30-Nov-2021

MPC Energy Solutions NV (MPCES.NO)

Q3 2021 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Thank you for standing by and welcome to the Q3 2021 webcast of MPC Energy Solutions. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. [Operator Instructions]

I would now like to hand the conference over to your host, Heike Hülle. Please go ahead.

Heike Hülle

Managing Director-MPC Industrial Projects, MPC Capital

Good morning, everybody, also from my side and welcome to the second webcast of MPC Energy Solutions. We are pleased to have you here this early in the morning. Our Q3 report and the press release regarding the Q3 report has been published this morning at 7 o'clock. As the operator just mentioned, we will hold a presentation for you now followed by a Q&A session. Please be advised that the webcast today is being recorded and will be published later together with the transcript.

And just to cover the necessities here is a statement regarding forward-looking statements. Let me just remind everyone that certain statements made on this call, including financial estimates and comments about our plans, expectations, beliefs or business prospects and other statements that are not historical in nature may constitute forward-looking statements under the security laws. We make these statements on the basis of our views and assumptions regarding future events and business performance at the time we make them and we do not undertake any obligation to update these statements in the future. Forward-looking statements are subject to a number of risks and uncertainties and actual results may differ materially from the results expressed or implied in light of a variety of factors, including factors contained in our financial statements, filings, and other releases.

Okay. With this part covered, I would now like to introduce our speakers for this morning. I have with me Martin Vogt, the CEO of MPC Energy Solutions; and Stefan Meichsner, the CFO of our company. Martin and Stefan, please go ahead.

Martin Vogt

Chief Executive Officer & Managing Director-MPC Capital, MPC Energy Solutions NV

Thank you, Heike, and good morning also from my side. Martin Vogt, speaking now. The agenda for this morning will include an update on the project and an outlook on those as well as the financial review of the last quarter.

This morning, I will start primarily focusing on the project side where we have also prepared two small deep dives into the latest project announcements, which is the project in Mexico, Los Santos, and the project in Colombia, Planeta Rica, with Akuo Energy and will hand then over to Stefan Meichsner who will do a deep dive also on the outlook of our project pipeline and then provide a review of our Q3 financials.

So first of all, given that we are heading towards year-end, we would like to reconfirm to you that we still believe to be on track to achieve our operational asset base of 177 megawatts in 2023, with around $40 million of annual asset level revenues.

We also feel well-positioned to cope with the current challenges in the overall market with regards to global supply chain disruptions, as well as the continued COVID-19 pandemic. The COP26 in Glasgow further demonstrated our industry is still benefiting from material support of the private sector as well as the political side. We see that there are great opportunities ahead of us supported by the industry for a global energy transition and we also see that many of our markets where we are active in are increasing their renewable energy targets, mostly moving over to 100% renewable energy supply. Having said that, we will go into the presentation that we have prepared for you and that will be uploaded.

We'll go now into the post-balance sheet date events and I would like to start with the Neolpharma CHP project. We received very good news here from LUMA Energy, which is the grid operator that took over the responsibility for the transmission lines and the grid operations in Puerto Rico from PREPA.

In June this year, LUMA Energy completed their site assessment as the construction part were completed and they have now indicated to us that we will shortly receive our endorsement for the grid connection and that will enable us together with the EPC 2G to finalize the testing and connect the CHP plant to our client and Neolpharma. So we believe we can now supply our client with the first kilowatt hours by the end of 2021 or early 2022.

There was a six-month delay now compared to initial forecast of this project of these six months. Four months were caused by the delay in equipment deliveries caused by the global supply chain disruptions in the last two months, a delay by LUMA's energy review of the technical site conditions. I think it's important to understand that there was this change in grid operator in Puerto Rico and LUMA Energy had only since June to familiarize themself with the ongoing assets so we feel that LUMA Energy actually made a fast response to our request to connect our assets.

Given that we are purchasing this asset from Enernet Global on a fixed price basis, there is also no economic impact caused by this six months delay as the PPA also only starts with the commissioning and start of operation.

