



THOMSON REUTERS  
**FINAL TRANSCRIPT**

Q1 2019 Snam SpA Earnings Call

EVENT DATE/TIME: MAY 15, 2019 / 12:00PM GMT



### **Corporate Participants**

- Alessandra Pasini  
Snam S.p.A. - CFO

### **Conference Call Participants**

- Bartłomiej Kubicki  
Societe Generale Cross Asset Research - Equity Analyst
- Enrico Bartoli  
MainFirst Bank AG, Research Division – MD
- Harry Peter Wyburd  
BofA Merrill Lynch, Research Division - VP and Junior Analyst
- James Brand  
Deutsche Bank AG, Research Division - Research Analyst
- José Javier Ruiz Fernandez  
Macquarie Research - Analyst
- Sara Piccinini  
Mediobanca - Banca di credito finanziario S.p.A., Research Division - Research Analyst



## Presentation

### OPERATOR

Good afternoon, ladies and gentlemen, thank you for standing by, and welcome to today's Snam 2019 First Quarter Results Call. (Operator Instructions) I must advise you that this conference is being recorded today, 15th of May 2016 (sic) [2019]. And without any further delay, I would now like to hand the conference over to presenter today, CFO, Alessandra Pasini. Please go ahead, sir.

### ALESSANDRA PASINI SNAM S.P.A. - CFO

Thank you. Ladies and gentlemen, good afternoon, and welcome to Snam's 2019 First Quarter Results Presentation. In the first quarter of 2019, we achieved strong results. EBITDA was up 4%, thanks to the increase in (technical difficulty) update and higher tariff RAB and the further effect of circa EUR 1 million related to our efficiency program, which has been launched in 2016. Net income was up 11%, thanks to lower interest cost deriving from (technical difficulty) deposit impact of the liability management exercise carried out in December 2019 (sic) [2018] and second continuous management -- treasury management optimization. The solid income from associate of EUR 62 million, mainly relating to Teréga that include one-off items of EUR 6 million related to the release of a tax provision accrued in 2017 in DESFA, which was not part of that perimeter in 2018 and hubs revenues are in part linked to capacity booked. CapEx was at 6% and is in line with circa EUR 1 billion for the year. Net debt was down 3%, which is expected to be (technical difficulty) firm all the full year 2019 guidance provided in March.

As well as delivering solid financial results in the first quarter 2019, we've made good (technical difficulty) invest in our core business, with increase by 15% our performance in regulated services versus the first quarter of 2019. Regarding storage business at the mid of May, we booked more than 98% of storage (technical difficulty) in 4 bcm with an increase of 4% versus last year. At the end of March, the regulator released the final resolution on the fifth regulatory period for 2020 to 2023 for the transport business confirming the beta and therefore, a WACC of 5.7%. We are continuing our effort in the energy transition. We're exploring the possibilities offered by hydrogen. In March, we introduced 5% hydrogen and natural gas blend into a segment of the Italian gas transmission network, serving to industrial companies in the Salerno area. This test is the first of this kind in Europe.



We have signed a contract with Tamoil to build the first set of 5 NG filling stations. Test is progressing well with its offer in the residential sector and the first quarter is as contextualized circa EUR 5 million of orders relating to this renovation of residential buildings.

Finally, in the first quarter '19, we have completed 7 new connections worldwide, 3 related to biomethane plan and 4 to CNG station. We have continued to create value from our financial structure.

In February, we launched our first Climate Action Bond, which will be used to finance our green investment as well as reducing the environmental impact on our core business. In March, we increased the size of the Euro Commercial Paper programme approved on the 2nd of October 2018 from EUR 1 billion to EUR 2 billion.

Looking more closely at the numbers. EBIT in the first quarter was EUR 366 million, up EUR 11 million over the same period of the prior year. This number reflects the increase in regulated revenues of EUR 15 million, mainly due to WACC update and the increase in tariff RAB for transport and a slight decrease on storage due to some fully amortized assets exiting the RAB. The reduction in controllable fixed cost of EUR 1 million despite the inflation effect, mainly thanks to the ongoing efficiency program. The program, which has a target of EUR 60 million as of 2022, has obtained further EUR 1 million on top of the EUR 36 million reported at the end of 2018.

