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Hawaiian Electric Industries, Inc. NYSE:HE

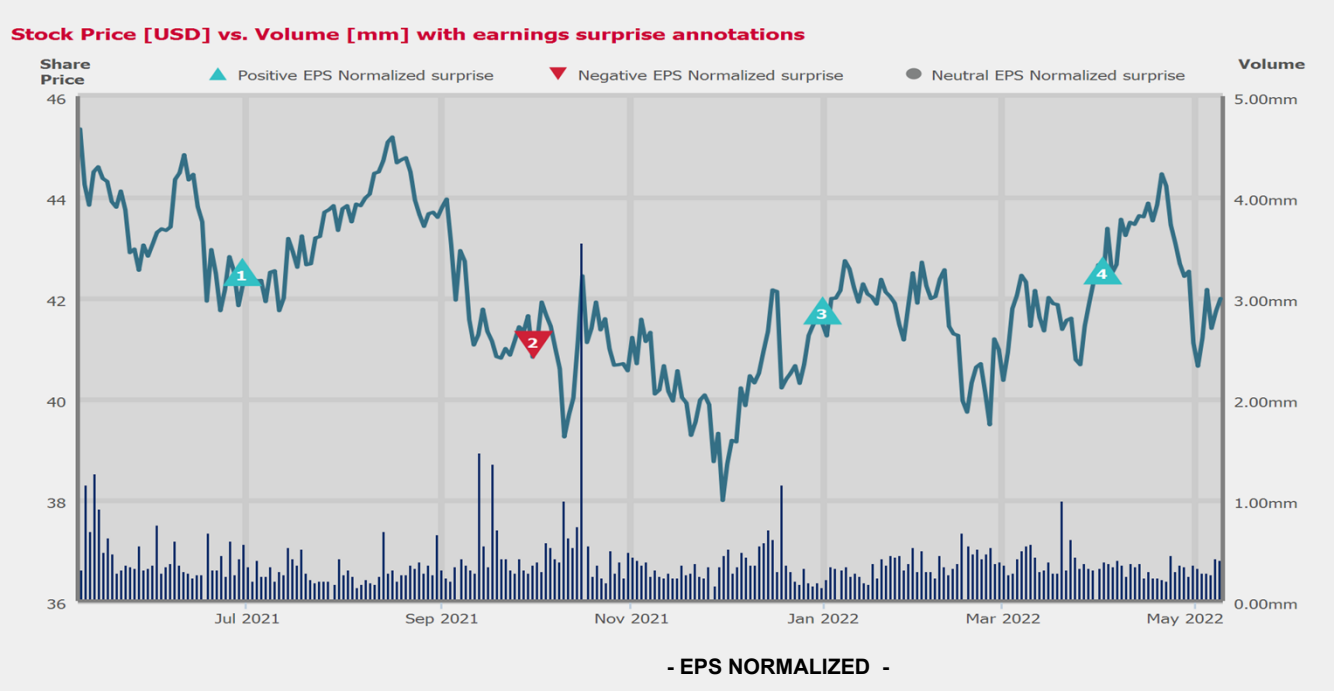
FQ1 2022 Earnings Call Transcripts

Monday, May 09, 2022 8:15 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2022-			-FQ2 2022-	-FY 2022-	-FY 2023-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.44	0.63	40.00	0.55	2.14	NA
Revenue (mm)	735.96	785.07	6.67	672.33	2984.24	NA

Currency: USD
Consensus as of Apr-20-2022 11:16 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2021	0.49	0.58	1 18.37 %
FQ3 2021	0.62	0.58	2 (6.45 %)
FQ4 2021	0.42	0.50	3 19.05 %
FQ1 2022	0.44	0.63	4 40.00 %

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Presentation

Operator

Good afternoon, and welcome to the Q1 2022 Hawaiian Electric Industries, Inc. Earnings Conference Call. My name is Sam, and I will be your moderator for today's call. [Operator Instructions] At this time, I'd now like to turn the call over to our host, Julie Smolinski, VP, Investor Relations and Corporate Sustainability. Julie?

Julie R. Smolinski
Vice President of Investor Relations & Corporate Sustainability

Thank you, Sam. Welcome, everyone, to HEI's First Quarter 2022 Earnings Call. Joining me today are Scott Seu, HEI President and CEO; Greg Hazelton, HEI Executive Vice President and CFO; Shelee Kimura, Hawaiian Electric President and CEO; Ann Teranishi, American Savings Bank President and CEO; and other members of senior management.

