Transcript for "MPCES Q3 report 2024"

00:00:01 - 00:01:06
Stefan Meichsner: Good afternoon, everyone. I'm glad that you're joining me today for an update on our company's performance in the third quarter of 2024 and year to date. As always, I'm happy to answer your questions after my prepared remarks. If you would like to pose a question, please use the Q&A function that is embedded in the webcast platform. You will find it below the slide feed. Before I begin, a quick reminder that I will be making forward-looking statements in this call. The disclaimer about forward-looking statements displayed on the screen in front of you applies. You can also check the respective slide in the webcast presentation that we uploaded to our website. The disclaimer can also be found in the Q3 report, which we published this morning. The report is also available on our website. Before I dive into the detailed financial performance that we've recorded year to date, a brief update or reminder of what our company is about and what we do for those who are joining us for the first time.

00:01:06 - 00:02:08
Stefan Meichsner: MPC Energy Solutions was founded a little over four years ago. We went public on the Oslo Stock Exchange in early 2021. Our business is to operate power plants and to sell the energy we produce in these power plants to our clients. We are a full-cycle, independent power producer. That means we not only operate the plants long term, but we also develop them in the early stages. We build them and then we operate them either alone or together with our partners. We're exclusively focused on renewable energy, mostly solar photovoltaics, but also wind onshore. In the future, we expect to combine these technologies with co-located storage systems, or even invest in storage systems that operate as standalone. The focus region we operate in is Central America, and to a smaller extent, the Caribbean, meaning up from Mexico, down to Colombia and into the Eastern Caribbean, in countries like the Dominican Republic and Puerto Rico.

00:02:09 - 00:03:16
Stefan Meichsner: Since the IPO, we've put five projects in operation across these different countries, combining for a total installed capacity of 80MW. Earlier this year, we started construction on our biggest project to date. It's a solar PV plant located in Guatemala. Once completed by the middle of next year, it will nearly double our capacity, revenue, and operating profits, and thereby have a very big impact on the financials and overall size of our company. There are some additional slides on our business, especially our relationship with MPC Capital, one of our largest shareholders or the largest shareholder. This kind of information was requested by some investors. I will not go into the details here during the call today, but if you check the webcast presentation, you will find the details that you need. Now, looking back at Q3 and year to date, we very much continue to tell the story that we already mapped out in the first and the second quarter of this year and reiterated upon during our webcasts at the time.

00:03:16 - 00:04:34
Stefan Meichsner: The energy output, revenue, and also the operating profits are up significantly year-over-year. This happened to such an extent that at the end of September 2024, we had already surpassed the full-year numbers of 2023. It's a substantially positive development. You pair that with the cost-cutting that we implemented, lowering overhead by 30 percent year-over-year compared to 2023. That gives us the chance to step by step, inch closer to also reporting positive operating profits on the group level and adjusting for impairment charges that we took this quarter. This is happening right now already, and this should further improve towards the end of the year. I will go into the details of these numbers as we walk through the presentation, but I think it's no surprise that the scalability that is inherent in our business drives up the numbers not only on a proportionate level but also on a consolidated basis. It is also noteworthy, and we projected this in the last webcast for the half-year numbers, that we saw improved operating margins in Colombia after reporting disappointing numbers in the first half of the year.

00:04:34 - 00:05:46
Stefan Meichsner: We significantly improved the operating margin from our project Los Girasoles in Colombia. You will see this as I go into the project details. I'm also happy to report that the farm down activities, so the project sales activities that we're undertaking in Colombia, are taking very good shape. For a project in our development backlog, we have now signed a binding sales agreement, which we expect to be concluded by the end of this year. For the two operating assets that are much larger, and the deal size would be much larger, we have signed non-binding agreements. The exclusive buyer is now undergoing due diligence. We hope that we can also make progress here, maintain the valuation that we've seen in the non-binding offer, and ultimately move towards closing a transaction as early as January or February of 2025. Unfortunately, this time is not all

good news. We reported previously that our CHP plant in Puerto Rico has seen very little energy demand from the off-taker, and unfortunately, the situation has not improved.

00:05:46 - 00:07:03
Stefan Meichsner: Quite the opposite. It has deteriorated very, very quickly in recent weeks and we are now also of the view, the clear view that the situation will not improve any time soon. As we've said before, we have always planned to exit the technology and also the market, but now we see ourselves being forced to move much more quickly. Unfortunately, we will not be able to get close to the valuation of any sale that we had previously hoped for. We have not signed any binding sales agreements yet. No binding documentation, so I have to be a little bit light on the details, but I believe that we can announce a deal here fairly soon. It will be significantly below the remaining book value of the project, and we will take that anticipated impairment in Q4 of this year. There's nothing positive here other than that we looked at every available option. We looked at deconstructing the asset, putting it somewhere else, selling energy to other off-takers, and selling energy to the grid. Even more legally driven options.