Depreciation and amortization increased by EUR 9 million, reflecting a growing asset base. Other components include positive effect from the release of provisions and some costs relating to the integration and ramp-up of the new nonregulated business. Net profit in the first quarter '19 was 2000 -- EUR 283 million, up EUR 29 million over the same period of prior year. This number reflects lower financial charges, thanks to the full effect of the optimization measures implemented in 2019, including the last liability management exercise completed in December.

Treasury optimization mainly commercial paper and short-term uncommitted line and natural bond rollover with the expiry in January of EUR 500 million bond, 5% coupon replaced with a new bond with a coupon of 1.25%. The good performance of our source is mainly driven by EUR 6 million one-off effect related to the release of a tax provision accrued in 2017 by Teréga and therefore results, that we're not part of the perimeter in 2018 and benefit from the growing demand and are impacted also by the seasonality of booked capacity. The new regulation is expected to be released in the next month.

Income taxes are higher than the same period 2018, mainly because of the higher earning



before tax and the evolution of ACE-Aid benefit. Full year tax rate is expected to be around 26%, 27%. We are on track vis-à-vis our full year guidance provided in March. Cash flow from operations was EUR 836 million, thanks to the solid net profit and positive working capital of EUR 431 million that include EUR 151 million of tariff related items, of which EUR 57 million are due to overcharging bear and bull over the coming years and EUR 94 million of additional tariff components expected to be reabsorbed within the year, EUR 91 million balancing activities expected to be reabsorbed almost entirely within a year, EUR 102 million due to the net tax payable accrued in the period that will be paid in June, EUR 67 million cash from the equalization fund that will be repaid to shippers in the following months.

Overall, the positive impact of networking capital is therefore expected to be reabsorbed within the year. The strong cash flow generation covered CapEx and the payment of the interim dividend of EUR 298 million, leading to a net debt for the period of EUR 11.2 billion. Our net debt guidance for 2019 is confirmed at EUR 11.7 billion, and this includes the absorption of circa EUR 100 million of negative working capital.

Let me now give you an update on Snam debt structure. In the first quarter, Snam tapped again the bond market exploiting favorable market conditions by issuing its inaugural EUR 500 million climate action bond with a 6.5 years of tenure and a coupon of 1.25%, representing the first climate action bond issuance in Europe ever. Furthermore, a new EUR 135 million of EIB loan has been closed with a maturity of 20 years and a fixed cost of circa 1.4%. These 2 actions substantially cover a large part of the funding need of the year, while not excluding opportunities for funding for 2020 maturity.

Fundraising at negative yield remains a key source of treasury management optimization dependent on market condition. As regards to debt break down, at the end of the quarter, the fixed-rate portion is 79% in line with our 3 quarter fixed float index 2019 guidance, which we confirmed. The maturity profile is well spread over time, and our liquidity profile remained strong with EUR 3.2 billion of undrawn committed credit line. Maturity of medium- to long-term debt remains circa 5 years in line with our target. With reference to the share buyback program, we remind you that on the 2nd of April the extraordinary Shareholder Meeting of Snam approved the cancellation of 74 million treasury shares held by the company without share capital reduction and the ordinary Shareholder Meeting authorized a new share buyback plan for a maximum amount of EUR 500 million and up to a maximum of 6.5% of the outstanding shares for a period of 18 months.

Thank you for your attention, and we'll now take -- be pleased to answer your questions.



## QUESTIONS AND ANSWERS

### OPERATOR

(Operator Instructions) The first question comes from the line of Harry Wyburd from Bank of America.

### **HARRY PETER WYBURD** BOFA MERRILL LYNCH, RESEARCH DIVISION - VP AND JUNIOR ANALYST

Three from me. So firstly on TAP, you mentioned it's now 87% complete, could you remind us which month or quarter you expect it to commission and switch to a positive earnings contribution? And then secondly, Enagás, also did a major transaction in the U.S., I think in the past in the press, you've been linked to deals in South America. I just wondered what -- whether you could comment on your current appetite or interest in deals in the Americas and particularly North America? Or may be comment on your thoughts on what Enagás has been doing there? And then thirdly, you briefly mentioned that fully amortized assets had an impact on revenue in the quarter, I presume you've fully taken all of this account -- into account in your guidance, but I just wondered if you could give us a bit of color on how much of your pipeline network you expect to become fully amortized over the next couple of years? And what impact that will have on revenues?

