infinis

Generating a Low Carbon future

Our Mission

"Growing Infinis into a more diversified renewable and low carbon energy portfolio, focused around our core expertise and strong platform, to create long-term value and a sustainable future"

Infinis Energy Group Holdings Limited ("Infinis" or the "Group") publishes its half year update for the six-month period from1 April 2020 to 30 September 2020 (the "period").

Overview

Infinis is the UK's leading generator of low carbon power from captured methane and is very proud to be one of the few companies in the UK which prevents significant harmful emissions to atmosphere as a result of its operations, delivering a positive impact on climate change.

The Group operates three divisions across its operational platform - renewable baseload Captured Landfill Methane (CLM), baseload Captured Mineral Methane (CMM) and Power Response (PR). The organic development of our fourth division, Solar, continues to plan. To complement this, a consented 7MW Solar project on an existing CLM site was acquired in June 2020 and will shortly commence construction.

Group Performance

COVID-19 continues to significantly reshape society and the UK economy. Against this backdrop, the resilient and vital role of the Infinis business and operating model continues to be demonstrated and is evidenced by continued strong operational KPIs and financial performance in the period.

At 30 September 2020, the Group had £45.5m of cash resources (30 September 2019: £24.8m) and has appropriate flexibility within its capital structure, including £38m (30 September 2019: £36m) of undrawn RCF on its senior debt facility which runs to August 2023. The Group has consequently not adopted any of the financial support packages provided by the UK Government in response to COVID-19.

Our strategy of continuing to develop and invest in new renewable and sustainable forms of energy remains unchanged and is aligned with the de-carbonisation of the UK power sector.

Financial and Operational Performance

Exported power was marginally ahead of expectations, reducing by 3.8% in the six months to September 2020 versus the six months to September 2019.

EBITDA decreased by £3.5m in the period to £33.1m (six months to September 2019: £36.6m). In the six months to September 2019 CLM benefitted from a one-off £5.2m business rates refunds, adjusting for this the business delivered a £2.6m improvement on a like-for-like basis for the six-month period to September 2020.

Analysis of divisional performance

CLM exported power was 556GWh. As a consequence of improved fixed pricing in the period, a reduction in exported power of 41GWh (-6.9%) was largely offset at a revenue level with reported revenue of £60.5m (-2.9% versus the reported revenue of £62.6m for the six months to September 2019). Gross profit (excluding depreciation) decreased by £4.2m in period, although after adjusting for the prior period oneoff business rates refund, like-for-like gross profit (excluding depreciation) increased by £1.1m.

CMM exported power was 57GWh in the period (six months to September 2019: 73GWh). A revised generation strategy means that 14GWh of equivalent generation has been deferred to H2 FY21 allowing the engines to operate more efficiently at a higher load during the winter months. Revenue for the period was £3.3m (six months to September 2019: £4.3m) with the majority of the £1.0m (-23%) revenue reduction due to the revised generation profile. Gross profit (excluding depreciation) reduced by £0.9m to £1.2m.

PR exported power was 103GWh in the period (six months to September 2019: 75GWh), a marked increase of 28GWh (38%) reflecting a lower natural gas price that facilitated increased run hours in peak demand periods. Revenue in the period was £7.7m (six months to September 2019: £5.9m). Gross profit (excluding depreciation) for the period was £2.0m (six months to September 2019: loss of £0.1m). As well as a favourable gas price there were a number of peak events towards the end of the period which resulted in day-ahead power prices reaching £187/MWh.

Power Markets

Forward power markets recovered over the period following the initial market shock driven by COVID-19 and UK lockdown in March 2020, with liquid markets all recovering by between 25-30% by September 2020. Day ahead and intra-day prices over the period were at record lows as high solar output combined with low demand associated with COVID-19 with some periods of negative pricing in both the UK and European markets.

The Group's progressive hedging strategy meant that CLM and CMM were fully forward sold during the period resulting in revenue and earnings being protected from the market lows. As pricing recovered, a number of trades were completed for all liquid seasons through to W23 at good pricing relative to historical pricing points for these seasons.

COVID-19 impacts emerging in H1FY21:

ROC recycle: Current year (CP19) ROC Recycle is expected to be nil versus a budget of £5.8m. No ROC recycle revenue has been recognised in the six-month period to September 2020 (£2.8m ROC recycle revenue recognised in six month period to September 2019). UK electricity consumption is 6.5% lower in the six months to September 2020 compared to the same period in the prior year. Demand recovery in H2 will be further impacted by the nationwide lockdown in England during November 2020 and it is therefore projected that the minimum demand level to trigger ROC recycle revenue will not be achieved.

BSUoS: As an embedded generator, Infinis benefits from BSUoS until the end of March 2021. Due to the significant additional costs incurred by National Grid in balancing supply with reduced demand, Infinis recognised BSUoS income of £3.8m in the six months to September 2020 (six months to September 2019: £2.3m). The increased level of BSUoS is expected to continue over Q3FY21 although at lower levels.

Stakeholders

Employees

The physical and mental health and wellbeing of our employees remains the primary focus of the leadership team. As an organisation, there has been limited absence through employees contracting COVID-19 or having to self-isolate through close contact with a friend or family member who is displaying symptoms. Minor changes have been made to our working practices during the period to adapt to evolving government guidance to manage the risk of COVID-19 transmission.

Our Health and Safety approach also has been adapted to manage the new challenges presented by this period of prolonged lone working, reduced management supervision and working from home. A number of initiatives have been introduced to ensure managers are further trained for effective remote anagement. In addition, increased companywide focus has been placed on Health and Safety basics, such as safety observations and near-miss reporting.

We remain focused on continual improvement of safe working practices across the organisation and maintaining our excellent health and safety record.

Landowners

Our relationship with Landowners across all divisions is a long-term partnership. Within CLM, we have worked closely with our major waste operators to adapt to minor changes in working practices.

Offtakers

Our Offtakers continue to operate as normal with commercial and back-office functions operating to consistent SLAs to the pre-COVID 19 period.

Suppliers

There remains minimal disruption to supply chain. Major engine part suppliers continue to supply in line with requirements.

It is likely that Brexit will present some additional delays in the transport of engine parts from Europe to the UK over Q4FY21. This is not expected to have an impact to the organisation given the level of engine parts and stock held and also the rolling forward demand forecasts we periodically provide our supply chain.

Capital Resources

The Group's banking facility comprises a £248.3m term loan, and £40.0m revolving credit facility (RCF) of which £38.0m remains undrawn. £208.5m of the term loan value attracts interest at a fixed rate of 3.61% using interest rate swaps. £39.8m of the loan value is at a variable rate of LIBOR +2.35%. There was a notable adverse movement on interest rate SWAPs in the period resulting in a net £1.1m charge to reserves.

Regulatory Update

The regulatory outlook remains stable and aligned with the Infinis' 2020 Annual Report and Accounts:

Triad payments that pass to embedded generators such as Infinis, for power generated at particular occasions of peak demand, are being gradually phased down. This winter will be the third and final year of a three-year phased reduction; and

Following the Targeted Charging Review (released by Ofgem in November 2019) the BSUoS embedded benefit removed from April 2021,

Ofgem has published working papers during the period as it develops possible options for reforms to network access and forward-looking charges for use of networks. Further direction is expected in early 2021.

1) EBITDA is a non-GAAP measure and is defined as earnings before interest, tax, depreciation, amortisation and operating exceptional items (2) The measure of RIDDOR (Reporting of Injuries, Diseases and Dangerous Occurrences Regulations) occurrences for employees and contractors. Reported as the number of instances for every 100,000 hours worked.