REN – Redes Energéticas Nacionais
08 March 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
- **Tomás Reis Vaz** – Analyst; Caixa Bank BPI
- **Ignacio Doménech** – Analyst; JB Capital Markets

Madalena Garrido

Thank you all on the line for your time and availability this morning to join us on our full year 2023 results conference call. As per usual, we have our Executive Committee with us today. We have Rodrigo Costa, our CEO; we have 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 and financial highlights of the year, and we will then move to the Q&A session on which we will be able to be taking your questions.

Rodrigo Costa

Good morning. Thank you, Magdalena. I think today, even as we announced the good set of results, we are not really the big news in Portugal. No, the big thing is the elections coming out in a couple of days. The year was good in spite before the licensing and construction delays we had. I think we also had a lot of political events that were also distraction, but we were able to keep moving and leverage in our multiple fronts.

I think overall, we should be happy. Both in Portugal and Chile, we achieved a good set of operational and financial results. We kept moving on our energy transition journey where we see plenty of projects coming forward, and that will keep us very, very busy in the coming years. I think this is a very positive aspect that the fact that we if we look forward, we feel very confident that we have a lot of things to do and a very good framework.

In a nutshell, a good year. I think we kept our -- being very well regarded from on operation point of view. Again, the financial results were quite solid with some non-recurrent contributions and -- being sales the thing that is still is an issue and -- but I'm sure we will talk about that.

We made also very good progress on the new front on the ESG front and we will go through those -- some of those results also. And we believe that the energy transition is also a very important catalyst in our internal transformation, creating opportunities for our teams as well. It's really helping us to attract new talent to the company and 2023 is a year where we saw that in a new way and very positive.

Now we will go through the presentation, and we will share the main events and results, and then we will go through the Q&A as usual. Gonçalo?

Gonçalo Morais Soares

Thank you, Rodrigo. Good morning to you all. So as Rodrigo said, we are presenting strong sets of results, be it at the EBITDA level, at the CapEx level, both of them are all good news. There are some non-recurrence that impacted mainly in the last quarter, but I think the overall positive.

So looking at the EBITDA, it grew 5.5% to EUR514 million. And this is basically on the back -- both of international and national businesses. The domestic side impacted overall by the rates and good cost performance.

Net income grew 33.5%, almost EUR150 million. And if you look at recurring, the growth is nearly 50%, but still growth -- strong growth. And you can see that this impact is not only by EBIT, but also by good financial results. And by some non-recurrent effects, namely on the tax side.

Net debt came down almost 5% without taking into account the various deviations showing strong cash flow, tariff deviations increased as we already have acknowledged that they would. The good news is that these big changes that have been happening are going to stop as the REN trading situation is ending of this year, but I'll come back to that and comment a little bit more. Okay.

CapEx, very strong performance, almost -- more than EUR300 million. Almost EUR300 million in Portugal, so I think that we are accelerating and recuperating some of the projects that we had before.

So more on the operational side, I'll pass to João. João?

João Faria Conceição

Thanks, Gonçalo. Good morning to you, all. From the operational side, the most important issue to highlight is the fact that we have recovery of the share of renewable generation within the electricity consumption in Portugal. As you may remember, in 2022, we have quite a dry year. And as a consequence, hydro generation dropped significantly in 2023. We get back to the values on the right trends and reach the 66% of renewable share of the electricity system.

Quality of service, we kept the high levels of quality of service and in a moment I will go through a couple of figures. And within ESG, the good thing is that we have improved in capital ratings, ESG ratings, and we consider to be above the sector average within these ESG ratings.

Jumping to slide 7, where you have couple of figures. So in terms of consumption, electricity consumption, there is a slight increase in consumption, a 0.8% electricity consumption. Although, if we do the adjustments to the weekdays and the temperature adjustment comparing to 2023, this increase reduces a little bit to 0.3%. Having said that, our forecast is that we will keep evolving slightly on the overall consumption within the country.

Renewables share, 60.6%, as I mentioned, as a result of a significant increase on the hydro generation share which has reached in 2023 23% of the total energy -- total electricity generated in Portugal. As a consequence of these higher share of renewables and this is perfectly normal, there is a slight increase in terms of losses. This is because of the fact that more renewables means more dispersed generation within the grid. And as a consequence, a slight increase in losses.

