

Company Name: Hera
Company Ticker: HER IM
Date: 2020-03-25
Event Description: Y 2019 Earnings Call

Market Cap: 4519.26055233
Current PX: 3.034
YTD Change(\$): -0.87
YTD Change(%): -22.285

Bloomberg Estimates - EPS
Current Quarter:
Current Year: 0.21
Bloomberg Estimates - Sales
Current Quarter:
Current Year: 7139.429

Y 2019 Earnings Call

Company Participants

- Tomaso Tommasi di Vignano, Executive Chairman
- Stefano Venier, Chief Executive Officer
- Luca Moroni, Group Director of Administration, Finance & Control
- Unidentified Speaker

Other Participants

- Unidentified Participant
- Enrico Bartoli, Analyst
- Roberto Letizia, Analyst
- Emanuele Oggioni, Analyst
- Javier Suarez, Analyst

Presentation

Operator

Good afternoon. This is the Chorus Call conference operator. Welcome to the presentation of financial results as at the 31st of December 2019 of the Hera Group. Please remember that all participants are in listen-only mode. After the initial presentation, a question-and-answer session will take place. (Operator Instructions)

Now I would like to give the floor to Mr. Tomaso Tommasi di Vignano, Executive Chairman of the Hera Group. Please, you now have the floor.

Tomaso Tommasi di Vignano, Executive Chairman

Good afternoon. First of all, please accept our apologies. We are late. This has never occurred before. But our Board of Directors Meeting had many items on its agenda. And again, please accept our apologies for being late today. As regards to our presentation, I hope you have already received the corresponding document. And first off, I would like to spend a few words concerning the very serious situation we are currently confronted with, the coronavirus pandemics. Our entire country is struggling, and this is certainly a testing ground for our organization. This is something unprecedented. We have never been confronted with such a situation with such a large impact on our organization.

As you can see in this slide, we don't wanted to be optimistic. We want to be realistic. We reacted very swiftly when the new situation started to arise. And as early as February 21, the crisis management committee met. And on February 24, when the virus had not yet affected any of the areas we operate in, the group put in place crisis management procedures, thus, immediately dealing with the problem.

Now things are on their way. We have launched new measures and procedures. Of course, the situation is very tiring for all of us. And now I would like to illustrate the impact of that -- the coronavirus crisis has had on our staff and personnel. We had 11 employees who tested positive. They're not in a critical situation, though. So 11 employees out of 9,200. On the top of this, we also had preventive quarantine for around 70 employees, and then 130 employees then came back from preventive quarantine. So we're not talking about an apocalyptic scenario. But as you may guess, this had a significant impact on our organization because we had to react extremely swiftly.

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Now a month has gone by since the outbreak of the coronavirus crisis in Italy. And since then, we have been introducing several measures and several procedures to counteract the situation. All our structures and facilities are still up and running. So we are still providing all our services. I know the areas we operate in. We are fully operational. And only a few services have been discontinued. Customer service desks, for instance, have been shut down, which had a direct contact, physical contact with our customers. And a portion of our ecological stations were also shut down.

So these are the differences basically, vis-a-vis, our standard organization. And then, thanks to our experience and going to great length, we are really trying to make sure that all the other services are being preserved. So we have introduced remote working measures in order to reduce contact as much as possible and we reduced the number of interventions that our maintenance teams usually carry out. So this is the current situation. And as many others in Italy, we don't have any visibility as regards the future. So we are trying and doing our best to be prepared to deal with this thorny situation. And again, one month has gone by. We don't have any reassuring data. We don't seem to see the end of this coronavirus crisis. But it's not even the first day. So basically, we know how the new situation looks like. And having said all this, and all these pieces information have already been shared with the other members of the Board of Directors, now we would like to turn to the results of 2019.

In our view, 2019 was a very intense year, but it was also very positive, and we will discuss the figures in a minute. If you'd go to slide two, every single quarter was fairly successful. Every single quarter gave its own contribution to the final results in different ways. So we managed to fulfill the expectations. We basically exceeded the growth expectations we had set ourselves at the beginning of the year where we just had preliminary results and average disposal. As you can see, the two main growth drivers are always the usual ones: organic growth playing the lion's share in this period, and on the top of this, we went to great lengths to carry out M&A operations.

