

Transcript for "MPCES H1 Report 2025"

00:00:02 - 00:00:57

Heike Hülle: Good morning, everybody, and welcome to today's webcast for MPC Energy Solutions. In our webcast this morning, we will discuss our results for the first half of 2025. The interim report was published this morning and is available on our website. Please note that this webcast is being recorded and it will be published later, together with the transcript and the presentation slides. We're happy to answer your questions after the presentation, so please feel free to type them in the text box anytime, and we will cover them in the Q&A session at the end. Just as a reminder, we will be making certain forward-looking statements in this call. You can find them included in the disclaimer in the presentation, and please check them for the background and limitations of these forward-looking statements. I'd like to pass the word over to Stefan, the CEO of the company. Stefan, please.

00:00:59 - 00:02:03

Stefan Meichsner: Hi. Thank you very much, and good morning to everyone dialed into the call. The remarks I have prepared for today should ring very familiar. They basically mirror the remarks that I made three months ago for the Q1 results, because the second quarter very much resembled the first quarter, and therefore, the overall picture for the half year of 2025 is also very much the same. Before we look into some of the details, I would just like to review the overall objectives that we have set for this year and where we stand vis-à-vis these targets. As of today, as we've said, the overarching goal for 2025 is this: We at MPC Energy Solutions want to start returning cash to our shareholders and the sub-targets that we have set to facilitate this. We're really making very good progress on all fronts, and overall, I think this is the key message for today's webcast, is that we are on track for 2025, and we're also on track to making distributions by year end to shareholders happen.

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Stefan Meichsner: Looking at the sub targets, we said we wanted to connect San Patricio and Guatemala, our 66 megawatt plant, to the grid. The big milestone that I can report on today is that we have actually completed the construction of the entire project earlier this month. It's a big milestone, a big achievement for us, for our team, for our partners. Technically speaking, the plant is ready to go. Unfortunately, there has been a delay in the permits that we require to commence the testing of the plant, which would also mark the first power generation. I will speak about this a little bit more later today in the webcast, but at least we have removed any risk that this project might require additional funding because, as I said, the construction is now completed and no more works are required. The second goal is to generate positive free cash flows. We're also moving in the right direction here.

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Stefan Meichsner: As you will see, we've really significantly improved the margins from our projects, which directly translates into higher margins on the group level as well, because overhead costs, while we haven't seen the reduction that we wanted, they're still very much under control, and we will see lower costs as the year progresses. In terms of spending very selectively on project developments, on new project developments, that is also happening. We only have one small project in El Salvador that we're currently progressing slowly, but the funds needed for this, for making sure that the progress is secured, are really fairly limited. Excuse me. Then, of course, the overarching goal of returning cash to shareholders does not work if we don't have a sufficient free cash position. We're working on making that happen. Project divestments are the key driver here. We sold one project at the end of 2024. As you know, some of the sales proceeds will only flow to us in October, so there's still money to come in from that sale. This year, we have already sold two projects.

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Stefan Meichsner: One was a development project in Colombia, and as we announced earlier this month, we also signed an agreement to sell our financial interest in the project Planeta Rica in Colombia. The 27 megawatt plant and the agreements to sell have been signed. We are working on the closing requirements for that deal, which we expect to happen in September or latest in October. Looking at the Q1, sorry, the first half of the year, a bit more in detail. As I've said, among the key highlights is really that our operating profit in absolute terms and our profit margins have improved significantly year over year. On a proportionate level, we now stand at a 73 percent EBITDA margin compared to 64 percent last year, and that is truly the core achievement that we have delivered in the first half of 2025. The agreement to sell Planeta Rica, which I just mentioned. I read this morning that people feel a bit disappointed that we did not share financial details on the transaction. The reason for that is quite simple.

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Stefan Meichsner: We have agreed with the buyer that we will not disclose the financial terms, but at the end of the day, there is public information out there that we have shared that we had to share. If you look at our balance sheet, excuse me, you will see that there is an asset held for sale. That asset held for sale is our financial interest in this particular project, which we value at around \$8 million. Since we value this on a fair value basis, meaning we try to reflect the true market value of the asset, I think you can see that the overall proceeds we expect from the sale match that amount or should be fairly close to that amount, but it is separated between an upfront payment that we will collect right away. Then there are certain milestone payments down the road, 12 months after closing, which we may also secure. The total proceeds are not 100 percent certain at this time. I think the book value of the asset should give you a very good indication of what we're expecting. If you go into the details, you will find the information. Even though we cannot be more precise on the disclosure here.

