

Transcript

ACWA Power Financial Results Conference Call

Thursday, 29 February 2024

Operator

Hello and welcome to the ACWA Power Financial Results Conference Call for the year ended December 31st, 2023. If you wish to ask a question after the presentation has finished, please use the raise hand function on Zoom or type your question into the Q&A chatbox or you can press star one on your telephone keypad if you have dialled in via telephone. I will now hand over to Ozgur Serin, Head of Investor Relations, to begin. Please, go ahead.

Ozgur Serin

Thank you. Thank you very much. Good morning, good afternoon and good evening, everyone. Thanks for participating in today's conference call which is for the purposes of presenting to you the results of our fiscal year 2023. As usual, I have together, with me, Mr Marco Arcelli, CEO of ACWA Power, and I also have Abdulhameed Al Muhaidib, who is the CFO of ACWA Power and together, with them, we will be taking you through our presentation material, which is already prepared and following which we are intending to take your questions and intending to answer them in the call.

The materials in relation to the financial results of ACWA Power for the year 2023 are already uploaded on to our website as well as Tadawul's website, together with all the other management discussion and analysis documents. So, without further ado let me pass the call, pass the presentation to Marco.

Marco Arcelli

Thank you, Ozgur, and good morning and good afternoon, everybody, depending on where you are. I'm really, really proud of the team of ACWA Power for some very solid results that were delivered in 2023. Next month marks one year since I took over and every day I'm really excited by the good news that I receive from all over the world, from the financial closes, from the amalgamations, from the new wins and especially, as you see on these slides, also the operational results, which are very important because, as I remember, we're not just a growth company but we have a large pipeline, a large portfolio of projects that we operate.

In 2023, we achieved improvement on the lost time injury rate, as you can see, improvement on the availability of our power plants from 87% roughly to 91.9%, a remarkable achievement driven by the strong focus that we put on operation through our operating team of NOMAC, and availability on the water side that is substantially in line with the previous year at a very high level that is in line with the industry's best practices.

If we can move to the next slide on the portfolio. This year has been a remarkable year again. We have added roughly 20-25% of the portfolio, depending on whether you count number of assets, assets under management, gigawatts of power. We added more than 10 GW, renewable power in particular, and water desalination plants with 1.4 million m³/day in addition. We still maintain a goal of net zero emissions by 2050 and we are increasingly adding, as you see, renewable energy versus the conventional and flexible generation.

I would like, here, to make a remark that we operate in the Gulf, which is a region that historically has burned oil to make electricity and is going through one of the most ambitious decarbonisation programs in the world. Saudi Arabia, for instance, wants to be 50/50 renewables and combined cycles. That means that there will be a lot of combined cycles built, similar to as it is in Kuwait and in other countries, similar as it is in countries in the Global South, where we operate, for instance Bangladesh, for instance South Africa, for instance Uzbekistan. That is why we believe combined cycles in the regions of the world that experience very high economic growth of 6-7-8% and where we still need to elevate the standard of living of the population, we believe that combined cycles remain a viable, sustainable and mitigating technology compared to the status quo. So, that is why investing in new combined cycles is something that we will continue to do but we see the bulk of the growth for our company in renewable energy.

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Moving on to the Business Development, since we talked about the new opportunities, we also had a record year in financial closes, 12 financial closes for SAR 59 billion, which is really a world record. We were discussing with Abdulhameed, this is three or four times what we used to do only four or five years ago. So, it's a sign of how the platform is really scaling up and able to deliver to an order of magnitude that is bigger than what it was in the past.

Recently, in February, we signed a new financial closing at Hassyan Water Project in the Emirates, which we recently announced as a win last year. You see also, in terms of wins, that we maintain a healthy number of wins standard in the industry which combined with the negotiated programs, both in Saudi Arabia and outside, gives us a very solid platform to justify, if we move to the next slide, an increase of the expected equity commitments that we will have every year, compared to what we had announced in the IPO guidance, which will help gradually to recover an improvement of results compared to what we have had historically. Already, in 2023 these equity commitments reached SAR 5.8 billion, which compares with SAR 3.8-4.9 billion that was in the IPO guidance. So, are in now this transition where we are adding to the portfolio and this we translate into operational capacity and operational results as the capacity comes online in the coming years.

