Transcript for MPCES Q1 interim report 2024

MPC Energy Solutions N.V.

Transcript for "MPCES Q1 interim report 2024"

00:00:00 - 00:01:02
Heike Hülle: Good morning, everybody. I have the pleasure to welcome you to the MPC Energy Solutions Q1 2024 Results presentation. Our first quarter results have been published this morning and they're available on our website. We would like to take the opportunity to walk you through some of the highlights of the last quarter, and also give you an outlook on the coming months. If you have any questions during the presentation, please feel free to type them into the text box and we will answer them at the end. Just one remark: This webcast is being recorded and will be published later together with the transcript on our website. Before we get started, let me just remind you of the forward-looking statements. Therefore, as usual, certain information and statements shared in this document, including financial estimates and comments about our plans, expectations, beliefs, or business prospects, and other information and statements that are not historical in nature may constitute forward-looking statements under the securities laws.

00:01:02 - 00:01:39
Heike Hülle: We make these statements on the basis of our views and assumptions regarding future events and business performance at the time we make them. We do not undertake any obligation to update these information and statements in the future. Forward-looking statements are subject to a number of risks and uncertainties, and actual results may differ materially from the results expressed or implied in light of a variety of factors, including factors contained in our financial statements, filings, and other releases. Let me now hand it over to Stefan Meichsner, who will guide you through the presentation. Stefan.

00:01:41 - 00:02:38
Stefan Meichsner: Thank you, Heike. Good morning to everyone joining here today. Before we get started, I would like to give a quick review of our business and what we at MPC Energy Solutions are all about, and then we will move on to review the first quarter results. MPC Energy Solution is what we call a full-cycle independent power producer. We are exclusively focused on renewable energies, and we develop projects from greenfield all the way through construction and then remain invested long-term as an owner and operator of these projects. The focus area that we have selected to roll out our business model is Central America and the Caribbean. That means we cover the area from Colombia all the way up to Mexico and into the Eastern Caribbean. We've been operating now for three years, and we have been listed on the Oslo Stock Exchange since January 2021. Why do we pick Central America and the Caribbean as our rollout region?

00:02:39 - 00:03:57
Stefan Meichsner: Well, first of all, this is an area where the energy transition is as important as it is in Europe, North America, or Asia, for that matter, and governments are supporting the energy transition from fossil fuels or undiversified renewable bases into a green and clean setup that we are supporting. Secondly, in the region, countries either have a very small renewable base or very undiversified ones, where some countries, like Colombia, heavily depend on hydro-energy, which in periods of extreme drought, like what we're facing today or this year, becomes an issue. Therefore, diversifying that base towards solar photovoltaics, towards wind onshore, is elemental for these countries, and we are supporting that transition. A lot of countries still depend heavily on fossil fuels, most of the islands in the Caribbean, for instance. This leads to the fact that the generation costs and the electricity costs that people pay when they consume power are actually among the highest in the world. Therefore, we believe that we will find extremely positive market frameworks in these countries, a lot of demand for renewable energy, and ultimately a lot of support and a lot of factors that play in our favor and that compensate us for the risk that we take when we invest in these regions.

00:03:59 - 00:05:03
Stefan Meichsner: Since we started operations, we have put five projects on the grid, combining for a total of around 80 megawatts. These projects are currently in operation, and 2024 is actually the year that they are operating as a portfolio for the very first time, so for the very first time, we will see a full-year output from these projects. In addition, in March of this year, we started constructing our largest project to date, a 65-megawatt peak power plant in Guatemala. The teams are now ready to mobilize to the site and start the on-site works, and we expect this project to be completed and connected to the grid and to start delivering energy by the middle of next year. In addition, we have a fairly strong development backlog to solidify our future growth, and these are projects are mainly focused in Guatemala, El Salvador, and Panama, among some other countries where we believe growth and frameworks will be most beneficial for us in the coming years and help us meet our return requirements and other factors.

00:05:04 - 00:06:15
Stefan Meichsner: If you look at our portfolio today, the average lifetime of the bilateral power purchase agreements that we sign, meaning the contracted revenue that we have extends to around 15 years on average, and most of our portfolio is

exposed purely to US dollars, meaning the currency risk that we are facing in our portfolio is relatively low. The currency risk that we have, if you want to call it that, is associated with the Colombian projects, where we generate revenues in Colombian pesos. However, of course, we also pay bills in Colombian pesos, so overall, this is only a risk if we try to repatriate funds from Colombia to our US dollar-based operations. What are we looking for in projects? I've elaborated on this before, but I think it's always important to remind everyone that our target equity IRR is quite substantial at 15 percent or higher. We are a greenfield developer that likes to stay invested long-term, and we are focused on utility-scale projects, either solar PV, wind onshore, or a combination of both even attached to a storage facility like a battery, which will become much more important down the road.

