Transcript

ACWA Power Financial Results Conference Call for the three-month period ended March 31 2024 Conference Call mp3

Thursday, May 9, 2024

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Maxine Hello and welcome, everyone, to the ACWA Power financial results conference call for the three-month period ended March 31st. If you would like to ask a question, please press the raise hand icon on your screen or you can also use the Q&A chat box to submit a question if you've joined the call via Zoom. If you've joined us on the phone, please press star, followed by one on your telephone keypad. I will now hand you over to our ACWA Power host, Ozgur Serin, Head of Investor Relations, to begin. Ozgur, please go ahead.

Ozgur Serin Thank you very much. And good morning, good afternoon and good evening, everyone. And we are actually holding this call, earnings call, from Hong Kong alongside the Saudi Exchange Tadawul's first international Capital Markets Forum. Together with me, I have Abdulhameed. And we do not have Marco today because he's travelling in China. And therefore, with his apologies and excuses, he is unable to make the call. Together with Abdulhameed, we will host the call, this earnings call, this evening. Using the opportunity before I hand over the word to Abdulhameed, we really would like to thank the Tadawul leadership for this occasion because they gave us the opportunity to meet new faces and new investors on this part of the world.

On the behalf of our entire ACWA Power, thank you, Tadawul leadership. And I would like to now pass on the word to Abdulhameed so that he can take us through the results of the first quarter 2024.

Abdulhameed Al Muhaidib Thank you. Thank you, Ozgur. And good evening, everyone. It is a great pleasure to connect with you all again. I would like to give you a quick update on the earnings or the first quarter announcement. Apologies, maybe we did not give you a lot of time this time between the actual announcement at Tadawul, which was closely just less than an hour ago and the earnings call. We'll try to take you through a better, I would say, explanation when it comes to the different numbers. And then we'll give you more space towards the end to make sure that we can basically capture all the questions that you have.

Just we'll start with a quick business update. This quarter was a fairly interesting quarter, three months since the beginning of the year, with a little bit of, I would say, great results coming from different sectors. On the business development side, we have been able to secure two new projects. First one is Nukus2, which is a 200 MW wind project together with the battery, in Uzbekistan. And another project is around 400,000-metre cube per day of water desalination, which is in Senegal. This is a landmark project for us. It's the first water project that we have in Africa.

We did highlight earlier last year that we are anticipating very soon that the water portfolio that we are owning as of today, close to 8 million metre cube per day, is going for more opportunities beyond the countries that we are currently operating in when it comes to the water. And we did see that Senegal being the first one. And also, we are expecting more and more countries will be acquiring water in the near future. When it comes to a project's financial close also in the development side, we have successfully completed the financial close of Hassyan IWP. It's a large green water project in Dubai.

Together with our partner, DEWA, basically, we have achieved the financial close and NTP was issued for this project. Another great project in a zone that we are fairly comfortable with, expanding our partnership with DEWA to the first

IWP project ever built in Dubai. When it comes to Saudi Arabia, we have also achieved the financing documents signature, we call it dry financial close, for two very large mega projects when it comes to CCGT assets, both Taibah and Qassim. A new partnership also with Saudi Electricity Company and HACO. This is a project that we own all of them and at a percentage of 40%. And we are also expecting to achieve the full financial close in the coming months for these two projects.

When it comes to operation, Alhamdulillah, when it comes to LTI, which is the lost time injury ratio, it is slightly lower than the same period of last year. We maintain our assets fairly in a safe position, despite the fact that number projects under construction has increased. On the power side, a slight increase in the availability to around 89.8 and almost the same availability for the water side, around 94.5%. We have achieved a couple of completions when it comes to moving assets from construction to operation. For example, the Sudair, which is the first round of PIF under renewables, has achieved a full commercial operation, which is 1.5 GW of PV.