Next, I would like just to remind you of the key pillars which we reinforce and reiterate to be a leader in the four technologies that we operated. Renewable power, which includes storage because storage is vital. It storage most often in hybrid plants and our plants and also CSPs, concentrated storage. So, we provide a solution that is not only sustainable but it is also flexible many times. Water desalination, where we are already the largest player in the world. Green hydrogen, where I believe that we are the largest player for export markets, both with the NEOM Green Hydrogen Project with our partners, and with a second project that we launched in Uzbekistan that will be converted into fertilisers locally and then the fertilisers will be exported. And then the flexible generation, as I mentioned, mostly the CCGTs, lower emissions compared to oil or coal or other technologies that are alternatives today in the emerging markets.

So, four technologies in the four regions, KSA, Middle East and Africa, Central Asia and Southeast Asia/China. We have reflected this in a new organisation that we launched just a few days ago where basically we're now going to work in a matrix where the business unit, business development, construction and operation will be matrixed with the four key geographies where we deliver. This will enable us to build a strong, more institutionalised platform to support an acceleration of our growth. We have largely promoted the people from within and I think that gives us also strong confidence in the development programs that we have put in place.

I was recently, for instance, at IMD in Lausanne, where we launched the new program for our top 100 people to develop them to be the next leading executives in the company and other programs, including an accelerator for the CEOs and project directors of the operating companies and a graduate development program, to continue to build the pipeline also from the bottom. So, I am very happy with the progress we have done in this year, accelerating our internal focus on people that will be so important for the future.

The last point is the supply chain and R&D. And I would really like to comment on the Innovation Days that we had in January at KAUST, which was attended by more than 400 people from around the globe, from partners in technology, research institutions. It is really positioning us as an enabler of the energy transition worldwide but also as a leader and a driver of this improvement. And on the supply chain, continuous improvement in the strategic sourcing and strategic partnership with our industry contractors and key suppliers that will make us stronger in bidding and better equipped for the negotiated deals to retain a competitive edge.

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The news, if we move to the next slide, that we have compared with the past time that we spoke is the formal announcement by Saudi Arabia of the stepped-up ambition in the renewables program where, I remind you, that we are responsible, with PIF, to deliver 70% together with Aramco. So, it's a great way to contribute our skills as a lead developer and also bring in partners like Aramco, who are, through us, having a way to recycle profits from oil and gas into renewables and transform Saudi Arabia into a powerhouse of low carbon technology. This means that of the 20 GW or so that will be tendered every year, as announced by the Minister of Energy, roughly 14 GW per year will be developed by us a lead developer. Moving on to this, we have Central Asia and, actually, let me step back one point. The other point in Saudi Arabia is the announcement of the 7.2 GW per year of combined cycles. You know that last year we already won 3.6, together with FCC and we will continue to tender on these and we expect that we can have competitive results. So, really, I think that this is a good opportunity going forward.

Moving to Central Asia, we continue to build on the strong momentum there, both in Uzbekistan, Azerbaijan, and we're continuing to develop a 1 GW project in Kazakhstan. We are partnering with Masdar and SOCAR to develop a 500 MW renewable project in the Nakhchivan region of Azerbaijan, which shows that basically we are not only a developer but also an enabler, bringing different parties together into elevating and maturing the energy transition in these countries. And, finally, China. I was there already twice this year and we see that the team is coming along with a lot of opportunities that we continue to advance and I reiterate that we expect in the next few months to have positive announcements of potentially first investment in the country, as we had announced in the previous meetings with you.

To conclude my section and before introducing Abdulhameed to go through the details of the figures, I'm very happy with, first, the results of this first year. Very solid results, as Abdulhameed will go through in detail, but also of the increased opportunities that we see, both in Saudi Arabia, that will continue to account for about 60% of all our future growth, the big momentum in Central Asia, the potential for the entry in China, and the leadership position that we have in green hydrogen and the water expansion around the world.

For funding this growth, we will continue to watch the ratios and optimise corporate debt-to-equity balance, as Abdulhameed will go into more detail. We see opportunities that are very much balanced with our ability to capture them. At the same time, I always remind you that our business model is very much predicated on new projects coming into the portfolio, financial closes happening and, as you know, this might slip from one month before or after. So, I always encourage, despite the good results that we continue to show, not to focus just on a single individual quarter but focus on this trajectory that we have and that we have very solid for the future. Now, Abdulhameed, I pass it to you.

Abdulhameed Al Muhaidib Thank you. Thank you, Marco, and good afternoon, everyone. As-Salaam-Alaikum. It is good to be back on this earnings call for the year end but, first of all, I would like to really congratulate all the stakeholders, investors and partners for our success, for the great result that we have announced this morning to the market. I would like to really build up on the momentum that Marco has shared in terms of the achievements of 2023 and comment on how we reached the numbers that we have reached in 2023.

