Company: **Contour Global Management Inc**

Conference Title: **ContourGlobal H1 2019 Results Conference**

Moderator: **Maria Castillo**

Date: **Thursday, 8 August 2019**

Conference Time: **09:30 AM UK**

Operator: Welcome to ContourGlobal's H1 2019 Results. Presenting today will be Joseph Brandt, President and CEO; Stefan Schellinger, CFO and Karl Schnadt, COO. I'd now like to hand it over to Joseph Brandt, CEO to begin the call.

Joseph Brandt: Okay, thank you. Thank you all for joining. We're here in London with Karl, Stefan, Alice Heathcote, Laurent Hullo, and Alessandra Marinheiro to present the first half results. As you can see from the presentation that was posted on the investor section of the website and the RNS that was issued earlier today, we've had a good first half of the year. We've had very strong operational results as you'll hear from Karl; we've had very good financial results that follow as you'll hear from Stefan; meaningful increase across all our major financial metrics from revenue to adjusted EBITDA; proportional or owners EBITDA also showed very significant growth; and then funds from operation, our conversion measure from EBITDA showed very significant growth as well.

You'll see as you as you hit the highlights and recall what the company has executed over the course of the first half of the year, we've seen meaningful EBITDA growth coming from the first full half of year from the Spanish CSP assets, and those assets are generating above plan not only because of strong availability of the units but also fairly remarkable radiation for the first half of the year.

In Spain, as – in addition to that, when you think about the Spanish assets and the results contribution for the first half of the year, we had a meaningful sale so-called farm down of a minority interest in those businesses to our partner Credit Suisse Energy Infrastructure Partners. You see that those results also showing up in the financial metrics for the first half of the year.

The dividend is moved to quarterly, as you know from our last call, we will declare the dividend, as Stefan will walk through in a moment, to be paid next month; continue to commit to the growth of that dividend at 10% rate, remarkable yield, I would say at this point, given where the equity is currently priced. On Mexico – we'll move through the CHP acquisition in a moment, but on Mexico, we're on track to close shortly. There's obviously been a slight delay there. We had forecast earlier that we would bring the Mexican CHP assets, the two CHP assets that we're about to close, one of which is in its final phases of commissioning into the portfolio in June. As a result of that slight delay, there will be some knock-on effect on the yearly expected EBITDA contribution as we note in the RNS, but, more importantly for us, given that we're taking ownership of a 40-year asset, we want that asset to come into the portfolio when it should come in and when we're completely comfortable that it's ready to run as it should. As you may recall, from the time that we announced the transaction back in January, we don't take the construction or commissioning risk here, and so it's in absolutely our advantage to take over the asset when it's ready and we're very, very close to it being ready.

Subsequent to the half year end as you may have noted a week ago, we opportunistically tapped our seven-year bond. Those are the four and one eight notes that are due 2025. It was a remarkable transaction given where those yields are pricing and we were able to tap at a very attractive 106% of par to provide a yield to maturity of that €100 million of approximately 3%.

With that, I'll pass it over to Karl to hit on the operational highlights. He'll then hand off to Stefan to walk through the financial highlights of the first half of the year, and then I'll wrap up with some comments about growth developments in the first half of the year and expected for the rest of the year. Karl?

Karl Schnadt: Yeah, thank you Joe. So, operation-wise, we had a very good first half 2019. And when I'm talking about operations, I usually start with our health and safety performance. And as you know, health and safety is a priority in ContourGlobal. So, the most important health and safety performance indicator is the accident rate or loss time incident. We always count as an accident if an employee gets hurt and cannot come to work the other day.

So, now, today, we have more than 300 days without accident, which is a really great achievement. And we had two years in a row LTI rate. This is a comparable rate based on 200,000 working hours and that we can compare it with our peers in the industry, and we had two years in a row LTI rate from 0.03, which brings us to the let's say top decile or leading position compared to our peers in that industry.

