

TRANSCRIPT OF ENERJİSA ENERJİ 9M 2023 EARNINGS CALL

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SPEAKERS:	Dr. Philipp Ulbrich – CFO Cem Gökmen Gökkaya – Treasury, Risk, Investor Relations and Tax Director Pinar Saatçioğlu – Investor Relations Manager

PRESENTATION SESSION

Pinar Saatçioğlu: Good evening everyone, this is Pinar Saatçioğlu, IR Manager of Enerjisa Enerji. Welcome to our Quarterly Performance Call and thank you for attending. The call will be presented by our CFO Philipp Ulbrich and Treasury, Risk, IR and Tax Director Cem Gökkaya. Following the presentation, we will open the floor to Q&A. Philipp, the floor is yours.

Dr. Philipp Ulbrich: Good evening this is Philipp Ulbrich, CFO of Enerjisa Enerji, and I also welcome you to our Quarterly Performance Call.

Being more than 5 months in office now, my view on the company and on the market Enerjisa Enerji is operating in, have sharpened. This is allowing me to see many meaningful opportunities for profitable growth. Let me come back to this positive outlook after guiding you through the key financials as of Q3 2023.

Executive Summary and Financial Highlights: Pg. 2 – 3

In the last quarter Enerjisa Enerji showed once more a strong operational and financial performance and is delivering on its targets despite the challenging environment.

Let me explain how this translates into the major financial KPIs:

- Cumulative Operational Earnings of Enerjisa Enerji compared to last year's same period are up by 53% and stand now at close to 16 bn TRL.
- Cumulative Underlying Net Income compared to same period of last year is even up by 69% with now almost 4.3 bn TRL.
- The corresponding investments we made during the first nine months amount to almost 9 bn TRL. This is 268% up compared to last year's same period and already by far outperforming the overall investments in 2022 which accounted for 4.6 bn TRL.
- We will explain you in more details during this call the benefits that we expect from gearing our investments this year even we are currently operating in a high interest environment.
- Our Leverage i.e., Financial Net debt over Operational Earnings, stands now at approx. 0.9x, compared to 1.1x at the end of Q3 of last year and 0.6x at the end of Q2. The significant increase since last quarter reflects our success in deploying profitable investments. The comparable low leverage for an infrastructure business allows for far more investments that we are prepared to carry out if financial market conditions become more stable.
- When it comes to Cash first of all with more than 11 bn TRL a record-high Operating Cash Flow before interest and tax has been delivered which is more than 200% up compared to Q3 of last year; this is showing our strong operational performance.
- Free Cash Flow after interest and tax is driven by profitable investments and the related interest costs, thus lower compared to last year i.e., -5.2 bn TRL compared to -2.7 bn TRL at Q3 2022.

- I would like to state very clearly that this Free Cash Flow development is no point of concern for us as spending is based on robust as well as profitable business cases. We will explain this later in the call and also how diligently we are managing cash at Enerjisa Enerji.

Overall as we are delivering strongly on our financial targets, we thus re-confirm our guidance for 2023.

Financing Developments: Pg. 4

It is worthwhile to mention that Enerjisa Enerji is delivering on its targets even the Financial markets in Türkiye remain to be challenging. Let me address how we manage these challenges from a financial point of view:

- Firstly, the still remaining scarcity of funding is not limiting us. We are managing this challenge by having broadened our funding sources well in advance. Besides entering or renewing loans, which are especially impacted by regulation, we take advantage of our good relations with multi-national financial institutions like EBRD or IFC. Both offer funding in TRL, thus we are not entering into unwanted FX-risks.
- Also, a very effective source of financing proved to be our access to the bond market. In the nine months until end of September 2023 we issued 12 bn in TRL bonds and by this have become the most important issuer in the real sector in Türkiye this means, other than banks.
- We just received the authorization for 15 bn TRL of additional green bond issuing, which is a clear signal of the systematic support of our funding and with this also our investment policies.
- Having multiple sources of funding allows us to realize our investment plans by still being able to choose the most suitable funding in terms of interest rates and durations. We thus only enter into funding when the profitability of the related investments is ensured. And we only finance with durations that will allow us to take advantage of lower interest rates that we are expecting in the mid-term in line with the plan of Turkish Government for fighting inflation.

Let me add that the Management of Enerjisa Enerji is fully supporting these policies as they aim at achieving a stable financial framework with significantly lower interest rates and inflation.

Both would provide us with the conditions to invest even more in the distribution networks of the three regions we are operating in and offering customer solutions to B2B customers. For this we will be able to make use of our strong balance sheet and by this leverage our equity, thus, increase the return to our shareholders.