On the first element, which was 12 financial closes that Marco has shared, actually there was a very good structuring or momentum that is close to SAR 60 billion asset in the various countries that are operating in. The landmark transactions remain the NEOM Green Hydrogen one, which was achieved early March of last year. We have been also able to close a big project, a round of PIFs, which is PIF Round 3. This was very close to the end of the year, along with

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a solitary entry, which is the Azerbaijan Wind, and this is the first financial close we have in Azerbaijan for a 240 MW project. Just yesterday, and we have also announced it today in the market, we have achieved the financial close of Hassyan IPP which is our first water project in Dubai and it is also the first full green independent water plant that we have in our portfolio.

Moving to the next slide, we talk about more on the units that have been completed, and that is also a significant milestone for us as these projects, whenever they kick into operation, start contributing to both our investment and operational buckets, as we are going to show you later. An excellent, also, achievement. More than 11 units have achieved high CODs during the course of 2023. We had a couple of units on the renewables. We had Jizan Group 2 that also has achieved a Unit 2 operation. Then, also, we a couple of the water projects, including Jubail 3 and Taweelah IWP, which is almost fully operational except for just a small part that we are expecting to complete within 2024. Sudair, which is marking our largest or the first giga project of solar PV that we have in Saudi Arabia has also achieve two different levels of operation during the course of 2024. And finally, I think Hassyan, a huge plant that has achieved full plant operation, which is the 2.4 GW during the course of 2023.

Taking these two into consideration and looking at specifically the net income and also on a bottom line kind of view, Alhamdulillah, we achieved almost an 8% increase, that is the SAR 1.6 billion figure that we have achieved in 2023. I think if you reflect also on the increase, it is not only an 8% increase on the bottom line but also if you remove the large one-off divestments, again, that we had last year, then you would see also a close to 27% increase on the bottom line.

From an operating income point to view, it is around a 14% increase, so that is getting us close to the SAR 3.0 billion operating income. POCF or parent operating cash flow is SAR 2.4 billion. We will go through it in a different slide and go through the details. Building up on the momentum that has been discussed earlier through the financial disclosures, it definitely means that we are putting more equity into new projects, thus our equity commitment has increased around 30% to SAR 5.7 billion. Also, we have parent-funded net debt which we got through the detail of which increased 53%. Our net debt to POCF has reached 5.5x which, while it has had an increase in 2023, it is clearly below the benchmark that we have or the guideline that we have shared earlier of around 6.0-6.5x.

Perhaps we will start with operating income to go through the business and comparing it to 2022 figures. You have seen that a couple of these projects came into operation, the new units, have contributed around SAR 200 million into our new operating income, whereas reliability of supply and improvement on the availability of the existing projects has improved significantly and given us around SAR 400 million extra operating income compared to the previous year. Development and closing these projects has also contributed to around SAR 100 million extra compared to last year. When comparing the other side of the operating income, last year we did record an LD and insurance recovery that is around SAR 150 million higher than what we have recorded this year. And then also we had higher overall corporate and G&A costs of around SAR 170 million.

Moving to the net income, specifically we had this benefit of the higher operating income. That is around SAR 370 million, which we just showed you the breakdown of it. Then we had, compared to last year, a lower deferred tax, mainly in Morocco, for the big assets that we have there and also the wind assets, so a total of around four assets there, in Morocco, and that is around an SAR 180 million benefit compared to last year. On the other side, we have seen a continuing higher interest rate environment and with the issuance of the new Sukuk or phase 2 of the Sukuk, we have seen around SAR 100 million increase in the finance costs. We also had around SAR 100 million of other costs,

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mainly related to the share of NCI and also lower impairment costs compared to last year. Finally, and again, just referring to capital recycling that we had last year, that is around SAR 227 million higher as you compare 2022 to 2023. So, overall, this is the result when you compare 2022 figures with that 2023 SAR 1.6 billion figure.

In this specific slide we like to build up on the business model and we show you the breakdown in investment weight. If you look at the net income and how it splits from the first pillar of our business model, which is develop, invest, operate and optimise, you will see a fairly good breakdown between the various components. On the development side, you can see that has increased. We have reached around SAR 940 million on the development side. Contributions from projects and the investment side, this also gets us close to a SAR 300 million increase to around SAR 1.0 billion, whereas NOMAC continues to perform better, so you have seen that we are close to SAR 600 million from NOMAC.

Also, other operating income and other corporate income combined has increased around SAR 120 million. This is mainly from better cash management and also contributions from the services ACWA Power provides to various project companies. The main, I would say, component that has been on the reduction side is the capital recycling where last year or in the year before, we had specific gain on the Sirdarya divestment, whereas we didn't have any as compared with 2023. So, this brings us to around SAR 1.6 billion net income and we don't have any adjustment policies.