We had one accident in 2017, one in 2018, and this year, so far as I've mentioned, we are accident-free, and so this is really a very, very good result. Now, coming to the operation of our power plants, and here we also have one important KPI which is availability. This is a time when a power plant is available to run. And in the thermal division, we have in the first half of all thermal power plants an availability factor of 93.2%, which is in the same range as it was in the first half of 2018. And this is compared – if we benchmark it, it is in the top quartile – between top quartile and top decile.

If you look to the renewables, we are still making good progress in our Brazilian wind farms. So, there if you compare 2018 first half with 2019, we have an improvement of the equivalent availability factor in Brazil from 95.8% to 96.1%, which is related to the technical improvements in the Brazilian wind farms.

Hydro remains on a high level of availability more than 98%, same as the year, same range at the year before. With hydro, it's – when the wind farms are fully dependent on the resource, the hydros also have a capacity regime, so which doesn't influence the hydrology and the revenues too much. Then when we look to our solar power fleet, we have also good results in the PVs. In the first half 2019 for the PV power plants, we are a little bit lower than compared to first half in 2018. This is related to some maintenance activities in Italy PV solar fleet. The CSP fleet we had – there was one turbine maintenance failure in one of the fleet, that is the reason that the current availability factor is a little bit less compared to 2018.

But then looking to the capacity factors and the situation especially for the renewable fleet because here capacity factor is very important, while in the thermal fleet we get capacity payments and in the renewable fleets, we get paid what we produce, especially in wind and solar. So, we have here quite good results. Most clusters are at or above long-term expected levels. The only negative deviation we have here is Brazil where we expected around 2% higher production. But this is compensated by a higher resource and capacity factor of our Austrian wind farms, Peru is at par, and very good let's say first half of the CSP fleet with quite good radiation and 4% higher generation.

And as mentioned, the hydros in Armenia and in Brazil are related to a capacity and regulatory regime, where the less production is not much affecting our revenues. Saying this, I would like to hand over to Stefan to talk about the financial results.

Stefan Schellinger: Thank you, Karl. Good morning. On page 11, you know, we're showing a snapshot of our key financial metrics and it demonstrates the growth the company delivered in H1. Our adjusted EBITDA grew 36% to $357 million. Three key contributing factors here; one, the concentrated solar power acquisition that was closed last year in May 2018 now contributed for six months to the earnings. The asset is performing comfortably well for the first six months of the year. Secondly, we recognize the net gain of $46 million for the farm down of the CSP assets. Farm downs will continue to be a key part of our strategy going forward in terms of value creation. And thirdly, we had positive impact from resource around $10 million in particular from our Austrian wind assets as well as our solar assets.

In terms of foreign exchange, the result is impacted by a headwind of $24 million, mainly as a result of the euro-dollar rate impact. Looking at the proportionate EBITDA, similar to the adjusted EBITDA growing 33% for similar reasons and our key cash metric funds from operations grew at 53% underscoring I think the predictability and strength of the cash generation of the business.

Moving to page 12, giving you a little snapshot in terms of divisional performance. The thermal division pretty stable from an EBITDA perspective, slightly better availability and higher dispatch compensated via by forex of $11 million leading to a stable result. And the growth really coming out of the renewable division, 78% increase for the factors we previously mentioned.

Moving on to 13, the cash conversion at half year at 48%, an improvement from the 42% in H1 2018, really underscoring the strengths and the predictability of the cash flows.

Moving on to slide 14 which gives you snapshot of the cash, the debt, the balance sheet and the leverage. Net-net, the company continues to have access to significant liquidity around $800 million of which $445 million are cash at HoldCo level. Around $300 million sit at the asset level and we have another $52 million of undrawn under our revolving credit facility.

Total net debt of $2.9 billion and $2.7 billion of project debt which is non-recourse and $860 million of debt sitting at the holding level. As Joe earlier mentioned, we completed the issuance of our add-on tap bond in August, so another $100 million of euro debt will be added to the HoldCo debt here. The leverage, meaningful decline to 4.0 at half year, which is at the lower end of our target range. Keep in mind that we anticipate to complete the Mexico CHP acquisition in Q3, and expect to be around the high end of our guidance and target range of up to 4.5 times net debt / EBITDA by yearend.