### **ALESSANDRA PASINI** SNAM S.P.A. - CFO

Thank you. So as it relates to TAP, we confirm what we said. We expect TAP to be completed by the end of 2020, so fourth quarter of 2020. When it comes to what Enagás has been doing, I mean, we don't comment on other peers' M&A. And I think as always, that we remind you what our investment criteria, which we have applied consistently over the past 3 years, which remains the guide we follow every time we look as a possible external opportunity comparing it to further investments in our core business i.e. in our RAB. And I just remind you that over the last -- the course of the last 2 strategic plan, we have increased our CapEx and our CapEx plan it's actually from EUR 4.7 billion to EUR 5.7 billion, which give you a sense of how much we focus on our core business in addition to be careful to what happens around us, but our RAB is the best investment we can make.

The comment I made on the RAB exiting and the amortization was specific proportional RAB related to storage, which will be reabsorbed in the future as we have other assets that



will come into operations with a temporary effect. As we've said in our strategy presentation at the end of this plan, we will have approximately 9,000 kilometers that have -- of transmission plans and have more than 50 years of age. And therefore, that are beyond what is recognized by the regulator, which is one of the reasons why we can represent that we have a long-term visibility on our underlying RAB trend and which we showed up to 2030 exactly for this reason, because even absent the need for new capacity, we will have the need to replace existing infrastructure, which have been aiding effecting -- effectively our RAB.

### **Operator**

At the moment, we have no further questions. (Operator Instructions) And we have one more question -- 2 more questions now. The next one comes from Bartłomiej Kubicki from SocGen.

**BARTŁOMIEJ KUBICKI** SOCIETE GENERALE CROSS ASSET RESEARCH - EQUITY ANALYST

Just a question regarding the associates, the performance is excellent, EUR 62 million we know that's 6x on the tax relief probably around [10 counts] for DESFA. You could maybe elaborate what will be your guidance on DESFA for this year? Exclusively you're guiding on 10 per annum, now it's actually met in the first quarter. And secondly, we ship out DESFA and ship out the tax relief it shall be around 46 million [of shares] contribution versus 38 million last year. You can maybe tell us who -- what actually performed that well that the -- [after share] contribution is significantly higher than in the first quarter last year shipping out the tax effect and shipping out DESFA contribution?

**ALESSANDRA PASINI** SNAM S.P.A. – CFO

We don't provide quarter guideline by company, also then with respect to (inaudible) with our shareholders we do so an annual basis. I think our guideline for the year factors a good contribution from our sources but it's actually the one-off from Teréga that I commented was not included in our expectations. So that's a positive surprise, although we knew we were going to have it, which just didn't know it was going to be 2019. When it comes to DESFA, I don't think we will change the broad indication in terms of relative size that we gave around DESFA. I think on DESFA, there are 2 things. One, the market -- the gas demand is going very well, and this hopefully if continues will give a benefit vis-à-vis



historical results. And as I said, there is also some seasonality effect, because the first quarter you clearly have more bookings than in the rest of the year. So to put it simple, you shouldn't multiply by 4, because some of this and a good part of the overall benefit that we described is going to be reabsorbed. On DESFA, the team and the company is having dialogue with the regulator, we expect the new regulation to come out and the company is also working on the new CapEx plan, which will be including our net strategic plan. So when it comes to DESFA, we prefer to be more specific once all of these things will have taken place. And for the meantime, we confirm what we gave in the past. I mean, we're -- we've very positive expectation around DESFA, but this quarter is a little bit of a one-off positive performance, which we expect in part to be reabsorbed.

## **Operator**

The next question will come from the line of Sara Piccinini from Mediobanca.

**SARA PICCININI MEDIOBANCA - BANCA DI CREDITO FINANZIARIO S.P.A., RESEARCH DIVISION - RESEARCH ANALYST**

The first one is on the joint venture that you recently set up with SG for the development of the project in Sardinia. So could you please provide an update on how these -- the works with SG will proceed? How will you see the investments in Sardinia and also the sense -- a sense from the government and the region about this project? And then second question is on the other businesses, if you can provide a guidance or an indication of the contribution from the other business and especially after the setting up of the agreements on the biomethane and also on the gas stations?