Our press release and our presentation for this call are available on the Investor Relations section of our website. During today's call, we'll be using certain non-GAAP financial measures to describe our operating performance. Our presentation contains reconciliations of these measures to the equivalent GAAP measures.

As a reminder, forward-looking statements will be made on today's call. Factors that could cause actual results to differ materially from expectations can be found in our presentation, our SEC filings and in the Investor Relations section of our website.

Now Scott will begin with his remarks.

Scott W. H. Seu
President, CEO & Director

[Foreign Language] Greetings, everyone. Thank you for joining us today. We're pleased with our consolidated first quarter earnings, which represent a 7% increase over the prior year. Each of our businesses contributed to these solid results. The utility is executing well under the new performance-based regulation framework. While it had higher operations and maintenance expenses in the first quarter, those were offset by other items that Greg will address, and we're on track with our full year plan. The utility remains focused on delivering customer value while progressing ambitious climate change action goals.

The bank's results reflect good execution in an improving banking environment. Earning asset yields are starting to improve with rising interest rates. Credit quality remains solid as our state's economy strengthens. And the bank is managing expenses well amid its digital transformation.

Our first quarter results also benefited from the sale of an investment in an electric vehicle charging company, EverCharge, that Pacific Current has partnered with to expand access to charging stations in Hawaii. The partnership with EverCharge will continue. Overall, the first quarter represents a strong start for 2022.

Into the utility. During the first quarter, the utility worked hard to manage the impacts of inflation and supply chain pressures, including higher fuel prices, which are impacting our customers. These dynamics underscore the importance of our focus on affordability, efficiency and providing customers options to manage their bills. Rising fuel costs also highlight the need to continue working together as a state to rapidly reduce our dependence on imported fossil fuels.

Like the rest of the industry, we're seeing impacts to renewable energy and storage projects from inflationary conditions and supply chain and other challenges. While some projects have been delayed and some are no longer moving forward, we've also had successes, including the acceleration of the state's largest solar plus storage project, which is now set to come online in July, several months ahead of schedule.

The challenging macroeconomic environment has led to opportunities to partner with stakeholders to identify solutions together. A great example is the Oahu Powering Past Coal task force established by the governor, which has brought together the parties involved in bringing projects to fruition to identify and address issues. Discussions are underway to create similar processes on other islands in the state.

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Such partnerships will be all the more important as we scale up efforts to meet our collective goals. In addition to the over 400 megawatts of energy and roughly 2.5 gigawatt hours of storage scheduled to come online by year-end 2024, we're pursuing numerous additional procurements and programs to grow renewable energy storage and grid services resources on our systems. This includes 8 shared solar RFPs, representing more than 120 megawatts combined and Stage 3 RFPs for Hawaii Island, Oahu and Maui, which combined, are seeking up to 980 gigawatt hours of energy and 800 megawatts of capacity, including firm renewable generation on Oahu and Maui.

We continue to advance grid services RFPs and distributed energy initiatives, including continued expansion of rooftop solar and additional incentives to add storage. We're working to scale up other key components of our renewable energy transition as well, including the expansion of Phase 1 of our grid modernization program to full smart meter deployment. Our electrification of transportation work continues progressing with broad support from stakeholders. Most recently, we launched our e-bus charging pilot to provide make-ready infrastructure for eligible bus.

So far, PBR is providing a stable, more predictable regulatory framework to operate within as we transform our system. The process to develop additional PBR performance incentives is nearing conclusion. Hearings were held April 26 and 27, with post-hearing briefs this month.

Turning to the bank. ASP continues to perform very well. It remains a high-quality bank with a low risk profile, solid credit quality and low-cost funding base. Rising interest rates and the improving Hawaii economy bode well in terms of bank profitability and loan growth opportunities. We're closely monitoring potential economic impacts posed by inflation, high fuel costs and string supply chains, but to date remain positive about Hawaii's overall economic picture.

Given ASB's asset-sensitive balance sheet, margin is expected to expand as interest rates continue to increase. ASP is executing well on its digital transformation, successfully implementing large projects such as its new customer relationship management system, enabling it to deepen its customer relationships and continue delivering exceptional personalized service across digital and in-person platforms. Customer adoption of online and mobile options have enabled the bank to optimize its branch footprint to best meet customer needs.

Now I'll hand the call over to Greg, who will be retiring from HEI July 1 to pursue another exciting opportunity. I'll comment further on that later. Now Greg will review our financial results and outlook.