00:06:16 - 00:07:25
Stefan Meichsner: The projects that we have need to qualify for what we call a co-investment case, or they need the potential to be farmed down, meaning that once we develop a greenfield project to be ready-to-build stage, we will bring in co-investors and sell a minority stake in our project companies or sell the project outright. We're currently working on a partnership in Guatemala for exactly that purpose so that a co-investor will come in and be a partner in the 65-megawatt projects that we're building. Of course, the off-taker is something that we look at very, very closely. We need bankable off-takers. We need credit-worthy off-takers that we can enter long-term partnerships with, and we spend a tremendous amount of time looking for off-takers that we believe long-term partnerships work with because ultimately, once a project is operational, you have two main risks. You have the risk that the plant is not working properly, that's the technology risk, and we can focus on that ourselves by making sure that it's maintained and operated properly, and that we use high-quality equipment and solid EPC contractors when we build the plant in the first place.

00:07:26 - 00:08:34
Stefan Meichsner: It's then the risk that the off-taker is not going to meet its obligations, that is, pay the bills to us, so these are the two main operating risks, and that's why we spend a lot of time looking for the right off-takers and managing that exposure to the extent that we can. To sum up our core principles, we're looking for greenfield returns. We know that developing projects from scratch has a certain risk attached to it, but once that risk is mitigated by entering the construction stage, we have created a tremendous amount of value, and we want to make sure that we can take that value off the table, in whole or in part, very early on. Therefore, that means we want to combine a steady capacity build-up without compromising our returns, and by making sure that we properly balance selling down projects at ready-to-build, but also building our portfolio. Of course, with our offices in Colombia and Panama, we have a very lean setup that is focused and well-connected in the region and I think having feet on the ground is really the core difference that we have compared to some other IPPs who try to work exclusively with partners in the region.

00:08:36 - 00:09:33
Stefan Meichsner: Taking a look at Q1, we have good news to report across the board. Energy output is up. Project revenue on a proportionate basis, meaning accounting for the economic share that we have in the projects, is also up significantly by 70 percent, and we continue to see an increase in our project operating profits, EBITDA, and the corresponding margins. This is basically what we said all along: Once the portfolio is operational and once we have managed the restructuring of some of our projects, we will not only see a significant increase in numbers across the board, but also we will see margin improvements and get closer to the target margins in our projects where we want to be, which is significantly above 75 percent. In Q1, these margins are commonly a little bit lower because, in the first quarter, you have some expenses that cover the whole year, like insurance premiums or other expenses that you need to account for in Q1.

00:09:33 - 00:10:38
Stefan Meichsner: Therefore, while margins are a little bit lower in Q1 commonly, they are also significantly higher than they were a year ago, illustrating that the portfolio, now that it's up and running, actually has nice scalability effects. The largest contributions in our portfolio still come from our projects in El Salvador and in Mexico. Together they account for a little over 60 percent of the total output, total revenue, and total profits. The current environment of high energy markets and inflation is, of course, also benefiting us, as some of the power purchase agreements that we have signed are tied to either price indices or they are related to it and trade at a discount to the spot market, and in times where spot market prices are very high compared to previous years, relatively high, we will also benefit from that. Therefore, overall, we are very happy with the results that we have achieved in the first quarter. It's a record quarter for us. We've never delivered numbers like this before and I'm very proud of what we've achieved, and I think this is a testament to the work that we put in and to the business model that we are pursuing.

00:10:40 - 00:11:43
Stefan Meichsner: On the cost side, a factor or an area where we've been criticized in the past is that we carried along a long and fairly large overhead compared to the small portfolio that we have. We've also done our homework, we understand that we cannot scale as quickly as we originally anticipated in the current interest rate environment. Even though the projects are there, finding attractive capital and making sure that we meet our return requirements is a challenge. We can

still scale up, but less quickly than before, and consequently, we believe we have to right-size the organization to reflect that and no longer be as large as it was when we had more ambitious growth targets. The Q1 really illustrates that the work that we put in to identify cost-cutting measures and to implement them late last year is already bearing fruit. In Q1, we came up more than 30 percent below the previous overhead cost level, and that is a clear indication that we are on the right track. At the moment, we don't see why we shouldn't be able to continue this cost-cutting of around 30 percent year on year compared to 2023 for the entire year of 2024.