Also, we have achieved a full production capacity on the world's largest water project, which is Taweelah in Abu Dhabi. And again, the second here is for Sidarya project in Uzbekistan, which is the only CCGT asset we have in Uzbekistan, has been completed, which is around 918 MW. And we are expecting also in the coming months to complete the full project and reach the 1.5 GW capacity for this project. Big hit we had this quarter with the unfortunate event of NOOR 3, where we had the leakage in the molten salt tank, in the hot molten salt tank. And we have announced that earlier in Tadawul.

You have seen today the impact of the full year that we are taking it under impairment. And we're going to go through that detail later on. When it comes to another, basically, impact that we have seen is the rainfall, which is one of the highest in the last 75 years in UAE and specifically in Dubai that we had seen also some impacts coming through the operation. A couple of the projects we had, they did not reach back the full capacity until couple of days after. Whereas when it comes to construction projects, some of the projects, specifically Noor Energy, for example, it has been impacted and we are expecting a bit or more delay than, let's say, the baseline for this project before the rain.

Finally, maybe it was before… Sorry, after the Q1 announcement, but it is a material post-quarter announcement. We had a great result in Barka where we had the extension of the water and power contracts for a great period. In the power side, we get an extension of nine years. Whereas in the water side, we get extension of three years, with the option to extend for three plus three years. Total could potentially be another nine years also on the water side. This is great news for us because not only it is an extension of a single asset, but in reality, it is a demonstration for us that assets that we are maintaining are still being favourable for the offtakers to extend.

We have done fantastic work when it comes to preserving the assets for the last one year and a half. And with our estimate on the supply and demand on Oman, we have been successful in managing the bid in a way that achieved this extension. This is in the businesswise, quick update. Let me move to the finance side and then also we're going to highlight a few items. First, in the operating income, mainly driven by NOOR 3 impact. We have seen a 28% drop. Overall, the number is positive. SAR 400 million. And we're going to go in the next slide through the details and the loss of that impact.

When it comes to the bottom line, a 10% increase from last year, from Q1 of last year. And the number is very close to SAR 300 million. Parent operating cash flow, you can see a big jump here to 466 million. This is mainly related to a big impact related to termination of pre-hedges that we have structured earlier. And also, we're going to talk about it maybe in the following slide as well. Highlight, again, I will focus first on the increase in the operating income or the POCF, where we had basically, I would say, this pre-hedging termination that has significantly impacted the figure positively.

Impairment loss in Morocco has impacted our operating income significantly. And the other two highlights are related to the buyback of the shares, where we have the LTIP being announced for 2023. We have bought the shares related to the programme for 2023, which is around 264,000 shares. And now we are in the process of distributing that in line with the company policy for the LTIP. When it comes to the shareholder meeting that we had two weeks ago, the shareholders have approved both the dividend distribution and the bonus share, which was 500 to one. Perhaps after also a lot of discussion with the analysts and some of the investors where they ask for guidelines, we are trying also here to give you a bit of flavour of what we are expecting for the next three quarters.

Perhaps the first one is related to, we are expecting an increment, say, income earned or cash on the coming three quarters, mainly related to some of the divestments that we are working on. We are also expecting that, as we are moving through the year, we are trying to rebalance our upfront fee and perhaps reduce a bit in favour of a stronger recurring cash flow in the future. A rebalancing strategy, along with what we have approved last year, it will continue for the next, I would say, between this year and the next two years. It is not something immediate. It's not something you will see a big impact of it.

But it's something that we are trying to gradually move on towards that within the next three years. Finally, despite the fact of the hit of NOOR 3 and, I would say, the drop in the operating income, I do remain positive for the remaining of the year. It is a year that we should have basically our operating income or, let's say, operating challenges basically over and we expect overall year to be very positive. When it comes to operating income, this is a quarter-to-quarter assessment for the same period as last year. You can see that the 28% drop is maybe perhaps categorised into three different buckets.