**ALESSANDRA PASINI SNAM S.P.A. - CFO**

When it comes to Sardinia, I think, we are on track with what we expected and indicated in our plan. The -- we're working on the engineering phase, the permitting is progressing. And so we're simply waiting for the process to complete its course and as always in Italy, things take quite some time. We have worked and had a dialogue with the regulator on the cost benefit analysis, which is positive. So everything is on track and is progressing and what you have only seen is the creation of the new code that effectively will carry out the work in partnership with SGI. So there is nothing more than that at this stage that we can offer, everything is confirm and is on track. When it comes to the new business, I think we've been very busy in trying to integrate them into the Snam group first, as they were newly joiners of the group. And so this means that I don't think we are going to give you a



guidance for the year, because I think the first year is going to be affected and influenced by some of these integration costs. And the fact that we're actually developing the commercial strategy, so these businesses are in a commercial ramp-up phase. That though doesn't mean that we aren't happy with the results. I think they're performing in line with the plan and we confirm what we told you back in November and also in March in terms of how promising that energy transition space is, but it's a plan -- vision the one we presented is not a quarter or a year -- first year type of vision. And so we would want to stick with that. I mean, we remain very positive. We see opportunities, but we're very focused on making sure this business grow in a solid and constant manner.

#### **OPERATOR**

The question comes from the line of Enrico Bartoli from MainFirst.

#### **ENRICO BARTOLI MAINFIRST BANK AG, RESEARCH DIVISION - MD**

I have 2 of them. First of all, you mentioned the resolution for the new regulatory period specifically for your businesses, if you can provide some additional comments apart the detailed other aspect that you would like to align. And particularly, I saw that the regulator introduced a remuneration for the work in progress, if this was included in your target in the business plan and if you expect a material impact from this recognition? The second one is back regarding DESFA, you mentioned the discussions regarding the new regulation. If you can share with us, a bit, the main points that are under discussion with the regulator? And from your comments I had the feeling that probably there will be some upside in the CapEx potential from the company, if you can provide also some comments on this?

#### **ALESSANDRA PASINI SNAM S.P.A. - CFO**

Sorry, can you just repeat the last piece on the CapEx side? I didn't quite get it.

#### **ENRICO BARTOLI MAINFIRST BANK AG, RESEARCH DIVISION – MD**

From the comments you provided before, I had the feeling that probably the CapEx plan of DESFA will be increased compared to the current one if this a proper interpretation or not?



## **Alessandra Pasini Snam S.p.A. – CFO**

So first let's start with the leader or from the regulator. I think that the leader overall is in line with what we had in our plan, I think maybe with some very small marginal upside but not negligible and not worth a comment frankly. So I think we were -- the constant and constructive dialogue with the regulator means that by November, we had a very good feel of what to expect, which effectively has been confirmed in March. When it comes to DESFA, what I wanted to say that everything we discuss is related to the plan in the past up until now. It's related to the plan that was the privatization plan the latest plan that DESFA did submit before coming into the perimeter with nominal partner. We're now working with the company to develop a new plan, and it is true that we see upside directionally. So yes, it's true that we expect CapEx to go up. I think it's early days as we just started this work with the team and with the company to give you any guidance, but directionally we expect CapEx to be more that what the old plan had, which clearly is combined with the growing trend in terms of demand are both positive signs and confirmation of the good move we made in making that acquisition. I think it's too premature. You will hear more from us at our next plan in November, and by then we will have full clarity on the new regulation and we'll have a new CapEx plan defined by the company.

## **Operator**

Your next question comes from the line from José Ruiz from Macquarie.

## **José Javier Ruiz Fernandez Macquarie Research – Analyst**

Just one question. We saw the consultation paper for gas distribution last week proposal related to the cut off the useful life in order to avoid stranded cost. I was wondering if there is any read across for gas transport not for this regulatory period but for the future?

