
ACWA Power Financial Results Conference Call for the three-month period ended March 31 2023

Wednesday, 10 May 2023

Ozgur Serin Good morning, good afternoon or good evening to everyone who's joining from different parts of the world. Thank you for joining our earnings call once again. The purpose of the call, as Sam has mentioned, to review the results of the first quarter, which is the first three months of 2023, which has ended on 31st March 2023. Before we start the prepared remarks together with Abdulhameed, I just would like to pass the word to our new CEO, Mr Marco Arcelli, who is unfortunately not able to take the call physically together with us because he's travelling in China.

And you can probably see on the screen that he is right now, hopefully, not driving, but somebody's probably driving him. Without further ado, let me just pass the word to Marco. I'm not introducing him because he will do it himself. But he will have to leave [unclear].

Marco Arcelli Thanks a lot.

Ozgur Serin Thank you, Marco. Just go ahead.

Marco Arcelli Thanks a lot. Sorry, I'm travelling to China as one of the first priorities that I took into this new job. I've been in the company for about six weeks now. Really excited with everything that I am finding. In fact, if you're following me on LinkedIn, you will see all the travel and the different places that I have visited inside the organisation. I think that the new governance that has been set up with Raad Al-Saady as vice chairman and managing director and the chairman is working perfectly. We're doing a great handover, transferring basically all the contacts, knowledge, network that was set up in the previous year to myself and to Raad.

The first part of the onboarding, I'm really excited with. Before I move on to tell you how I spent the first month and how I will spend the second month and then tell you a little bit about the business, I wanted to introduce myself, just shortly. I have about 25, 30 years of experience in the energy sector, which I think is all very relevant to what we do. I started my career in project and construction management. I then went on to do dispute resolution, everything that is relevant to our construction activity. And then I spent years in General Electric in the United States, where I was selling and doing development on turbines and compressors for energy projects.

And then I was, for 16 years, at Enel, one of the largest utilities and one of the big thought leaders in the industry. You might know Enel Green Power as a big success story. And six years with EPH, a company that grew from being basically nothing and in 20 years, became the sixth largest electricity producer in Europe. I think all this makes my previous experience very relevant for what we need to do in ACWA Power. The first six weeks have been really exciting with a great welcome from all the management committee members and the rest of the organisation, which is making my onboarding quick and swift.

The first month, as I was mentioning, I focussed on meeting as many people and visiting as many plants and offices as I could. I went to our Dubai office, Riyadh office, Beijing office. I met over 800 people, thereabouts, those in plants, mostly in the Gulf. And I started to meet now, in the second month, our key partners in China. We are talking both about EPC suppliers, potential co-investors in our projects. I mistakably witnessed the value creation mindset at every corner in the organisation. And really, I see the great people that we have in the organisation. The quality of our plant is really good.

ACWA Power Financial Results Conference Call for the three-month period ended March 31 2023

Wednesday, 10 May 2023

The ingenuity that we put and employ in facing the occasional operational lease issues and looking at ways to improve our operation is really something that comforts me that we have a solid base to build upon. I have started to look at the ways to enhance and improve our strategy. You can expect an evolution, not really a revolution. We will look at potentially a few additional geographies, potentially a few additional technologies. But more or less, we're going to do similar things to what you have seen being done by ACWA Power in the past few years. In the meantime, ACWA Power in the first quarter and up to now registered some solid results and successes.

Abdulhameed and the team will focus more on that. Of course, you can imagine that I don't have all the details to guide you through the operations of our company after the first six weeks. But he's doing a great job. And I will leave it to him. But operationally, I'm very pleased that Taweelah water plant in the UAE brought the second group online and reached, basically, 830,000 m3 per day capacity, which is almost the total capacity that it's going to produce. Jazlah or Jubail 3A water plant in Saudi Arabia came online also. The second group of Jazan Integrated Gasification Plant was taken over.