M&A operations are clearly illustrated on page two. And some of these M&A operations took place further down towards the end of the year. They wouldn't have -- they would have had an even more positive impact had they been concluded at the beginning of the year. But what is really important after all is that they have been carried out and that they are giving their good contributions.

In terms of growth in general, we also had smaller M&A operations. And again, organic growth played the lion's share. In the field of energy, we have been pushing a lot in order to further expand our customers' base with an increase of 64,000 new clients. And 60,000 new contracts came from a very promising business area, which is the business area of added value services. Again, 60,000 new contracts which added up to the 700,000 clients, which we acquired during the year, thanks to the integration which took place after the agreement with Ascopiave was assigned. Thanks to this new agreement with Ascopiave, we achieved a premium leading position, 3.3 million energy clients was the final result. So we are now ranking third as operator in the country after the two former incumbent.

In the waste sector, there, we have a very positive trend. Prices' trends went very well. They had an interrupted positive trend. And in the field of special waste, we also derived some benefit from an expansion in terms of planned capacity. We had an operation in terms of biomethane. That was a very sizable operation. And on the top of this, we also expanded the capacity and availability of landfill treatment. As I was saying, we now have 3.3 million customers at year-end. So waste in terms of landfill treatment and then customers base, these are the two main highlights. These are the two main factors we have been focusing on.

We then have a new, if you wish, business area. It's not really new, but it acquired more relevance than in the past. I'm talking about public lighting. There, we tried to secure new long-term contracts. 10 new municipalities signed contracts with us. And we're talking about fairly large cities. In terms of energy, we should also point out that MSD services were quite successful. And there again, thanks to Terna, we're able to seize all the opportunities available in this field, and we did so very swiftly.

Then we managed to enhance the efficiency of the group. We created new synergies. This is part and parcel of our DNA. We created synergies because we had several other M&A operations on the top of the Ascopiave operation, the Ascopiave operation being the biggest one. But we also had some smaller M&A operations in our local territories. And there again, as we are used to, we created synergies and we derived benefits from this M&A operations. So these are

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the most important data as regards our growth. As I said, 2019 is a year we are fully satisfied with.

Let me now turn to some of the figures. In terms of EBITDA, we had a 5.2% growth of EUR54 million. And in a minute, I will be illustrating how this breaks down. We also had some items going out of our portfolio of the net performance is then mirrored in our net profit, which went up by 6.7%. And we also need to bear in mind that we derived some benefits from an optimized tax rate, which went down by almost 1%, vis-a-vis, 2018. We also have some special items concerning the M&A operations and the net profit, which is highlighted in a different color for 2019. As you can see in this slide, we would've been even have been higher had we taken into consideration the capital gains that we derive then from the Ascopiave operation. So it would have been EUR85 million higher had we taken into consideration the Ascopiave operation.

Cash flow generation. There, again, a very good result. Thanks to our cash flow generation, we managed to increase our investments. Investments were increased by 15%. We had more than EUR500 million investment over the year 2019. We, of course, paid out dividends. And again, with the cash we generated, we basically almost covered all the M&A operations. Net debt settled at EUR2.69 billion, EUR500 million more due to all the operations that I have just mentioned and all the investments which we carried out.

Let me now turn to the financial solidity of the group. This was improved. The net debt-to-EBITDA ratio is now in a very reassuring area in light of all the operations, which we had carried out. And even if we consider the figurative debt of the Ascopiave operation, then the leverage would settle at 3.02x, which is perfectly in line with the commitments which we have undertaken.

If you now go to page four, you will see how the EBITDA growth was generated. On the left-hand side, you see the EUR70 million I was mentioning earlier on. So this is a negative result. Due basically to recent developments in the safeguarded clients market, we preserved our prestigious position in several areas where we were awarded four different tenders we participated in. But the profitability level, due to an increase in the competition level, was lower than expected. So EUR65 million less than expected. And this is all right. We were expecting fiercer competition in this field. In the past, we had enjoyed some benefits because we were first ones to take this new direction. And now the situation has changed.

So we had, again, EUR70 million in terms of negatives. Another aspect that contributed to this negative was the end of incentives schemes. We already knew that this incentives schemes would come to an end. And more specifically, this affected too waste-to-energy plant, which had enjoyed such reliefs and benefits in the past. So in terms of growth, again, we really enjoyed a very nice situation, EUR87 million. This is a record figure even for us. And all the business areas have been contributing to this result. More specifically, the energy sector gave a decisive contribution of this final result, electric energy and then the gas sector.