The first bucket related to the service fees, the construction management fees and other fees that have been reduced due to two facts. One is that a couple of the mega projects that we have under construction for a while have achieved completion. And based on that, the service related to the construction has been completed. We are also expecting, which is the second point, a timing difference for the project that we have achieved the financial close last year to start kicking in in the coming period as well. When it comes to the second item, which is the 33-million-riyal impact, it is mainly related to the forced outage that we have seen in Morocco.

And finally, the last point is related to a quarter one-to-quarter one analysis on the G&A cost. And this is, if you recall quarter one of last year, it was a quarter before the approval of the Strategy 2.0. It was a quarter before the approval of the people strategy. Where since then, we have embarked on large programmes for enhancing the capability within the company, endorsing the people strategy. And that has impacted the quarter-to-quarter [inaudible 00:12:16] when it comes to the high cost of staffing and anticipation. And this cost is really for building up the pipeline for the future. We are expecting also that when it comes to upcoming operating period, to naturalise as well over time.

Moving to the next slide, which is focussed mainly in the net income, if you want comparison between Q1 of last year to Q1 of this year, I will start with the first item related to other income, which is mainly driven for recognition of the, basically, pre-hedge termination. In short, we had books or we have preserved, I would say, a pre-hedge position last year for a potential project that has been on the, basically, pipeline for almost one year and a half to two years. Where we have now changed the position and we end up terminating the project because that specific pre-hedge is not, in any case, fitting the new structure of the project, based on which we have recognised a gain of around SAR 350 million.

When it comes to the second item, it’s mainly related to non-controlling interest. Last year, it was a positive variance. This year, it’s negative variance. Which has overall impacted us positively. And also, there is a small difference of around 10 to 15 million net impact from both… If you add up the financial charges and the financial income, the net positive impact is around SAR 10 to 15 million. Item number three is related to lower operating income, which we have explained in detail in the previous slide. Whereas item number four is related to the impairment loss that we have recognised in relation to NOOR 3 impairment.

We have explained in the previous slide the impact related to Q1. Whereas in item number four, we are taking the full impairment of this year where we are expecting NOOR 3 to come online toward the end of the year. And thus we have decided, in line with the IFRS standard, to take the full impairment of this year for NOOR 3. The final item, which is number five, is related to higher Zakat and tax cost. And this is mainly related to the deferred tax charges that we have seen in Morocco. That brings us to around SAR 300 million bottom line. This is a slide that we are trying to explain in brief the main impact if you want to do an adjusted net income.

We will start from the reported net income after the financial statement, which is around 296 million. And from there, we are adding back the impairment losses of Morocco or the NOOR 3. And this is mainly driven because it's in a unique basis where you see such a long outage. And we don't expect such a long outage to be the normal course of business for ACWA Power. We are trying now to also find a permanent solution for NOOR 3 and similar kind of, let's say, single point of failure items that is within the portfolio of ACWA Power. Whereas the second item, which is related to the pre-hedging, we have also adjusted for that due to the fact that we also believe that this is an abnormal positive income for us that usually, we don't terminate.

And most of the cases, we do novate the pre-hedges of the specific project once it's completed so that we are also adjusting for it. And a normalised or adjusted net profit basis, which is not in line with the IFRS… It's only for guidance. We are sharing it with you. We are seeing the bottom line close to SAR 92 million. With that, I would like to thank you for hearing and we'll open it for the Q&A. Thank you.

Maxine Thank you. If you would like to ask a question, please press the raise hand icon on your screen if you've joined the call via Zoom. If you've joined us on the phone, please press star, one on your telephone keypad now. When preparing to ask your question, please ensure that your line is unmuted locally. Alternatively, you can use the Q&A chat box to submit a question. Our first question today comes from Syed Akhtar. Please state your company name and proceed with your question.

Syed Akhtar Hello?

Abdulhameed Al Muhaidib Hello.