And now we have all hydrogen and steam production fully transferring 95% of the power capacity transfer. This is one of the biggest projects, if not the biggest project in the portfolio. I'm pleased with the progress so far. In terms of growth, we signed the water purchase agreement for the Rabigh 4 in Saudi Arabia, which is another 600,000 m3 per day facility, with the associated infrastructure and facility for the project tanks and so on for 1.2 million m3. We signed three PPAs in Uzbekistan for three solar PV plants for a total of 1,400 MW and battery energy storage systems for 1,500 MWh.

We reached dry financial closes for Ar Rass solar PV in Saudi and the NEOM Green Hydrogen, which is really, really sensational, I think. We got 23 banks that basically subscribed to the first utility scale green hydrogen, green ammonia plant in the world. I think that that is really a milestone achievement, not just for us, but for the whole industry. And we signed financing agreements for Kom Ombo winds in Egypt with EBRD and other financial institutions. It's been a great start of the year. And I can clearly see how we can continue to lead the role in the energy transition in the communities and in the countries where we operate by providing and enabling low, reliable water, power and green fuel supplies everywhere we operate.

So that ACWA Power can continue to be a global leader in the industry and achieve net zero by 2050, as we previously communicated. With this, I would like to leave you with Abdulhameed and the team and Ozgur and the team. I might have to disconnect because the line, I am in the middle of China, might not be reliable throughout the call. But really happy to have onboarded. And really thankful for all the support that I've so received far by management and board. And really looking forward to talk to you more in the future.

Ozgun Serin Thank you, Marco. Thank you very much and have a safe drive over there. And let me now hand over to...

Marco Arcelli Thank you.

Ozgun Serin Abdulhameed and we can start our prepared remarks. Abdulhameed, it's over to you.

ACWA Power Financial Results Conference Call for the three-month period ended March 31 2023

Wednesday, 10 May 2023

Abdulhameed Al Muhaidib Thank you, Ozgur. And thank you also, Marco, for joining us, despite the time zone difference and also being on the road. I would like to take it actually from where Marco has left it. I think this quarter was a very exciting quarter for us within ACWA Power. Not purely because of the financial results, but really what we have achieved when it comes to our business model. I would like to remind you, on our business model, we focus on the development, investment, operation and optimising of each and every single plant we have. During this quarter... And we have done several great achievements and some of them Marco has already touched upon.

We had two projects, dry financial closes. One of them is the second largest into our history and also, it is the first large-scale hydrogen project we'll touch upon. We had also four different units in three projects that have achieved commercial operation, which is a fairly good progress when it comes to the technologies that we are adding. We have added two units of CSP and also one unit of water and, again, one unit of PV projects into our operations fleet. When it comes to the PPA, during my experience with ACWA Power in the last 13, 14 years, this is the fastest PPA that we have achieved in our history, the project in Uzbekistan for 1.4 GW of power capacity.

In addition to that, there is another 1.5 MWh of storage capacity that we are adding to this. And this is purely to stabilise and give also an extension of grid capacity to Uzbekistan on the short term. With that, and this has translated also to a solid contribution to the operating profit and the net profit that we'll touch upon also in the next few slides. When it comes to operation, it was also another good quarter. Last year, if you recall, on the power side, we did have some challenges in a few projects. I think we have fixed most of them and we'll also touch upon it where we have still the challenges there from 82% of availability last quarter.

Similar quarter of last year, we had 89% significant improvement. On the water side also, an upgrade from 93% to 96% of availability we have witnessed during this quarter. Whatever we have reported in terms of net profit is the adjusted net profit. There is no adjustment for this quarter. Also, interestingly, we have done the second tranche of our Sukuk during the quarter. We had launched earlier, if you recall, a SAR 5 billion programme. We have completed the second phase, which is 1.8 billion riyal. With that, we are getting closer to the 5 billion. We have completed the programme and we are not continuing with the same programme.

What we have achieved in this project is actually a very, very competitive pricing below 1% margin on this specific issuance that has been a significant, say, track record for the market for the last five years when it comes to the corporate issuance. Very well structured, very well priced our subscription of 2.24 that we have achieved. And with that, I will go to the financial closes and will go specifically to the projects. What has been achieved in the first quarter of this year is two FCs. One is the Ar Rass project, which is a 700 MW PV project. We have achieved the financial close. And this is a project that has total costs around 1.7 billion riyal.