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Stefan Meichsner: I already mentioned the construction in Guatemala, now completed. We're waiting for a number of permits. This has been delayed already for a few weeks. We're waiting for the local authorities to issue these permits. We've done our part. We filed everything on time. We are at the mercy here, naturally, of the local authorities. I expect these permits to be issued shortly, and then we can start the testing phase, meaning we can make sure that the equipment runs properly, smoothly, that everything functions, that everything is protected and communicates properly, and we are really not far away from achieving this milestone. For the moment, I think this is a really important part. The delay does not affect our year-end guidance. We've always been very conservative in our projections, because we know by now in the region that things simply can take longer than expected, even though there's really no reason why they should. The delay for the moment does not affect our year guidance or the overall targets that we have.

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Stefan Meichsner: Even if, let's say worst case scenario, this delay continues beyond, let's say, August or September, it will not affect our aim and our ability to distribute cash at the end of the year, because the project will not require additional funding, and our ability to distribute cash to shareholders does not depend on this project becoming operational. It will. In the coming weeks, it's not a matter of if, it's a matter of when. Looking at some of the details, I think there's really the same story that we already told before. We have made very good improvements. If we just look at the reported numbers compared to the first half of 2024, we see that energy output is up. That revenue is more or less flat, but that especially the operating profit and the corresponding margins have improved significantly. This change is even more dramatic if you look at a like-for-like basis, meaning the project that we had in operation last year in Puerto Rico that we sold. You remove these numbers. You can see here, we've shown it that the revenue uptick and the profit uptick even more significant.

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Stefan Meichsner: The reason for that can be found in the different projects that we have, in particular the ones in Mexico and in El Salvador. Looking at this, in Mexico, we've seen a very stable energy output comparable to last year, but we've seen an upside on the revenue side and especially on the profit side. As our team has managed to lower costs and make sure that the plant operates more smoothly. Overall, we have very solid technical availability. The solar irradiation plays in our favor. The tariffs play in our favor. We have costs under control. That is why you see an improvement not only in Mexico for the Los Santos project, but also in El Salvador for the project Santa Rosa and Villa Sol, where we've seen a 12 percent increase in energy output, of 27 percent increase in revenue and a 37 percent increase in EBITDA, with a corresponding improvement of the operating margins. The project was already doing well last year, with some technical matters that we had to take care of. This year it's really demonstrating its full capabilities, and we are very happy with how this project is not only delivering a solid top line, steady top line, but also a very attractive operating margin.

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Stefan Meichsner: There's currently no indication that this margin will come down. In Colombia, the picture is a bit more mixed. We do see solid output. We do see increases on the revenue side, and especially for our project, Los Girasoles, we've also managed to improve profitability. It's for many reasons still not where it should be, but it's certainly not as bad as it was last year. The same goes for the project that we will now sell, the Planeta Rica project. It's not the Belle of the Ball, but at least it has improved relative compared to last year, for the most part. At least we have a portfolio that is running in a proper manner. We have addressed all the issues that we saw in 2023 and 2024. The results that we are presenting here today, especially the increase in the operating margins, are really a testament to the hard work that we have done. If we move away from the project level and look at our corporate level, you will see that the cost decrease is not as significant as we had originally planned. We were expecting to trade around 10 percent below last year's overhead spending level.

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Stefan Meichsner: The only reason this hasn't happened yet is simply because we had higher-than-anticipated year-end auditing costs. For small companies like ours going through the audits that are required as a listed entity is, in part, quite ridiculous. The expenses related to that are not acceptable. Nonetheless, we have to face it. The good news is that going forward, Q3, Q4, we have lower personnel expenses. We have renegotiated corporate service agreements that will bring down costs further. Certain spending items that we had last year will simply not recur again this year. As we go into Q3, we should finally see that we are moving in the direction of 10, 15, 20 percent cost reduction year over year, as we have planned. It's simply something that has been delayed during the year, which is unfortunate, but also costs overall are under control. Our life does not depend on us bringing costs down. It's merely a matter of keeping costs under control. As I said before, the free cash position has decreased over time. Naturally it has decreased as we spent money on overhead, and as we spent money during the construction in Guatemala, has decreased over the past months.

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Stefan Meichsner: Now we are seeing a turnaround. This morning, we received a cash back payment from one of our projects of nearly \$200,000. Now, cash is coming back from projects. We have the project diinvestment in Colombia. We have additional proceeds coming from the project investment in Puerto Rico. Tax money is coming back where we made too high prepayments. We're now actually seeing tax refunds, and we have lower overhead spending. We are now very much in the position where we can comfortably predict that the decrease in free cash is over and that we will, step by step, increase the free cash position by year-end so that we will have sufficient funds to decide on how much to distribute to shareholders. I really should be the person who's worried about the free cash position, but I'm not because I simply know where it's going. I know that even with 2.2 million in the bank as of yesterday, today it's a little bit more, or at the end of June. We're trading a little bit higher now. At the end of the day, I know what's coming, and I know that there's no reason to be worried. If you don't know the details.