In terms of the quality of service, we increase a little bit the average interruption time within the electricity transmission assets. But even so, this is clearly below the targets set by the regulator, mainly within the IMDT incentive for quality of service.

Gas, this is the fifth one. Higher penetration of renewables, namely hydro, implies that the electricity generated from the combined cycle plants reduces and that's why you see this important drop in electricity. And gas consumption is 27% versus 2022, mainly explained by an important drop in electricity generated from these combined cycle plants.

In terms of availability rate of our infrastructure, both transmission and distribution, quite high levels of quality of service both in the gas transportation and distribution assets. With these results, back to you.

Gonçalo Morais Soares

Thank you, João. So looking at slide 8, just the main numbers financial wise, so EBITDA going at 5.5%. CapEx going up quite a bit to over EUR300 million. Despite the fact you can see -- still see that our (inaudible) rail is still declining a little bit, namely given some lag on traffic for us that is normal.

Looking at slide number nine and looking at the consolidated view, so what you can see is that the increase comes mainly from that -- in the domestic part from the assets and the remuneration part. Okay. There is also some impact from cost, but then it's also the impacts from the international segment, which is now this year, reaching around 5% of EBITDA from 3.9% last year.

So moving to slide 10, you can see this impact of the rate of return come on the back of the yield on the Portuguese bonds increasing materially last year versus 2022, where there was already an increase. And that has made the various rates of return increase across the segments from in the case of electricity from 4.3% to 5.3%; and in gas transportation, 5.3% to 5.7%; and distribution, 5.5% to [5.9%]. That is the main driver in terms of the impact that you see in rates.

In terms of investment in slide number 11, so good news. I think that it's a little bit in line with what we've been saying that it's good to be able to see the numbers reflecting this. So we are recuperating a lot of investments that we have delayed from the past year. And so we are close to EUR300 million that gives us an average in the last three years of around EUR260 million per year, which is clearly above what we have in the business plan. So we are clearly on trend. This is mostly electricity as we would expect, so line substations, so what we were expecting and this is what is translating.

Transfers to RAB are also increasing quite well, but they still lag a lot because a lot of the investment for them in the second half of 2023. And so they will show us during this year. So we not anticipating any values because as you know, we'll be having Capital Markets Day in a few months. We believe that CapEx is going to continue strong in the coming year.

In terms of RAB returns in slide number 12. So I am a little bit different between the segments. So in electricity, most of the impact comes from an evolution of the asset base, although it's also positive on RoR. In gas transportation, basically the evolution of the rate of return as it is compensated by a negative evolution of the asset base.

In gas distribution, it's also positive in both the rate of return and the asset base contribute to increase the remuneration from these assets. In terms of OpEx, so this is in trend what we have in mind. Previous quarters what you can see is that there is an increase in personnel costs. This is coming from two sources, both inflation line because you have correct -- and this is already -- you have already seen it in other quarter and also in increasing people.

Overall people in REN went up from 719 to 748, only in Portugal -- if you only look in Portugal, it went from 710 to 736. So as we have this acceleration in terms of investment and operations, it's normal that we are increasing the people, we are continuing to do so in 2024.

In terms of external costs, this is mainly driven by a decrease in electricity costs and depth decrease which is around EUR10 million. Then it's compensated by other -- some other increases. The overall number is still positive. It's still a decrease, but we did have an increase in O&M. We have incorporated some maintenance from also past quarters. And so that also increased, IT costs also increased, some of these legal costs also increased.

So there were some costs that increased in [compensation] because overall there was a strong performance. Of course, this is not to be replicated in 2024 and this decrease in electricity will not increase. We will have almost certainly an increase in OpEx in 2024.

Moving to the international part in Chile. What you can see is a continuous positive evolution of both companies. So two is already contributing almost EUR28 million in terms of EBITDA to the group. And Electrogas still performing quite well, not increasing as much as in previous years, but still performing quite well in terms of both revenues and EBITDA and the GAAP uses just in Chile is still strong.

Transemel also contributing quite well, increased a lot. Part of this, as you know, is nonrecurring because there were some recognition of revenue that exist. But they're far from several years in autonomy to this year. So part of it is not from 2023. But it also reflects the growth in the assets, although part of the CapEx in Chile was a little bit provided during the year after.