Moving over to our latest project acquisition and the advanced backlog, the Los Santos Solar Park in Mexico, we will do a deep dive into that project later on, but would like to share that we have signed the share purchase agreements to acquire a 100% of the share capital. And we expect that the transaction will be completed in early 2022 and is currently only subject to the approval of the senior lenders, which is the North American Development Bank as well as OPIC, which is now named DFC.

Moving over to the development and backlog, here, we are making good progress in our new joint venture with Soventix Caribbean in the Dominican Republic. As announced previously, we are targeting to develop a 50 to 100-megawatt solar project in the Dominican Republic. Soventix Caribbean is a very experienced local developer with who we are working already on other projects in the country, and at the moment, we are at the stage where we're assessing various land options that were presented to us that have, first of all, good solar radiation but also favorable grid connection points, which is very critical in these island markets.

In our partnership with Enernet Global, we are also very pleased to share that Enernet Global was successful in being awarded additional energy service agreements in Puerto Rico. We expect to be delivered another 2 megawatts in the first quarter and another 8 megawatt in the second quarter of 2022, which are ready-to-build projects, CHP in Puerto Rico with very reputable offtakers and clients, primarily from the pharmaceutical industry, similar to Neolpharma.

And I would also like to give a general update on the construction. As you know, we have with Planeta Rica, Santa Rosa, and Los Girasoles three construction projects. Here, we are referring to the statement that was made by the five largest Chinese panel manufacturers around two months ago that describes the current supply situation caused by the local energy restrictions in China, limiting the production of panels and with that, the average supply delay of up to six months. We are affected equally by these supply delays so we are expecting to have up to six months delay in start of operation in these projects as of now.

So with that, we can go over to the next slide, please, where we just want to illustrate our updated growing presence in the key markets. Here, you will see now that also Dominican Republic is part of our, yeah, pipeline and we have future assets in the backlog like in Honduras and Eastern Caribbean.

Moving over to the latest announcements here, Los Santos, I think this project fits very well into our strategy. We do have a private corporate offtaker with LEONI, a medium-sized German industrial company that is producing locally in an emerging market environment as well as the LaSalle educational network, which is about 22 universities in Mexico.

The split in the PPA is roughly 80/20 between LEONI and the universities. We do have a PPA that is in US dollars so we also don't have the FX risk of the Mexican pesos. It is an operational project so it gives us access to immediate cash flows and it also, during the due diligence, enabled us to review the operational performance of this asset, mitigating also further risks and overestimating, for instance, the production or underestimating local curtailments, et cetera. The power plant has 16 megawatt of installed capacity and is producing 34 gigawatt hours of annual energy. The project is operational since 2017 and also the O&M is performed by a globally leading company, [indiscernible] (11:57).

For us, it is very compelling to have a project that is operational but also provides the opportunity to extend the project. So here, we are very pleased that we do have the optionality to increase the planned capacity to up to 90 megawatt in total by about 2023. So with the seller, we have agreed on a right of first refusal on the extension phase once it is fully permitted, which will take about another 18 months.

We are the sole owner of this project, and with the DFC and the North American Development Bank, we have two leading development finance institutions as the senior lenders in this project that also provides further comfort with us and long-term financing at very attractive rates.

The ESG performance in a market like Mexico that is still heavily relying on fossil fuels is also very favorable. You see here 16,000 tons of CO_2 equivalent emissions avoided per year. That is a relatively high value given the local energy metrics of Mexico.

Yeah, as mentioned before, the SPA is signed and we are expecting shortly a closing and with that, the share transfer from the sellers to MPC Energy Solutions.

Going over to Colombia where we have shared with you in August to build the project, Planeta Rica, the 26.6 megawatt project that was initially developed by Akuo Energy and has a signed PPA with Celsia, Celsia being one of the major local distribution companies that has a AAA rating by Fitch. So again, we do have a private offtaker with a very strong credit quality, which gives us a lot of comfort in Colombia.