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Stefan Meichsner: Of course, you get that reflex but at the end of the day, it's not a problem. The consolidated group numbers tell the same story as the proportionate numbers. Revenues are relatively stable, but project costs have come down significantly, translating into higher profits. Overhead is relatively stable and therefore, for the second time in our history, the second time in a row, we're seeing a positive group Ebit and positive group Ebit margin. The story that we've told, the trend that we've seen during the first quarter has continued during the second quarter, and we see no reason why this should be different going forward. The same goes for our balance sheet structure. It's relatively unchanged from the previous quarter, both in terms of total assets, the equity ratio that we have. The consolidated cash position of 11.3 million is mainly driven by cash that sits in our larger projects, including the one in Guatemala. Of course, our ambition is to, step by step, make sure that the cash flows back to us.

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Stefan Meichsner: The EPS for the first half year, while negative, is much improved compared to the loss of \$0.21 that we had a year ago. Overall, the story here is that we're making incremental improvements and that we are sitting on a very solid basis, and we can be positive about what's going to come next, what's going to come next in Guatemala. You see here in the picture the plant in its full completed state. It's a 66 megawatt peak installation stretching over 100 hectares. We have new roads. We have a new substation, which you can see there in the upper right corner. Overall, this is quite a tremendous project. We have completed it. We're just awaiting permits now to start the testing phase. The testing phase also marks the delivery of the first megawatt hour or kilowatt hour to the grid. With COD then pending the successful testing once this project is completed. We've said this many times before, it will have a tremendous financial impact on our top and bottom line. At the moment, the most important part is that construction is completed.

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Stefan Meichsner: No more funding is required. Everything is secured. We're now just playing the waiting game for the local authorities to issue the final permits. Overall, with this size, this is the third largest project in Guatemala of its kind. It does have a very positive impact on the country itself. There will be a small inauguration event two weeks from now, where the president of Guatemala is expected to attend. Underlining how important this really is for the country and for the region as a whole. Then, last but not least, just to confirm the guidance for 2025, we have not changed it. Some of you may ask why you have not changed it if you're seeing a delay in the Guatemala COD. Well, the reason is very simple. Twofold actually. One, we have not planned or we did not factor in larger contributions from the plant in Guatemala during Q3. In our forecast, we

stretch that out towards the end of the year. At the same time, we did not consider any contributions from our Colombian plants in the original forecast. Of course, they have contributed.

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Stefan Meichsner: They have contributed 1.5 million in revenue and \$600,000 in EBITDA in the first half. We are seeing a bit of buffer here that we've created so that if the and that of course, is also paired with a better than expected performance in El Salvador and Mexico, which are helping us to make sure that we are on track, meaning that unless, let's say, there is a significant delay in starting operations in Guatemala, which we currently have no reason to expect, should we this guidance will remain firm. And we really at the moment see no risk why we should not be able to achieve it based on the very good first half performance of the existing portfolio, but also on the outlook that we have on what's going to happen next in Guatemala. With that, I have already ended my prepared remarks. Thank you, everyone, for your attention. And as always, I'm more than happy to take any questions you might have. Thank you.

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Heike Hülle: All right. Thanks a lot, Stefan. Let's jump into the Q&A session. Let me just remind you that if you have any questions, please feel free to type them into the text box, and we can still consider them for this Q&A session. Okay. Stefan, the first couple of questions coming in are related to the Guatemala project. The question is, what caused the delay in Guatemala? When do you now expect the plan to commence operations, and at what point will the year-end outlook be negatively affected by the delay?

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Stefan Meichsner: Okay, I would just repeat some of the key points I made earlier just to nail it down. With the construction now completed, the next step is to test the equipment. We need to make sure everything functions, everything runs smoothly. The communication with the substation and the grid is in order. In order to commence that testing period, we need certain permits. There's especially a permit from, let's call it the Regional Transmission Grid Authority. There are some technical protocols that they need to approve. We've handed in the documentation for this a while ago. We expected the permits in our hands when we completed construction earlier this month. These constructions. Well, we have filed all the paperwork. We are at the mercy of the authorities. Sometimes things just move slower in this region. Even if more slowly, we plan to buffer in our estimates. Once again, let's say we were a bit disappointed by how slowly, really, things work. That makes it quite difficult at the moment to give a proper time estimate.

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Stefan Meichsner: I will say, unless this drags out into the fourth quarter, and I really have no indication that that should be the case at the moment. We're working on it every day. We're communicating, we're following up. It could happen tomorrow. It could happen next week. It's just something that is not in our hands. Unless this drags out into the fourth quarter, we should not be negatively affected relative to our year end guidance. As I said before, whether Guatemala starts operations or not is irrelevant for the fact that we will increase our free cash position through the different divestments and measures that we've taken, and be ready and able to distribute cash at the end of the year. These things are not connected.

