Transcript for "MPCES Q1 2025 Financial Results"

00:00:01 - 00:00:57
Heike Hülle: Good afternoon, everybody. I have the pleasure of welcoming you to today's webcast for MPC Energy Solutions. In our webcast today, we will discuss our results for the first quarter of 2025. The interim report for the quarter was published this morning, and it 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. If you have any questions during this presentation, please feel free to type them into the text box on your screen, and we will answer them at the end. Just as a last reminder, we will be making certain forward-looking statements in this call. Please refer to the disclaimer on screen. It's included in the presentation for the background and the limitations of these forward-looking statements. Now, let me introduce you to our speaker for today, Stefan Meichsner, the CFO and Managing Director of the company. Stefan, over to you.

00:01:00 - 00:01:50
Stefan H.A. Meichsner: Heike, thank you very much. Good afternoon to everyone joining us here today. I'm very proud to report that, in many ways, the first quarter of 2025 was our best quarter ever as a company. Among the key messages we want to share with you today is that for the very, very first time in our company's history, we have generated a positive operating profit on a consolidated basis, which is a big milestone for us. For us, it's no surprise. It's simply the result of a lot of effort and work over the past 18 months to improve the performance of our projects, to bring down costs both on the project and on corporate level - speaking about overhead cost reductions. We also removed legacy obligations from our balance sheet, and we are really starting 2025 on a robust basis.

00:01:51 - 00:02:42
Stefan H.A. Meichsner: Everything that you see here today, the good results for Q1, is simply a result of what has been done in the past. I'm very proud of what we've achieved, and we do not want to stop here. We want to continue and deliver such results in subsequent quarters as well. Before I dive into the details, I'd like to highlight some of the objectives we've set for 2025. Basically, the headlines that I would like you to read about our company as we go through the year. Priority number one, and also headline number one, is that we want to successfully connect our Guatemala project, San Patricio, to the grid this year and deliver first power, which we currently project to happen in July 2025. The impact that this project will have on our group cannot really be overestimated.

00:02:42 - 00:03:39
Stefan H.A. Meichsner: It's the largest project in our portfolio, at 66 megawatt peak, clearly outranking everything else that we have ever built before. Once it's operational, both the revenue and the profit contribution will positively impact our group in a way that we have not seen before. Secondly, paired with the connection start of San Patricio, and the other good results that we're seeing from our projects, we want to generate positive free cash flows. The improved project operating margins, which I will talk about today, will certainly help with that. We also continue to monitor our spending very, very closely. As many of you may remember, we reduced overhead spending last year by 30 percent compared to 2023, and we have actually initiated further cost reduction measures to make sure that we lower that base further and remain very, very selective on our spending, both on overhead and on new developments.

00:03:40 - 00:04:35
Stefan H.A. Meichsner: The third headline is that we want to continue increasing our free cash position. The main drivers, aside from simply being careful on what we spend our money on, are that we will continue to divest projects - first and foremost in Colombia - and we will also start seeing greater cash back from the operating portfolio. We already started seeing some cash returns last year, and we expect this to increase and improve in 2025. These three objectives are really just part of an overarching goal, which is that we want to start returning cash to shareholders. We're now in our fifth year since the IPO in 2021. It started with the work that we've done, which the shareholders benefit from in both terms of stock price appreciation, backed by good operating results, and ultimately also by our returning hard cash to them.

00:04:35 - 00:05:39
Stefan H.A. Meichsner: With that, we can look at the details of the Q1 for 2025. The first highlight is that we have seen improvements across all key metrics we track. Energy output, revenue, operating profit, and operating margins are up year-over-year, despite the fact that we actually operate fewer projects compared to the first quarter of 2024. Some of you may recall that we sold our combined heat and power plant in Puerto Rico late last year. If you look at the like-for-like comparison, the increases I'll share with you in a moment are actually much

larger than just looking at the comparison numbers. On top of that, we do not rest when it comes to cutting costs. We had the reductions last year. We continued to implement further reduction measures in the first quarter, including headcount reductions. Most of the impact will become visible from the second quarter onwards, as we have some special expenses related to the reduction measures in Q1.

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Stefan H.A. Meichsner: Overall, we are already trading below last year's overhead by roughly five percent in the first quarter, which is an achievement in itself. I mentioned the construction in Guatemala. At the moment, the project construction is on time and on budget. I will share some pictures from the site and some further details during the call today. Ultimately, you know that we are conducting divestment initiatives, especially in Colombia, where we have signed an agreement to sell one of our development projects. We are also working on divesting our operating assets. We have made progress, which I can't elaborate on in too much detail, but we intend to share more news on our activities as we progress and sign more sales agreements. If we look at the key metrics that we track, the one that really stands out for me is the improvement of the EBITDA margin.