Now we talk about, more specifically, the POCF, the Parent Operating Cash Flow for this year. POCF comparison with last year, you will see almost a 30% reduction on the cash inflow, whereas if you take a breakdown of the cash inflow you will see that distribution and development fees, other contributions, all of them have been extremely positive as compared to last year, and this led to an almost 50% increase compared to last year. Now, the negative increase on the cash input was mainly the capital recycling and this is again, if you compare it to 2022, in 2022 we had big refinancing relating to RAWEC and also the divestment of SQWEC, which both of them together have contributed significantly on the capital recycling part. Looking at the cash outflow, this is mainly related to the increase in G&A and also the tax on payments basis, that have been increased compared to 2022. So, this will bring us to around SAR 2.4 billion Parent Operating Cash Flow.

Building up on the cash position, so taking the SAR 2.4 billion POCF, we have raised around SAR 2.4 billion, which is the Sukuk tranche 2, and with that we had also a higher opening cash of around SAR 4.0 billion. So, the total cash that we had on account is now SAR 9.0 billion. If you look at where that money has been spent during the course of 2023, almost 75% was spent on investments, so that is through cash injections directly into a couple of opportunities or and the main other payment was used as bridging tool to some of our investments which we had made during the course of 2023. Then, we had around 11%, mainly finance charges related to Sukuk and other components of the figures that have in our books. And we have also paid a dividend during 2023 for the payment of 2022. So, all of that together, if you take it out, we closed our balance with around SAR 4.7 billion in terms of cash.

Now, I would like also to give you a bit of background on how did we build up the 5.5x, which is the net debt to POCF for the year 2023. Looking at it from, specifically, the balance sheet. The balance sheet has around SAR 28.4 billion of liabilities. If you build up and break it down between recourse and non-recourse, again the focus on the recourse would be around SAR 10.3 billion. The rest, which is around SAR 18.1 billion, is debt sitting in our balance that has no recourse, mainly coming in our balance sheet due to consolidation. That SAR 10.3 billion, which is the recourse debt in our balance sheet, if we take also and build it up from the off-balance sheet contingency, it's around SAR 7.8 billion and together we have around SAR 18.2 billion of recourse debt, both in off-balance sheet and on-balance sheet.

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Taking back the cash that we had on our books which we just showed you, around SAR 4.7 billion, it would bring up the net debt to around SAR 13.5 billion. So, that is the net debt that we have on the books and if you take the POCF that we have presented earlier, then you will see that the net debt to POCF is around 5.5x. A conversion basis from 2022 to 2023 will see a significant increase on the net debt to POCF, which is from 2.1x to 5.5x. However, there is a big part of last year that has been dropped, which was related to the RAWEC refinancing and SQWEC divestment. If you put that back it is around 6.4x. So, on a comparison basis it will be actually a drop-off around 1.0x. However, we always like to present the full picture and here we can also show you the comparison. Again, we are still below the guideline that we gave earlier, which is around 6.5x of net debt to POCF.

Maybe we move to the next slide. Can you move to the next slide? I think there is a lag on the screen. Now we have it in front of us. The final slide is the distribution related to the shareholders that we have announced yesterday. Overall, Alhamdulillah, in the last two years we have been able to distribute SAR 1.2 billion between 2021 and 2022. And this year distribution was a bit unique, I must say. This year has been a distribution of a kind of a hybrid solution between a typical dividend distribution together with a bonus share that we have announced in the market today, morning.

The way that we have actually looked at it is different this year as we are trying to achieve a couple of things. First, after looking at the 300-plus investors that we have met during the course of 2023, we have seen that a big interest and a big focus for the investors is about the growth of ACWA Power, and that growth momentum was very much key for them and linking it with the funding capacity, it was very much key for most of the investors to see the company redeploy the cash for the growth that we are seeing in the next six to seven years of ACWA Power.

Building on that, with the IPO guideline that we have built earlier during the course of 2021, we also would like to maintain our guideline, when we say that we would like to distribute a dividend during the course of 2020 and around a 6-9% increase for the next two years. So, building on two of these components together, we decided to split the distribution this year between a normal cash distribution with a bonus share. That, together, will give a kind of growth on the distribution that is more than the guideline that we are giving, the 6-9% increase on an annual basis. That is basically the way that we have seen distribution and this is, of course, subject to the General Assembly approval that will come up on a date that will be announced in the course of the next few months.