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Heike Hülle: All right. There was another question that came in related to this. Maybe you could just elaborate on this a little bit. Stefan, is there any obligation to deliver electricity that you need to cover in the market resulting from the delay?

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Stefan Meichsner: Contractually speaking, we have until the 20th of December to start operation of the plant. There is still a six-month or five-month window from now that we theoretically have before we hit a point where we have to tell the off-taker we are not ready. We need to get you the electricity elsewhere, or we have to find another arrangement. There is, then, also contractually, I think, a six-month healing period. We have plenty of time to resolve this issue. With the construction completed, that's not the timeline we're looking at. I would say there is zero probability that this becomes an issue.

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Heike Hülle: All right. Now moving on. You said you intend to distribute cash to shareholders this year. How much are you planning to distribute, and in what form could this I think the how? Stefan Meichsner: I've addressed this before, the easiest way to do this is to distribute cash from our legal reserves. That does not require a general meeting. Approval does not require supervisory board approval. We, as management, can

decide to do so provided we have the funds. It's the most straightforward way to do it. It should also be relatively tax efficient for most of our shareholders. As to how much. I mean, that depends on how much cash we have at the end of the day. We want to make sure that we do not distribute everything, and we have nothing left for what's, what's to come. We have to do a proper estimate. At the moment, I don't want to say whether it will be ten US dollar cents per share or 20 US dollar cents per share, or something like this. We will revisit this once we have clarity on the sales proceeds from Columbia, when they will flow. I guess when we meet again here for the Q3 webcast sometime in October, we will have a definite answer.

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Heike Hülle: All right. Then are there any more project divestments planned this year?

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Stefan Meichsner: Well, we're looking at several options. I don't want to want to say anymore. I don't want to be any more specific because it might impact certain negotiations that we're having. We're certainly not done.

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Heike Hülle: Okay. Let me just check. There's another one. Can you please elaborate on your plans for the company, especially concerning new developments, acquisitions, or divestments?

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Stefan Meichsner: I mean, if you have been following our story, our development closely, the path that we've taken, the measures that we've, let's say, implemented, the things we - meaning I - have said in these many webcasts. I think the overall trajectory should be very clear. It should become very clear that we have certainly left behind the phase where we develop many new projects, where we spend millions on new constructions, on new builds. I think the more likely scenario is that we will manage the existing portfolio as well as we're doing it now. We will make sure to maximize output from these to make sure that as much cash as possible, sorry, um, flows back to us, meaning the parent company, and we can then turn around and distribute it to, um, to shareholders. As I've said before, at the right time, at the right valuation, every project is potentially sellable because we're an asset-rotating IPP, is potentially on the table to be sold. The question is, then again, is it more valuable to us and our shareholders to operate a project or to sell it with everything that is involved. This mentality has always been there, and it will not change.

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Heike Hülle: Understood. Now, the last question I see for now. Could you elaborate a little bit on the outlook for the Los Girasoles project?

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Stefan Meichsner: Yes. As we've said before, Los Girasoles is also a project we would like to divest. At the moment, the project is earning money. It's not like we have to react immediately. We can take our time to find the right buyer at the right valuation. I mean, the project itself generates, let's say, an output more or less in line with our expectations. I think if you allow me to go into some details, the mismatch here is that this is the only project where we have signed a pay-as-contracted power purchase agreement, meaning that we have to deliver electricity in a certain amount at a certain time during the day, and whenever the plant doesn't generate enough during that time. We need to purchase the electricity in the spot market, and historically, that has been a loss-making endeavor for us. It's a mismatch that we cannot really heal easily, other than by making sure that the plant generates more electricity. I think we have done everything that we could. If you look at the original idea and the original investment thesis for the project, the idea was to purchase maybe 5 to 10 percent of the total delivery requirement in the spot market, and we are closer to 30 percent, so an exposure is still there.

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Stefan Meichsner: The good thing is that exposure is, financially speaking, relatively limited at the moment because we're also able to sell excess electricity in the spot market. There's more or less even out. But unless we change the PPA, this is the core issue that the project has, and also the core issue that potential buyers will look at and say, how comfortable do I feel with this? What kind of discount do I need to apply to the valuation? And some of them are more aggressive, and we don't like that. Others are in line with our expectations. I would say the discussions on selling the project continue. We do have interested parties, but it will not move quickly, and I do not find it unlikely that we will be able to sell the project this year. We're certainly working on it. In the meantime, we're just making sure that it's earning money for us and that we can also get some cash out of the project over time.

00:26:27 - 00:26:58

Heike Hülle: Okay. Thanks a lot, Stefan. I think this covers the questions that came in so far. If there are no further questions from the audience, then let me just remind you that if there are any questions that come up after this webcast, of course, feel free to send them to us via email at IR@mpc-energysolutions.com then we can get back to you with a reply afterwards. All right then, let me thank everyone for joining us this morning and have a great rest of the day.