00:11:44 - 00:13:05
Stefan Meichsner: This, of course, would positively impact the group-level profits as well, which we see when we look at the consolidated financials that we published this morning. I'm very, very happy to report that, for the very first time in our young history, group-level EBITDA on a consolidated level was positive, we reported around 625,000 dollars of EBITDA this morning when we published our report, and also our net income, and therefore, earnings per share, were positive for the very first time. What you see is the revenues on a consolidated basis, as I explained in the previous slides, are up significantly, overhead costs are down, and margins within the projects are up. This immediately translates because of the scalability of our business into a group-level profit, and we have no reason to believe that towards the end of the year, this trend will continue and that we will even report a positive group EBIT by the end of 2024, which is ultimately the goal that we have. For some other key financial parameters, the total asset base of our company was a little over 124 million. At the end of the first quarter, mostly still is equity financed, that is we are significantly under-levered compared to some of the peers that we see in our industry, which are commonly trading at 20 to 25 percent equity ratio.

00:13:05 - 00:13:58
Stefan Meichsner: The reason here is that we built our portfolio in times when interest rates increased significantly, and we decided to just simply finance these projects with equity only and re-lever them at a later stage when interest rates come down. Therefore, we see some tremendous upside here in terms of repatriating cash from our projects once we bring up leverage and debt levels in our projects and are able to return the money to our holding companies, where we can then redeploy it into new growth opportunities. Our free cash position is also still very strong: 12 million at the end of Q1, with the only commitment that we are really seeing being the San Patricio project, so we are in a very comfortable position at the moment to react flexibly to whatever opportunities might come our way. We are well established to fund our development backlog and of course, continue to pay for our now significantly reduced overhead.

00:13:58 - 00:14:58
Stefan Meichsner: As I said, for the first time, earnings per share, just as an indicator for those looking at these kinds of parameters and performance indicators, with two cents per share, positive for the very first time, and we will continue to deliver this during the year 2024. With all this good news, the outlook for 2024 that we've shared before remains unchanged. We expect our energy output to increase by nearly 50 percent this year compared to last year. Revenue is to be up by more than 30 percent and project EBITDA to almost double, to make sure that we finally see some margins that are more clearly reflecting the potential of the solar PV assets that we have and the overall portfolio, and now that we've contained trading losses in Colombia, which weighed us down last year, as we previously reported, and as we've completed the restructuring of our Mexican solar PV plant, the project margins that we will see down the road, the gross margins will be significantly higher and get to the level where we want them to be step-by-step.

00:14:58 - 00:16:00
Stefan Meichsner: If you account for the reduced overhead target, overall, we're looking at a very good 2024 now that our portfolio is operational for the very first time. One more comment on the San Patricio project, as I elaborated, we started construction in March of this year. We expect the project to be completed in the next 12 to 15 months and to connect to the grid. This is transformational for our company. It will double our capacity, it will double our energy output, and we will see revenues on a consolidated and proportionate basis go up by eight million with a very, very high EBITDA contribution on a more than 80 percent margin, and we do this without having to touch our overhead, without changing our personnel structure, without implementing any or incurring any additional costs. This is simply a scalability effect that we see. Naturally, once we bring in a partner, these numbers that will contribute to our own top and bottom line will be a little bit lower, but in return, we are able to secure a development fee and share the equity requirement for building the project.

00:16:01 - 00:17:03
Stefan Meichsner: Therefore, this would be still a very strong win for us and a significant transformational event that we're looking at. Why be exposed to us as a shareholder? I've said this before, I think our company exposes shareholders to being part of the energy transition to renewable energy in a very high-growth region in Central America and the Caribbean. These are developing and emerging markets, the energy transition is as important as it is elsewhere, but we believe we can secure significantly higher returns compared to other countries. Even though we're exposing ourselves to what some people might call country risk, we often see that this country risk is overstated. If you simply look at the energy market, at the power market, and you look at the respective of off-takers that we sign deals with. As a full-cycle IPP, we cover the entire value

chain from development through construction to operation, we're able to secure greenfield returns and create value early on, and we are still able to meet the scalability requirement that we see to cover development costs, to cover our overhead costs.