And, finally, last, but not least, as you know, the company is committed to growing its annual dividend by 10% and we declared another quarterly dividend, which will be paid in September. And with that, I hand back to Joe.

Joseph Brandt: Okay, thanks Stefan. So, turning now to some of the developments in the first half and then an update on Kosovo starting with Mexico first. As you know that and as I mentioned in my introductory remarks, we are on track to acquire two CHPs, Combined Heat and Power plants from Alpek of the Alfa Group in Mexico. We're very close to that closing. We're in the final stages of the commissioning activity of the large combined cycle so-called CGA1. We expect the closing of that asset to occur in short order. We've made very good progress on the contracting of that plant. As you know, from the point of the announcement of the acquisition, we were partially contracted on CGA1 with the expectation that we would be layering in additional contracts over the time between signing and closing. That has happened as expected, we're now more than 90% contracted on the overall heat, steam and electricity at the two plants, and so that is nearly exactly where we want to be.

We will obviously look to layer in additional contracts, but we are in a very good position where there's more demand than the remaining supply, and so we'll be choosy when it comes to the additional contracts that will add there. The project as you know from when it was announced was underwritten in terms of its project financing. That financing, which is led by Scotiabank has now gone into syndication. Syndication is going well, but of course, the financial close is not dependent upon the syndication.

And to remind the financial contribution we expect from the business is, these are US dollar businesses in terms of how the revenue and cost structure works in the Mexican power market, and we expect those to contribute approximately USD110 million a year in EBITDA in their first full year of operations, the first full year of course being 2020.

Turning now to Kosovo, a very good progress on the underlying project. General Electric, as you know, was selected as the preferred EPC bidder a couple of months ago. We're very close to finalizing the EPC contract with them. As we've also indicated in the past, the EPC contractor for the project will bring meaningful amounts of financing through the export credit agency, finance parties that are available for projects of this type, and, as expected, GE has delivered a number of attractive finance parties through the export credit agency markets, and we feel very good about the status of the project in terms of the underlying construction contract and the progress on the financing. We flagged for the market in our RNS the fact of the resignation of the Prime Minister of Kosovo, which will mean that there will be a change of government. That should have an impact on timing given that there are some things that government will need to do in order for us to break ground and begin construction.

Most recently, we have heard publicly announced that they expect to have elections in September or October. Of course, if that happened, any impact on timing would be very minor. But given the political dynamic around elections anywhere, we can't forecast when actually elections will occur. And so, there will be some impact on timing for the project. However, the underlying project itself has made very significant progress and is positioned exactly where it should be at this time.

Turning to some of the developments of the first half of the year in the two divisions, in the renewable and thermal division, worth pointing out in terms of some progress on major capital projects as well as incremental acquisitions and additions to the portfolio. I'll run through these quickly. The solar platform that we have in Italy also in which, as you know from last year, Credit Suisse Infrastructure Partners invested 49%, continues to grow as we expect. We view this as a growth vehicle and one that allows us to expand an attractive platform that we spent nearly a decade building in Italy in the solar space, and we made a meaningful acquisition in the first half of the year there with attractive economics associated with it. In Armenia, at the very large hydroelectric facility we own there known as Vorotan, we've made very significant progress on the rehabilitation, the so-called refurbishment of that business, which was part of the original commitment we made when we acquired the business back in 2015.

We have completed on time and on budget the refurbishment of the first two phases of the project and are on track to increase EBITDA associated with those two rehabilitation projects, and to complete the other two on time at the end of 2020, beginning of 2021. And so, that project which is a meaningful capital commitment funded through development export credit agencies of about $72 million is proceeding extremely well.

