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Corporate participants

- **Rodrigo Costa** – Chairman and CEO
- **Gonçalo Morais Soares** – CFO & Executive Director
- **João Faria Conceição** – COO & Executive Director
- **João Pedro Pires –** Head of Planning & Business Development

Participants

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

Gonçalo Morais Soares

Hello, good morning to you all and welcome to REN's Nine Months 2024 Results Conference Call.

As usual, I'm here joined by Rodrigo, the CEO, and João, the COO. Madalena is still on maternity leave, so I'm still here with João Pedro, who's filling her shoes for the next couple of months or so.

So, let me start going over the presentation. This has been, I'd say, a good, and in the fact that it's very well inside our expectations, a good quarter, but not very, very eventful. So, if you want to go to slide number 4 with the key messages, we can go over them.

So, we have EBITDA coming down a little bit below 2% versus last year. This is slightly better than the first six months, and it's probably more or less in line with what we expect for the full year.

No major news, so the main trend and what you were seeing in the first six months is what you are seeing here, and is mainly also impacted by some positive non-recurrence that we have both domestically and in Chile last year, okay?

In terms of net income, and given this decrease in EBITDA, it's coming down also around 12.5%, mainly driven by EBITDA, also by higher financial costs, which were very much expected.

They will probably end up a little bit better than we expected, given the lowering rates environment that we are seeing. Net debt increased 3%, but it is actually decreasing versus year-end, and it is decreasing, I'd say, at a slightly faster pace than we anticipated, given the fact that we are recuperating tariff deviations at a slightly faster pace also.

In CapEx, it's increasing 20%, and we'll talk to you, but we are, I'd say, pretty confident on a positive increase this year, more than we were in the previous call. I think execution has been strong, and so we are, I'd say, delivering with the numbers that we promised on the capital market space here, okay?

So, I'll pass it on to João to give you an overview of the main operational highlights of the report.

João?

João Faria Conceição

Well, thanks, Gonçalo. Good morning to you all. On the operational side, and on slide 5, one of the most important issues is the fact that this year, compared to 2023, we had an increase on the hydro production from 23% to 31%, and that's together with the fact that solar is picking up in Portugal.

We managed to rise the renewables penetration from 55% to 73% in these first nine months of 2024. On the natural gas side, what we see is the flip coin of that, which is the fact that due to the increase in electricity generation from renewables, we decreased the electricity generation from combined cycle plants, and as a consequence, the volume of natural gas decreased accordingly.

In terms of quality of service of our operations, no big issues to report. We managed to continue above the thresholds that the regulatory framework gives us in terms of quality of service and on regulatory incentives.

And on the regulation highlights, besides the ones that you have reported in this slide, I would add the fact that we received, by the end of July, the approval from the government of these CapEx related to the Sines industrial area, with a significant amount of 536 million to be done on the next years.

Moving to slide number 7, you have a bit more detail in terms of the operational figures, and in addition to the ones that I've already mentioned, we see the electricity consumption increase slightly, 1.7%.

But if we make the normal correction on the workdays and the temperature, this increase comes to 2.3%, which is approximately what we are forecasting for the full year of 2024, so an increase in electricity consumption.

Another point that is normal, more renewables means inevitably a little bit increase of the transmission losses, but nothing substantial. And we are also working internally to develop the generation of renewable electricity from solar in our sites, precisely one of the points to compensate these losses on the grid.

In terms of natural gas, no big issues besides the ones that I mentioned. In terms of availability, quite high, both in transmission and distribution activities, and as well as the fact that we keep assisting at degrees on the consumption, as I mentioned, derived from the decrease on generation from -- for -- that we use of natural gas to generate electricity.

And with that, Gonçalo, I'll give it back to you.

Gonçalo Morais Soares

Thank you, João.

So slide number 8 is just the main highlights. I'll jump to slide number 9 directly with an evolution of EBITDA. As I said, the main explanations are very much in line with what we have told you in the second quarter.

So this decrease in assets and operates has much to do with one side, a decrease on the rates on the gas side, so not only because of the review of the regulatory period, but also the evolution of rates. And also, the issue of the OpEx that, as you may remember, last year we had a particularly strong OpEx contribution given the electricity cost at the energy terminal, and this year they are more normalized, and so we have that positive impact this year that we -- last year that we don't have this year. On top of that, you start to see the contribution also on the positive side of solar agreements that pays already around EUR5 million at this stage, at this quarter.