00:07:04 - 00:08:06
Stefan Meichsner: We concluded that selling the asset, even if it's below book value, is the best move for us. It will yield the best result for us. Therefore, ultimately, it is the step that we decided to do. At least it will boost our free cash position once the sale is concluded. It is important to underline that this is an isolated event. What's happening in Puerto Rico in this particular project does not affect any other project in our portfolio. We don't see any similar or equal issues appearing in any of our other projects. This is an isolated event. We were hoping for a better outcome, but this was out of our hands at one point, and now we're just trying to recover as much as we can. Another challenge is our investment in a project developer called Enernet Global. It's a company that we've been invested in since before the IPO, and we originally also had a development partnership with them in the Caribbean. That partnership was already discontinued a while ago.

00:08:07 - 00:09:19
Stefan Meichsner: Unfortunately, Enernet Global is facing some headwinds in its business and is now closing a new funding round. We have decided not to participate and not to provide any additional funding in the future, but as a consequence, we now have to accept a partial loss on our original investment and we will take a non-cash impairment of around $1.7 million in the fourth quarter of this year. Then the remaining book value of our investment will be around three million. Given that this only happened this week, the effect is not yet included or not included in the Q3 financials that we published this morning. However, it's still important to know that this is something that we already agreed to, and we will take the impairment going forward. Now back to some more positive news, which is our operating results. I already briefly said that across the board, the key metrics that we're tracking are up. To be more precise, energy output is up nearly 40 percent year-over-year. As of Q3 2024, project revenue proportionate is up more than 40 percent.

00:09:19 - 00:10:31
Stefan Meichsner: We also continue to improve our operating margins, getting closer to the range where we want to be. We more than doubled the proportionate project EBITDA this year compared to 2023. This continues the trend that we've already seen in previous quarters. For the most part, this growth is driven by simply having more projects in our portfolio that are operational compared to last year. However, even on a like-for-like basis, we're seeing improvements. Energy output is up because of the good conditions that we see locally, but also because of some technical improvements that we made last year to some of our existing projects. Especially in El Salvador, we're also being supported by the proper PPA price kicking in in the second year of operation, and by higher energy tariffs in general in the country or the entire region. While we're normally not exposed to spot market movements, in El Salvador in particular, we are subject to a reference tariff, and that reference tariff is currently at a fairly high level. We expect it to remain that way and we are benefiting from it this year.

00:10:35 - 00:11:45
Stefan Meichsner: Looking a little bit deeper into the individual projects, the project in Mexico and the project in El Salvador continue to contribute most of our revenues, energy output, and operating profits. They're also operating at margins that are in the range that we expect them to be. The Puerto Rico project has contributed positively this year, and we will receive the revenue and the outstanding invoices as part of a divestment. Very important is that the Los Girasoles project in Colombia, after only reporting around ten percent operating margin in the first two quarters of this year, we're now back at 36 percent as we recovered what we said we would recover: lost revenue due to a metering error. We are also recognizing some trading results that we previously did not recognize. Also, the second Colombian project, Planeta Rica, which is a joint venture that we're invested

in and which went online in December of last year, is performing in line with expectations and also in line with operating margins that we believe are feasible and solid in Colombia.

00:11:45 - 00:13:05
Stefan Meichsner: This leads to an overall proportionate revenue of 9.7 million and a proportionate EBITDA of 6.5 million. Both values up significantly year-over-year. Another trend that continues is that we keep our overhead costs under control. In late 2023, we initiated a cost-cutting program with a target to lower costs year-over-year by around one and a half to two million, and we are currently on track as we were before to achieve this. As of September of this year, the reduction is the 30 percent that we're targeting. When it comes to free cash, in Q3, we saw a lot of tax payments and mostly prepayments that we had to do from our holding companies but also used the free cash that we had to meet these payments in some of our projects. That's why the free cash position is lower than it was at the end of June 2024. However, given the sales activities that we have ongoing in Puerto Rico, Colombia, and Guatemala and the lower overhead that we now have, we are comfortable with the current cash position. We know that cash is coming in towards the end of the year.