In Austria, as you know, we have meaningful wind farms in that country. We have repowering projects that we've talked about in the past. The Phase I repowering was completed in the first half of the year. It proceeded very well. We were below cost and faster than budget than we expected, and those are now operational. We expect the remaining windfarm, so-called Scharndorf, to be complete in the second half of this year. Both of those have feed in tariff associated with the installation of the repowered wind capacity of 13 years.

And then on the capital side of the business, when we think about the dynamic rate environment that we're in today, it obviously offers meaningful opportunity to refinance on attractive terms the types of assets that we own and operate which are long-term contracted assets that provide very stable cash flows, and as a result are very attractive both from an equity perspective and a lender perspective.

We've been actively looking at places where we can reduce our cost of debt, increase FFO through savings and interest, and examples of that we provide at the bottom of page 19. We had a meaningful refinancing in the Italian portfolio associated with the closing of the 12.5 megawatts mentioned above. We refinanced the entire portfolio. They're a little under €200 million and very meaningful reduction in interest cost associated with that, with a long-term stable financing that really takes advantage of the rate environment that we're in today.

And that followed a similar transaction in Slovakia. We own a meaningfully sized solar photovoltaic field in Slovakia, and we refinanced that business as well at very low cost of capital from a group of European banks particularly those based in Austria. And it's a good example of the value creation in the portfolio given the size and the asset footprint, and that we have project financing on nearly all of it. Actively managing those exposures is a great way to create additional value particularly in this type of market.

On the thermal side of the business, we talked about Bonaire in the past. It's meaningful not only because it's an attractive place and so far as growth we provide nearly a 100% of the electricity on the island, but it's also important because it's a very good model for the types of projects that we're looking at in different parts of the world, which is to integrate renewables with the necessary thermal backup and use a storage component, in this case the upgraded lithium ion storage that enables us to maximize the amount of renewables in the system while still maintaining system stability on the island, which is necessary when you serve as literally the only source of supply for a location.

And so, we implemented a meaningful battery upgrade that was completed in Q1 on time and on budget, doubled the size of the battery. And that in and of itself remarkably extended the life of both the discharge and shortened the life of the recharge. And so, it is the pickup in ability to support the system and to store and emit electricity is even higher than the doubling of the installed capacity of the battery.

We have also embarked upon the second phase which will complete before the end of the year, which is to install new thermal backup power plant into the system. As the system growth is very high, demand growth is very high on the island, we're balancing the renewable growth with the necessary backup engines. The battery helps us to minimize the number of backup thermal plant that's required, but it's still required. These are good investments that are remunerated through the regulated rate of return that's available to this business.

And then will shortly next year embark upon the next phase after we finish the backup installation, which is to add both photovoltaic and the repowering, upgrading of the wind farm that we already own and operate on the island. It's worth mentioning TermoemCali, our business in Colombia. As some of you may know, this is a US dollar market – Colombia, Peru, Mexico, Central America represent markets where the US dollar is the unit of currency for the energy system.

And in TermoemCali, we received what's called a reliability charge, so effectively a capacity payment. We received an extension of that capacity payment to late 2023. And the impact of that extension enabled us to also do a pretty attractive financing on that asset taking into account that we had a visibility over the fixed US dollar capacity rate. And it's a good example of what we increasingly see in many markets, which is a desire to figure out how to incentivize the existing operations, maintenance and availability of natural gas fired fleet.

We see natural gas fired power plants in these markets as an important swing factor, as these markets embrace more renewable energy, and the mechanism that we see increasingly finding its way into supporting natural gas in many markets; but particularly, those emerging markets, is the capacity payment. And we like that capacity payment regime. We've been invested in Colombia receiving capacity payments in our two plants there since 2006, in TermoemCali since 2010, and we seek continued opportunity as we think about the acquisition market in this space.

So, with that, I'll conclude. We can open it up for questions.

Operator: Thank you sir. If you would like to ask a question, please signal by pressing star one on your telephone keypad. If you're using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, press star one to ask a question.