In terms of other revenues, it's mostly on work, given that we are doing more CapEx, so it's normal. It's also services that we render to connect other promoters, and we do that. And it's also some corrections in terms of their associations of previous years. So, all of those increased a little bit the other revenues. OpEx score coming down a little bit mainly because of personnel costs, and we'll go to that.

And internationally, it's mostly driven by the non-recurrent last year of around EUR4 million. There is a small decrease in Electrogas, given that the previous year was also a record year in terms of volume, but so I'd say that those are the main reasons. So, I'd say very much in line with what you have already seen in the first half.

In slide number 10, you see the evolution of the rate of return. You see this trend in terms of stabilization of rates and decrease in the last time, and you see mainly that that has a very small impact in electricity, but it does have a larger impact in gas because of the change in the new regulatory period that we started this year.

In terms of investment in overall, as you know, this now is going to be the stronger quarter, the last quarter of the year, but what we are seeing is clearly in terms of CapEx a pickup. We were in the first half of the year a little bit concerned about some delays of licenses and other things. Things have now, I'd say, picked up again, and I think we are on the route to achieve the numbers that we have in the business plan. So, you'll see, I'd say, a strong increase already in CapEx this year versus last year, okay?

In terms of RAB returns, and on slide number 12, this is a little bit what I already told you. So, you see in terms of rates, a negative impact across the board, but mainly in gas transportation and distribution. And then in terms of asset base evolution, you see positive impact in both electricity and gas, and electricity, as we start to see more transfers to RAB, which you'll start probably next year, even the strong CapEx this year, you'll start to see a more positive evolution here in terms of asset base. But in gas transportation, you still see a negative impact given the decrease in RAB that we all know.

On slide 13, and in terms of OpEx, so you are seeing OpEx increasing. As you see, it's basically driven by personnel costs. These are not only driven by salary increases that you still had this year on the back of inflation that came from previous years, but also because we have been doing an effort to increase people. We are increasing operational activity, so we have to increase people, and we have been increasing last year, this year, and I would say that next year, we will still see that.

I think that probably 2025 will be a top year in terms of growth of people, and then it will kind of start to level, and we'll probably be at the level that we want to be in terms of personnel. We are now at 753, but still increasing a little bit this year.

In terms of external costs, it's what I told you, most of the impact comes from electricity costs, and that's in the LNG terminal. I have a positive evolution versus last year.

In terms of maintenance costs, there are some delays, so it's decreasing and there are some delays, and some of them we'll probably see next year, but I'd say nothing material. Most of the impact comes from the electricity costs.

Chile, a little bit the story I told you, so the main impact is because of that non-recurrent in Transemel. If you adjust for that, what you see is that this year in Transemel is a little bit [sweatier]. Some of the new constructions that we have forecast for this year were a little bit delayed, so they are coming online now.

So, the impact in the year is not going to be that meaningful, given that the new CapEx is basically going to be done next year. So, you'll probably see the organic impact of doing the CapEx there in Transemel start to reflect itself more next year and don't expect any major growth this year.

In terms of Electrogas, there is a slight decrease, given that last year was a record year in terms of gas volumes. The volumes are a little bit below. That being said, we do not expect that it is much lower than the previous year. It will decrease a little bit, but not by a very large amount.

So, below EBITDA, in terms of financial results, what I want to highlight is that given the lower interest rate scenario that we are now living, we see our own average cost of debt coming down a little bit, despite the fact that we refinanced everything with longer maturities. We see now this cost stabilizing. It's now at 2.8%.

At the year-end, tit should be at 2.8%, 2.7%, around that, and we see it more stabilizing at that level rather than the 3% that we have told you about in the Capital Market Day, so slightly better.

In terms of versus the end of the year, it is decreasing, the level of debt. So, versus the end of the year, it's decreasing a little bit, versus nine months on nine months, it's increasing a little bit, but it was also compensated by the higher dividends that we registered this year.

In terms of taxes, the effective tax rate except for the special levy is more or less in line. This year is 26, last year was 27, so it's more or less in line. We recuperated some things last year, we did this year also. As I said, no major change quarter-on-quarter versus last year.