00:17:03 - 00:17:49
Stefan Meichsner: We have a strong local presence that really sets us apart from some other competitors that are active in the region. We already have an existing asset base with long-term cash flows, an average PPA lifetime of 15 years, strongly US dollar exposed. The cash flows are predictable, the high margins will come in now, and our target equity IRR also makes sure that future projects that we invest in meet our high return requirements. Of course, our development backlog of more than 300 megawatts means we can solidify the growth. We have plenty of potential going forward and bit-by-bit, we will exploit that potential and become a much larger IPP and an IPP that is really delivering long-term positive cash flows for its shareholders.

00:17:49 - 00:18:17
Stefan Meichsner: We have created value over the past three years. We will continue to create value, and I think Q1 of 2024 is proof of that. It demonstrates that the hard work that we put in is now paying off and delivering solid financial results, and we will only see those improvements in the coming quarters and the coming years. With that, I thank you for your attention. This concludes my prepared remarks, and I hand the call back to Heike for the Q&A session. Thank you all for joining us this morning.

00:18:22 - 00:18:43
Heike Hülle: Okay. Thank you very much, Stefan. Now, as I said, we will start a quick Q&A session. The first question that came in: Sparebank wrote today that MPC Energy Solutions is too cheap to ignore. What investor activities are you planning to narrow the discount?

00:18:45 - 00:19:43
Stefan Meichsner: The activities that we have the most control over is delivering solid results, by making sure that the portfolio performs as it is supposed to perform and that people see the true value not only in the operating portfolio but also in the development backlog. For example, by bringing in a partner for Guatemala to show what other investors are willing to pay for a ready-to-build project or a project that is under construction. If your question refers to perhaps share repurchase programs or other kinds of measures, these are currently not planned. If we would go down that road, we would have to ask the general meeting for approval anyway, so the public would know once we start discussions along that way. However, I also think with the low liquidity in the stock, which has been an issue, taking more shares off the market by a share repurchase program is really not supportive. What we see is: We deliver solid results, investors will see the value embedded, and if Sparebank says we are too cheap to ignore, I certainly do agree.

00:19:43 - 00:20:01
Stefan Meichsner: I'm sure investors will also see this and will more and more enter the stock, thereby increasing liquidity in the stock and driving up the price much closer to the value where it should be because the intrinsic value of our portfolio and the structure that we built is clearly much, much higher than what we're currently trading at.

00:20:04 – 00:20:12
Heike Hülle: Okay. Thanks, Stefan. The next question that comes in is: Please elaborate on the reasons behind the tax effect in Q1.

00:20:15 - 00:21:00
Stefan Meichsner: Yes. We have deferred tax assets and liabilities on our balance sheet that we estimate on a regular basis, whether we use them or not use them, and here liabilities were released and consequently had a tax impact. This was more, let's say, a correction of the year-end 2023 results than any particular impact that we had in Q1. It was just something that we do on a continuous basis together with tax advisors where we make sure that our tax assets and deferred liabilities are correctly reflected. We made a correction in Q1, and that drove up the tax result in this case. As I said, it's not operational. I think if you want to really see the operational performance, then the operating profit is the best indicator as of right now.

00:21:02 - 00:21:18
Heike Hülle: All right. Do you also plan to partially sell existing projects in line with the Co-investors' strategy, or are you already working on adjusting the financing structure of existing projects towards the industry's target leverage ratio of 80 to 20?

00:21:19 - 00:22:31
Stefan Meichsner: Yes, to both. We are certainly open to looking at partially farming down some of the existing assets as well or fully selling them down. Of course, we have some really prime assets in our portfolio. If we sell them at the current interest rate and the environment might not yield the valuation that we believe they have, but we believe we could still secure a significant uptick compared to the money that we have invested, so these discussions about even selling part of the operating portfolio are certainly on the table. We always need to account for the fact that the less we own in our operating portfolio, the less cash flow we can actually repatriate, and the portfolio needs to help us cover our ongoing spending. That at least is the idea, so we may get a lot of cash up front, but we still want to make sure that the portfolio is big enough to cover our ongoing expenses. In terms of selling this down, that's clearly a yes. When it comes to financing some of our unlevered projects, of course, we keep our eyes open. We are in constant discussion with financial institutions in the region. Interest rates, however, still remain high, in some cases go even higher.