The project is currently being under construction with an EPC provided by Mota-Engil and SOCOLCO, SOCOLCO being a local Colombian construction company with decades of experience, and Mota-Engil, a Portuguese EPC company that provides the experience in solar PV. We believe that the commissioning will take place no later than the fourth quarter of 2022, with a slight delay caused here by the panel supply from the Chinese manufacturer, Suntech. The O&M will be performed long-term by Akuo Energy, so also here, a strong alignment of interest with our co-shareholder. And on the ESG performance, I would just like to point out the big difference between the Mexican project and the Colombian project here. So you see, despite the projects being roughly 50% larger only, the 4,000 tons of CO_2 equivalent emissions avoided is materially lower because the Colombian energy metrics is already driven primarily by hydropower. So, I think this is also for everyone to understand. It's not necessarily depending on the technology that we're implementing by the CO_2 avoidance. It is also materially depending on what is the energy metrics in the country that we are building these projects.

And a very interesting part in both projects, which also shows our risk position here, is that both projects provide power materially below the industrial tariffs. So going back to Mexico, you see that Leoni's alternative would be to receive energy from CFE under the industrial tariff regime, which will be 21% higher than our PPA price. And in Colombia, we are currently selling PPA for about 29% on average local energy prices. So it's a win-win situation for the clients, as well as us as the IPP. We receive long-term certainty and reduce our volatility and the clients receive an immediate benefit compared to current market prices.

And with that, I would like to hand over to my colleague, Stefan, who will continue. Thank you.

Stefan H.A. Meichsner

Chief Financial Officer, MPC Energy Solutions NV

Thank you, Martin, and good morning, everybody. From our last webcast, if you tuned in, you know that we started classifying our entire set of opportunities into three categories: our portfolio, our advanced backlog and our development backlog. That has not changed, of course, the way that we have assigned the project has, as you will see on the next slide, but overall, we still have 750 megawatts in these three categories that we see with a high probability of being realized. Some of these are in – under construction already, some of them are ready to build, others are operational and we are attempting to acquire them.

And in the development backlog, where we currently have 573 megawatts of opportunities, we own most of that already. We have exclusive access, and in many cases, the right of first refusal to all the others, and we see these becoming ready to build over the next 12 to 24 months, as we previously indicated. And on top of the 750 megawatts for which we still see our double-digit IRRs that we expect and need, as well as 75% EBITDA margin on project level, that all holds firm. On top of that, of the 750 megawatts, we, of course, continuously source additional opportunities, both greenfield development as well as ready-to-build or operational assets, and we currently see close to 1.9 gigawatts in Latin America and the Caribbean that we have as additional opportunities for the future.

This table was first shared during our last webcast. You will see that there are some notable changes. The first change is that the Santa Rosa and Villa Sol project in El Salvador is no longer classified as ready-to-build but now under construction, as the engineering is ongoing, as we have received the final pending permits to move ahead with construction, most notably, of course, the environmental permit. That is change number one. Everything else is well underway.

Change number two is that after the signing of the share purchase agreement for the project in Mexico that Martin was speaking about a few moments ago, we have moved the Mexico Project, Los Santos, into our portfolio from the advanced backlog.

And the third change to the portfolio is that we have carefully moved the COD date for Neol CHP from Q4 of this year to early next year, given that we still await final approval from the new grid operator, LUMA, but that is not impacting us as a company, as the capital will only be deployed once the plant is going into commercial operation. And the economics of the project are also not affected by that move into the next quarter.

If we move to our advanced backlog, these projects should be known. We have our project in the Eastern Caribbean, which is ready to build. We're currently looking for key contracts to be transferred from the developer to the project company, and the transaction documents are final. The partners are agreed that we want to move ahead with this, and we hope that before Christmas, we can share that information with you officially and also provide some more details.

From the advanced backlog, also very critical, of course, to everyone the 60-megawatt solar PV plant in Honduras, which has been operational for many years and performed well technically. We are still working on the transaction documents and we'll get all the parties involved that need to agree to this transaction. It's the same situation here. We are in agreement with the current owner of the project to buy into it. We will take a majority share in Honduras and we are working hard on closing that transaction as soon as we can and we'll share that information once that has happened.