Syed Akhtar Hi, my name is Syed Taimure Akhtar and I'm from Olayan. I have a question regarding your quarter one results, the on-normalised basis. It's only 92 million riyal. And given the high level of debt on your balance sheet and then high [inaudible 00:17:29] that is coming going forward, how do you see that the company will be able to sustain their profitability going forward while keeping their balance sheet more liquid?

Abdulhameed Al Muhaidib Thank you, Syed, for your question. Maybe let me highlight a couple of points here, the first one related to operation. When it comes to operation, we believe that a big impact that we've been recognising upfront, it's related to the NOOR 3, has materially impacted our operating income. And this is something we do believe that it is abnormal where we have a long outage for more than, I would say, 40 days. This is an abnormal challenge that we are facing. When it comes to the overall year progress, we have seen both the availability of the power and the water in a positive progress so far.

And this has been highlighted also in the opening slide where we saw the overall, despite the fact of NOOR 3, the availability of the power actually in the high side and the same thing coming also from the water side, which is due to the good progress of last year. Operational, today, we are confident that we are fairly in good shape for the full year analysis or full year, I would say, operating income targets. Now we move to other distributor to the operating income, aside from the operation of the assets. And this is mainly related to development fees, service fees and the progress that we are doing on the, basically, development side.

We are fairly active now in couple of financial closes and we just also achieved one of them this year. And last year was a remarkable year with 12 financial closes. When it comes to this year, we are also targeting a big number of financial closes to be achieved. The pipeline is there and with that, we are expecting that to translate positively to our development income and thus, our operating income as well. I remain positive for the full year. There is a big lesson learnt for us also related to NOOR 3 that we are this time looking to find a permanent solution, even if it's going to cost us more. But we would like to solve it forever.

Syed Akhtar Sorry. My next question is regarding… As you said, that you have learnt a lesson from this Morocco plant because I think the outages is the biggest issue from over there. And you had the same issue before the IPO regarding the Turkish operation. Oman would be the second, I would say, troublemaking asset. Going forward, since you are… And all these problems that we have witnessed over the past four, five years, these are all the plants which are outside of Saudi Arabia. Looking at your expansion plans and new projects, they're all in the Central Asian region, especially in Uzbekistan, Kazakhstan.

And now there are reports that most probably you might go to the Chinese market, you're going to tap the Chinese market. What probability that, as an investor, we should assign that there will be no such disruption in the operations going forward?

Abdulhameed Al Muhaidib Thank you, Syed. Look, if you look at Turkey, there is no operational challenges there. Actually, the asset is performing very well, the CCGT asset, which is a gas-fired plant. And this is one of the best CCGT assets that is operating in Turkey. There is no operational challenges that we have faced. Actually, it is, as I mentioned, one of the best assets that we have performing well. What you are talking about before the IPO is not related to operational maintenance. It is related to impact we had because of the mismatch first on the forex, where we had a dollar funding for a Turkish lira, basically, tariff payment.

There was a mismatch between the revenue and, basically, funding related to that. Based on which we did make a call to take the full bite off or, let's say, before the IPO. That is something that we have no impact as we are progressing forward. And we have not witnessed any impact in the last few years. It's actually in the other way around. It started contributing positively any year that it's performing better because you are reversing some of the old positions. Now coming to your question related to OEMs and Chinese supply in general, I believe that we have a very strong business model related to OEM selection and quality assurance for this project under construction and also for the selection of the project.

Today, it's not ACWA Power’s global trend that we have witnessed where most of the big OEMs actually end up in China. For example, today, even if you look at the simple… First of all, take technology, which is the PV for the solar, there isn't much supply except from China. And given all the factories that are in different places in the world have been closed and most of the concentration happening there, we do look at diversifying our OEMs and having an office with more than 60 people sitting in China related to, not only expediting the procurement, but also quality assurance. When it goes to specifically the NOOR 3 issue and how can we assure, NOOR 3 is a very, very specific and unique project.

