REN – Redes Energéticas Nacionais
10 May 2024
10 am Lisbon/ London time

Corporate participants

- **Rodrigo Costa** – Chairman and CEO
- **Gonçalo Morais Soares** – CFO & Executive Director
- **João Faria Conceição** – COO & Executive Director
- **Madalena Garrido –** Head of Investor Relations

Participants

- **Enrico Bartoli** – Analyst; MedioBanca
- **Fernando Garcia** – Analyst; RBC Capital Markets
- **Ignacio Doménech** – Analyst; JB Capital Markets

Madalena Garrido

Good morning, all. Thank you, all, for your time and availability this morning to join us for the REN's first quarter results presentation. As per usual, we have our Executive Committee with us today, Rodrigo Costa, our CEO; Gonçalo Morais Soares, our CFO; and João Conceição, our COO.

Rodrigo will start with his opening remarks and then João and Gonçalo will guide you through the main operational financial highlights of the quarter, which will then be followed by the Q&A session where we'll be taking your questions. Thank you.

Rodrigo Costa

Thank you, Madalena. Good morning, all. As you know, yesterday, we had our general shareholders meeting here in Lisbon, and all went as expected, most items approved by 99% and only one with 97%, which is, I think is -- it was a good score. We have the same board in place and ready for a new term.

Next Monday, we have our Capital Markets Day, and with that in perspective, we will have to hold ourselves another three days before sharing our plans and metrics as we have been doing since 2015.

Gonçalo, as Madalena said, will go through the presentation on the past quarter results, and I'm sure that we will answer some of the questions you may have. I'm sure the special tax is among the topics you want to cover, and I'm sure we will do that following the presentation.

And with that, let's move to the presentation. Thank you.

Gonçalo Morais Soares

Thank you, Rodrigo. So let's start with slide 4 and with the main highlights of the quarter. As you know, this is a slightly special quarter because we provisioned the full amount of the revenue, so typically net income is lower. And so smaller, I'd say, changes made this vary a little bit more. But I'd say that this was in line with expectations and with the consensus in the market.

So we have EBITDA coming down a little bit, mainly driven by smaller returns in assets, and the smaller contribution also from the international side. And on the net profit, there is a bigger drop and this is mainly driven by the increasing cost of debt versus the last quarter but there's also a small impact in terms of exchange rates that on a quarter-on-quarter comparison actually makes this – pushes a little bit the decrease.

In terms of net debt coming down, tariff deviations are also coming down as expected, and the average cost of debt, as I was referring to, increased to around 2.8%.

In terms of CapEx, it's a little bit too early, but we'll go into a little bit of news around this. But it's too early for us to have any meaningful comments.

With this, let me pass it to João to comment a little bit on the operating side and then I'll come back. João?

João Faria Conceição

Thanks, Gonçalo. Good morning to you, all. From the operational side, I would say that the most important issue to highlight is the fact that this quarter was quite [rough] quarter in Portugal. And as a consequence, hydrogeneration had a sharp increase which reflected on the important increase in terms of renewable shares within the electricity system, reaching almost 90% of all the electricity consumed in Portugal being generated by renewable sources.

This also had an important effect that changed a little bit the status. The Portuguese system is normally a net importer from Spain, but in this particular quarter, we become slightly exporter with approximately 0.1 TW(Terawatt) hour of net exports in terms of electricity.

In terms of consumption, a slight increase versus last year, about 1.2%. Our forecast for the full year is a little bit above that, around 2.4% in terms of electricity consumption evolution. On the natural gas side, as a consequence of these very high levels of renewables, the usage of gas to generate electricity decreased, and as a consequence, natural gas consumption also decreased by 10%.

Quality of service, I would say that everything -- normally, we are -- we keep the high levels of the indicators, especially the ones that the regulator use for our efficiency incentives. And you will see a slight increase on the losses on the transmission system, but that's normal because we are using a more distributed generation portfolio with these renewables, so that's perfectly normal. In terms of ESG, we get an improvement on two ratings, CDP Climate Change and Sustainalytics's ESG Risk Rating. We get an increase on the scores. And last but not least, in terms of the big projects, the most important information is the fact that it was confirmed by EU, our expectations on considering two major interconnections within the PCI list for these special projects in EU. Those projects being the new electricity interconnection between Minho and Galicia, north of Portugal and Galicia in Spain. And the big interconnection for the future use of hydrogen connecting Portugal, Spain, France, and Germany.