Looking at below EBITDA, and starting to talk a little bit about the funding part. So you can see that there is a strong performance on the financial results. There's, I'd say, two impacts here. On one side, there is an increase in the average cost of debt that we already know -- knew. So from 1.8% to 2.5%. Bear in mind that the base rates and the [arrivers] grew 3%, so this is actually an excellent performance in terms of the evolution of the average cost of debt, and that pushes the interest cost.

On the other side and as I'll go -- and I'll spend a little bit more. The tariff deviation went from being very positive in our favor, so a large amount that we owe to the system that was paid during the year. So becoming positive and so -- and the amount of money that the system posed. That balance generates the interest which were recognized in the last quarter.

I have to tell you that normally we only recognize this in the last quarter and perhaps that namely for analysts, it's not easy because up until now not only with electricity and gas, we also have REN trading, those PPA, that less PPA. That [change] is a little bit more uncertain in terms of how much the balance is going to be at the end of the year. And so sometimes it's hard to estimate exactly the amount and we only made it at the end of the year.

As this issue, as this PPA is coming to an end at the end of this month in March, we should have less fluctuation in terms of these balances. And so in 2024, we will change this a little a bit so that we can give you a little bit more predictability in terms of these interests. And so at least at the middle of the year, we'll make our first estimates and then we will make the final one at the end of the year. But so the good news is that as this kind of ties away, this large part of tariff deviations, I think these fluctuations will be easier to [accomplish].

In terms of taxes, and the normal effective tax rate, I'd say, nothing changes. The [liability] is still there and to anticipate questions, there's no, I'd say, material news that we can share with you. We will see if the elections bring any difference in the -- but we don't know. So as far as we know, everything stays the same. It's still in the budget that is now being executed by the government.

We did benefit from some larger than usual nonrecurrent fiscal impact, mainly in the last quarter. And so that has a material impact. So we are talking about almost 19 million of impacts in the last quarter, so that was a little bit what pushed net income a little bit above expectations.

So on slide 16, looking at net profit. Basically, it's the story that I told you. So positive impacts both in EBITDA and financial results. And income tax is also been impacted by those nonrecurrent -- impacted by its [point].

Looking at that and looking at slide number 17, so what you can see is this improvement in terms of net debt without the tariff deviations. So it's a good cash flow generation from the asset. If you take into account the tariff deviations, you see that actually -- that goes up by 700 because as I said, we will find those 500 that was in our favor in generating and it's mostly in those -- in that REN trading tariff deviation. And that will generate it. And as I said, not only does this contribute to the business but it is stopping. And so we should not expect this to continue creating large deficits in the future.

Maturities as well -- in terms of average maturity around 4.1 years. And this is going also to improve with the recent issuance that we made in the market this year that was a big success in terms of demand and it is going to push maturity a little bit more and consolidate the liquidity policy that we have. As you see, all of the ratings are being maintained. We continue to have a strong focus on credit risk, and it should be constant in the coming years.

Just to comment a little bit on the execution of the strategic plan and looking at slide 19, as you remember, we have these three pillars of growth story with some service quality, ESG, and some solid financials. And we just wanted to let you know when you can see that on slide 20 that we've been delivering on all of this.

So EBITDA this year and on average, we were clearly within the target of the three years. Net profit, the same. We clearly surpassed the target that we had for ourselves in the business plan. Net debt, if you don't -- if you take out these issues of the tariff deviation, not only are we okay but we also surpassed then CapEx. We clearly surpassed in every single year. And on average, what we have said that would be on the business plan, so it's a good sign that we are delivering on what we got and telling you.

Not only did we deliver in terms of financial, but also in terms of sustainability. And moving to slide number 22. And remember, we have made several commitments, one of them actually was already revised because we adhered to the Science Based Target. So we have an objective to decrease emissions by 50% in the business plan that was revised already by -- to 55% by 2030 in [FTTI]. But as you can see, we are already at 45% in 2023. So this is strongly impacted also by the decarbonization of the country.

So do not be surprised if in the next business plan in a couple of months is we will be revising these targets and be a little bit more ambitious. Again, social and in terms -- in this case of the target of women in first line, we are also already at the target that we had proposed in the business plan and it augments the same. So we are fulfilling what we said before.