00:13:05 - 00:14:19
Stefan Meichsner: The current 1.6 million in free cash, we expect this to climb up significantly in the range of anywhere between five and six million, depending on how quickly we can close the first transactions. If we move further, we walk away from the proportionate results and we get closer to the consolidated values, the story is the same. Revenues are up, and project costs are down, which gives a significant boost to the EBITDA on a consolidated basis, nearly doubling the results from last year. Overhead costs are lower. We're once again posing a positive group EBITDA. When you adjust the operating profit EBIT for the impairment charges that we deliberately took to reflect the write-offs on some of our discontinued projects and take the first impairments related to Puerto Rico, you can see that we're getting very, very close to a positive adjusted group EBIT as well on a consolidated basis. This is ultimately what we targeted for this year and we are currently on track to achieving this, especially if our portfolio continues to operate and deliver as well as it has year to date.

00:14:21 - 00:15:29
Stefan Meichsner: Rounding this off with some other indicators, our equity ratio remains in the area of 50 percent as it was before. We still have a lot less leverage on our balance sheet than other peer companies have. This is a certain upside, but giving financing conditions in certain markets and a generally higher interest rate environment. Still, this is something that is not a short-term fix, but something that we will pursue to improve over time. The adjusted EPS is negative, but an increase so it's a positive development compared to last year. This adjustment means it has been corrected for FX gains and losses and for the impairment charges that we took. How does this affect our year-end outlook? We previously guided 12 million in proportionate revenues and eight and a half million in proportionate EBITDA. We will end up very close to those numbers. However, given the halted production in Puerto Rico and our divestment, we will no longer see any further contributions from that project.

00:15:29 - 00:16:51
Stefan Meichsner: Therefore, despite the excellent performance of the other plants that we operate, we will lower our guidance a little bit from previously 12 and eight and a half to eleven and a half to 12 million revenue and seven and a half to 8 million in proportionate EBITDA. Group overhead ended up 30 percent below the previous year. Naturally, given that the Puerto Rico project doesn't have such a substantial impact on our overall business, we are aiming for the higher end of both ranges towards year-end. With that, my prepared remarks end. I'm more than happy to take your questions. I will give you a minute to post them in the question box embedded in the webcast platform. Thank you for your attention, and let's see that we move on to the Q&A session.

[silence 00:16:25-00:16:36] The first question that I see here is the following. Your free cash position has decreased. How much money do you expect to come in from the different divestment activities you are currently pursuing and what is the timeline?

00:16:51 - 00:18:15
Stefan Meichsner: Let me once again say that I'm not concerned about the level of our free cash. It's lower than in previous quarters, as I said, mainly because we paid more than one and a half million dollars in taxes in Q3 on our holding entity level. Our overhead is low, around $300,000 on average per month. We have no further commitments with regard to project investments, and that gives us time. Now, the overall number of potential sales that we are currently looking at is around $25 million. This only includes the Colombian assets and the forced sale of the assets in Puerto Rico. Guatemala, Mexico, El Salvador, and the rest of our pipeline are not

included. That should give you an indication that there's way more value in this company than what is reflected in our market cap. If things go as planned, you ask about the timeline, the sale of Puerto Rico, and the sale of the development project in Colombia should be concluded this year. That means we should see over $4 million flowing back to us this year from these sales.

00:18:15 - 00:19:30
Stefan Meichsner: The due diligence for the larger projects in Colombia will take more time. Once again, we've not signed any binding agreements. It's certainly doable to sell these assets latest in Q2 of next year. That should be our target. On top of that, we're also expecting some cash back from our project in El Salvador of around $300,000 this year. When it comes to our free cash position, we will see an upside by the end of the year, an uptick. Then with the sales of the Colombian assets that we are proposing in the first half of next year, we should be fine.

The next question, can you elaborate on the impairment you expect from the sale in Puerto Rico, the sales price that you're expecting, and the other impairments? Again, we haven't signed anything binding. I don't want to be too precise, but I will do what I can. Let's start with Puerto Rico. We have now taken some impairments this quarter. The remaining book value of the asset is around 8.3 million. The magnitude of the non-cash impairment that we will take on this sale depends on the purchase price.

00:19:31 - 00:20:23
Stefan Meichsner: I would expect that we will recover around half of the current book value. That means the write-off will be substantial. However, all things considered, I maintain that this is by far the best option. We are far away from recording a complete loss, which was a possibility given the development that we've seen. We've done everything to prevent that, and if we end up with a sales price of four to four and a half million, I think, given the circumstances, we have done our best and at least increased our free cash position substantially and gotten rid of an asset that has been problematic ever since it started operations and has weighed us down and taken attention away from us. The other impairments we took are all on projects that we discontinued, where we wrote off the historic development costs in Colombia and Jamaica.

00:20:23 - 00:21:38
Stefan Meichsner: We might still sell these projects to other developers or investors who want to take a shot at it, especially in Jamaica. However, we're taking this step to take out the value of projects that we're no longer pursuing, and any sales proceeds in the future would be upsides to that. On the other hand, some of the projects, especially the ones in El Salvador and Guatemala are worth much more than what is reflected in our books. Upside as they represent a silent reserve, and that needs to be kept in mind as you look at the different impairments that we're undertaking.