In Slide 7, you have the more detailed figures, but basically, these are the ones that I've already mentioned. So I would pass the floor to Gonçalo again.

Gonçalo Morais Soares

Okay, João, thank you very much. We can move to slide number 8, which is just the summary of the financial highlights. So you have this 2.3% drop in terms of the EBITDA and increase in financial results and a larger drop in net profit of around 70%.

As I said, CapEx and RAB is a little bit early on, and net debt is what I commented, so it is coming down versus what year it increased because of tariff deviations. But first, end of the year, it is actually coming down not only because of normal cash flow, but of small decrease already in terms of tariff deviations.

Slide number 9, you have the detail of the evolution of EBITDA. So as I said, the main component is the assets and OpEx remuneration that is coming down here. This is driven mainly by two things. One is rates on the gas assets that due to the regulation, the new regulatory period, are lower. Okay. And secondly, it was something that we already had mentioned before, which is -- which is connected to the allowed cost of electricity, as I said last year. We have a higher margin than normal that compensated the negative margin in 2022.

So we have a higher recognized cost and already a cost that has come down. This year, that recognized cost by [ours] came down and so we have left a bit on that front on the terminal. So that is why on a year-on-year trend, this is coming down.

Yeah, the revenues, it is mostly on [ROR] that even more CapEx are going up and a little bit more of services that we charge other operators to connect to the grid, but it's mainly the issue of on ROR.

In terms of EBITDA per segment, what's the main thing that you see is electricity going up and gas transmission coming down a little bit on the quarter. The rest, more or less same. Okay.

In terms of Slide 10, you see the evolution of ROR, what I just mentioned. So you see that everything comes down, but electricity comes down very marginally. But gas does come down a little bit more, namely transportation, as you know, gas distribution.

The reduction is compensated by the fact that the spread between transportation and distribution increased a little bit, but those are the ones that are putting a little bit more pressure here on a year-on-year basis.

In terms of CapEx, as I said, it's a little bit early to comment on anything. So we are now in the process of starting the year, but we do want to say that although we manage this risk on a continuous basis with a lot of effort from the operational teams, we do feel some pressure on the licensing, so it continues to be an issue.

João and his teams deal with this every day, every hour of the day, but sometimes things move a little bit faster, sometimes they move a little bit slower. But it's -- I would say, it's what has been going on for some time now. But we are still confident that we will have a strong investment here.

In terms of RAB returns on Slide number 12, it's the picture that I gave you before, so what you basically see is a decrease given the rate on both gas transportation and distribution and a bigger decrease of non-transportation given that the asset base also came down. So that's basically the story on the asset part.

Slide 13, in terms of OpEx, again, it's a little bit early also. But I would say that the trend of what you are seeing is -- in this quarter is an increase in personnel. That is something that has been going on last year also. We are increasing personnel given higher activity on the operational side, on the investment side. So this is something that you will see this year. And so, I'd say nothing out of the ordinary here.

Electricity costs are slightly better than we have anticipated. Of course, on a -- as I said before, on a margin perspective, it comes down versus last year. But on a cost basis, it's actually better than what they have put in our own budget because costs are coming down a little bit more, as João was referring, and he also mentioned, costs in the electricity side are coming down.

So we are, on a year-on-year, on the cost side, benefiting a little bit from this. But it's, I'd say, a little bit early also to comment on anything particular here.

Chilean slide, so contributing a little bit less. Transemel is growing because the asset base is growing. We have some delayed projects that should be concluding on the next quarter but -- so I'd say that it's the normal trend.