And we'll take our first question from Timothy Ho from London. Please go ahead. Your line is Open

Timothy Ho: Hi team. Thanks very much for the call today and I've got three questions. The first is, can you give us any more color about how you think about any further farm downs from here? And are you still seeing this kind of interest from financial buyers in potentially taking stakes in some of your assets?

And secondly on Kosovo, I know it's early days, but do you have any kind of visibility or view on the parties or politicians that may be [inaudible] in this potential election and later in the year? And on your project, I am just trying to get a sense of is it purely just a timing issue or could be something bigger? And, certainly, just on the Mexico CHP, I can see that you've increased – well, you've mentioned that you've increased the amount of contracts there. Can you give us a bit more color just on how that affects the average maturity of the contracts that you got there? Thank you very much.

Joseph Brandt: Okay, sure. So, on farm down, Tim, what we've said in the past, and we really see this throughout the portfolio, is there's significant opportunities in all the assets that we own. In particular markets, and I would say Europe, Latin America including Mexico, very meaningful financial interest in investing in those assets.

The renewable assets I think is where people focus the most because you see a lot of activity on the renewable side of the business, and we see that interest as well. We have a number of assets in the renewable portfolio where we do not have minority investors, and we're clearly thinking about when it's the right time to bring minority investors into those businesses. But we're also seeing this on the thermal side of the business, the contracted thermal, there's interest as well in the natural gas projects. And we pursue this is a core part of the strategy, and will continue to do so, and the market should continue to expect us to take advantage of the significant spread between cost of capital of major financial investors in a negative yield environment, where I think as at Monday, we had something like 15 trillion globally of negative yield securities, and the returns that we're able to generate in these businesses.

And so, I think what we have thought about as we've moved through this year is making sure we don't move too quickly in a [inaudible] environment that is continuing to decelerate and sell them too cheap. And so, we can all kind of take a view as to whether we've reached bottom, but, certainly, it's been prudent not to execute some of the transactions that we had opportunities to execute late last year or earlier this year, given where rates are today.

So, on to Kosovo. The political side of what should we expect to see in terms of mix in the parliament, etc., I won't comment on that. It would be a comment that would be completely outsider looking in and not of much value. I think as we think about the political constellation there, we're comfortable that this is a project that the country needs. We've always supported the project because it's desperately needed, and it's viewed as desperately needed by a vast majority of the population.

In terms of risk to ultimate execution, the answer would be no. We're not concerned about whether the project actually gets executed. I do think it will be timing. It may be slight timing if the elections happen sooner rather than later, but we don't view this as somehow fundamentally challenging the integrity of the project. We're at the point now where the project has virtually crystallized and is highly transparent in terms of where the financing will come from, what the EPC will cost.

The price of the power is all ready and we haven't finished the kind of the final financing and EPC terms is significantly below the cap price beyond which the project wouldn't go forward. So, that risk has been eliminated. And now the question is just putting together the best project for the country, which means bringing the price as low as we can bring in.

And then the third question. On Mexico, weighted average life is effectively exactly where it was in January. So, the new contract terms are keeping the weighted average life at around 11-11.3 years. What's been interesting there is we've seen meaningful demand beyond what that project is now able to contract. And so we think that's positive for how we're thinking about the development of the additional combined cycle on the country.

Timothy Ho: Great, thank you very much.

Joseph Brandt: Sure.

Operator: And we will now take our next question from Jenny Ping from London. Please go ahead. Your line is open.

Jenny Ping: Hi morning. Jenny from Citi. Three questions please. Firstly, just following up on Timothy's question in terms of farm downs given the direction rates travel. I just wanted to understand how you look to balance, obviously, growth, which is in your 2022 target with the considerations for farm down of assets. And what's the best way to strike a meaningful and appropriate balance there?

Secondly, as Stefan earlier talked about the liquidity level at the group, would you be able to go into a little bit more on the acquisition side what are the areas of the world that you're looking at, the types of assets beyond the organic growth that you outlined helpfully in the presentation?