And in FY 2023 we have a little bit more detail on ESG. You can see these decreases in green gas emissions, both in scope 1 and 2 and scope 3. And along CapEx clearly the wage that is aligned with the EU taxonomy is also increasing. And now, electricity continues to deploy more and more CapEx so you should expect this to continue or at least to stabilize at very high levels, the number of alignment.

So I think that we are clearly delivering in ESG and there is -- I will not go through slide 24, all of it, but there's a lot of initiatives that we are doing in the environmentally, self-consumption systems, with the electrification of the fleet, on governance with measures in terms of anticorruption. So there's a lot of measures that are being put in place to improve our standing in the [queue], which is a strong commitment. And that is translating, although this is not our aim that is translating into the ratings, you can see that in slide 25.

We have been improving clearly, the last one that we have improved, and this is very recent, as João was mentioning, also is the CDP rating. We are now at A minus. We came from around C some years ago. So I think it's a good sign and we are very happy that ratings are translating into strong effort and commitment that we have.

So just some closing remarks on slide 27. So strong results with growth delivering on CapEx. At the same time, solid financials. We can see that we are maintaining financial very strong and increasing maturity. And as we can see, although this is going to the ATM, the policy in terms of dividends is what we have established before. So we are going to be paying EUR0.09 for additional in the next time, which is going to fulfill the EUR0.154 per share as we have in the plan.

And the last remark, as you know, we have a Capital Markets Day on May 15 and we expect there to give you a new version of our business plan and of our strategy for the coming years. So please put that on your calendar Japan.

So with that, we conclude the presentation and we open for any questions that you have. Thank you.

Q&A

Enrico Bartoli

Hi, good morning. Thanks for taking my question. I have three of them. First of all, actually in the beginning of the presentation you mentioned the election in Portugal over the next few days. I was wondering if you can give some flavor of what can change if you expect that considering the program of the part -- there could be some change in outlook for REN or if you expect some stability whatever is the outcome of the election?

Second question regarding the CapEx. The EUR300 million that you achieved full year is above the EUR250 million that you indicated before. I was wondering if you can give some color on what happened in the last quarter that allowed this kind of acceleration And I'm aware that you are presenting soon new business plan, but if you can also give some comments on, let's say, the sustainability of these kind of levels?

And on results, I realize that there was a very significant decrease in the OpEx revenues, both in electric transmission and gas transport. If you can give some details on this evolution and the impact on EBITDA and what can be a possible evolution of this kind of revenues during 2024? Thank you.

Rodrigo Costa

Enrico, on the -- your first question, elections Well, we were asked before more or less the same question and our position is always the same. We are here. We have a mission that will not change whoever is the government. And then -- and also, we believe that the energy transition is something that all the parties understand that first, Portugal is not a stand-alone geography. We are part of the world. We are part of Europe. We follow the strategy that has been designed by -- or for the European Union. And with that, we do not expect any major change in, let's say, regulatory environment, in the philosophy of work because one way or the other, this is something that we need to keep to move on.

And to be honest, as a philosophy of the company, we try to stay away from, let's say, from politics. We are here to work and to deliver on our operational targets that are super important, also on our financial commitments. And we will design our -- we will design the business plan for the next few years the same way we did it in the past years, independent from really the people who are governing the countries.

If you ask us if we have an opinion, I'm sure all of us, we have our own opinions. We all have our own expectations, but we keep them private because the company has to jump to fulfill their mission. That's how we look to the Sunday results. We'll be here on Monday doing the same work we will be doing today.

Gonçalo Morais Soares

I was just commenting on the CapEx. And so it was a little bit, I'd say, stronger than we had expected. We were a little bit cautious because last year we were also expecting a little bit and then there were some delays at the end of the year in terms of permitting the [life insurance] teams on the ground this year. Things went well, but we were being very cautious because it was more concentrated in the last quarter.

And so it came out a little bit ahead of our expectations, I'd say, but in line with just the general trend. So again, as I have already said, we are expecting CapEx namely in electricity to stay pretty strong. You'll have to wait for May to have exact number commitments, but this we can tell. So these are not levels that are completely out of sync with what we expect in the coming years.

Okay. In terms of the results and revenues, I think what you are referring to -- our pass-through cost and revenues during the last quarter, namely the cost and revenue. So balancing between borders and things like that. I think that [fits] with this -- anything else (inaudible) and I'll clarify then with Madalena and with you. Thank you.