Electrogas decreased a little bit, and -- because tariffs which are dependent upon exchange rates and inflation corrected slightly, they had been going up previously. There was a little bit less volume also. So it came down a little bit, but bear in mind that we came from two record years in terms of Electrogas. So I'll say that the results are still pretty good. We do expect full year that Electrogas comes down a little bit versus last year.

In terms of below EBITDA, so amortization, nothing in particular to mention. Cost of debt, this is the trend that we have been seeing. Although we have an average cost of debt which is below rival, rival, which is an unusual thing, and we are not the only case, but it is an unusual thing. It is growing versus last year. This is normal, so we're expecting this to go up to this year to close to 3%, which is a number that we actually think this is where the cost of debt is going to stabilize.

As I was mentioning, the exchange rate differences versus last year were a little bit higher. These are things that go up and down a little bit. They are not material on a full year basis and that's why we do not cover them or hedge them explicitly because the cost does not compensate with variation.

So in 2020, it was positive, '21 negative, '22 positive, '23 negative. For instance, the first quarter of last year was positive 1.1 million, this quarter negative 1.9 million, that's why it is 3 million. For you to have an idea, if we didn't have any exchange rate differences, instead of dropping 70%, then I think it would drop 50%.

So there would be still a drop, which is, I'd say, what was expected given the revision of gas and the increase of cost of debt. But this is the only thing that was a little bit unexpected. So -- but -- I mean next quarter, this may be slightly different so that is something else.

In terms of taxes, as Rodrigo said, we have some news on the [Web]. We'll probably go over them on the -- on the Q&A. Just to say that we have a positive decision for the first time, but we are analyzing it, checking it. I'd say, it's a little bit too early to reach any very determined conclusion. But we'll -- I'm sure that Rodrigo will go into a little bit more on the Q&A also, and you'll have some questions.

So on the net profit, I'd say these are the main changes. So coming from EBITDA and financial results, this minus 70%, as I said, and I explained part of this is given this -- I'd say abnormal or non-recurrent exchange rate. And so that comes down, it would be minus 50%. It still, as I said, is a very particular quarter with lower net income, so small differences might have been the impact. But I'd say that this is in line with consensus and with our own expectation.

In terms of debt, so it is coming down. Even without tariff deviations, it came down 2%, around EUR60 million. Tariff deviations also came down a little bit, namely on the trading side. As you know, REN Trading contract ended already, so this is something that, although the unit is still there for safety of system purposes, it no longer has the same modality.

So we do -- no longer have the same exposure in terms of financials. So we should expect not to have these swings in tariff deviations, these large swings that we had in the past because these will go away as REN Trading also goes away. The maturity is around 4.6%, so I'd say, stable even the issuance of the bond. And cost of debt, as I said, is around 2.8%.

In terms of ESG, I will not go over all of this. João already mentioned some. We continue to see a positive evolution in terms of scope 1 and 2, so you see this decrease of 22% quarter-on-quarter versus last year, so this is something that will continue. And you will see that, given this good performance in ESG, we will be addressing and perhaps even increasing our addition in terms of targets in the upcoming Capital Markets Day that we will have. Okay.

On slide -- I'll go to slide 20 -- some initiatives with slide 21, you see the summary of the -- of our ratings. They have been improving and they have been revised recently. So I think that we have been doing a very good job on this front and we'll continue to invest and maintain this as a priority.

So with closing remarks, I'd say, EBITDA coming down a little bit and in line with expectations and consensus. Net profits also coming down a little bit more because of that exchange rate abnormality.

But I'd say, also within the consensus, net debt trending down as expected. And as Rodrigo said, we have the AGM, the dividend was approved, so we will be paying it in the coming months as usual in the normal timing that we use -- we make. Okay.

So thank you very much for listening and we will wait for your questions. Thank you.

Q&A

Enrico Bartoli

First of all, as you anticipated the question on the evolution of the special tax, we had this new flow recently about the unconstitutionality of the application to the new goals, then we have several pronunciation by the court last year. I was wondering if you can update us on, let's say, what is the -- let's say, the mood in terms of the possible cancellation or definitely the declaration of unconstitutionality of the law.