Another important successful factor was MSD. All this element had, again, a positive impact. And the new accounting standards were applied, and all this added up to the final result. IFRS 15 and 16 have now been fully applied, and they lead to EUR30 million due to the application of these two accounting standards. As I said, when it comes to M&A operations, we had one very large M&A operation, one medium M&A operation, which was the acquisition of a landfill in the North of Tuscany; and two smaller acquisitions in our geographical areas, one company operating in the waste sector and then a company operating in the gas sector in the area around Ferrara. As I was saying, all the quarters of 2019 gave their contribution to the final result, which basically took us all by surprise. If you remember, when we gave you a preview of results, we were still talking about preliminary results. But we had been expecting a smaller EBITDA growth even taking into consideration all the negative factors, which have been illustrating to you.

Let me now turn the line to Stefano.

Stefano Venier, Chief Executive Officer

Good afternoon. Let me now turn to page five, and we have a business breakdown analysis. Overall, in 2019, we have a regulated market activities accounting for slightly more than 50%, and the other 3 market activities accounted for 49%.

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It is clear that in 2020, we will have a slight shift. We have a change in the scope of operations. So these two figures will swap their positions. So there will be no major change, but just a swap.

In terms of networks, we had a 3.5-point increase in terms of EBITDA with an overall figure of EUR18 million, which is slightly lower than last year. This is due to the fact that in the area of gas distribution and the electric energy distribution, we no longer enjoyed some of the benefits, which we had enjoyed in the year 2018 in terms of premiums and discounts.

In terms of waste, 2019 recorded a significant growth. We will come to that in a minute. We had the acquisition of Pistoia Ambiente. On the one hand, and we also had the positive development of organic business, in particular, as regards of the waste sector and special waste. In terms of the energy sector, for the first time, we exceeded EUR300 million post or EUR305 million to be more specific. And we managed to achieve this positive result although we lost a portion of the safeguarded clients market benefits, which we enjoyed in 2017 and in 2018.

If we now have a look at the NYMEX of regulated business sectors, we don't see any major differences, vis-a-vis, the first month of the year in the water sector. Again, the new tariff alignments, which had already been envisaged because of tariff caps, have been factored in. We had a growth in terms of the RNG. This accounted for EUR10 million. And then we had the quality of the service and the new connections, so EUR250 million back in 2018, went up to EUR275 million in 2019. As I said, gas distribution remained fairly stable. Here, we would have had a EUR3 million increase in the final result hadn't we had the white certificate negative impact. All the companies operating in this field had to bear costs because of the introduction of white certificates. And these additional costs have basically zeroed the growth, which we would have had.

In terms of electric energy, we had an improvement from EUR47 million to EUR48 million. And this improvement was due to an increase of the efficiency, in general, and to some premiums because of the quality of the service. District heating. We had a stable situation, EUR60 million. Here, we have two opposing effects. On the one hand, bad weather conditions because 2019 was slightly warmer than 2018. As a result of that, consumption levels were slightly lower. On the other hand, we enhanced our efficiency because of the smart TLR project. So this basically allowed us to offset the negative impact of the unfavorable weather conditions. In terms of regulated assets base, RAB, we performed investments. And we achieved EUR1.06 billion in the water sector and EUR1.1 billion in the field of gas. And this adds up to EUR3.2 million overall.

Let me now turn to page seven. This is the waste sector. Here you see the breakdown of all the factors. You will remember that we had -- some of the incentives still exerted their impact in the first month of the year. They accounted for EUR5 million. And then in terms of profitability, Aliplast increased its profitability. The volume of recycled plastics went up. They manage to recycle 73,000 tons out of 100,000 tons treated all together.

In terms of organic growth, we have a net result of EUR10 million. This EUR10 million are the balance between an increase of revenues by EUR20 million and a corresponding increase in costs because a portion of the products to be treated and recycled then have to be transformed into final product. So prices have increased. So our revenues have increased. But costs also increased. So the final net result was around EUR10 million. And then we have the contribution given by the new biomethane plant. While we have to record lower revenues for the sale of electric energy for about EUR5 million. Altogether, we have an overall growth of EUR9 million.

