit of up and downs. We've been there in good times, we've been there in bad times.

We've always made money, even in 2002 we made money in Argentina that I think reflects the quality of our assets and the fact that they're very lowly levered. So this is not the sort of the run rate with current exchange controls in place, we don't expect to be paying material dividends out of Argentina, certainly next year. But we've always, you know it's again operated well there.

We have put a big back-office there. And so that's one way of, quite frankly, if you will, dollarizing is by using our pesos in Argentina to get services which are worth dollars to us. So that helps offset to some of this. So to be clear in Argentina we've always made

...that helps create some of what we do as a company, in Argentina, we've always made

money, we've always been capable of paying dividends, just we haven't always been able to buy the dollar.

So if you look historically, the average is more like \$70 million or so, and it's been like 5% to 6% of subsidiary distributions over time. So, and this is quite frankly what I expect in Argentina, it's kind of up and downs. But it's, we've operated well there and I expect this getting sort of up and downs, but it's not something that's going to materially affect our forecast.

Ali Agha

And then finally, Andrés, another topic that in prior quarters, used to get more attention, but we're not hearing much about is but - Merits and Bulgaria. Can you just give us an update of everything that's going on there on the contract or what your expectations are looking forward?

Andrés Gluski

Sure. Really we have nothing new to report on merits so that's why it wasn't part of our speech. We continue to be paid on time. The plant is being dispatched and now we're entering the winter season, which becomes even more important, they are up to date on their payments, the off-takers financial situation, NEK is strong. The country is growing strong, and it remains investment grade. So those things continue.

And regarding the illegal state aid case in front of the European Commission, our advisors continue to talk. So we have no official case yet and they continue to talk. And so, as I - we said before, we have really nothing new to report, but the asset is doing well.

Operator

Our next question comes from Charles Fishman of Morningstar. Please go ahead.

Charles Fishman

On Andrés on the Vietnam contract. Okay, the projects approved by Vietnam and you said you're in negotiations I guess for the long-term contracts, with the contracts be with the government or were you referring to contracts with LNC in quarters what contracts are

government or were you referring to contracts with LNG in quarters what contracts are those?

Gustavo Pimenta

Charl, that's a good question. Basically look there are two projects both supporting each other. So, the first is the 480 tera BTU regasification and storage terminal. So to put that in context. Today, we have about 150 tera BTUs between Panama and the Dominican Republic, with the additional 50 tera BTUs that will go to about 200 tera BTUs. So this is a very large project. Now in this case, we have about 38% of the project and PetroVietnam has the remainder. So we have a partner in this project.

So, where will the gas go? There is about 6 gigawatts I believe of gas five turbine in Vietnam. There had been using offshore gas, which is running out. So there will be immediately a demand for the LNG terminal.

In addition to our 2.2 gigawatts of combined cycle gas plant, which would be using that gas. Now in the second project on the combined cycle gas turbine plants. The 2.2 gigawatts we own 100% of that. So when we talk about contracts or different contracts. So one would be of course of the contract between the LNG terminal and the generators, including ourselves. Then there is the off-take of the energy and capacity coming from the 2.2 gigawatts of new generation.

And I realize we have a 1.3 gigawatt plant already in Vietnam, Mong Duong 2 which has done very well performing, it is one of the best performers in the country, we built it on time and on budget. As a long-term dollar-based contract, it's been paying on time. So basically, it would be like a repeat of Longjiang-2 only burning gas this time.

The other contracts for example between the supply of gas to this is Son My 2 is the name of the terminal that contracts have yet to be negotiated and obviously would be PetroVietnam and ourselves negotiating with U.S. gas suppliers. So those have yet been negotiated. But in general the - it's a very firm commitment by us and then by the Government of Vietnam to do this project.

And so I'd say the one thing that distinguishes it from, say, the projects in Panama and the Dominican Republic, is that - the demand is there. So it's not a question of building a terminal storage facility where the anchor tenant plant that you build a 30% of it. In this case it's going to be use - the use is going to be much, much faster, getting to the 90% plus usage.

Operator

Our next question comes from Gregg Orrill of UBS. Please go ahead.

Gregg Orrill

Yes. Thank you. I was wondering if you could touch on the BHP contract, BHP buyout of a PPA in Chile and whether that was a driver for the return of capital increase that you reported in the quarter?

Andrés Gluski

So there are two part. The - responding to the second, absolutely no, nothing has occurred yet. This will take effect two years. So it hasn't affected our returns of ASN there at all at this point. The second was that you know BHP has a - let's say a mandate from Corp to go green. So they put out a bid for 6 terawatt hours of new energy and what came back was basically about may a bit more than half of it was existing hydros in Chile. The other ones are renewables.

So this will replace our existing contract. No, our contracts, generally we make our money on the capacity payments, energy is a pass-through. So for our contract, they have to make us whole, if they're not going to use our capacity.

So they have mentioned a number in their press release of a value of about \$780 million. This has yet to be absolute - the exact number has yet to be negotiated. We think it's sort of around \$800 million, but this is yet to be negotiated. But basically this shows, I think the strength of our contracts in Chile, you know lot of people are questioning the value of these contracts.

And I think this shows that these contracts are very solid. So they will pay us for this future - the present value of that future capacity it was running through 2029. And there is still about - plant is about 20% contracted. And so this will be - it's a business decision by BHP and it's I think shows the strength of our contracts and the business in Chile.

Gregg Orrill

Do you think that will impact your growth rate guidance?

Andrés Gluski

No, absolutely not.

Operator

This concludes our question-and-answer session. I would like to turn the conference back over to Ahmed Pasha for any closing remarks.

Ahmed Pasha

We thank everybody for joining us on today's call. As always, the IR team will be available to answer any follow-up questions you may have. Next week, we look forward to see - seeing many of you at the EEI conference in Orlando. Thanks again and have a nice day.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.