00:06:39 - 00:07:36
Stefan H.A. Meichsner: We improved our operating margin from our portfolio by almost 10 percentage points compared to last year, seeing a significant 20 percent increase in the absolute numbers as well. That is in part driven by the better top line that we have. It's also really proof that our cost reduction measures that we took and the optimization that we're targeting are paying off already. Our asset management teams are doing a terrific job and really looking at each project individually and trying to optimize what we can. Despite some very difficult circumstances in some countries, we're doing a great job. As I mentioned before, if you exclude the CHP plant that was part of our Q1 numbers in 2024, the like-for-like increases both in revenue and operating profit are substantially larger than what we display here, even though what we have achieved is already a very, very good result.

00:07:52 - 00:08:37
Stefan H.A. Meichsner: The driving forces behind this improvement continue to be our two projects in Mexico and El Salvador, which are not only performing better than last year, even better than an already good year 2024. They're also compensating for the continued challenges we're facing in Colombia, where we've improved our trading results, but we're still facing higher costs related to security issues and protection measures that we have to take in this country. Even in Colombia, we've seen improvement on some fronts. Overall, the projects in Mexico and El Salvador are the ones pulling all the weight and ensuring that the Q1 results we're seeing are what they are. It also underlines once again that, as a group, now with over 70 percent operating margin on the project level, we are getting to a level where we should be for projects like this in our industry.

00:08:37 - 00:09:30
Stefan H.A. Meichsner: The Colombian assets do not keep up at the moment. We believe that these projects could perform better in the hands of local investors, which is why we have started the sales initiatives. We are also looking for a Colombian investor to take over the assets. Ultimately, they might be able to solve the problems that we cannot fix from here. If we look at overhead costs, I already mentioned it. Q1 is typically the quarter in which we spend more money than in other quarters, for the simple fact that we have certain annual charges, like insurance premiums or board compensation, that are only relevant in Q1. The level is higher than what we will see in subsequent quarters. This year, because of the headcount reductions, we did certain one-time charges like severance payments, which are also included.

00:09:30 - 00:10:28
Stefan H.A. Meichsner: Nonetheless, we managed to reduce costs by five percent already. This is below the target that we want to achieve for the entire year, which is looking more at the double-digit reductions. We will get there and see this impact in Q2 already, and as I mentioned, also in subsequent quarters. Our free cash position, meaning the cash we can deploy for overhead, project investments, or returning money to shareholders, stood at 3.3 million at the end of March. This number does not yet include the cash we are getting for selling our development project in Colombia, or the remaining cash we are still expecting from selling the project in Puerto Rico. Certain sales price tranches will only be collected later in the year. The total of these is around 1.6 million. The free cash position that you see here is actually underrepresenting what is already secured, but not yet in the bank.

00:10:28 - 00:11:18
Stefan H.A. Meichsner: If you look at that base, compared with the lower cost structure that we now have, we have no future or currently no future capital commitments. We are liquid enough to easily pay for whatever is

coming our way in the foreseeable future. With further proceeds from project divestments, we will be in a position to distribute cash to shareholders without running into any liquidity concerns. This is quite a comfortable position we're currently in. We've worked hard to get here. It wasn't always easy, but I think we've done a good job. We're now just looking into a future where excess cash will be available to make distributions in the short term. Looking at our consolidated basis, the story is the same. Revenues are up and costs are down.

00:11:18 - 00:12:15
Stefan H.A. Meichsner: Operating profits and margins have improved. As you can see here, the group EBIT, as I said, was positive for the very first time on a consolidated basis, also in our company's history. To wrap up the review of Q1, at least from a financial perspective, the balance sheet remains what it is. We are still relatively low-levered compared to other peers in our industry. We have a good, solid, consolidated cash position. Most of that is related to our ongoing construction activities in Guatemala. The earnings per share on a consolidated level are also not negative for the first quarter. We basically broke even on the group level as well. Overall, the results for Q1 are very good. If we can continue like this, and we don't see why we shouldn't, 2025 will certainly be a record year for MPC Energy Solutions.

00:12:15 - 00:13:07
Stefan H.A. Meichsner: Well, that's what we came for. That's what we work for. That also allows us to look at what we can actually expect in 2025, aside from the goals that we've set for ourselves. What guidance can we share? Before we look at the numbers that we are projecting for this year, just a few impressions from the construction progress that is being made in Guatemala. What you see here are aerial shots of the plant itself on the left, as well as the substation, which has already achieved mechanical completion and is waiting to be connected. As I said, the first power is expected to be delivered in July. The module and tracker installation is mainly complete. The teams are working on drainage systems. They're working on cabling and wrapping up the remaining works that needs to be done to achieve mechanical completion of the plant itself.