In terms of M&A operations, we have the acquisition of Pistoia Ambiente, which gave a contribution of EUR6 million. EUR264 million for the waste sector, which we break down as follows: EUR191 million, treatment; and recycling activities of EUR40 million; and EUR73 million for collection activities, which went down by EUR1.1 million, vis-a-vis, the previous year. In terms of overall volume, the year, and I'm talking about special waste, the year went to a close with a slight increase, an increase of 60 tons, which means that the overall volume of industrial waste went up to 2.2 million tons. As regards urban waste, we remained at the same level as previous years, i.e., 2.35 million tons.

Let me now turn to the field of energy. Here again, we have the negative effect of the safeguarded clients market. And here, we have some negative items in terms of fair value of EUR165 million, which have almost be offset by sales and commercial activities for gas and electric energy. Margins on the free market in terms of sales have improved by

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around EUR20 million. And here again, we factored in the positive effect of the settlement we talked about in June and in September. And the profitability on the free market of electric energy improved, too. So these are the main drivers of the organic development of sales and trading.

Then we have MSD, which gave its contribution. This has already been mentioned several times. This accounts for EUR23 million. And electric energy services were improved in terms of the numbers of contracts, and the profitability thereof was improved by EUR3 million. With the integration with Ascopiave, our customers base includes now 3.3 million clients. 2.05 million are gas clients and 1.250 million customers are electric energy clients.

As regards the last M&A operation, the Ascopiave operation, this is the last time we talk about it as a separate entity because as of the next conference call, this will be part and parcel of the group. We have the capital gain concerning sale of gas networks. This accounts to EUR30 million. And then we have the revaluation of the stake of EstEnergy, which the Hera Group already had in its portfolio. And in line with international accounting standards, this stake had to be recreated in its value. It's now EUR80 million. We had a decrease in the value of some of the assets of -- minor assets in terms of power generation in order to take fully into account the capacity market changes. And all this add up to a balance for EUR84.9 million, which we recognized under the special items in the profit-and-loss account.

Let me now turn the line to Mr. Moroni, who will shed some light on the EBITDA.

Luca Moroni, Group Director of Administration, Finance & Control

Thank you, and good afternoon. We have been optimizing all the lines under the operating result. We've been concentrating on financial expenses, in particular as regards the issue of the last green bond that was released last July. This allowed us to improve the cost of debt, which settled at 3.5%.

The same optimization was carried out in terms of tax rates. Tax rate settled at 28.3% against the 29.1% of the previous year. Right. We can now resume our conference. I was talking about the positive development of the tax rate, which was optimized by around 1 percentage point. So we fully exploited all the opportunities envisaged in the budget law. So our EPS was EUR0.204 vis-a-vis EUR0.192 which we had in 2018 in a like-for-like scope. The two ROIC -- and ROIC indicators settled at 9.4% and 10.4% so they are in line with the previous year, and they are fairly sizable indicators.

Let me now turn to page 12. We are still talking about cash flow. The operating leverage was around EUR1 billion. EUR787 million is net of the financial expenses and the taxes. We perfectly managed the circulating capital. We only had EUR23 million of cash absorption and provisions accounted for about EUR40 million. We then performed investments, operating investments accounting for EUR430 million. And we generated an operating cash flow of EUR287 million, accounting for 40% more, vis-a-vis, the previous years, I would say, a very good result.

With this EUR290 million, we were able to develop public business activities with investments for -- of EUR100 million. We paid out a dividend. And we basically financed half of our M&A operations. We therefore concluded the year with EUR6.90 billion net financial position, which is a net increase, vis-a-vis, the previous year. And this reflects the impact of IFRS 16, which, as you know, had a accounting impact on the net financial position. If we can consider the Ascopiave operation, EUR583 million, which is the equity value net of EUR20 million cash generation of the companies being now part of our scope. Our net debt is to EUR3.374 billion.

Page 15, you see some credit elements of the net debt-to-EBITDA ratio, has already been mentioned by our Chairman in a like-for-like perimeter. This is 2.48, so that's a slight improvement vis-a-vis 2.5, which we had last year. It's 3.2 if we factor in the debt deriving from the Ascopiave operation. (inaudible) on debt to 29%. I would say this is a record figure, which we achieved as a group. And this also allowed us to present ourselves in a -- with a very sound profile and in a very positive way vis-a-vis the rating agencies. Debt average length is six years. And we have fixed rate for 87% and only 13% of our debt is exposed to risks. But as you well know, rates are very low right now. Committed lines, EUR600 million. And in 2020, we don't have any maturities, any deadlines for bond loans. We just have some minor loans to be repaid. So 2019 comes to an end with very positive results from a financial point of view, from the

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point of view of the solidity of our assets. So we are going through these troubled times ahead of us with a very stable financial solidity.