And the project is part of the National Renewable Energy Programme, which used to be called REPDO in the past. Also, we have achieved another dry financial close, which also has been announced separately. It is the NEOM Green Hydrogen, which is around SAR 32 billion. And this is the largest green hydrogen project as a utility scale project finance in the world. Today, this project has achieved 74% of non-recourse debt that has been raised together by ACWA Power and the partners NEOM and Air Products.

ACWA Power Financial Results Conference Call for the three-month period ended March 31 2023

Wednesday, 10 May 2023

A quick reminder here of what we have achieved during the last quarter of last year, which is the three the financial closes of Bash and Dzhankeidy in Uzbekistan and the Shuaibah 3 IWPP. From financial closes to projects being moved from construction or execution to operation, this quarter, we had 300 MW of CSP plants becoming operational. And this is significantly important for us, why? Because the CSP project is difficult and complex when it comes to execution. And once we move these projects from execution to operation, the risk profile will change a bit. And also, it will give us comfort when it's taking this project to the COD and being accepted by the offtaker.

Jazan phase two has also achieved, in February, the second phase or the second group of commercial operations just around 1.5 GW of capacity. This has been delayed from October to February. But finally, we have achieved this in the quarter of 2023. We have also achieved a 600,000 m³ per day of additional capacity in Jubail 3A, another project that we have in Saudi Arabia. If you compare Q1 of last year to Q1 of this year, you will see significant plants coming into operation, including what I have mentioned. There has been also several projects we communicated earlier like Shuaa Energy 3, we had about 300 MW additional.

Umm Al Quwain water project in UAE and Al Dur in Bahrain, full capacity came online. Together with Taweelah. Moving to the next slide where we translate both the projects that have achieved financial close and the projects that have achieved operation into the operating income, you will see here a progress of SAR 140 million coming purely because of the existing project that has come online. If you compare Q1 of last year to Q1 of this year, you will recall that in last year, we had problems and challenges in few projects, like Rabigh, MEPCO, Noor 2 and Noor 3. Three of these projects came into operation and have proven a stability in their operation, with the exception of Noor 3.

While it's coming back and forth into operation, we are still facing the challenge in Noor 3. The challenge specifically related to the molten salt tank, where we have identified a crack in Noor 3. And we are still in the progress of bringing that into full operation. There is another 34 million that has been purely due to the new assets that came into operation. And then as this project moved from construction to operation, there is, let's say, a natural reduction on the development and construction management services from this project as there is less projects now under construction.

That's the 49 million negative that you have seen. And to put the comparison, let's say Q1 of last year to Q1 of this year, into our reality, you will notice that there is an LD that has liquidated last year, which is at 66 million riyals LD on one of the projects in Morocco that has not been reflected on this quarter. And this is where you see the 33 million difference on Q to Q difference. This brings us to 559 million operating income. Moving to the net income of the full quarter, this is where the 27 million riyals built up, from last year of 152. Adding to that, the 37 million which we just explained, the higher operating income.

And there is also a small addition of 20 million related mainly to income related to the gain, deposits and other derivatives as well. And the additional 125 million that is mainly related to lower Zakat and tax when you compare Q1 of last year to Q1 of this year. And if you look into the details of that, it is mainly due to the deferred tax balance sheet. There has been an appreciation in the Moroccan dirham, which has reflected into credit when it comes to the position of the deferred tax. If you recall same quarter last year, there was a deferred tax expense of 60 million. Whereas it is a positive in this quarter.

ACWA Power Financial Results Conference Call for the three-month period ended March 31 2023

Wednesday, 10 May 2023

And that is mainly the driver for this change on the 125. Outlook for the year, we have a few projects that we are expecting to bring them to a wet financial close. The first one is NEOM Green Hydrogen. With the wet financial close, this project will move from LNTP stage to full notice to proceed. And also, Kom Ombo is another project that we are also expecting to get to the full wet financial close very soon. This is a PV project. The dry financial closes that we are expecting in the coming month are few of them. Mainly in Saudi when it comes to Shuaibah 1 and 2. There is also another small PV project, which is Layla IPP.