Question here on the Guatemala project, what is the status of construction and your co-investors search? I received the last progress update last week. We stood at 50 percent construction completion at the time. All the material is on site, the substructures have been installed, and module installation is about to begin. With that, our timetable remains unchanged. We're still in line with what we communicated before, which said that we will connect by the middle of next year. We are currently still on budget.

00:21:38 - 00:22:55
Stefan Meichsner: The same goes for the previously communicated timeline for the potential deal. That's also unchanged, due diligence is underway, and we will communicate more on that when we have a clearer view.

The next question is, what is the sustainable energy price for the El Salvador plant? I suspect this to mean what is the price level per megawatt hour, for example, that we can retain? Currently, we are at around $130 per megawatt hour set as a reference tariff. We are trading at a discount of roughly 16 percent to that. I would say for the foreseeable future, that is the price level that I would expect, as this is driven by a lack of water reserves in the region that is very much determined, or where the price is very much determined by the availability or lack of water in the hydropower plant reserves. However, I would always say that it will always be around for us or anywhere between $105 and $110 per megawatt hour is what we're planning with and we have currently no indication that this should go lower. I hope that answers the question.

00:22:57 - 00:24:06
Stefan Meichsner: I already commented on the question that is also posed here. There's a question: Do you have to invest a further part of your free cash for the San Patricio project? The answer is no. The project is fully funded. We invested eight and a half million in equity. The bank is providing around $34 million in debt, and

we are at a stage where the equity portion has been invested now in construction activities, and anything further will be paid for by the bank. If there are any unforeseen delays or cost overruns, which is unlikely, given the good progress that we're making and the turnkey fixed price contract that we have, I don't believe that we will need to make any further investments into that project and that it can be connected without requiring any additional capital.

One more question is what I see here for now. Do you see possibilities to improve the performance or numbers of your operating projects going forward? In some cases, certainly, we're constantly looking for improvements.

00:24:06 - 00:25:07
Stefan Meichsner: Once a project is operational, there are only so many things you can do. A solid maintenance regime is very important. Also making slight technical improvements where we can, for example, in Colombia, for both projects, the tracker systems that help increase output for the plans have not yet been fully commissioned. That's ongoing, and that is an improvement that we will make. We can always seek to optimize the operating costs and cut expenses. The greatest lever is always the financing. Most of our projects already have very reasonable or even attractive financing arrangements in place. In Mexico, we have a fixed price arrangement of below five percent interest rate per year. We cannot beat that in the current environment. However, with a further operational track record, let's take El Salvador as an example, where we pay a margin of almost five percent on top of SOFR, which is a variable rate.

00:25:08 - 00:26:01
Stefan Meichsner: [unaudible] I think with a good operational record, we can also tighten the spread that we're paying here, especially if you compare it to the conditions we're getting in Mexico or Guatemala. There's some upside here. We will look into translating that upside and generating savings on the financing side, thereby increasing our cash flow because our focus is always on maximizing the cash back from our projects. If we can improve the financing condition, that will certainly be the biggest lever that we have to make that happen.

Another question is, when you refer to potential farm downs in Colombia, are you considering the sale of both assets with a complete exit from Columbia, and if both assets are sold, would you then no longer pursue farm downs of San Patricio?

00:26:01 - 00:27:11
Stefan Meichsner: Yes, a complete exit from Colombia is ultimately what we have in mind. From the development backlog that we still had, we're now selling one project, and we're discontinuing the two others. We have two operational assets. We have received offers for both of these assets. We intend to sell both of them, provided that the valuation that we have received as an indication and the non-binding offers does not change. Now as to whether the cash that we might receive from these projects would then put off any co-investor's search in Guatemala. From a liquidity perspective, which was never the main driver for selling down Guatemala, it's certainly something that could be discussed. However, I think we also always argued that we wanted to sell assets early on to secure the development premium and thereby underline our business case. At the end of the day, a decision will be made once we have a binding offer on the table and this will be put to a vote on the board, and then we will weigh the pros and cons.

00:27:11 - 00:27:51
Stefan Meichsner: At the moment we are in discussions about selling and therefore our motivation hasn't changed. Giving it a few more seconds here for other questions to come in. Otherwise, I think I've covered them all. Terrific. I want to thank you for taking the time. This presentation, the recording, later on the transcript, and also the Q3 report we published are available on our website. Thank you for participating. Thanks, HC Andersen, for making this webcast possible. I guess I'll speak to you again when the year is out and we come back with a full year's result. Thank you very much and have a lovely day.