And now let me give the floor back to the Chairman for the conclusions.

Tomaso Tommasi di Vignano, Executive Chairman

There's not much I need to tell you at this stage. I hope that you will be as satisfied as we are with the way in which we went on with our traditional business and by carrying out some innovative activities. So on the one hand, we have our traditional activities, and we then have some new items which we're taking into consideration for 2019. As Mr. Moroni pointed out, this is proof of the trust that we deserve. And we do hope that market will not be too tense, that the tension on markets in the next few months will not be excessive. And we know we are in a very sensitive situation. And we can't really fully interpret and understand the consequences of the current situation.

In this very first period of the year, we have correctly been reacting to the new situation. And the consequences of the current situation can only be fully appreciated as time goes by. Of course, tension on markets will not be beneficial in this regard.

Having said this, I don't think I have anything else to add, apart from one last indication. Contrary to what we stated in our press release, we decided to go ahead with our General Shareholders' Meeting, taking place on the 29th of April. This is a date that is part of our tradition. So we really wanted to make sure that this meeting can take place on the 29th of April, where we will have the opportunity to illustrate the financial results we presented to you today to present them to the shareholders.

Questions And Answers

Operator

This is the Chorus Call operator. We will now begin the question-and-answers session. (Operator Instructions)

Unidentified Participant

I have three questions. The first one, as the Chairman pointed out, this situation is something that comes as new to all of us. So if you could tell us a bit more how the situation would evolve? So can you still work under normal condition? And what do you think the impact would be on your activities on the 3 areas you made -- operate? Do you see any deterioration in terms of working capital? Or in the field of industrial waste management, do you foresee any worsening of the situation because of the economic situation? If you could expand on this second question? As regards Ascopiave, we have seen some extraordinary changes here, and I think that this is the first time we talk about it. So now I would like to hear your point of view as regards Ascopiave and its activities in general.

Third question. I've noticed that there's been an improvement in terms of net debt. So if you could just give us some of the reasons why net debt has improved? So if you could please confirm what are the underlying elements of this improvement?

Unidentified Speaker

As regards the effects determined by COVID-19 in terms of the execution of the business plan, for the time being, the period in time that was impacted is still limited. As you know, we provide essential public services, so we are often compared to health services. So all the decrees that have been issued by the government certainly provide for the business continuity of our services, and this is precisely what we're trying to do. The decree dated 22nd of March tells

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us of the sector we operate in is allowed to continue operating. And in order to run some of our activities, including some of strategic building sites needed to rely on contractors that are not allowed to continue operating under the current situation in Italy. But again, we can still provide our own services. So this applies to the world of metric management and this also applies to emergency services in the event of the breakdown of a plant.

So if I have to tell you more about the projects we have in place, so we have strategic building sites and massive building sites. In this case, we have 60% to 70% of building sites that are still active. So works have been carried out as regards strategic building sites. 60% of those are fully operating and around 20% are partially operating and another 20% of the building sites are not running for the time being. So this being said as regards our development project. Having said this, in terms of deployment of CapEx on a yearly basis, of course, all this will have an impact on what we are doing. And for the time being, we estimate that the impact on the CapEx will be around 5% to 10%, which accounts for a slowdown of our activities of two to three months.

We're also trying to partially continue the installation of electronic gas meters. I said partially because we have been carrying out such activities where you can install the new gas meters from the outside and you don't need to set foot into the house of people. For any other estimates, it's way too early. We keep monitoring our cash-in data for the time being. We haven't recorded any major default. And vis-a-vis our customers, of course, we have clearly told them that we are available and willing to help them and to postpone the payment of the bills by one month. And I'm referring to those customers that live in those areas that are most effected by the coronavirus. And this may have an impact on our results by about EUR80 million to EUR120 million in March and April. And we do hope that all of these will be offset during the rest of the year.