00:22:31 - 00:23:07
Stefan Meichsner: Therefore, in Colombia, where this is a predominant reality that we still need to lever one of our projects, it's been very challenging and there is no immediate pressure to do so. We just need the market to turn, for the debt market to make sure that we can secure attractive rates that do not harm our current project returns. As long as the projects are up and running, they are generating positive cash flows, which we benefit from, so this is just an upside that we will exploit the moment that we can. Right now, it's not the moment, but we keep vigilant, we remain vigilant, and we are in continued discussions with banks in the region.

00:23:09 - 00:23:20
Heike Hülle: Okay, thanks. A follow-up question on this. Do you plan to develop all the projects in the backlog if they make economical sense or would you also sell fully developed projects?

00:23:21 - 00:24:15
Stefan Meichsner: Once the project hits the ready-to-build stage, that's, of course, the latest that we will ask ourselves: Do we want this project to be part of our operating portfolio because it meets our return requirements, because we have the cash to build it, etc., or whether we want to farm it down entirely. Therefore, the goal is clearly to develop the development backlog. As long as these projects are promising and they make economic sense, why wouldn't we? If they are about to meet our target returns, why wouldn't we? If we spend money on a project, there's really an exit point when the project starts construction. If we sell it down entirely, we are certainly securing a multiple on our own invested money, so that's a positive value creation factor. If we decide to still invest it, we get part of the upside that we created during valuation during development, but we can also stay invested and benefit from the long-term cash flows and high returns.

00:24:15 - 00:24:51
Stefan Meichsner: Therefore, I think overall, our focus is to realize the backlog to the extent that we can, always with an eye on spending appropriately and making sure that we prioritize the most promising projects. However, when we say that we have a development backlog of 300 megawatts, we are not overexaggerating this. We are just showing you the projects that we believe actually have a high probability of being realized. Otherwise, we would have to put up a number that's much bigger, but much less certain, so you can rest assured that we will focus on that development backlog in its entirety. However, of course, we are prioritizing certain projects, especially in Guatemala.

00:24:52 - 00:25:04
Heike Hülle: Now another question, there's perhaps the slight overlaps between some of the questions here. Is there any progress on the potential farm down on the existing portfolio?

00:25:05 - 00:25:41
Stefan Meichsner: As I've said before, we are in discussions, we are considering. Our top priority right now is to build Guatemala and if there is an appropriate co-investor that wants to enter during the construction phase at terms that we find acceptable, we will make that work. Otherwise, there's no particular progress in our existing portfolio, we are focusing on Guatemala and we are also actively trying to sell our Colombian development backlog, because Colombia is no longer a core country for us when it comes to future projects. Here we are actually in final discussions with potential buyers, so we hope that we can report something on that soon.

00:25:44 - 00:25:52
Heike Hülle: All right. The last question I can see for now is what is the status of the projects that were exited last year in Saint Kitts and Puerto Rico, were the funds recovered?

00:25:54 - 00:26:27
Stefan Meichsner: Yes, the funds for the Saint Kitts project were recovered already in November last year, and the funds from the Puerto Rico project, which is around USD 2.4 million, we expect to be returned later this month. We've been in discussions with our partner, who is in the final stages of selling these projects themselves. This is the step that needs to happen before they can repay us, and we've extended the payment deadline based on the good progress that we're seeing in the process. However, we should be able to secure these funds in Q2, I believe, end of May, latest early June.

00:26:30 - 00:26:37
Heike Hülle: Great. All right, the last question here now is what's the premium to NAV you could sell the projects for?

00:26:40 - 00:27:29
Stefan Meichsner: I'm not sure I fully understand what exactly you're referring to, but let me say this: I money that we invested in all of these projects, if we were to sell down the entire assets at the current fair market value' I'm sure that we could sell them at around 15 to 20 percent higher than what we've invested, based on our internal valuations and also based on what we've seen in the market. Therefore, I think the minimum that you can account for is what the projects are worth in our books. I personally believe that we would secure a premium for that, but in terms of NAV or NAV per share, I would actually have to do the math, but you can rest assured that the money that we invested would be returned and then some, because that's ultimately why we make these investments in the first place.

00:27:31 - 00:27:59
Heike Hülle: Excellent. Thanks a lot, Stefan. I think this covers the Q&A session this morning. Now, of course, everybody, if there are further questions that we haven't covered today, please feel free to send them to us via email at IR@mpc-energysolutions.com. We will answer your questions after this call. All right, we would like to thank everybody for joining us this morning and we wish you a great rest of the day. Thanks a lot.