Looking at the final slide, I would like to take you through it. It is actually how we are assessing the three years' performance that we have against the IPO guidelines that we gave. The first point the business growth. I think, Alhamdulillah, we have been able to grow in terms of equity investments, in terms of installed capacity, in terms of assets under operation much better than what have given in the guideline and that is something that has been demonstrated in the course of the last three years.

Operating income, we were expecting it to double the number in 2022. I think, if you look at numbers today, we are around 23% lower than what we have given in the guideline. This, again, has a different structure than it has been in the last three years of operating income. The first part is really related to the COVID measures, which delayed a lot of the project and the construction, some of them delayed by six months, others have been delayed for one year. It also has escalated and inflated the pricing of many of these projects to be completed. And then we also had another impact related to the Russia-Ukraine war that mainly drove delays and financial costs on projects that we have in Central Asia. The increase in interest rates has really impacted also the finance costs, whether it is at the corporate level or also the project level. Together, with that, we still have actually improved our operating income significantly in the last three years, however 23% lower than what we have expected back in the 2020 guideline.

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And the equity commitments, again this is a positive momentum, as I mentioned earlier. The net debt to POCF we gave a guideline, a long-term target of 5.0-6.0x. We have maintained that, even with the high costs that we have seen in 2023, thanks to the strong Parent Operating Cash Flow that has been contributed. Distributions is the 6-9% annual growth on distributions. This growth I have highlighted in the previous slide and we continue with that. And this concludes also the guideline that we have given, in terms of distribution during the course of 2024. We will also come back to the market perhaps with a new guideline. In terms of decarbonisation of our portfolio, we are very much closer to the first pillar of having 50% of our portfolio or installed capacity in renewables. And we are also on track for that target for 2023 to reduce 50% of carbon emissions of our installed capacity by 2030. This is all from my side. I think I will leave it now to Ozgur for the Q&A questions. Thank you.

Ozgur Serin Thank you very much, both Marco and Abdulhameed. Terry, I think we can open the platform for questions. If you may kindly lead us through.

Operator Thank you. As a reminder, if you would like to ask a question on Zoom you can use the Q&A chatbox or the raise hand function and if you have joined us via the telephone lines today, you can press star followed by one your telephone keypad. We do have an audio question from Zoom from Syed Akhtar, of Olayan Saudi Investment Company. Please unmute yourself locally and proceed with your question.

Ozgur Serin Terry, we cannot hear the question.

Operator Syed, please unmute yourself locally and proceed.

Ozgur Serin Maybe we can move on to the next question and then we can take it later.

Operator Of course. We have a question from the telephone lines, a question from Ricardo Rezende from Morgan Stanley. Your line is now open. Please, go ahead.

Ricardo Rezende Hello, good afternoon and thanks for taking my question. Two follow-ups on something that Marco mentioned during the presentation. The first one, about a week after you had your Capital Markets Day, Prince Abdulaziz was talking about some increased targets for the Saudi renewables program. And during the Capital Markets Day you were very optimistic with the potential in China. So, how do you balance this with potentially having even more deployment in your home market and also all of these opportunities in China? And the second one is on when you mentioned that there is still going to be some growth in combined cycle, even though the bulk of the growth is coming from renewables, would you be able to just give us some colour on the economics that we're seeing for combined cycle versus the economics that we've seen for renewables? Thank you.

Marco Arcelli Of course, we retain a role as a national champion in renewables, and so we take the program of renewables in Saudi Arabia as the filler of everything that we do. So, in our targets that we have communicated before to the market we were considering, if you remember, various scenarios. And I think that water, we have confirmed today that we are kind of on the high side of the various scenarios that we were considering but most of that was already included in our preparation and that's also, by the way, one of the reasons why it is not catching us by surprise but the machine was already working to step up and be able to deliver all this. So, there's a continued rebalancing, basically, of the opportunities that we follow and I think the more that we find in different geographies and that we get on a negotiated basis or by winning the tenders, the more the rest of the portfolio is built, for us, optionality then to focus on the higher margin or strategic areas where we want to play.

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The second, about the CCGT economics, so far we have looked and we are building one project in Uzbekistan and we have now won two projects here, in Saudi Arabia. What we see is that these projects can deliver at the level or actually probably even a little better than renewables. Mostly, it's because of the complexity of the projects, and so you will see probably a little less competition, let me say, and a little more focus on bringing together the best solution that you can have for these projects.

Ricardo Rezende Got it. Thank you, Marco.

Marco Arcelli Thank you.

Ozgur Serin I think Ric, also, has been asking about the economics, the competitive economics of CCGT projects versus renewable.

Marco Arcelli Yes. That's what I said.

Ozgur Serin Oh, you also answered it?