We don't have any visibility in other areas. So we think there may be changes between mid-April and mid-May should payments continue to be postponed and should bills no longer will delivered by the Italian Post because, again, of the coronavirus. In terms of the business areas we operate in, we are keeping a close eye on two main items, i.e., the sale of electric energy as a commodity. In terms of gas, we are much more exposed in terms of household consumption. So there are no major variations in this regard. And we are a bit more exposed in terms of industrial electric energy supply. Again, we keep a close eye on this on a daily basis. In the first calendar, week 12, we had about 10% decrease. And then this is week 13, and we had a significant contraction. We're talking about 30% decrease of consumption. So we're talking about two weeks out of 54 of the full year. So it really depends on the length in time of this complete lockdown, which was decided upon one week ago.

Again, there are many different interpretations of this scenario. Mostly widespread analysis is a V-shaped analysis, i.e., there will be a bounce and then a recovery after this situation. Then the other topic you mentioned concerns waste. In terms of urban waste, we don't have any major impact. As regards special waste treatment, we haven't recorded any decrease for the time being here. The fact that waste can no longer be exported is helping us. All the waste, it used to be exported into other countries, now has to remain in Italy. And this, again, will be a buffer. This will offset a reduction in volumes in general. And we don't expect any impact on prices in general. That's been said as regards the first question.

The second question concerning Ascopiave. Well, we started also with our integration work in groups. We've been working very hard. And we were very happy in the first two months. In March, of course, we need to work in a different way. We need to work remotely, of course. And we've been concentrating our activities on those building sites where you don't have to carry out activities in the field on the spot, so we are carrying out integration activities. As regards IT networks, we are aligning our organization tools, for instance. We are doing our best in launching new offers in the next few months. But of course, we had to stop in terms of the reorganization of direct sales activities on the territory. This wouldn't be possible right now. So for the time being, I would say that everything is going well, excluding this general slowdown.

Then you asked about Ascopiave. Ascopiave, making Ascopiave as a sort of shareholder, we bought a stake and this stake was aimed at supporting the activities that our company has been carrying out over the years. So we will certainly vote in favor of the slate of -- that better represents us. Then as to the third question, yes, your answer is correct. We improved by EUR50 million and this was due to an increase in the working capital.

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Operator

Next question, Enrico Bartoli of Main.

Enrico Bartoli, Analyst

A few questions. First of all, I wanted to ask you what the impact would be on margins in terms of electricity and in terms of gas given to the new prices for commodities? There are international factors and internal demand is slowing down. So how all this is going to have an impact in terms of purchase prices and in terms of commodities with final customers? And then if you could tell us if you are exposed to a slowdown in electric energy and in gas consumption levels? If you could just shed some light in terms of industrial and then commercial activities? So if you have any visibility in terms of possible slowdown trend?

I assume to understand that for the time being, you haven't recorded any major slowdown as regards special waste. And if the industrial demand is slowing down, then it seems to me that all this has been almost entirely offset, that consumption levels in other areas will be increasing. So if you could just expand on this and tell us a bit more in this regard? And then a more general question, which may sound a bit complicated. As regards the business plan, should the lockdown continue in the next few weeks? If you could just tell us more about the overall impact of this could be on your results? Should the lockdown continue?

Unidentified Speaker

As regards the price of commodities, this is not an entirely negative effect. First, prices that are so low are pushing many industrial customers to, again, sign a new contract for 2021 and even for 2022. And of course, we are providing the full service for this. So this is not entirely negative as a factor. It's a commercial activity so you can carry it out remotely. And all those activities wouldn't be slowed down as commercial activities in general would do if you have to directly sell to customers.

Basically, all this is very intense. And at the same time, we're now structuring the gas purchase portfolio for the next year. And we are, of course, negotiating conditions. And we do hope that we will be deriving some benefits from this in order to make sure that the gas consumption levels we had in the last few months because of the very warm temperatures have determined higher operating costs, and these costs will come back next year. So we needed to reabsorb these costs somehow. As regards electric energy customers, we have a very stringent risk management policy in place. So for all clients that have variable prices, then they have a pass-through. While other customers with a fixed price, then we have hedging facilities in place. So we are not exposed to any major risk. Well, you could consider there's a risk or an opportunity when it comes to a possible spread. Then, of course, volumes is still a topic we need to keep a close eye on.