Second question is regarding the cost of debt. If you can remind us the portion which is variable rate. And I think that you mentioned that you expect 3% average cost for the full year or is this devolution and what you expect at the end of the year?

And the last one is on the -- some details about the OpEx revenues, what do you expect in terms of the end of the next quarter? We have this reduction in the first one, if you think that this can be continuing over the next quarter. Thank you.

Rodrigo Costa

Regarding sales, I think most of the -- I think most of the information is public. We -- as Gonzalo said, we had for the first time a positive outcome coming from the constitutional court, and that's very important.

It's not just regarding the renewables, it's also regarding gas distribution, and that's very important. We had -- we had more than 20 different communications coming from the court in the past couple of weeks. We are trying to go through every item with our legal department, with our external lawyers.

It's -- as we all know, these processes are very complex. It's a big win, but it's not over. I think we will have to first try to understand very well what are really the decisions, and then I think we will be able to communicate a little bit better what we are planning to do if we are going to change some of our strategies. This is not clear yet.

And then, of course, the last word is always from the court, and one victory doesn't mean we will win all of them in the future. But no doubt, this is very, very positive, and I think it will have impact on the future of [tax].

Gonçalo Morais Soares

On your comments on the rates, so we have around 75% of fixed rates now, okay? The 3% that I was referring to is a full year number, so we are seeing the average cost of debt trailing toward that and stabilizing around that now. A little bit below, but around that number of 3%.

In terms of the revenue, as you asked, so the main issue here is that one relating to electricity costs in the terminal as I have -- or as we kind of anticipated last year, and that would explain, I'd say, an abnormally high EBITDA last year and the decrease this year because we are normalizing.

So last year, we had a very high allowed cost for electricity, but the electricity -- the cost has already came down. So you have a high impact in EBITDA and a low (technical difficulty) cost. First, it was the reverse of 2022 where you have a very high cost in OpEx and the low allowed revenue from the regulator.

This time around, these things converge. So you have the allowed return from -- the allowed revenues from the regulator, it's come down a lot. What we are actually seeing is that we were expecting the margins to kind of be neutral. But given the recent price evolutions, we are actually seeing a slightly positive margin there because prices of electricity are improving. But on the year-on-year margin, you will see this decrease.

Fernando Garcia

So coming back to the extraordinary tax, so I was reading some of these constitutional court rulings, not only the renewable ones, but as well in gas distribution as you mentioned. I mean, reading it, it looks like all the rationale that was used, it can be used as well to almost any activity and obviously to REN. So I wanted to know what is your view there on the rationale and as well, if you think that could apply to your activities?

So are you appealing, based on that grounds, your tax that you have paid and you are going to pay? And what could be the timing of your appeals based on the same grounds that they were declared constitutional?

Then if successful, do you think that you can recover? Probably, this is a little bit premature, but still I wanted to know your opinion. But can you recover all the amounts that you have paid since 2% on '08 -- '18, sorry? And then, how do you pay 2024? Then, well, this was on the extraordinary tax. Okay.

Then on the rate of return, we have a new regulatory period in electricity in the -- starting in 2026. I know that Portugal has a very transparent, predictable system that was an old system that was working, et cetera. But the thing is that at the moment, we are looking to the return that Portugal is paying for its regulated assets. So it's lower to other European countries. And, for example, it has a very limited [attrition] recognition. So there, what is your view? What actions are you taking to have an improvement in the remuneration of electricity distribution? Thank you.

Rodrigo Costa

Okay. Well, regarding your questions about sales, as you can understand, I cannot discuss with you our legal strategy, right? Because some of the questions that you asked, they are very, very good, but this is something we cannot really open up because it's part of our legal work. This is the type of questions and discussions we have with our lawyers that are doing multiple appeals. We are doing all these multiple appeals.

Something I can tell you, and I'm sure since you read the documents, some of the cases, they -- basically, we cannot do anything anymore because they have been closed. Some others, not. And it's very complex because you have multiple companies. Even ourselves, we have multiple companies. We have basically four cases per year since 2014, since the beginning. And the decisions that you -- we saw last week, they are about 2019.