Gregory C. Hazelton
Executive VP & CFO

Thank you, Scott. Hawaii's economy has been improving as COVID-19 has become less disruptive and tourism has strengthened. Hawaii's indoor mask mandate and domestic travel restrictions expired in late March. Domestic visitor arrivals have remained strong in the end March were nearly 10% above the same month in the pre-pandemic times, although international visitor arrivals are still down sharply. Japan is traditionally our strongest source of international visitors and we're just starting to see Japanese tourism pick up. Travelers from Japan are projected to reach 40% of 2019 levels by year-end and reach or exceed pre-pandemic levels next year.

Hawaii unemployment has continued to steadily improve. It was 4.1% in March, down from 6.6% in March of last year and down markedly from the peak of nearly 24% in April 2020, although we still lagged the national average of 3.6 today. Hawaii's housing market remains very strong. The March median sale price for single-family homes was up 21% from last year, and the condo market median sale price up 14%.

Overall, while we're watching inflation and supply chain dynamics closely, we have a positive outlook for Hawaii's economy.

Turning to our financial performance. We are pleased with our consolidated first quarter results with consolidated net income and EPS growth of 7%. The utility is executing well in its first full year under PBR and the bank is starting to see benefits from rising interest rates and the improving economy. Pacific Current contributed a nonrecurring $0.06 after-tax gain from the sale of its investment in EverCharge an electric vehicle charging company that it has partnered -- has a partnership with to provide expanded access to charging stations here in Hawaii. As Scott noted, that partnership will continue.

Consolidated last 12 months return on equity improved 90 basis points versus the same quarter last year, and the utility return of 8.1% was in line with expectations despite higher O&M expenses during the quarter. As anticipated, bank

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earnings were down from last year, given the large negative provision credit for losses in 2021 after significant provision expense in 2020 during the onset of the pandemic.

On Slide 7, we show the major variances across our enterprise to give the consolidated picture compared to the first quarter of last year. As you can see, lower bank net income versus last year was primarily driven by a $3.3 million negative provision for credit losses compared to an $8.4 million negative provision for credit losses in the first quarter of 2021. The quarter's negative provision reflected continued favorable credit trends and the paydown of the nonperforming loan and credit upgrades, primarily in the commercial real estate portfolio.

Net interest income of $59 million was up versus $57 million in the first quarter of 2021, primarily due to higher average earning assets, driven by increased liquidity from continued strong deposit growth as well as higher investment yields. Noninterest income was down primarily due to lower mortgage banking income as loan volume and profit margin on the sale of loans have decreased in the rising interest rate environment. The bank saw slightly higher noninterest expenses. However, that was primarily due to a pension accounting change that resulted in lower pension expense in the first quarter of 2021. Overall, the bank continues to manage expenses well even as it invests in its digital transformation.

On the utility side, net income increased 7%, primarily driven by higher annual revenue adjustment or ARA revenues and major project interim recovery revenues, lower heat rate penalties with the Hawaii Island heat rate reset and the timing change in monthly allocation of revenues for Maui. These items offset higher O&M expenses during the quarter, which were primarily driven by more generating facility overhauls and maintenance performed and higher transmission and distribution maintenance expenses as well as higher bad debt expense. The higher bad debt expense was due to last year's deferral of COVID-related bad debt expense and the impact of this year's higher fuel prices on customer bills.

For the full year of 2022, we still expect the increase in utility O&M to be within the levels provided by the inflation adjustment in the ARA mechanism. Utility capital investment for the quarter was approximately $57 million, consistent with the first quarter of last year, but lower than anticipated due to several factors, including supply chain disruptions and customer work delays stemming from COVID, pending PUC decisions on 2 battery storage projects, the denial of recovery under the exceptional project recovery mechanism for a substation project, which will now be recovered through the ARA, and the suspension of grid modernization Phase 2 docket as the utility focus on full smart meter deployment under Phase I.

We still expect full year capital investment of $350 million to $400 million, even as we anticipate supply chain disruptions and customer work delays stemming from COVID. We expect those delays to improve throughout the year. We are working closely with our suppliers to ensure we have timely flow of materials and services to execute on our work. We've also identified work that can be quickly executed if planned projects are delayed. Certain larger projects are scheduled to ramp up in the second half of the year, including the Waena Switchyard project and a substation project recently approved by the PUC.

Finally, we expect that the expansion of our Phase 1 grid modernization project to start full smart meter deployment strip. -- to a full smart new meter deployment strategy will contribute to our CapEx for the year. Our 3-year CapEx forecast includes resilience investments to address climate change and hardened certain assets. We expect to file our multiyear resilience program by the end of the second quarter.