And also, we have another water project that has been recently awarded to us, Rabigh 4 IWP. We are expecting also the financial close during this year. In terms of additional PPAs, we are also looking at the next round of PIF. And we do expect that we achieve PPA signing during the course of the year. There is a very heavy and active pipeline that we are looking at, more than 20 projects over the 13-plus countries that we are operating in. If you add them all together, 22 GW of power and around 1.5 million m3 of desalinated water. We are looking at these projects, different levels of advanced to early development phase where we're expecting some of them to realise during the course of the next 12 months.

Mainly and strong positioning on Saudi Arabia and Uzbekistan. But also expanded to a few bids in other countries, including UAE. On the divestments, subsequent to the close of Q1, we have completely closed the divestment of Vin Hao, which is our small PV project we have in Vietnam. And also, we are in the final stages of partially divesting our stake in Shuaa Energy 3, which is expected in the next quarter to be completed. Just to summarise, before we open it for Q&A, how we are performing against what is our priorities during the 2023, first is safety. Alhamdulillah, we have been on track when it comes to the LTI rate.

We had, unfortunately, one LTI event during the course of the year in one of our assets. When it comes to the reliability of supply, it is ongoing progress. This is a big campaign that we're working that's going to take a long time, actually, to be completed and relies on our availabilities. Having said that, we did have an improvement on the availability for Q1 as compared to the last quarter. We had been able to achieve several of our projects which were under construction into operation. And this is important, again, because most of these projects have been impacted during COVID-19. Taking them from execution risk and bringing them to the operation is very important and very relevant for our stability.

Two financial closes, 1.8 GW of power and 600,000 m3 of desalinated water has been added. The 3 PPAs have been signed, which is in line with our, let's say, priorities to add capacities to this year. And again, we will look forward to add more PPAs mainly in Saudi Arabia and also in the jurisdictions that I have emphasised on earlier. In our journey for decarbonisation, we have added all the capacities on renewable. And when it comes to the RO projects that we have been adding, it is all the high efficient. And most of them had additional capacity or additional power coming from the PV project that has been added to it. This is, in a nutshell, our Q1 results. Happy to take questions from the audience. Thank you very much.

Operator Thank you. If you would like to ask a question, please press the raise hand icon on your screen if you have joined via Zoom. Or if you have joined us on the phone, please press star followed by one on your telephone keypad now. Alternatively, Zoom users can submit a written question using the Q&A function on Zoom

Transcript

0800 138 2636
conferencingservice@netroadshow.com
www.netroadshow.com

**ACWA Power Financial Results Conference Call for
the three-month period ended March 31 2023**Wednesday, 10 May 2023

located on the bottom toolbar. As a reminder, if you would like to ask a question and have joined on Zoom, please use the raise hand icon. Alternatively, submit a written question using the Q&A function. If you have joined us on the phone, please press star followed by one now.

And again, for a further reminder, if you would like to ask a question and have joined through Zoom, please use the raise hand icon to ask a verbal question or use the Q&A chat box to submit a written question. And if you have joined us on the phone, please press star followed by one on your telephone keypad.

Ozgur Serin Sam, it looks like there are no questions. Do you see anything on the written platform?

Operator I can confirm there's been no question submitted.

Ozgur Serin Then in this case, everyone, anyway, if you end up, happen to have any further questions, you know how to reach to us. I think we can close the call, unless any one of you wants to use the last chance to ask a question before we call it. Very well. Sam, I guess we can close it. Thank you very much for your participation and listening to us. As repeated, once again. any questions, please get back to us either through IR's email accounts or individual accounts. All of you will have those details. Thank you very much and have a wonderful day, whatever is left, wherever you are. Thank you.

Abdulhameed Al Muhaidib Thank you.