Marco Arcelli Yes.

Operator Thank you. We have a question from Syed Akhtar of Olayan Saudi Investment Company. Your line is now open. Please, go ahead.

Syed Akhtar Hi. Hello. Thank you very much for the presentation and colourisation on the results. I have a couple of questions regarding your leverage, since your leverage has reached to around 5.5x. What is the plan? How do you see the leverage ratio going forward in the next coming three to five years?

Abdulhameed Al Muhaidib Thank you. Do you have another question?

Syed Akhtar No.

Abdulhameed Al Muhaidib Okay. Thank you. During the IPO time we had looked at the net debt to POCF and we gave a guideline of around 5.0x, a ceiling of 6.0-7.0x, whereas today, with the growth that we have seen, we have been able to manage 2023 with 5.5x, which we believe is a fairly acceptable range for us over the long-term. If I look at it today and look at the funding strategy that we have in mind with the growth that is coming up and almost close to USD 1.8 equity commitment coming up in the next six years, definitely we will see a growth also on the leverage side. Now, as a guideline, we are trying to also balance our growth and utilise different sources of funding to ensure that our ratio is maintained in check, whether it is with the lenders or also as a guideline with investors.

Today, we believe that on an average basis over the long-term, it should not grow above 6.0x. However, we also believe that on a short-term basis that sometimes it will go above that on a short-term basis where we will have to rebalance. And perhaps talking about this specifically we do believe that the growth, we'll need to use different sources of funding. We will not rely only debt raising to ensure the growth is maintained. We will try to maximise our debt issuance to ensure that we are creating more value for our investors but ultimately, over the next six years, we will end up requiring an equity raise to make sure that we will be delivering the growth that we are trying to achieve and tripling the capacity by 2030.

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Syed Akhtar Thank you. But do you think that this high leverage, when you look at the optimal capital structure, do you think that the 5.5x or 6.0x in the short-term...? Because this is my question. My question was you have already reached 5.5x leverage as compared to the long-term target of 6.0x, although in the short-term your target is still 7.0x, but there are more concerns from the investors. Investors are looking for more clarity on this leverage because this is one of the key concerns for investors. So, do you think that this capital structure is optimal for the company to generate enough amount of returns for the investors?

Abdulhameed Al Muhaidib I'm not sure where references points are coming from but look, as I mentioned, long-term we believe it is going to be in the range of 6.0x. We will, depending on the timing, also different tools that we will be using. I might go slightly up, higher than that, but for a company that is looking at tripling the capacity in the next six years, for a company that is today deploying around close two billion in our pipeline, that is fairly comfortably focused on an investment case, countries like Saudi, 50% of the pipeline from here. We are very comfortable, actually, with going and investing our growth with the ratio that is maintained within 6.0-6.5x over the next six years. We will, of course, as I mentioned earlier, maintain that position and try to reduce it ultimately but that is, I believe, the guidance that we are giving to the investors at the IPO time and we are remaining with that same guideline. We are not expecting that to reduce. As we mentioned, the pipeline is very healthy in the next six years, full of opportunities. We will try to leverage as much of the shareholder value, from that angle.

Syed Akhtar Thank you. It was much clearer. My last question, we note the huge pipeline for ACWA. In terms of execution risk, if you apply the probability, what is the probability that ACWA will be able to achieve the goal by 2030? And the second question is regarding, do you see that ACWA will become the sole power generator in KSA?

Marco Arcelli Will become the?

Ozgur Serin The sole.

Marco Arcelli The sole?

Ozgur Serin Yes.

Marco Arcelli I would love to. It is not a question to ask me, however. We participate in the tender. I think that we have been successfully growing in the market. Today, we supply 20-30% of the market in the four countries where we operate, Saudi Arabia, Oman, Bahrain and the Emirates. So, we have been very successful but, again, you have to follow what the regulatory regime is, which today is what it is. In terms of delivering the growth, of course we rolled out a strategy. It is a strategy that one year on we still believe in. We don't see a context that is different than what we had before. We continue to monitor it.

Particularly, I think, green hydrogen is an emerging industry and so, of course, we are developing as much as possible everywhere we can and where it makes sense without becoming too, let me say, lean on too many things. We're focusing on getting offtakes, we're focusing on developing the projects but, you know, the industry is developing. So, that is something that we are doing but there is, let me say, an industry growth rate behind it. Renewables, on the other hand, I think if you think what we do is a very small faction of everything that is going on, particularly if you look at China and our mission in China compared to the total market. That is why we don't give a guidance, saying in 2030 how much we are going to be in one country or one specific technology because this will be depending on the context

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and the actual growth rates and the regulatory context in each geography. But on the overall macro we are very confident that we can achieve that.