00:13:07 - 00:14:09
Stefan H.A. Meichsner: Afterwards, we will enter the testing and commissioning phase. As I said, we intend to inject first power and sell first power in July of this year, which is in line with our previous projections. I think so far, even though the work is not done, the hundreds of people who help make that work receive our thanks and our dedication because so far it's been a stellar construction progress with a super health and safety record and very, very good progress. We can be proud of this achievement. This brings me to the projection, which is, I want to say that right away, quite conservative for two reasons. One, and we are not including any contribution in this projection from Colombia, even though the projects are still part of our portfolio. They are actually contributing to our top and bottom line. We haven't considered this in the projection here, meaning that there is an upside, and when we update our guidance later this year, commonly after the second quarter results, we will be able to see that upside.

00:14:09 - 00:15:01
Stefan H.A. Meichsner: The second reason is that we have factored in the Guatemala project only for a portion of the year. When we connect in July, we might actually see a little bit of an upside to the overall contribution we are predicting from the 2025 project. The Guatemala project is so big that even now that we no longer have the projects in Puerto Rico and in Colombia, it will compensate for that in the second half of the year. It will add to more positive margins because the Guatemala project is expected to deliver much higher operating margins than what we were used to from Colombia or Puerto Rico. Overall, when Colombia is out, and we have El Salvador, Mexico, and Guatemala left, we will trade at a higher operating profit overall.

00:15:01 - 00:15:37
Stefan H.A. Meichsner: This is only Guatemala contributing for six months in 2025. Next year, 2026, the project will have a full operational year for the first time. The numbers will look much larger for the core portfolio that we should have by then. All right, I believe this already concludes my prepared remarks. I'm more than happy to jump right into the Q&A and answer any questions you and the audience might have. So far, thank you all for your attention.

00:15:39 - 00:16:06
Heike Hülle: Okay, sure. Thanks, Stefan. All right, just to remind you, if you have any questions, there's still time to type them into the question box on your screen. Let's get started. The first question, Stefan, that came in was, "When you've completed your plans to sell the project in Colombia, what are your intentions for the remaining portfolio?"

00:16:08 - 00:17:20
Stefan H.A. Meichsner: That's a very fair question. The easy answer is that it depends. What does it depend on? It depends on what we believe creates the greatest shareholder value. Ultimately, that's the mandate that I was given to create and increase shareholder value and do the things that create the greatest shareholder value. Once we sell the projects in Colombia, the core portfolio, if you will, that's remaining is Guatemala, Mexico, and El Salvador. A little bit over 100 megawatts of installed capacity, a portfolio that can generate substantial profits for a full year. I think the projections on the EBITDA level would be 13 million, substantially above what we've seen in the past, what we're predicting for this year. Nonetheless, operating this portfolio also means we take certain operational risks, which we're fine with. It is true that there is a technological risk. There is a risk associated with the offtake, or there is a risk associated with variable interest rates. If someone gives me a call and says they're interested in buying our project, no matter which project it is, we have to make that comparison.

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Stefan H.A. Meichsner: We have to make a comparison of whether the price that we're being offered is higher than what we believe a fair value for continuing the operations is and taking all these risks. This is how we will go about it. The question is, "Does operating the portfolio or selling the portfolio deliver the greatest value in our view? What is in the best interest of our shareholders?" Then we will make that decision. This goes for every project. It's not just Colombia. This is just part of the asset rotation, part of the assessment that we continuously have to do. This is what we will do. At the end of the day, we feel very comfortable with what we will have once Colombia is divested. We can operate it profitably, and it will generate cash that we can distribute. If there's an offer on the table for one of these projects, or all of these projects, that is attractive enough to compensate for what we believe we could get from the operations, then we will certainly discuss it and make a decision in favor of the shareholders. Always.

00:18:27 - 00:18:43
Heike Hülle: Understood. Another question that ties in nicely, as it's also regarding the broader strategy, is, "Can you share your plans on new developments? Do you have a pipeline, and do you expect to build more power plants and grow your portfolio in the coming years?"