In terms of special levy, there are no significant news, but what we can tell you is the things that we have already told you in the past. First, this year we have won two court cases in the constitutional court as of now. We are now waiting for those decisions to be completely final, which they are not, but we are not expecting them at all to be reversed, but we are expecting them to be completely final as we are conservative in the way that we treat them.

And the second thing that we can tell you is the government has still included this in the budget as of now for next year, so the preliminary version of the budget still has that. On the plus side, you also have a 1% decrease on the corporate tax rate that is in the budget, and this government is saying that their aim is to decrease 1% in the following years, every year. So, at the end of some years, this will have some impact, and 1% is 1%, and we should see that flowing through the P&L next year

In terms of net profit, slide 16, is kind of all of these impacts together, so you have this 12.5% decrease versus last year. We will see how it is at yearend, okay, but perhaps a little bit better.

In slide 17, net debt, so this is something I have already told you about. So, what you see is a very positive evolution. This is mainly driven by a decrease of around $120 million on the tariff deviations. This was a bit faster than we anticipated.

But even in terms of net debt without tariff deviations, it is decreasing. As we are having now very strong quarters of CapEx. I would assume that without tariff deviation evolution, net debt should be more or less stable on a year-on-year basis, but you should still see some decreasing tariff deviations until the yearend, okay?

In terms of cost of debt, I already told you, so I would say that this level 2.7, 2.8 is where we are going to be. In terms of maturities, what you see here is at the end of September, we have not renegotiated all the loans. As I told you, we have now signed all the renegotiations of the loans to extend maturities above five years.

We are now not at this account, but we are now above five years, so 5.3, 5.4 years. We should end the full year at five or slightly above in terms of maturity, so this was the effort that we did and we promised on the capital market side.

In terms of ESG, and not to go into much detail, basically the main news is that very strong decrease that you see there in scope 1 and 2 greenhouses. This is on the back of what João told you about the evolution of renewables. As you can see, there is a strong evolution in terms of greenhouse intensity.

The intensity of greenhouse gas emissions is decreasing quite a bit, given the fact that renewables increased to 73%. Last quarter is not expected, and João can comment, but normally it's a good quarter in terms of renewables. Typically, it's not worse than the other quarters. There's already rain, there's wind, so we are not expecting this to change significantly. It could even improve, but we are not expecting it to change significantly.

What you can see is that this is clearly putting us very much on track in terms of the evolution of the promise that we made in the capital market side, okay?

So, you have a little bit more detail in terms of ESG in slide 20, but as you can see, it's about the 73%. We also expanded our self-consumption. We already certified our network to have hydrogen, so we are doing all of these tests to increase and show our commitment in terms of ESG, which has been translated and you can see that on slide 21. It has been translated, in terms of the impact that you have, in terms of the ratings and in terms of ESG, okay?

So, closing remarks, mainly the main numbers. So, this decrease in EBITDA, that was already expected, and in net profits, I'd say strong signals in terms of CapEx and good evolution also of net sales. So, I'd say everything much in line with what we said in the capital market side, very much in line with what we already are proposing in the first six months, okay?

So, with this, I conclude the presentation, and we'll open the floor to any questions that you may have.

Thank you.

Q&A

Enrico Bartoli

Hi, good morning. Thanks for taking my question.

The first one is related to the outlook for next year, for ‘25. If you can provide some comments on the drivers and, particularly, on what you expect in terms of evolution of the rate of return in the current interest rate environment or hub, and if possible, to have an indication on the CapEx that you expect for next year.

A general question regarding the regulatory environment, if you can have any update on any discussion that you can have with the government on the regulator on, let's say, the level of investments in electricity transmission going forward and in particular on a possible improvement on the regulatory framework starting in 2026 through a better rate of return.

And the last one is on the transfer to RAB that, let's say, from the nine-month numbers is still significantly lower than the CapEx. If you can give us an idea of when we will start this figure to ramp up considering that you are accelerating investments and then the investment you are making now to start to flow significantly into the RAB evolution. Thank you.

Rodrigo Costa

I will start with just a brief comment and then I will pass to João.

On, just overall, it's important to say, where are we? We -- in terms of comments on negotiations or talks with regulators, we, as you can expect, we don't do that. But when we look forward, where are we? This is -- the energy transition is a task that the country decided to move on.