On top of that, the 573-megawatt development backlog is also, in terms of its content, not changed. What we have done now to provide some more guidance on where we stand is to include whether we have already secured the land lease or not. You can see that this is the case for almost all of these projects. The only exception is our partnership with Soventix, which we announced previously, where we are looking for the appropriate land spots, and once identified, we will secure that land and then move on to the next development stages. Soventix is taking the lead on the development and we are in on the project as a 51% partner.

In addition to whether the land lease is secured or not, as the key information for the progress in every development project, we've also given an indication here about when we expect this project to be ready to build and subsequently to go into commercial operation. There's one typo here which we will correct in the uploaded webcast presentation for the project in Panama. Ready-to-build is not expected for Q1 next year but Q1 2023, and the COD date will also not be Q1 2023 but then Q1 2024. We apologize for that mistake, but we will correct it. The rest of the projects, as we've previously announced, should be ready to build over the next 12 to 24 months. You can see here that for Colombia, it already says Q4 2021, which is correct, because that includes our initial projection for Los Girasoles, which was part of this range given here. So, well on track.

It should also be noted that as we previously stated, development for this project is fully funded by the capital we received during the IPO. On average, we expect development costs for a megawatt in the region to range anywhere from $5,000 to $15,000 per megawatt. It depends, of course, on the project on the country and what still needs to be done. But overall, even if we take $10,000 as an average for this entire development backlog, the money is available and will be made available to the development team as we progress. So, we should see significant value creation from the development backlog over the next one or two years, and once achieved ready-to-build, of course, it is our intention to also build and then operate these assets long term.

The projection about our installed capacity ramp-up has not changed. Martin has also reiterated this at the beginning of the call today. But we still see 177 megawatts to be installed in 2023 and fully operational, which will correspond to $40 million asset level revenues. And just as an additional information, what that means on a consolidated basis in 2023 would be $28 million revenues for our company as we projected a high 75% to 80% EBITDA margin on project level, and given the lead overhead, by 2023, we will also have 70%-plus EBITDA margin on corporate level.

We know that some of our peers report proportionate financials, and we will address that later on, we've looked into this and we believe it will be an interesting and valuable addition to the information we provide to the investment community. So with our next webcast, we will likely go away from asset level revenue and rather provide the proportionate revenues, and we will also address that later during the Q&A session just to provide that additional information.

The only change that we have really made here is the outlook for 2022. It was previously $25 million revenue. But as Martin previously mentioned, since we are seeing some likely delays in our construction process – projects, sorry, we thought it would be prudent to eliminate at least one quarter of revenues for these projects next year so that we don't overpromise and then underdeliver, as we say. So, the new projection for next year is $23 million asset level revenue corresponding to $23 million consolidated revenue. The rest is unchanged to our previous communication, which concludes our review of the projects themselves. We will now give a brief overview about the financial situation as of September 30, which we also published as part of our financial report this morning.

If we look at our balance sheet, you will see that the most material change in line with our previous communication is that we made the investment for our Colombian partnership project, Planeta Rica. Overall, we invested $7.6 million into the project. That is $2.3 million equity and $5.3 million shareholder loan. The shareholder loan bears an interest of 10% per year and is denominated in Colombian pesos.

What you see on the balance sheet is that we have actually $7.8 million reported here for Planeta Rica. The difference to the $7.6 million we invested is twofold. One is that interest on the loan is already accruing. For the first two months, that was roughly $90,000. And the remaining impact comes from exchange rate differences between the time where we extended the loan to the project company and the valuation date, September 30. We will see this value, of course, fluctuating at the moment. The exchange rate between US dollars and Colombian pesos is more or less in line with the date that we extended the loan, but as that exchange rate moves up and down, we will see the face value of the loan fluctuate as well.

Otherwise, we still have predominantly cash on our balance sheet, $72.1 million. We are still well-capitalized. We have no long-term debt. And that money is ready to be deployed into the projects that we have shown previously from the portfolio, from the advanced backlog. Some of that money is already with the project companies for the respective projects, of course, but on a consolidated basis, that is not shown in detail.