Focusing on utility earnings driver for the rest of the year, although O&M was up this quarter and we expect higher generating station maintenance and bad debt expense pressures to persist the rest of the year, we still expect O&M to be within the allowance afforded by the ARA mechanism. We are forecasting net rewards this year from performance incentive mechanisms driven by the grid services procurement PIM and an improved outlook for the interconnection PIM.

Supply chain and COVID-related disruptions have impacted completion times for our contracted renewable projects, and the PGB geothermal plant on Hawaii Island has yet to return to full capacity. As a result, we now expect no meaningful contribution from the RPSA PIMs this year. Although we expect higher sharing with customers under our fuel cost risk-sharing mechanism due to increasing fuel prices, we expect some offset from the heat rate reset mentioned earlier.

Turning to the bank's financial performance on Slide 10. ASB's net income growth in the quarter continued to reflect growth in earning assets, as started -- as we started to see higher asset yields following the Fed rate increase in mid-March. Net interest margin remained stable at 2.9% as the benefits of higher rate environment were offset by lower PPP fees, continued low cost of funds and increased liquidity from higher customer deposits.

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Looking at the drivers of bank performance for the rest of the year. The yield curve has risen dramatically this year, with another 50 basis points of Fed rate increase last week. The market now expects the Fed funds rate to be over 2.5% by year-end. We expect to eventually see increased net interest margin benefits from the higher rate environment. However, in the near term, we expect that to be offset by lower PPP fees this year. We anticipate some quarter-over-quarter net interest margin volatility as the remaining $1.5 million of the paycheck protection program fees are recognized, but our net interest margin guidance for the year is unchanged.

While we and the rest of the industry have seen slowing residential mortgage production with rising rates, the strengthening economy is expected to present other loan growth opportunities. We're seeing good activity in home equity lines of credit, our pipelines for commercial, commercial real estate and personal and secured lending look promising. And we recently initiated a modest purchase of solar and home improvement loans from a legal provider with potential for further high-quality loan growth in this area.

We're expecting mid-single-digit loan growth and low single-digit earning asset growth for the year. We plan to redeploy funds from the investment securities portfolio into our more strategic and higher yielding loan portfolio over time. At the same time, we are expecting deposit growth to moderate given the rising rate environment.

Today, we are reaffirming utility, bank and consolidated EPS guidance for the year. Note that for purposes of the consolidated and holding company guidance, we are excluding the onetime $0.06 per share gain on the sale of the preferred equity interest in EverCharge that was recognized at Pacific Current in the first quarter. We still expect utility EPS in the $1.68 to $1.78 range, despite higher O&M in the first quarter. We are reaffirming bank EPS guidance in the $0.59 to $0.68 range, and given the positive catalyst, the potential to be at the upper half of that range.

At the holding company, excluding the first quarter gain on sale of Pacific Current, we expect full year EPS in the $0.28 to $0.30 loss range, consistent with our plan for the year.

On a personal note, you may have noted my announced retirement from HEI as of July 1 as part of a planned career transition. My time with HEI has been tremendous, and I'm grateful to have been part of the company's progress and accomplishments over the past nearly 9 years since I first joined the company. It's been a privilege working with all of you throughout my time at HEI. I've thoroughly enjoyed our time together and look forward to crossing paths again in the future, including with some of you this week in New York.

With that, I'll now turn it back to Scott to give his closing remarks.

Scott W. H. Seu
President, CEO & Director

Thank you, Greg. As you've noted, this is your last earnings call as our CFO, perhaps not as a shareholder, you can be on a future earnings call. So we've greatly valued your leadership rig over all these years. You've contributed so much to our corporation finance, strategy, risk and now ESG. So we are truly excited and we wish you well as you go on to your next exciting career adventure. Now you are still with us through the end of June, and we really appreciate that. I appreciate that to allow for our transition here. But notwithstanding that we still have you for a few more weeks. I'll close with this because I highly doubt that your future opportunity will close with a few Hawaiian [indiscernible] here.

As we say here in Hawaii, Greg, first off, [Foreign Language], which means our wholehearted gratitude to you. [Foreign Language], which we want you to take good care, be well. And then finally, of course, [Foreign Language], which means we will see you later. This is not completely goodbye.
So with that, we look forward to your questions.

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Question and Answer

Operator

[Operator Instructions] Our first question comes from the line of Julien Dumoulin-Smith of Bank of America.