For the time being it is still too early to fully swing to a higher gearing.

Having been on an equity roadshow to London mid of October, we however took note of the positive outlook of many of the most important Emerging Market investors regarding the Turkish stock market if orthodox policies prevail.

It was highly appreciated that Enerjisa Enerji further reinforced relationships with the international investors as the company has a clear investor story and is especially with its distribution and its customer solutions business operating two growth businesses needing significant investments on Türkiye's journey towards higher energy efficiency while also the retail businesses offer many upsides when market gets deregulated.

With this positive mid-term outlook let's now have a closer look at the Q3 financials.

For this I hand over to Cem Gökkaya, Enerjisa Enerji's Treasury, Risk, IR and Tax Director.

Cem Gökmen Gökkaya: Thank you Philipp.

Dear investors and analysts, I extend a warm hello to each of you. As it was mentioned in the last earnings call I have assumed the responsibility of investor relations at Enerjisa after Rawand's departure, bringing with me 25 years of experience in finance. Throughout these years, I've had the opportunity to explore various financial domains, including planning, controlling, treasury, corporate finance, enterprise risk management, internal control and now investor relations and tax. I've spent the last 15 years with Enerjisa not only in electricity retail and distribution but also in generation, providing me a good understanding of our industry and developing in me a big appreciation for the role it plays in sustainability.

I want to express my gratitude to all of you for joining us today and for your continued interest in our company. I am pleased that we will witness Enerjisa's story going forward together and looking forward to our interactions in the future. Now, I'd like to move on to the details of the financials.

Operational Earnings Development: Pg. 5

Cem Gökmen Gökkaya: As you can see, on page 5, operational earnings increased by 53% year-over-year to almost 16 billion Turkish Lira.

The year-on-year increase breakdown per segment of the first nine months of 2023 operational earnings is; 4.3 billion TL from our distribution segment's contribution, 1.0 billion TL generated from our retail business' gross profit, and 0.2 billion TL from our customer solutions' gross profit. Per segment basis:

- Our distribution business generated a segment growth of 48% year-over-year, with the 3 main components highlighted in the bridge, as follows:
 - Financial income increased by 2.7 billion lira on the back of higher inflation and investments, as well as the IFRIC methodology change initiated in 1st of July 2022 aimed at more fair presentation of financial income, which contributed with 1.5 billion TL of higher earnings.
 - CAPEX reimbursement, which is a part of our Operational Earnings, but not included in the Underlying Net Income increased by 1.5 billion TL reflecting our profitable growth investment policies in past years.
- Our Retail segment also contributed to increased earnings, with a growth rate of 41% year over year, generated mainly from our regulated portfolio as well as liberalized portfolio.
 - Here, the regulated gross profit increased by 632 million TL, year-over-year thanks to higher retail service revenues. These are mainly due to increasing doubtful receivables compensation impacted by earthquake. Also, on top, operational expenses compensation increased driven by mid-year inflation escalation.
 - The liberalized segment also contributed to the growth, with an increase in gross profit of 405 million TL in the first nine months of 2023, mainly due to effective sales price and cost management as well as our strong brand value attracting customers to the liberalized segment even in a challenging environment.

Moreover, our customer solutions segment generated an increase in gross profit of 216 million TL, on the back of growth observed in the solar PV and e-mobility businesses.

Underlying Net income Development: Pg. 6

Now, let me elaborate on the bottom-line development on page 6:

Our Underlying Net Income increased by 69% and reached 4.3 billion Turkish Lira in first nine months of this year

Our operational FX losses increased by 513 million Turkish lira year-over-year, due to a revaluation effect of procurement contracts in our distribution business, which are denominated in FX prices.

Please note, that here active hedging mechanisms are offsetting almost all of this effect. Relevant FX hedges are reported under operational earnings.

Further on, net interest expenses, of loans and bonds, including the impact of cash and derivatives, increased year-over-year by 357 million lira, due to increasing interest rates

Our average financing rates, for loan and bonds increased from 24.0% in first nine months of 2022, to 27.7% at the same period of this year due to increasing funding rates in the market. Despite challenging financial market conditions, our average financing rates are well below market averages thanks to our professional debt management.

The reasons for this limited hike on Enerjisa's financing rates, are that our average interest rate also includes some loans from the last year, which have yet not fully reached maturity.

Another driver is, that our bond rates decreased substantially due to the phasing out of CPI linked bonds, which were very expensive in the high inflation environment, and included in the comparison base of last year. We do not have any CPI linked bonds anymore.