It is one of the most challenging technologies, which is a concentrated solar power project that is depending on a tower. And this is, around the world, we have only less than nine towers that are available and less than maybe six or seven that are already fully in operation. As a technology, it is challenging. And I agree with you that the technology of CSP is challenging. However, the CSP technology is only 2 to 3%… Actually, 2% and less of my overall portfolio. Yes, NOOR 3 as a CSP, you have that challenge. But expected from going forward, we don't have a big portfolio with the CSP to impact us.

Ozgur Serin I just would like to add that maybe you noticed Abdulhameed has mentioned that because of this incident in Morocco, which is repeating for the second time in a matter of two and a half years, as management, together with our shareholders, we are investigating if we can do anything that is permanent as a more permanent solution. There are a lot of actions in place in relation to NOOR 3.

Abdulhameed Al Muhaidib Maybe just to highlight, since you talked about this tank, one of the lessons learnt also, we took there… Because we have built another CSP plant in Dubai. And the way that we are trying to avoid the single point of failure, for example, in Dubai, instead of building that specific technology with one hot molten salt tank and another cold hot molten salt tank, we did a redundancy. We had four different tanks which are hot and four different tanks which are cold. So in case of a failure of a tank, you lose 25% of the plant instead of losing the 100% capacity, like what we are seeing in NOOR 3.

Of course, we have still three towers in our portfolio, one in Morocco, one in South Africa and one in Dubai. One under construction and one is operational and one with a long outreach. We have replicated the lessons learnt from the first one, which is NOOR 3, both in Redstone in South Africa and in Dubai.

Maxine Thank you. The next question comes from Noura El-Essawy. Please state your company name and proceed with your question.

Abdulhameed Al Muhaidib Sorry, we cannot hear the question of…

Ozgur Serin Noura.

Abdulhameed Al Muhaidib Noura.

Maxine I believe the question was retracted. We have no further questions in the… We've just had a question registered from Ricardo Rezende from Morgan Stanley. Please go ahead, Ricardo. Your line is now open.

Ricardo Rezende Hello and good evening. I have a question on potential divestments. When you look on your current portfolio, would you prioritise fully divesting from any specific assets or would you also look at potentially farming down some of the assets where your stake ownership, it's over the 30 to 40% stake that you target for most of the assets? Thank you.

Abdulhameed Al Muhaidib Hi. Good evening, Ricardo. Thanks for your question. Actually, a very good question. And maybe allow me to highlight over the journey of ACWA Power, I believe… And if my recall serves me well, the only divestment that we did fully was related to Shuqaiq project, where we have divested completely that project. Whereas in most of the other cases, we do a partial divestment to reach our optimal equity ownership, which is related to 30 to 40%, as you rightly mentioned. Perhaps the other project that we have actually invested in initially and then we divested completely was a small PV project in Bulgaria, where it was out of the regions that we are operating in.

To answer to your question and looking at it as we go forward, we do believe that the divestment that we are exploring is partial divestment, where we have a bigger share in specific projects and we are trying to reach our optimal shareholding between 30 to 40% in these assets.

Ricardo Rezende And if I may follow up, in some of the locations, you have close to 100% in pretty much every project that you have. Is there any clause in any of your contracts that is stipulated on the equity stake that you got to have or you're free to sell down as much as you want?

Abdulhameed Al Muhaidib Usually, this offtake agreement is structured in a way that they try to maintain the lead developer, which is, in most of the cases, ACWA Power, as long as possible, at a different ownership level, but the maximum level. I can give you an example. And depending on the offtake and depending on the project, if where you have a restriction, let's say, from commercial operation date until five years, you have to remain with the same shareholders. After the five years, up to the ten years, you can reduce up to 20% ownership. After that ten years to the 15 years, you can reduce by, let's say, another 20%. And then after that, it's open.