If we move to a brief overview summary of our income statement and cash flow, the income statement continues to reflect our ramp-up. We don't have any operational assets yet, so we have no revenue to report. At the same time, we are ramping up our team, as can be seen by the slightly increasing personnel expenses quarter-to-quarter, and of course, the substantial part of our operational expenses relates to advisory fees from due diligence and other transaction-related services. There is still substantial amount of money that was spent on the IPO, so that overall, this is completely in line with our expectations. It's also reflecting our progress that we're making with transactions in Honduras and Mexico and the Eastern Caribbean, which, of course, correspond to operational expenses increasing as we progress in these projects.

On the cash flow side, also, no surprises. The difference between the EBITDA that we see in the first three quarters and the operating cash flow year-to-date is basically the capitalized project development expenses that we have spent. So, that is reflected in the operational cash flow. But that have been capitalized, and thereby, do not impact the P&L, which shows the difference of roughly $800,000.

In the investing cash flow, you can see in the first quarter our increased investment in Enernet Global, our strategic partner, and in the third quarter now, the equity investment for Planeta Rica. And in the financing cash flow, Q1 shows the impact from the IPO and Q3 shows the shareholder loan that we extended to Planeta Rica of $5.3 million. So overall, these numbers are still very easy to understand and once again concluding that we have $72.1 million cash reserves of this – of which, only a small amount is currently restricted as a secured deposit for bank guarantees.

As a final remark before we move to the Q&A session, Martin and I, as always, would like to thank our investors for their trust and continued support, and most notably, our team for the great work that they put in day to day and for the progress that we have once again made. We are very optimistic about this company and what is going to come over the next few years and decades. Martin has elaborated on the many opportunities and the potential that the sector, and in particular, this region has, and we are well-positioned to capitalize on that.

And with that, I hand the call back to Heike and we can start the Q&A session. Thank you.

QUESTION AND ANSWER SECTION

Heike Hülle
Managing Director-MPC Industrial Projects, MPC Capital

A

Okay. Thanks a lot, Martin and Stefan. We will now continue with the Q&A session. [Operator Instructions] Let me start with the phone questions. Operator, do we have any questions via the phone lines?

Operator: There are no questions coming through on the phone lines. [Operator Instructions]

Heike Hülle
Managing Director-MPC Industrial Projects, MPC Capital

A

Thanks a lot. Then, let me move on to the questions we received via the Web chat. The first question is from Daniel Stenslet, and the question is regarding the backlog of development assets where you don't have ownership yet, 221 megawatts, is there a point in time where the right of first refusal agreements will expire? Any milestones that have to be met to maintain these rights?

Stefan H.A. Meichsner
Chief Financial Officer, MPC Energy Solutions NV

A

Thank you for the question, Daniel. No, we don't see these rights and exclusive access expire and there's also no milestones that we need to achieve to keep these agreements in place. And given that our timeline is 12 to, maximum, 24 months to get these projects ready to build and we see continued – continuous progress being made by the development team, for us, there's also no risk of losing these projects. The only thing that could affect, of course, our development backlog is that we see certain project become unfeasible or hitting certain obstacles that we cannot surpass, but as of today that is not the case.

Heike Hülle
Managing Director-MPC Industrial Projects, MPC Capital

A

Okay. The next question is from Christer Bjørndal. Do you see increased competition in the region?

Martin Vogt
Chief Executive Officer & Managing Director-MPC Capital, MPC Energy Solutions NV

A

We don't see increased competition. Actually, with the continued COVID-19 pandemic, the situation remains similar throughout the entire 2021 year, which means that many of the investors and IPPs in this space focus on their core markets, and those are very often either Europe or North America. So indeed, we believe that this year is a year of great opportunities for us because we are the preferred partner for local developers and other stakeholders, given that this region is our core market that we are focusing on. So no, at the moment, there is no increased competition in the region. We expect that certainly to change once we go, yeah, back to a new normal post-COVID-19.