Then, I think I have to ask you to be patient because we are still in the process of reading everything, evaluating our options, and honestly, discussing with the lawyers what is the best strategy to keep going.

In the first -- let's say, in the first years, and we were very open about that, we decided to pay and fight. And this is what we've been doing since the very, very beginning. Is this going to change somehow? For -- one thing for sure, we are not giving up anything we believe we have the rights to recover. That's for sure. Paying doesn't mean we will not be -- if the court decides that way, that we will not be reimbursed from what we paid and even from the -- also the interest of what we paid.

And I think it was -- we still believe that was the best strategy and I think we have very good lawyers working with us. And as soon as possible, we will open up a little bit more on the strategy.

Gonçalo Morais Soares

Based on your question about the war, I will ask you to be a little bit patient and wait for Monday. We'll give you a little bit more color. We share your view but, of course, we should be paid a fair return and -- but wait for Monday and we'll go a little bit more into this and what our expectations are and we will be able to answer all of your questions then. Thank you, Fernando.

Ignacio Doménech

Just two from my side. The first one is clarification on the special energy tax. I just want to know if you include the safety on your current business plan, some of your peers recently are not including this tax.

And the second question is also a clarification on the CapEx from the direct agreements with solar developers. I was wondering if there's any CapEx that has been already committed either this year or in the past year if -- and if you could walk us through the main implications that we passed. I do appreciate if you will give us more details during the Capital Markets Day, but I just want to get a clarification. Thank you.

Gonçalo Morais Soares

So the -- in the current business plan, not the one that we are presenting on Monday. But on the current business plan, we do have the sales, it's there. And as you know, we are typically very conservative. So wait for Monday, but I don't think you should expect any news because we are conservative. This is very fresh news. And we do not tend to react to things from one minute to the other. So I think you understand from what I'm saying what you should expect.

On the CapEx also, please wait for Monday. But we will give you a lot of detail on how these -- namely to the analysts on how these solar agreements are going to be impacting the account. They have had almost no impact up until now. They will start to have a little bit of impact this year. And we just conclude this recently with the auditors how we would be accounting exactly what we would account until the end of the projects, what we would -- we would delay and recognize along the life of the asset.

So there are some specificities. If you bear with us, we will give you all of those details then on Monday. And Madalena will guide you through each one of you exactly, because this has a little bit of detail and it's important for the analyst community to understand exactly how this is accounted for. Thank you.

Ignacio Domenech

Understood. And just a follow-up, if I may, on Fernando's question. When did you expect a draft from the regulator on the next regulatory period for electricity transmission? Is there something earlier -- will this take place earlier next year, or what's the closest date we might have a [draft]?

Gonçalo Morais Soares

So it's only next year. I know that the Spanish ones will probably have some news already at the end of this year, but in our case, the process only starts next year. And so you will only start to have a feeling of this around a little bit in the second quarter, and then you have a final -- a little bit more visibility in the third quarter, and the final one is the end of the year.

But you have to wait until the second quarter to have a little bit more visibility. João and his team will start to engage with them end of this year, starting of next year. So this is the normal problem. Okay. You will not -- you -- it will be slightly later relative, I think, to the Spanish process. Okay.

Enrico Bartoli

I'm sorry, a quick follow-up. If you can comment a bit on the evolution of the target deviations. In -- at the end of this quarter, they were more or less in line with the -- and 2023, you mentioned that the contract has expired. So what we reasonably could expect in terms of evolution over the next quarters and by the end of the year? Thank you.

Rodrigo Costa

I think that most of the tariff variation of REN Trading will be solved between this and next year, so it's not everything this year. So a good part of this will be solved this year and the rest, next year. I don't know if it's half and half, but you can make best estimation.

But you'll clearly feel a material decrease already in the tariff deviations relating to REN Trading this year and part of it next year. So by the end of next year, we should not have anything in the account than any tariff deviations relating to REN Trading.

Madalena Garrido

Thank you very much for all your questions. We remain available to answer anything else you need offline and we hope to see you all on Monday for the Capital Markets Day. Thank you very much.