Operations: Pg. 7

Let's now have a look at our operations on page 7, starting with Distribution:

- CAPEX came in at 7.4 billion Turkish Lira in the first nine months of 2023, up from the 2.3 billion Turkish Lira during the same period of last year. The main drivers for the 5.1 billion Turkish Lira increase are ramped up investments as well as higher inflation that increases the prices of the respective materials and services that get capitalized.
- As a consequence, our Regulated Asset Base increased by 60% year-over-year, reaching 30.2 billion TL in the first nine months of 2023 compared to 18.9 billion TL in the same period of last year.
- Efficiency and Quality earnings in the first nine months of 2023 increased by 16% compared to same period of last year and reached 576 million TL mainly driven by capex outperformance turning to positive following the upward adjustment related to material prices by the regulator as well as higher contribution from theft and loss accrual and collection performance

Now over to our retail and customer solutions segments.

- Regulated volumes increased by 11% year over year, while liberalized volumes increased by 4% year over year driven by higher consumption caused by high temperatures especially in Toroslar region in Q3'23, already more than compensating for the impact coming from earthquake
- In terms of margin, regulated margins remained stable at 7.2% while liberalized margins increased from 3.4% to 4.2% driven by effective sales price and cost management even during challenging environment
- Our Customer Solutions gross profit increased significantly from 104 million TL in the first nine months of 2023 to 320 million TL. This equals to a growth rate of 208% year-over-year, driven by increased installed capacity in solar power projects, where we install solar panels on our customers' facilities, providing them with access to green energy as well as continuous growth in e-mobility business
- Our E-mobility business took a substantial leap forward, as the charging plug base increased more than twofold from 603 to 1278 plugs on the back of the fast growth delivered, based on the public tender agreement secured in the second half of 2022.

Investments & Free Cash Flow: Pg. 8

On page 8, you can see the breakdown of our investments and FCF development. Majority of our investments are coming from distribution segment while customer solutions and e-charge business are also contributing at an increasing pace.

Accordingly, our profitable investments more than tripled compared to same period of last year and reached 8.7 billion TL.

I would like to highlight that free cash flow management is an integral part of our business and we have significant expertise and strength in managing different phases of free cash flow movements:

- First of all, as Philipp mentioned in the beginning of the call, our OCF before interest and tax reached 11 billion TL, a record high level, in the first nine months of 2023, fully compensating for overall investments
- Capex overspending in distribution is a conscious strategy to deploy capital in profitable investments. Our return on these investments is calculated based on mid-year inflation plus 12,3% real WACC, and our additional cost is driven by borrowing interest. Since a high mid-year inflation is expected in 2024, we ramped up our investments to benefit from next year's potentially high margin.
- As stated in the beginning of the call, our FCF after tax and interest is at a negative 5.2 billion TL as of end of Sep '23 due to these profitable investments and related interest costs. We would have had a far higher FCF this year without these investments.
- This negative FCF was already expected and signaled at the end of last quarter earnings call.
- Going forward, by YE'23, we plan to continue CAPEX overspending and expect current retail tariff burden, which is the negative gap between end user tariff and power sourcing costs, to continue accumulating. Please note that, the tariff burden is also increasing the financing cost which however is being compensated. By Q2'24, we expect retail tariff burden problem to be addressed by expected tariff increases and support from the regulator via various mechanisms as realized in the past.
- I would like to highlight that FCF is not a short term KPI for us as this is the nature of this business to raise financing and deploy the capital to profitable investments. In addition, in the usual course of the business, there may be short term fluctuations in FCF due to regulatory changes but in the long run they are sufficiently compensated over time including the respective financing cost.

Economic Net Debt: Pg. 9

Lastly, turning to page 9, I want to walk you through the major changes in our net debt position.

- Our Economic Net Debt increased by 68%, year to date, going from 15.2 billion Turkish lira in December 2022 to 25.6 billion TL at 9M 2023. I would like to highlight once again that the increase in borrowings is a result of our capex overspending on profitable investments and without these investments our OCF is covering the items you see on the Economic Net Debt Development graph on the left side of the slide.
- Our leverage ratio decreased from 1.1x to 0.9x thanks to the relatively higher operational earnings growth. Current low gearing level allows us to continue profitable investments if we consider the combined regulated and market conditions as sufficiently advantageous.

I now hand over to Philipp for providing you with our latest guidance.

Guidance: Pg. 10

Dr. Philipp Ulbrich: Thank you. Let me now finally walk you through our outlook and comment on our guidance.