That's what you can see in several of the offtake agreements we have. Today, all the divestments that we are exploring are within the threshold we are having. You have a specific question about the 100%. I don't recall any project we have a restriction to keep 100%, including the project that we are owning, actually, 100% today.

Maxine Thank you. The next question comes from Anna Antonova from J.P. Morgan. Please go ahead, Anna. Your line is now open.

Anna Antonova Thank you. Good afternoon, gentlemen. Good evening. Thank you for the presentation. A quick question from our side. Can we reasonably expect that you would record any more impairment losses on NOOR 3 in the next quarters? Or to put it differently, can we expect any impairment charges over and above NOOR 3 in the coming quarters or any other one-offs looking into year-end? Or is everything has been recorded in Q1? Thank you.

Abdulhameed Al Muhaidib Thank you and good to hear from you. NOOR 3, we did a full assessment based on which we took the impairment for the full year. We don't expect any additional impairments related to NOOR 3. And this is where we have also aligned our analysis together with the external auditor. Now specifically in NOOR 3… And then maybe I can move to the second project. And we just mentioned also that we are also looking for a permanent solution and we are looking for a permanent solution that gives us peace of mind and the reliability of the project over the lifetime.

We are exploring together with the technical experts what will be the ultimate solution for the little that we have witnessed in the molten salt impact. And we are ready to invest additional funds for the long outlook of the project and to maintain a higher reliability of supply for this project going forward. When it comes to other impairments' expectation, we have recorded first quarter all the impairments that we are expecting for this quarter. If you look at availability of the project, it is in a good shape. I haven't seen anything that is concerning me to suggest or to book additional impairment.

Plus, I don't see today any of the projects that are taking a downward trend that scares us when it comes to the availability of that specific project over there.

Anna Antonova Thank you. That's very clear. And perhaps the second question from our side is, I remember the slide where you highlighted that year-on-year part of the lower EBIT was due to higher G&A on account of your strategic growth and geographical expansion. My question is, has the growth in G&A in the coming quarters, can we view it as being similar to Q1 or have you already expanded or increased the staff quantity and everything else so that all the costs are already booked in Q1 and from that, it's a normalised base going forward? Or we can expect this base to continue rising into year-end on account of your future growth?

Abdulhameed Al Muhaidib Anna, if you look at the G&A cost specifically, you have witnessed the jump because it's a quarter one-to-quarter one analysis. Answering your question, if you do a quick analysis between Q4 and Q1, which is more closer to each other, you will see that the increase in G&A is fairly reasonable. And keeping that in mind, we don't expect… For example, we have almost launched all the programmes related to the people strategy. We have already adjusted our staffing requirement needs for the upcoming growth. We are actually trying to work on a cost optimisation exercise where we're trying to reduce some of these G&As.

It is always a tricky period where you put people ahead of the pipeline because you can visualise the pipeline. That jump was expected and it was studied very carefully. I don't expect quarter-to-quarter, you can continue to see cost increase significantly. It will be more of a similar circuit. Plus using the Q4 and Q1, which is the last six months for you, as the new base, I will say.

Anna Antonova Very clear. Thank you so much.

Abdulhameed Al Muhaidib Thank you.

Maxine Thank you. As a final reminder, if you would like to ask a question, please press the raise hand icon on your screen if you joined the call via Zoom. If you've joined us on the phone, please press star, one on your telephone keypad alternative. Alternatively, you can use the Q&A chat box to submit a question. We have no further questions, so I'll hand back over to the management team for any closing remarks.

Ozgur Serin Thank you very much and thank you, everyone, who is on the line and joining us in the webcast. I think this is the end of our earnings results call for this quarter. Please reach out to us through the IR team, to myself and will follow up with any further questions that you might have regarding the results as well as any other topic that you'd like to inquire with us. Thank you very much with that. And have a good day or a night or an afternoon. Bye-bye.

Abdulhameed Al Muhaidib Thank you, everyone.