## **Alessandra Pasini Snam S.p.A. - CFO**

Thanks. No, as we said in the past, our dialogue with the regulator around a plan to address the replacement to our old fully depreciated assets goes into the direction of establishing the framework, where there will be incentive to potentially not replace, fully, assets that have more than 50 years in a constructive manner both for us and for the system. I think we discussed at our strategy plan, we've made a stress case internally around how much volumes of gas you need for -- as a minimum for our network to still be



fully needed and utilized. And that number came up from our technical team at 35 bcm, which compared to last year market size of 75 bcm give us frankly a very comfortable feel around the need and the strategic nature of our network. So I wouldn't read anything specific from the DSO consultation document. We will be, of course, working with the regulator beyond the fixed regulatory period in preparation for the possible introduction of TOTEX, which was confirmed by the delibera in order to work also on alternative services and ways to look at our infrastructure and the values and the service that our infrastructure need to deliver to the system, but we're kind of comfortable around the risk of stranded assets frankly.

### **Operator**

And your last question for now comes from the line from James Brand from Deutsche Bank.

### **James Brand Deutsche Bank AG, Research Division - Research Analyst**

Just had a question, it might be a 2-part just on the -- some of the debt issuance that you've raised and that you highlighted on Slide 7, and it looked like you'd achieved even though your current cost of debt is at a very impressively low level already that you'd achieved even lower financing costs on some of the new issuance, including the EIB loan, which, I guess, always comes out at pretty preferential rates when companies borrow from EIB, but you also achieved a very good rate on the Climate Action Bond. So I guess, the 2 questions are that on the Climate Bond, I was just interested as to whether or not you felt that you'd got better terms on that bond than vanilla issuance, because it was a Climate Bond or maybe not, but I'll be interested in that? And then secondly, for future debt issuance, do you think there is also opportunities to simile preferential debt? Can you access more EIB loans over the next few years? Or maybe there is opportunities to further Climate Bond issuance, if that's preferential?

### **Alessandra Pasini Snam S.p.A. - CFO**

Thank you for your questions. On the Climate Action, indeed the reception by the market growth was incredibly strong, which meant a 0 new issued premium, which is a way of saying that, yes, there was a very, very positive reception for a new instrument. As I said, this was the first-ever Climate Action Bond issued in Europe and the second in the world. And so the fact that we were able to achieve those terms and as your new issue premium



for something that was new, it can be seen as potentially leading to that type of treatment. Now as we all know, the market environment is very much key in terms of when you could do issue your instruments in order also to be able to optimize cost as this has been -- in this case has been the case. And the other thing that I would flag is that it did allow us to tap investors that we didn't tap before. And so, yes, over time this was already, I think, a very good issuance because of the (inaudible) frankly a way to say that it was better than other traditional financing cost form but also I think the diversification of our time will lead to this becoming a little bit more material. We did it not because we were in search of lower cost, we did it because ESG is part of our strategy and sustainable finance as part of our ESG strategy and we try always to optimize our capital structure and at the same time be consistent with our overall group strategy, and this is confirmed also by the conversion of our sustainable loan, which we did last year and which actually included the agreed-with KPIs based on which we could either have our margin upsized or reduced by 2.5 basis points. And actually we achieved the target, which means that it will be reduced by 2.5 basis points. This will be done at year, and I think it gives a sign of how much Snam focuses and will continue to focus on this type of instrument, trying to combine obtaining better cost, but also increase the size and the scope of our sustainable finance. When it comes to EIB, yes, EIB is a fantastic and very competitive source of funding. Overall, we have EUR 1.5 billion of EIB loans. It's very competitive both in terms of tenure and cost, and we will continue to have an ongoing dialogue with EIB trying to have a pipeline of investment, which can fall under this umbrella. This is done every year. So we have an ongoing dialogue with them, and there may be other CapEx which we will be funding by EIB loan in the course of the year. It's on an asset-by-asset basis, so it's never a basket of not-a-fine funding. It's a CapEx-driven funding. So on every intervention, there is a diligence on their side. And once that is complete subject to usual negotiation, it can become eligible and that's how it works. So it's an ongoing process, which we will continue to try and explore.

### **Operator**

Thank you. And as we have no further questions, I will now hand back to your presenter.

**Alessandra Pasini** Snam S.p.A. - CFO

Thank you, everyone, for your attention and time today.



## **OPERATOR**

And that does conclude the conference for today. Thank you all for participating. You may now disconnect.

## **DISCLAIMER**

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes

In the conference calls upon which Event Briefs are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT BRIEFS REFLECTS THOMSON REUTERS'S SUBJECTIVE CONDENSED PARAPHRASE OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT BRIEF. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2019 Thomson Reuters. All Rights Reserved.