As I was saying earlier on, in terms of waste, we didn't witness any significant slowdown over the last few weeks. Companies have certainly slowed down their activities in week 11 and 12, but mainly they've been disposing of all the things they no longer use. The closure of borders, which has been in place for two weeks now, has also forced companies to find domestic, national solutions. So that's the first element which we witnessed. So we are counteracting possible volume reductions in this way. But we haven't witnessed any significant volume reductions for the timing. As regards any possible impact on the budget, we have an estimate of about 2% to 3%. This is what we are thinking about. But all this goes beyond, again, the results of the year 2019. Maybe it will reduce our growth. Electric energy volume slowdown is disconnected, but maybe I can ask Jens to draw a graph for you and then he will send it to you. We needed to take into consideration the safeguarded customers market, so they have a different trend vis-a-vis industrial customers. The breakdown is different. Thank you.

Operator

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Company Ticker: HER IM
Date: 2020-03-25
Event Description: Y 2019 Earnings Call

Market Cap: 4519.26055233
Current PX: 3.034
YTD Change(\$): -0.87
YTD Change(%): -22.285

Bloomberg Estimates - EPS
Current Quarter:
Current Year: 0.21
Bloomberg Estimates - Sales
Current Quarter:
Current Year: 7139.429

Roberto Letizia.

Roberto Letizia, Analyst

I wanted to echo the answers that have just been given. So there are low risks in terms of margins and in terms of hedging, if I have correctly understood. What is the impact of a 10% reduction on a yearly basis, if you could expand on this? And if you could just give us some quick update on the first quarter, about the results of the first quarter? So how is the first quarter going of 2020? And then if you could just tell us what the impact of COVID-19 has been on your activities and if you have any visibility on this? If you could just give us some indications in this regard? So what is the expected EBITDA for energy for 2020?

Unidentified Speaker

As regards weather conditions in the first quarter, I don't have the data for March because March has not come to an end yet. So we still have less than one week to go. This chilly week, as Americans would put it, would help us a little bit. February was a very warm month, it is clear. And EUR8 million to EUR9 million in terms of margins went down, and we do hope we'll recover this partially in March. And March, especially the last week, was chillier, was colder than previous years.

As regards the electric energy consumption contraction, 10%, well, should such a situation arise, well, it would be a very desperate situation. 2009, there, we didn't really witness such a big contraction of consumption not even in 2009. So the reply to your question is even more complicated. You would have to have a look at all the other commodities to see what happened. So if you have several volumes contracting, then it means that absorption levels would also contract and all this has an impact on the market. It really depends on the spread that you have between collection prices and treatment prices in terms of waste on a daily basis. As regards maturities and the lines for 2021 to EUR250 million, that's the last portion of a loan which we needed to repay, if I'm not mistaken, by October 2021, so 18 months to go from now.

As regards dividends, things are very easy. We didn't recently changed our dividends recently. We only did that when we presented our business plan. And there, we reasserted our position. We wanted to stick to the logic we have always been adhering to over the years. And as of next year, we will just change the vision, if you wish. And in our business plan, we clearly dictated that there will be a 20% increase of the dividend. So nothing has changed. And I can happily say that because we have just had a good directors' meeting in the run-up to the Shareholders' General Meeting. This is clear? Maybe what I said was not audible.

Roberto Letizia, Analyst

Vis-a-vis the guidance we are all aware of, do you think that the dividend could have been even higher, but you just didn't decide to have a higher dividend because of the well-known COVID-19 situation?

Unidentified Speaker

No, we didn't even discuss about it. The guidance is the guidance that you are aware of. And an increase of the dividend ahead of time was not on the agenda. In 2020, as you know, we wanted to fully complete the Ascopiave integration, and this has an impact on our budget. So we wanted to make sure that the net debt-EBITDA ratio comes back to 3x. And based on this, we developed the curve for dividends for years to come. So this, again, was something very clear for us.

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Roberto Letizia, Analyst

Thank you.

Operator

Next question, Emanuele Oggioni of Banca Akros, please.

Emanuele Oggioni, Analyst

Good afternoon and thank you. Most of the questions I wanted to ask have already been replied to. I would like to have more information as regard the market supply and household consumption levels, especially now that some of -- many different companies have to shut and are on lockdown. As regards the waste sector and as regards the new rules and regulations in place for collection activities, please let us know if this has an impact in terms of fiscal benefits. And what are the facts to be foreseen for the waste sector in 2020? Can waste business be considered as a sort of buffer used to offset and counteract negative impact in other sectors as regards industrial customers, for instance?