00:18:45 - 00:19:44
Stefan H.A. Meichsner: We scaled down our development activities quite substantially. We do currently have two projects in what I would call active development. One of them is in Guatemala, and another from the one we're building, so it's a development project. One of them is in El Salvador. I would say the total capacity of both of them combined is around 90 megawatts. In El Salvador, we've already secured the land. We have secured the interconnection. In Guatemala, we're working on the power purchase agreement. We have not really done anything else. There is a point in time when we can develop these projects further. It won't cost us a lot of money. If we see that developing them could yield returns in the future, we will certainly do so. Let's say we mature them as quickly as we can, we sign PPAs, do all the remaining development work, and be ready to build. It could be achieved by 2026, sometime during the year.

00:19:44 - 00:20:19
Stefan H.A. Meichsner: At this time, I don't think that we will build these projects ourselves. I think we would rather take the development fee and sell them as ready-to-build. No decision has been made, and we have not entered into any talks with someone willing to buy these projects. These are the only two projects that we are really actively developing with very selective spending. We do what we can do without overexposing ourselves. This will create value, and we will, we will try to secure that value. I believe that at the moment, it would not be by building, but rather by selling the projects.

00:20:31 - 00:20:55
Heike Hülle: Okay, now there are two questions, and I will group them into one because they're concerning the same overall topic, and the topic is basically returning cash to shareholders. The question is, "Share buybacks were mentioned in the previous quarterly presentation as an option for returning capital, contingent on approval from shareholders. Has this changed, or why has the board opted not to call for a vote on share buybacks at the AGM?" Maybe linked to this. Another question is if you're considering share buybacks, dividends, or both, and if you're planning to return cash.

00:21:12 - 00:22:00
Stefan H.A. Meichsner: At the upcoming annual general meeting, we will cover the standard resolutions needed to close out 2024. And any other approvals required for transactions, such as share buybacks or dividends, we

would call another general meeting to hold that vote and get the vote. Regarding your question, the options are still all there. I think the easiest way, probably, based on the consultations I've had with our legal counsels in the Netherlands and Norway, is to distribute available cash out of the legal reserve. It wouldn't be a dividend per se or a share buyback. It would just be a distribution of available funds within the equity. That should be relatively tax beneficial to shareholders. It would eliminate the need to call a general meeting because share buybacks and dividends - which can only be distributed from earnings, which we haven't compiled over the past few years -

00:22:00 - 00:22:34
Stefan H.A. Meichsner: would require general meeting approval. Distributing cash from the legal reserve only requires board approval or approval by the management board. I think that's not only the easiest way. It also seems to be the most efficient way. However, when it is clear that we will get into a position where we can do it, and let's face it, that it will not be in the second quarter. It will be in the third quarter at the earliest. Then we will make a decision on what's best, and if necessary, we will put it to a vote. I wouldn't say that any of these options are off the table. I just think the easiest way would be the distribution of the legal reserve.

00:22:37 - 00:22:51
Heike Hülle: All right. Now moving on to the asset side. Could you provide any more color on the expected sale price for the operational assets in Colombia?

00:22:51 - 00:23:10
Stefan H.A. Meichsner: I cannot share the details of any negotiations. What I can say is that at the end of 2024, that value is more or less unchanged. The book value of both projects on our balance sheet is around $17 million combined. So one, seven. And that is what we're targeting from the sales.

00:23:13 - 00:23:22
Heike Hülle: Okay. Stefan, do you have an estimate of the net profit per quarter for once San Patricio is operational?

00:23:22 - 00:24:08
Stefan H.A. Meichsner: We don't do quarterly forecasts, but for this year, I don't want to speculate. I would have to look at the numbers. Normally, I'm very firm with this, but let me put it this way, once Guatemala, Mexico, and El Salvador are operational for a full year and we no longer have the Colombian projects, the net profit we are projecting, in this case would be for 2026, which is between 1.5 to 2 million. Let's say half a million per quarter. That's something I believe is realistic. Then you would simply have to break it down to 2025. If that question is ultra important, please send me an email afterwards. Then we can address it and can also publish the answer as part of the transcript for this call.

00:24:11 - 00:25:05
Heike Hülle: All right. Looking at the questions, I think we've covered most of them. Actually, I think we covered all of them. However, there's also one very nice comment, which I'm not going to hide from you. There's a very nice comment saying, "I'm thrilled for these results, and greetings from Brazil, too.” Thanks a lot for your nice comment. We always appreciate constructive criticism, feedback, and praise, of course. Okay. I think this covers the Q&A section. If there are any further questions that we haven't covered today, or you think of other questions after the call, feel free to send them to us via email. The address is, as usual, ir@mpc-energysolutions.com. Now, we'd like to thank everyone for joining us today and wish you a great rest of the day.

00:25:06 - 00:25:07
Stefan H.A. Meichsner: Bye-bye. Thank you.