Heike Hülle
Managing Director-MPC Industrial Projects, MPC Capital

A

Okay. Thanks, Martin. The next question is from Magnus Solheim, and he's asking, is capital expenditure in line with what has been previously communicated or should we expect higher figures compared to what you previously guided as a result of the ongoing supply chain environment?

Stefan H.A. Meichsner
Chief Financial Officer, MPC Energy Solutions NV

A

Thank you for that question, Magnus. The impact of the disruptions in the supply chain and the likely increased CapEx figures have previously been adjusted. So, what we report today is still in line with what we previously communicated. So, there's no further negative impact compared to what we previously stated. And that being said, our return rates, as we previously reported, have been impacted between 50 and 100 base points, but that has been contained at that level. So, we don't see any changes.

Heike Hülle
Managing Director-MPC Industrial Projects, MPC Capital

A

Okay. The next question is also from Magnus Solheim. Can you give an update on the PPA market in your target region? Any regions worth highlighting?

Martin Vogt
Chief Executive Officer & Managing Director-MPC Capital, MPC Energy Solutions NV

A

Yeah. We see an increasing demand for PPAs, in particular from the private sector, but also in Colombia from the distribution companies given that Colombia is increasing their quotas for distribution companies that needs to come from renewable energy and with that non-hydro renewable energy, so we do see a strong demand also in Colombia.

You may know that the [indiscernible] (35:41) hydropower plant is still questionable, whether it will come online and with more than 2,000 megawatt of capacity. That has quite a significant impact and a lot of distribution companies have planned to receive power from that project. So these distribution companies are now in the market to look for alternative supply.

So we do see an increasing demand for clean energy supply. We also see that people and stakeholder realize that it may be worth to skip gas as a transitional technology and bet immediately on full renewable energy deployment. The experience now with the increase in gas prices and in the region where we are, they are importing natural gas from the US where we also saw the uptick in prices this year, which makes renewable energy again comparatively more attractive.

So also there, we see especially on the islands that have previously focused a lot on LNG markets like Dominican Republic, markets like Jamaica but also El Salvador, that this generation mix are again reconsidered and certainly with the advantage for renewable energy to be a provider of affordable clean energy.

So I think we are in a very positive momentum and price increases are also there in El Salvador. We see already that our index PPA prices are growing faster than expected. We see the price uptick in Colombia and other markets' costs again by gas, natural gas being the price setter. And again, that makes renewable energy a attractive supply for the PPAs of these distribution companies, traders, and private corporates.

And also worth to mention that most of the PPAs are US CPI-adjusted so the current high inflation environment will also increase the PPA price levels throughout the most of our projects, increasing the revenue base of the company.

Heike Hülle
Managing Director-MPC Industrial Projects, MPC Capital

A

Okay. Another question from Magnus is do you have a target for your net owned capacity in 2023 and net revenues as well?

Stefan H.A. Meichsner
Chief Financial Officer, MPC Energy Solutions NV

A

Yes, we do. I believe this nicely relates to the subject of proportionate financials, so where we consider our economic interest rather than consolidation rules.

In terms of megawatts installed in 2023, we would look at 121, the key difference is, of course, coming from the project in Honduras, the Eastern Caribbean, and our 50% partnership with Akuo in Planeta Rica.

On a revenue basis, it's a little bit lower than the consolidated revenue outlook of $28 million. I would say it's around $26.4 million, $26.5 million, the reason here being that neither the Planeta Rica project nor the project in the Eastern Caribbean for the first few years would be consolidated. So that's why you don't see such a large difference between the consolidated revenues and the proportionate financials.

So to summarize, 121 megawatts installed capacity and $26.5 million revenue should be the proportionate figure, Magnus, that you are looking for.

Heike Hülle
Managing Director-MPC Industrial Projects, MPC Capital

Okay. This concludes the Q&A session and the webcast. If there are any further questions we have not covered today, please feel free to send them to us via email at ir@mpc-energysolutions.com. We'd like to thank everybody for joining us. Have a great rest of the day.