Tomás Reis Vaz

Good morning. Thank you for taking my question. I have two. The first one is relating to Transemel. I would like to ask you just to give us a state again. What is the main driver of the higher revenues which grew this year compared to last year? Is it mainly increase in assets base, is it remuneration report, just to have some info on that.

And then maybe another second question about net debt. Could you give us -- I know you're working on the business plan, so maybe you can give us many details. But could you give us your expectations for net debt at the end of this year, 2024, and maybe how you see the cost of debt evolving to -- during the year?

Rodrigo Costa

João will take the last one, can make a comment. Okay. Thank you, Thomas. So in terms of Transemel, the normal main driver is the asset base evolution. So it's mainly by putting more assets and CapEx, and that is -- this is pushing the growth. In '23 in particular, as I said, there was the recognition. And this may happen several years because this is something that we are doing on a continuous base. The recognition of past revenues. So these revenues for several years. In this case, I think it was '21, '22, '23 that were recognized in '23 because there is a discussion with the regulator and at the end of a certain time, they recognize these revenues and we recognize them.

It may happen that in '26, we recognized more but -- so it's a process that is done on a continuous basis. But what is, I'd say, the recurrent push is that push from the asset base that you put more as you execute the CapEx and you put more [online].

And in terms of net debt, I think that what you should expect is some decrease over the year as we are going to receive some of the tariff deviations that were created, okay? So without tariff deviations, there is more stability and there's a decrease and -- because we will receive not all but at least a good part of the tariff deviations that were created.

In terms of cost of sales, that should still be an increase in cost of debt in line. We have the increases that you've been seeing in the market as we stabilize and as we continue to refinance the debt normally. We will, as most of the company continues to see an increase in the cost of debt, which is -- I'd say, which is normal. I don't know if it's going to increase 30 or 40 basis points. We are now in the process of that, but it's, again, going to increase a little bit over the year.

Ignacio Doménech

Yes, good morning. Thank you for taking my questions. The first one is related with the core OpEx on the electricity costs. I was wondering now if this year we could see a similar movement in the case that electricity prices continue to come down? Do you -- I think, Gonçalo, you were mentioning that you don't expect any lower OpEx in 2024. But I don't really understand if this was the case. We have lower electricity prices.

The second question is related with financial cost, if you could give us some proxy law of what would be the impact from tariff deviation in 2024? That's our reference with information you have today?

And the third question is related with the nonrecurring tax. If you could elaborate more on the effect related to the capitalization of operational comparisons? Just to explain a bit better what was this effect or why shouldn't we expect these taking place in the next period?

Gonçalo Morais Soares

Thank you, Ignacio. So on the core OpEx, you may be right. So I was being a little bit cautious. So it's true that as the prices in electricity have continued to come down, we might still see some impact. You will not see as large an impact because they came from a very high level to another. But it's true there may be still some positive impact that you will be able to see on the cost this year. You are right.

On the financial costs. So it's a little bit hard to tell you, but we finished the year with a EUR300 million balance in our favor, and that generated around EUR14 million to EUR15 million of interest costs in the year. So as this moves to half to thirds, you may see as this will decrease. I'm not certain if this will generate five, seven. So it will still generate positive interest.

As I said in the call, we will try and give you precise numbers or more precise numbers in the middle of the year. In the first quarter, it's a little bit difficult but it will -- in the second quarter, we will give you a more precise number. But you can assume that there will be some but it will clearly not be this easy task, a little bit less than half. Something like that in terms of the impact of the financial costs.

In terms of the tax, so as I said, it was something that we did in the year. Some accounting measures that we took and we capitalized more certain companies. This is also important to us. It was basically accounting movements, but it's important because as we gain (inaudible) and as a concession, we also have some metrics that we have to abide.

We also have some capitalization of the subsidiaries. And given the budget law that you have for 2023, that has a positive impact relating to this year. So we cannot know if that has any impact this year, but expect to be on the sales side. And so we are not expecting and you should not put that in your estimates for next year. That's what we would tell you.

Madalena Garrido

Thank you very much to everyone on the line. Of course, we remain available on the site to answer any additional questions and thank you for your time today.