Julien Patrick Dumoulin-Smith
BofA Securities, Research Division

And Greg, I wish you all the best here, and I'm sure we'll be connecting with you shortly regardless. So in fact, actually, maybe the first question, let's just go for that. Any thoughts on the CFO search here, any comments or preferences for internal or external and when we may get a bit more clarity on that front? And again, maybe that's not to you, Greg, but to the wider team. But again, I wish you the best.

Scott W. H. Seu
President, CEO & Director

Julien, this is Scott. Well, for one thing, for sure, this will be an orderly transition. So I'm working with input from our Board as well as the senior management team in terms of the process. We will be seeking the best CFO for the team here to take us forward. I won't go into much detail other than to say we will be going through an orderly process and considering a variety of -- a number of candidates, both internal as well as external.

Julien Patrick Dumoulin-Smith
BofA Securities, Research Division

All right. Fair enough. I'm keen to see you guys bring up here. You've got quite a -- you've got to preserve quite a legacy here. Maybe secondly and more substantively, has there been an increase in late payments and nonpayments in recent months just in light of this elevated fuel cost environment? And how does this shift generation dynamics in the state and conversations that both could be constructive and more difficult?

Shelee M. T. Kimura
President, CEO & Director

Julien, this is Shelee. So on the high bills and how that's impacting us in terms of collections, we're actually seeing an improving trend in collections relative through the pandemic period. So through the second half of last year and continuing through this year, we're actually seeing improved collections. We've also stepped up our collection efforts as well now that we're out of the pandemic period. The other part of your question was? Sorry, I've forgotten the next part.

Julien Patrick Dumoulin-Smith
BofA Securities, Research Division

Yes. Just what is the opportunity that exist, right? Given the elevated price curve, in theory, this could make economic a host of different opportunities back to you, whether in the form of owned opportunities and/or contracted?

Shelee M. T. Kimura
President, CEO & Director

Got it. Yes. So I mean, we started this clean energy transition in large part because of the volatility of oil prices and exposure that we as a state and we as a company and our customers have because of that. So it just reinforces the importance of the path that we're on to accelerate the renewable transition that we have and to increase and, I guess, confirm our resolve for doing that, not just for ourselves but others in our state.

Julien Patrick Dumoulin-Smith
BofA Securities, Research Division

Got it. Excellent. And then just, Greg, maybe a quick 1 here, if you don't mind. Just when you talked about net interest margins here, you talked about that remaining relatively stable despite the backdrop that we're in today. Can you talk about how that might annualize here, especially as you think about those PPP fees roll off here into subsequent periods? What that kind of grossing up number might eventually transition to here as you were out of some of those bad guys year-

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over-year? And then maybe how this maybe fits in with your expectations, I think, for the full year of having 4 rate hikes as part of your at least guidance assumptions?

Gregory C. Hazelton
Executive VP & CFO

Yes. And as I mentioned earlier, we believe we're on track with our guidance, maybe to the upper -- towards the upper half of the range overall. And we have reaffirmed the guidance ranges around that particular component. What we're seeing is some volatility on a quarterly basis because of the PPP fee recognition dynamics. But maybe, Dane, why don't -- Dane or Ann, feel free to elaborate on the dynamics overall.

Dane A. Teruya
Executive VP & Chief Financial Officer

Yes. So this is Dane Teruya, CFO. we do expect net interest income to be slightly higher in 2022 compared to the prior year period. Like Greg mentioned, we are seeing the benefits of the higher rate environment and that -- but that's having an offset of the lower PPP fees that we actually realized in the prior year. So we're thinking it's slightly higher. But obviously, we're watching the environment to see if that actually comes to fruition.

Gregory C. Hazelton
Executive VP & CFO

So we are -- we do have an asset-sensitive balance sheet. And over time, we'll see the benefits of that pricing through.

Dane A. Teruya
Executive VP & Chief Financial Officer

Yes, correct.

Operator

[Operator Instructions] And there are no additional questions waiting at this time, so I'll hand the call back over to Julie and the management team for closing remarks.

Julie R. Smolinski
Vice President of Investor Relations & Corporate Sustainability

Thank you, everyone, for joining us today. And certainly, if you have any additional questions after the call, please reach out, our Investor Relations information is available on our website. And we'll see a number of you in New York later this week. Thank you, everyone, and have a great rest of the week. Thank you, Greg and the rest of the team here. Take care.

Operator
That concludes the Q1 2022 Hawaiian Electric Industries Earnings Conference Call. Thank you all for your participation. You may now disconnect your lines.

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