



Infinis Energy: Preliminary results update

Interview with Eric Machiels, CEO

Q: You're reporting your full-year results today, so what for you are the highlights?

A: Yes. So Infinis has a terrific set of results today. Our Landfill Gas had its best results ever. That offset a slightly lesser performance on the Onshore Wind. Revenues of £236m, with EBITDA of £143m. And that is especially good when you look at the weakened wholesale power price environment that we went through last year. So I think those results demonstrate, yet again, how robust the business model of Infinis is.

Q: Now obviously we've seen extreme volatility in the oil price over the last 12 months. So how has that impacted you and how have you responded to a challenging pricing environment?

A: Yes. So one thing to bear in mind is that we typically contract forward 85% of our Landfill Gas portfolio, whereas the bulk of our Onshore Wind portfolio remains exposed to day-ahead power prices. The novelty going into our new financial year is that we've managed to renegotiate one of those agreements on the landfill gas side, which means that we have sold forward almost our entire landfill gas output. And this obviously will give much greater visibility to cash flow generation in this current financial year.

Q: Now at the time of your IPO, you made a couple of key promises to your investors. One was around your dividend and the other was around your growth plan. So how have you done in delivering against those promises?

A: I'm very pleased to say that we're delivering on both. We declared our first full-year dividend at £55m, which is right on target. When you look at our growth plans, where we're going to build another 130 to 150 megawatts of onshore wind under the current renewable obligations regime, I'm very pleased to say that we already have 117 megawatts of that target identified, which is in pre-construction. And we expect another two projects that we will announce later this year to go into construction before the end of 2015.

Q: Looking ahead now, how will the change of regime to contracts for difference impact on you?

A: The 130 to 150 megawatts that we are seeking to build clearly we plan on building out under the renewable obligations regime. But once that regime is over in March 2017, we still have another 250 to 280 megawatts of projects that are either consented, have been submitted into planning or will be submitted into planning by next year. And we expect that on the back of being a scale developer, with a lot of experience on the procurement side –and in funding projects, we will be in a very strong position to continue to build out some of that pipeline also under the new CfD regime.

Q: Back in December, Terra Firma, the owners of a majority stake in your business, announced that they were looking at their options with regard to their stake in Infinis. Can you give us an update on what's going on with that?

A: Yes. So that's clearly a process which is entirely driven by Terra Firma. Infinis is not involved in that. But what I can tell you is that the management team at Infinis has remained fully focused on delivering top-quality operational performance, as well as continuing to progress our growth pipeline. So there's been absolutely no distraction whatsoever from that development.

Q: And looking at the shape of your business, you sold your hydroelectric business during the course of the year. What was the thinking there?

A: Our hydro business was by far the smallest part of the Infinis portfolio. We only had 17 megawatt in operations. And the reality is that there was no real scope for growth of that business either. So in view of our very ambitious onshore wind plans, we felt there was much better value if we could sell that business and reinvest the proceeds of the sale into the growth of our onshore wind portfolio, which is exactly what we did.

Sector overview

Q: Following the victory of the Conservatives in the General Election, what do you see as the outlook for the onshore wind industry?

A: The outlook for the onshore wind industry is actually very good. There is 8 gigawatt of onshore wind capacity operational today. And the UK will add another 4 to 5 to reach 12 to 13 gigawatts by 2020. So clearly a tremendous growth opportunity.

Given that the Conservative government in its manifesto has committed to deliver on all the decarbonisation targets at the best value to UK consumers, clearly it's important for them to realise that when you look at the various available technologies to decarbonise power generation, there's not a single technology which enables you to deliver the cost effectiveness of onshore wind at scale. So we believe that going forward, onshore wind will always have its place in a balanced transition to a more renewable mix in the wider power generation supply in the UK.

Q: Now wind-farms can be contentious. So have you faced any local opposition to any of your plans? And how do you engage with local communities?

A: We have a very peculiar approach. Because we don't just develop and build onshore wind farms but because we operate them for the full 25-year cycle, for us it's very important that when we start engaging with a local community at the pre-consent level, we make it very clear to them that this is a partnership for life. And so we take on board a lot of the comments that local communities make because we want to be clearly considered to be a good neighbour for the local communities.

Now once our projects are built, the great benefit flowing back to a local community is that we will typically provide community funding to a wide variety of projects, whether that be school refurbishment, playground enhancements, anything that's considered to be of value to the local community. And that's the way we try to partner up with our local communities for the full cycle, all the way down to the decommissioning of the plant.

Q: What do you say to those who argue that we may have reached a saturation point when it comes to onshore wind and that there's no suitable sites left to develop without turning public opinion against the industry as a whole?

A: Well the reality is that public opinion has always remained very firmly in favour of onshore wind. 65% to 70% in all recent government polls have confirmed that. When you look at the spatial opportunities, it's fair to say that it's a combination of low population density and high wind speeds that typically today underpin successful wind development projects. We tend to find that the projects that have those two characteristics tend to be either in Wales or in Scotland. And when you combine that with the fact that some of the more recent grid reinforcement investments have opened, or will be opening up, new territory for onshore wind investment, I'm actually very hopeful that there will be plenty of additional growth opportunities from a geographic perspective as well.

Outlook and priorities

Q: So looking to the year ahead, what are you going to be prioritising?

A: So clearly our priority will be the full build-out of 130 to 150 megawatts under the current renewable obligations regime. So that will take us to March 2017. Beyond March 2017, I see two clear opportunities. On the one hand, the build-out of our Onshore Wind portfolio under the CfD, but as a very strong and well established operational player at that stage, with probably over 700 megawatts installed, highly cash flow-generative, there's a natural role to play for Infinis as a consolidator in what will still be a very fragmented landfill gas and onshore wind sector. So clearly both of those angles give me a great confidence that there will be plenty of growth opportunities beyond 2017.

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