We had a very recent talks from the new Minister of Environment, and I think she's fully committed and the government is fully committed to keep the levels of investment and, at some point, even to increase from what was expected before. Then, I would say that the situation is, when we look to it and in the coming, let's say, two, three, four years, it's quite positive.

I think João mentioned the fact that we got the approvals for a series of projects that were being under evaluation for some time already. We finally got the green light. That green light will allow us to do a lot of work in the coming years.

Those investments will be a catalyst for industrial investments that are being prepared in the country, which is also, you know, quite positive. That means, you know, a higher demand for electricity. It means that, you know, this is basically unstoppable.

And with that, João?

João Faria Conceição

Well, thanks, Rodrigo. Asking regarding the last question on the transfer to RAB, lower than CapEx. Well, first, this is normal because usually we have a seasonal transfer to RAB which concentrates some of our works on the end of the year.

Actually, this year, that's what is going to happen. We have a big project that we are expecting to put into operation by the end of the year, which will increase -- an important increase with the values of transfer to RAB. Having said that, bear in mind that much of the CapEx that we are doing now refers to multi-year projects that will be transferred during the next year.

So this is not a one-to-one relationship between CapEx and transfers to RAB on the current year.

Gonçalo Morais Soares

Just to add a little bit, so we don't really give any outlook, and you know that, but just to give you a color. On the rates, I'd say on a steady state, we are not expecting any major changes in terms of rates on the market. It's decreasing a little bit, but I don't think that will impact materially or very much the rates of return that you'll see next year.

Second comment I can give you is that we are expecting a strong year in terms of CapEx execution next year. So we are, I think, to be a little bit ahead even of our expectations, but I think it will be a good year. And just a final comment, we'll see what comes out in terms of regulation from Spain.

I think we are all in the moment of expecting regulators to recognize the increasing cost of capital in the market, and that will be reflected somehow and compensate all of the CFOs. So this is the expectation that we told you in capital markets today, and it's what we are expecting. Okay, thank you.

Ignacio Doménech

Hello, good morning. Thank you for taking my questions. Just the first one, to follow up on the next regulatory review, I just wanted to know if you can give us a timeline on when will the regulator publish out the, as they say, first draft.

Then my second question is on the EUR600 million investment plan in Sines. If you could clarify this first, the calendar of this investment, and if all of these were already embedded on your business plan, or if we could expect further upside in terms of investment. And my last question is just a clarification on taxes in the third quarter.

Okay. I think you received the reimbursement from 2023 of EUR25 million, somewhere around EUR25 million. So just wanted to clarify why the mechanics, or the reason behind this. And if this was already expected, you had a calendar ready for this.

Thank you very much.

João Faria Conceição

Sure. First, for the regulatory review, the timeline, we are expecting to follow the normal timeline. So in the first semester, typically the regulator puts into consultation the basic regulatory pieces, so the regulatory framework.

And by October 15, it presents its first proposal on the parameters. So typically, we are expecting them to follow exactly this normal procedure. Regarding your second question on the CapEx of Sines, so this is divided in three phases.

And roughly, the first phase is going to happen until mid of 2026. And it includes, I would say, one quarter of the total CapEx rough numbers. Then you have a second phase that goes up to the beginning of 2029, which is half of the total amounts.

And then the last phase, up to mid of 2031, and it's the last quarter of the values. And as this goes beyond the time frame of the investment plan, considering in our business plan, we only consider a small part of it on our investment -- on our business plan.

Gonçalo Morais Soares

So relative to taxes, so this is only a cash flow thing. If you may remember, in the last quarter, in the fourth quarter, we registered a sizable tax benefit, okay? That was around 20 million.

And so, what's happened is that we have been paying too much, given that fiscal benefit, the amount of taxes that we paid was too high versus what we have actually to pay. So it was kind of a correction that we received now in September. So it's a normal thing.

Think that the difference is that sometimes it's 5 million. This year it was larger because we have that very, I'd say, sizable tax benefit at the end of the year that made this kind of, but it's a balance sheet thing.

Okay. Thank you.

Ignacio Doménech

Understood. Thank you very much.

Gonçalo Morais Soares

Oh, thank you very much for joining. I think that, as you see, it was a good set of results very much in line with what we have expected. And I hope to see you at the final year.

And if you have any other questions, please reach out to me or to João Pedro Pires. Thank you and have a very good day and a great weekend. Thank you very much.