And then safeguarded customers market that there was a worsening of the situation, if you could expand on this? And how are you going to counteract this situation on the safeguard market? And if you could tell us more about any provisions and market cap? And then what is the contribution expected in 2020 for MSD activities? If you see, again, a continuation of the trend of the (inaudible) '19?

Unidentified Speaker

As regards urban waste, you know that according to the provisions of the last decree issued by the Italian government on the 22nd of March, it is clear that there will be, again, new rules by the end of the year. So the old tariff system will remain in place. The change will be delayed. So it means that we will have for the next 3 years, again, positive cash effect.

Yesterday evening, a new communication was issued by the area. And again, there are some explanations as regards the implementation of these new rules. We have already provided all the necessary documentation to the local authorities. So we are already doing our homework. And of course, single municipalities, individual municipalities will have to deal with these issues too, and everything will then have to be approved by area. This will take time, and we will keep an eye on this. However, we do hope to derive full benefit from this in terms of waste collection activities accounting to EUR5 million to EUR6 million. So that's our hope.

As regards safeguarded clients market, this is a market with a considerable spread. So our margin is not reduced nor increased by the current situation. The only thing that would change margins, and this is something that we expect, EUR149 million this year, is something connected again to the evolution of the market. This is a market where companies are usually in a difficult position. And many things will change because of the overall general situation in Italy. So from this point of view, then I would have to expect again positive results as regards the safeguarded client market.

And as regards volumes and margins in -- as regards, again, small companies and freelancers, that is very difficult to tell for the time being. We need to wait until mid-April and see the invoicing cycle until then to see if payments are made. Up until the end of February, we didn't really see any major changes in this regard. I hope I have replied to all your questions.

Emanuele Oggioni, Analyst

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Just the last one, the last one about MSD.

Unidentified Speaker

Yes. You're right, I forgot about that question on MSD. Well, given the current scenario with a contraction of volumes, then the MSD is particularly -- is in a particularly favorable context. February and March, things went particularly well for MSD. Last year, this accounted for EUR40 million and a growth of EUR23 million vis-a-vis the previous year. This year, we had foreseen half of the growth of last year, but we're doing really very well.

Operator

(Operator Instructions) So the next question is a follow-up question by Javier Suarez by Mediobanca.

Javier Suarez, Analyst

Sorry for asking another question. I seem to understand that during the presentation that you mentioned a possible increase of the current situation on your business of 2.3%. So that would be my first question. Do you confirm this 2% to 3%? In terms of business plan, you talked about synergies, 400,000 viewers. So if you could just provide more insight into this and add more color to this figure, just to have a more detailed picture. And then as regard the P&L, if you could provide more details as regards depreciation values? Thank you.

Unidentified Speaker

I'm sorry but I didn't really hear the last question. So as regards efficiency, one of the first initiatives that we put in place to counteract this situation was to carry out some activities in-house. So we take into consideration or we factor in, in our analysis, again, an increase of the efficiency because some of the activities which we used to outsource are now carried out internally in-house.

So this is one of the drivers that we are using, one of the levers we are relying on. And this is being done because we wanted to preserve high-quality service levels to our customers and our suppliers, again, have loop holes and have problems. Our suppliers in terms of call centers are no longer able to provide all the services that they used to provide it with. So some of these services are now being provided in-house. And I'm also talking about back-office activities. Again, there, we immediately closed service desks that were open to the public. And we have asked people that used to work front-end to carry out back-office activities.

So going back to your question. So EUR20 million, EUR30 million will be the impact that we are measuring in terms of the current situation. And this will erode a little bit the growth which we had been expecting for the year. And then I'm sorry, but I really didn't hear the third question.

Javier Suarez, Analyst

Between EBITDA and depreciation -- so in the P&L, there's a line between EBITDA and depreciation. If you could just add some color to this line in terms of amortization and depreciation values?

Unidentified Speaker

I unfortunately do not have the financial statements with me, so we'll have to come back to you with the reply to this question.

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Operator

(Operator Instructions) For the time being, no further questions are going to be asked.

Unidentified Speaker

Thank you very much for taking part in this conference call. We will talk again for the presentation of the financial results of the next quarter. And of course, it is very dangerous to try and read into the future. We don't have a crystal ball. So once we have the first quarter data, then we will be able to be more specific in terms of the financial results for the beginning period of 2020. Thank you.

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