Syed Akhtar

Thank you.

Operator

Thank you. Our next question comes from Oliver Connor of Citigroup. Please unmute yourself locally and proceed with your question.

Oliver Connor

Hi. Thank you for taking my questions. The first one, just on the earnings trajectory. You mentioned obviously this year was slightly down on the IPO target of double 2020. How should we think about the phasing of earnings growth '24-35, relative to that 2020 baseline? And then the second question, just coming back to the leverage point and potential of the equity raise, how do you think about order of magnitude of that and staging of those equity raises if there are multiple equity raises? And I guess I ask because obviously the equity performance has been very, very strong, so interested to know how you think about potentially bringing forward the equity raise, given the strength of valuation. Thank you.

Abdulhameed Al Muhaidib

Thank you. Thank you very much. Excellent questions. On the first question related to the guidelines, since IPO we have not given any guidelines for the last three years except that we have shared during the IPO roadshow. Having said that, I do believe that most probably this year, it is a good year to start looking at this again and start analysing what we can offer to the investor community in terms of guidelines for the future. Today, we don't have anything to share with you as a guideline for the future, however we take your comment seriously and we will explore how can we give, during the course of 2024, the guideline for the next three years or so. So, this is something that we are seriously taking into account. So, this is related to your first question.

The second question was related to equity raising. When we reflect on the funding strategy and we deploy around or we have to mobilise around USD 1.8-1.9 billion on a yearly basis and you put this on our cash flows, there is a funding gap definitely and that funding gap will require us to go to the market for a capital raise. In terms of counting that and putting that into a perspective of the overall projects, I would say it is a moving part depending on many parameters.

If you look at our balance sheet during the course of 2024 and the pipeline of the projects we have, so far, been able to secure the commitments that we would like to deliver in 2024. There is no urgent need for cash today. Ratios are maintained on check, what we are sharing with you today, and whatever we are sharing with the lenders. However, I don't see it as a long-term position to be closer to that. We would come to the market describing that capital raise, when it is required, how much is the size, and the period, very close to that and we announce this to Tadawul and then we will share the details during the roadshow that we should perform for that.

Ozgur Serin

Sorry, Oliver you had one more question. As much as I collected it, it was on the interest rate impact on the valuation but the line was not very good. Can you repeat it kindly, please?

Oliver Connor

Those were my two questions but I'd be happy to hear the answer on that if you do have one, because I would be interested.

Ozgur Serin

Let's see. What I collected from you was asking whether the interest rate environment would impact on the valuations going forward.

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Abdulhameed Al Muhaidib I would talk about what is the impact on the company before we talk about, maybe, valuation. We, as a company, we have a hedging strategy and a board mandate to go and maintain our books with around 70% hedging position, so overall we try always to maintain a solid hedging position within the balance sheet for recourse and also non-recourse but ultimately it has an impact on our recourse. Overall today we have a solid ratio of higher than 80% of hedged position overall. We have seen the resilience of our balance sheet in the last two years of high interest rates and the impact on our portfolio was minimal compared to a lot of companies that we have seen. As we go forward, we will try to maintain that and usually capture the opportunity of a low interest environment where we maximise our hedging position close to 100% and then later on our hedge position be unlocked at different times on a high risk, high interest rate environment. So, that is from a corporate impact point of view or corporate strategic direction.

On these projects that we are closing, so in the last year when we had 12 financial closes, the high interest rate has been already included in the new tariffs and you have seen the tariffs of the PV projects in the past where they are close to 1.2 c/kWh but ultimately when we close these projects our fee was closer to 1.6-1.7 c/kWh. So, this means that the high interest rate or the high finance cost has been already embedded in these tariffs and inflation has been already embedded in these tariffs. As we go forward, we continue to hedge not only in the positions that are related to project financing but also to our equity bridge loans for the construction period. Going forward, I think we already have a Hedging Committee where we, on a monthly basis, try to evaluate our position and try to capture or unlock some positions on whatever it is, on the Sukuk, on the ABS, on the financing of the projects and sometimes we do that with the refinancing opportunities that arise for some projects. I think, overall, this is the hedging criteria that we are following. I don't know, Marco, do you want to add to anything?

Marco Arcelli No. I think that is very well covered.

Oliver Connor Thank you.

Abdulhameed Al Muhaidib Thanks, Oliver.

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

Anna Antonova Good afternoon, gentlemen. Thank you so much for the presentation. A quick question from our side. Can you please comment on how the NEOM project is currently progressing? Do you see any changes to the budget or the timeline for the start-up of it? Any colour would be much appreciated. Thank you.