And then very lastly on CO2 prices, we've obviously seen a dramatic – a material increase in carbon prices. Insofar, all of your contracts have seen that carbon price been a pass-through element. But with two big thermal assets coming up for renewal in the next four, five years, what is your expectations in terms of CO2 prices going forward? Do you still envisage higher costs associated with that to be fully passed-through or do you have to bear a portion of that burden at some stage? Thank you.

Joseph Brandt: Okay, I'll take all three Jenny, thank you, and Stefan, feel free to chime in. And the way we think about farm down and growth is realizing value in the portfolio through monetizing assets that have dramatically different rates of return attached to them depending upon our acquisition or development in financial markets. It's something what we will continue to do irrespective of how we think about growth in the portfolio; now because it's the right value creating, shareholder value creating step to take.

At the same time in this market that we're in today, and one that we see continuing over the next five years at least, it's an extraordinarily target-rich environment. And so being able to recycle that capital into new projects is something that we have a very high degree of confidence in, so it makes selling minority interests even easier particularly when you consider where the equity price is today and the company is not about to touch kind of an equity sale to fund growth.

And so, we believe that we can grow faster than we initially forecast and the way we can continue to do that is to recycle the capital that we have inside the businesses where we see these big disparities between cost of capital and then tap the debt markets as required within the framework of the company's leveraged targets, and recognizing that the company's trading in the debt markets is a very attractive way to fund growth.

In terms of what are we going to do with all that liquidity and where do we see the growth in the portfolio now, we continue to see with a couple of exceptions the acquisition market as rewarding risk taking more than the development market. That's clearly the case in terms of renewables. It's somewhat the case in terms of thermal, and so we're more focused on the merger and acquisition market.

Regionally, we continue to see opportunity in Europe. We're looking at several portfolios in Europe that seem interesting to us and fit within the framework of where we've invested to date. We have mentioned that in Central America, Mexico in particular, we see a real demand for power in that market, and an opportunity to develop some greenfield in that market around the existing gas plant that we have there.

We continue to see a need for fuel switching in the Caribbean, which we're right in the middle of, and have done successfully, and see opportunity there. And in the rest of Latin America, I would say in the Latin American dollar markets, we see some opportunity to grow in both Greenfield and acquisition renewable and thermal. In our primary area of investment in Brazil, in Latin America, which is Brazil, we see a market that's extraordinarily frothy and rich today. Fortunately, we developed assets in Brazil, the wind farms and the hydroelectric facilities. We developed those at a time when rates of return were a lot more attractive, where multiples entering into those fully contracted assets were a lot lower. We're now at historic peaks and would not expect to continue to allocate capital to the Brazilian market given the frothiness of valuations there. Anything to add or? Okay.

CO2 prices – sorry, Jenny. We've answered this question ,actually going back to the IPO, that the pass-through in the thermal PPAs globally, has always included environmental pass-through, so costs for NOx, for SOx. It always picked up CO2, I don't think a lot of people thought about it in the previous years. And so, now when you look at a market where as you note dramatic increases in CO2 prices particularly in Europe, what should we expect when we recontract assets?

I think you'll see that the CO2 pass-through will not be a given. We've said for a couple of years that we would be surprised if counterparties are going to take directly CO2 pass-through in Europe. In the coming years, there could be an allocation. We've seen – we've been involved in transactions where CO_2 costs are allocated between the parties. But I don't expect that we'll see direct CO_2 pass-through in future contracts, given the volatility in that market.

Jenny Ping: Thank you very much.

Operator: Just as a reminder, if you would like to ask a question, please press star one. It appears there are no further questions. At this time, I would like to turn the conference back to our host for any additional or closing remarks.

Joseph Brandt: Okay. Thanks everyone for attending, and please feel free to reach out to Alice and the IR team with any follow-up from today's call and announcements. Thank you.

Operator: Ladies and gentlemen, this concludes today's call. Thank you for your participation. You may now disconnect.