Certainly, as at end of Q2, we reiterate our mid-term outlook for 2022 to 2025.

We confirm a compounded average growth rate of 30-40% for our operational earnings and of 25-35% for our bottom line, namely Underlying Net income.

In addition, we reiterate our 2023 guidance which positions as follows:

- Operational earnings in 2023 are expected to be in the range of 20 -24 billion TRL.
- 2023 Underlying net Income, is expected to reach 5.0 - 6.0 billion TRL.

- Our 2023 Regulated Asset Base is expected to be standing at 30-35 billion TRL by end of year, and so is our investment guidance of 11-15 billion TRL. We aim to end the year around upper-end of this range.
- Please note that roughly 80 to 90% of this figure is dedicated towards our distribution business, while the rest are investments into the fast-growing Customer Solutions segment. These investments are shown in OPEX as the assets are handed over to the customers at the time of commissioning.
- The main parameters that impact our outlook remain the key energy and financial regulation rules, as tariff levels and energy procurement costs, as well as the inflation and interest rate environment subject to monetary policies decided by the Central Bank.

While Enerjisa is on a long-term basis well protected from increasing inflation rates, the rapid change of interest rate can translate to a temporary deviation from our growth rate.

At the end of the presentation let me come back to my positive outlook I presented you in the beginning; we expect that a stable financial and regulatory framework in Türkiye offers significant growth opportunities for Enerjisa Enerji and we are well prepared in seizing these opportunities. This will add profitable business to Enerjisa Enerji and thus create additional returns and leverage to our shareholders.

Q&A SESSION

Q1: Yunus Emre Yenikalaycı – Gedik Investment

Can you elaborate a bit on the reimbursement for earthquake related OPEX outperformance? Do you have a clear-cut outlay for Q4'23 or are we waiting on a regulator action? How much of a reimbursement should we expect for year-end?

Last number we provided during H1 '23 earnings call was around 700 plus MM TL spending, until that time. We expect that 25% of these expenditures until end of Jun'23 will be provided in cash back to us this year. The rest will come next year. For the expenditures after H1 '23, we expect them to be reimbursed next year. I cannot provide the YE figure but we expect to get all of the expenditures latest next year.

Q2: Umut Öztürk – Ata Yatırım

When do you expect the free cash flow to turn to positive again? How do you expect inflation accounting would affect your financials? Do you still maintain your dividend policy of distributing 60-70% of your underlying net income?

First question is more a strategic one. FCF that we are presenting is impacted by the capex that we're doing. Capex we're doing is at the end a signal if we do see profitable business or limited profitable business. In other words, if we continue to have positive outlook on ROI, we might see FCF with a negative prevailing. This is also reflecting that we are currently operating with very low gearing compared to other downstream power enterprises listed. They are operating at a higher gearing. This is what we meant that having these additional investments in the end is profitable due to usage of the leverage for our investors and the road to getting to this higher gearing is negative FCF.

For the second question, we have already announced our inflation accounting reports at the end of YE'22 and H1'23. You can follow the impacts and differences in our financials (with and without inflation accounting). I'm not able to give guidance about that going forward now.

For the third question, yes, we confirm. This is part of our guidance. The reason is that we are currently having a very low gearing. Even if we increase investments and gearing, we see sufficient room for continuing our high dividend distribution policy, which is also typical for downstream infrastructure business in power segment.

Q3: Cenk Orcan – HSBC

Can you please explain to us what impact did the very low mid year inflation has on your result? Has there been any adjustment for higher inflation? Is there particular region receiving most of your accelerated capex or evenly distributed accross your three regions?

For the first question, our opex spending increased more than current inflation for 2022 and 2023. EMRA, in order to compensate for increase, already increased opex ceilings by 14% for 2022 and 30% for 2023 according to official announcement. We know that they are following this closely as they did for capex unit prices. They are taking actions if they see big difference between inflation basket of expenditures and general CPI.

For the second question, 40% of investments realized in Toroslar, 35% in Başkent and 25% in Ayedaş.

Q4: Maruf Ceylan- Q Invest

Do you expect any tariff change or any regulation change in the near term?

It's always difficult to predict. We see however that the system that is currently operated is creating a higher financial burden for the Turkish government. This is one reason why we expect such a tariff change. Second one, the announcement publicly available points especially towards more cost-oriented tariffs in industrial and corporate segment.

Pınar Saaçioğlu: Thank you for participating to our earnings call. Last but not least, we advise all our analysts to submit underlying net income forecasts in earnings surveys, not the TFRS net income forecasts, as this is the base for dividends.