Abdulhameed Al Muhaidib Hi, Anna. I think the question was about the NEOM project timeline.

Anna Antonova Yes, NEOM Green Hydrogen Project. Yes, thank you.

Abdulhameed Al Muhaidib NEOM Green Hydrogen, the project has achieved financial close last year, so it is fairly in an early stage of execution. We have seen good progress in 2023 when it comes to construction. We had the first wind blades arriving to NEOM. Construction is ongoing there. As per the last construction report we have received, the project has some delays but ultimately we do not have a delay on the commercial operation date. This is definitely a significant project and we are paying close attention to it and that is only because it first of kind utility-scale green hydrogen project but is one of the largest, or one of top three projects that we have under portfolio. So, will keep

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monitoring it. Nothing will come out this year or the year after. I think that the plan for the start of the commercial operation remains as it is targeted today but there are some delays that we have seen in the early execution model.

Anna Antonova Thank you. So, do I understand correctly that it should come online roughly in the end of 2026, as per your earlier guidance. Is that correct?

Abdulhameed Al Muhaidib I believe end of 2026, beginning of 2027.

Anna Antonova Thank you.

Operator Thank you. We have a few text questions. Are your new projects mostly associate level investments or consolidated? Trying to understand why profit from equity associates have not grown much in FY23.

Abdulhameed Al Muhaidib If you look at the portfolio that we have, most of the assets are indeed equity accounted. We have only few assets that are consolidated, for example the Morocco portfolio and some other portfolios that we own more than 50% of the shareholdings, of course, the correct terminology there is in the audited financials. On these projects that have been added during 2023, these projects have not yet come to full operation, so they can't contribute and some of the contributions, actually, are in other lines that you can see. For example, if the project, we just achieved the financial close, all the development fees and construction management fees would be shown in a different line, so you would not see their contribution until, really, this project comes into operation.

Now, on specifically the question you had, I think if you go to note 7 of the financials you will see the breakdown in the investments that we have and then you can realise that some of the projects, like Noor Energy and others, the accounting base has been impacting it negatively and this is mainly due to the delay in the project and the cost overruns with which there has been a negative impact to that. So, some projects did actually have a positive impact but others did have a negative impact, which the net result is as you have seen it in the past 12 months.

Operator Thank you. As a reminder, if you'd like to ask a question, you can use the raise hand function or the Q&A chatbox on Zoom and, if you have joined us via the telephone lines, you can press star one on your telephone keypad. Our next written question asks, the results show around SAR 4.52 billion revenue represented by thermal and water desalination in 2023 or around 74% of the total. Is it possible to give a number or a rough indication of what portion of this is represented by water specifically?

Abdulhameed Al Muhaidib I think around 50%. Maybe the simple answer will be 50%. Also, I always like to emphasise more in the portfolio, the breakdown between consolidated assets and equity accounted assets. Looking at the revenue and then breaking down between different technologies to understand the growth on the technology will not give the result, the full answer that you're looking for. That's why in the presentation we always try to break it down to the projects, capacity-wise, so the readers or the investors can have the full visibility on the growth, specifically to the technologies and to the jurisdictions that we are operating in.

Then, at the POCF we are trying to review a breakdown of the four earnings streams of ACWA Power. We have not broken it down technology-wise because also it is going to be difficult. For example, we have a lot of assets that are integrated for power and water. I'm not sure the reason why you are looking for that specifically but it is going to be very challenging for us to reach the ultimate number for water growth, for example.

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Ozgur Serin Actually, one of the reasons for disclosure 7 is exactly this. There, you can see a much more detailed revenue split, for example, by project but, even in itself, this is not going to be fully representative because we have a lot of eliminations during the consolidation process and that is exactly why one of ACWA Power's key KPIs is not revenues. It is extremely difficult. Obviously, internally we have methods of monitoring that one but so far we have not been disclosing more than we are disclosing at the moment. But, again, if you are looking for revenue for whatever purposes, disclosure 7 is a better place to look at it.

Operator Thank you. At this time we currently no further questions. So, I will hand back to management for any further remarks.

Ozgur Serin Do you have any final thoughts?

Marco Arcelli No.

Abdulhameed Al Muhaidib No.

Ozgur Serin Okay. Thank you, everyone, for listening to us and joining us today. If you have any further questions you know how to reach us and thank you very much, really, for your time.

Marco Arcelli Thank you.

Abdulhameed Al Muhaidib Thank you.

Ozgur Serin Goodbye.

Operator Thank you for joining today's webinar. You may now disconnect your lines.