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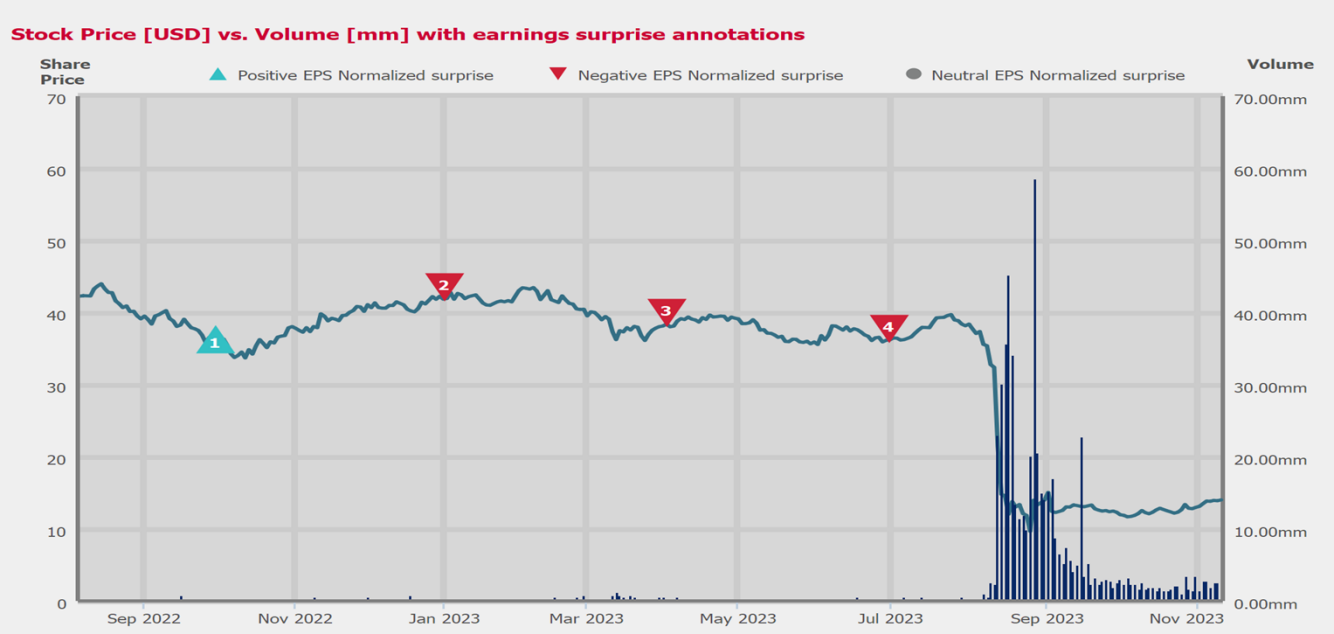
FQ3 2023 Earnings Call Transcripts

Thursday, November 9, 2023 9:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2023-			-FQ3 2023-	-FY 2023-	-FY 2024-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.55	NA	NA	0.54	2.03	NA
Revenue (mm)	748.54	NA	NA	858.36	3460.64	NA

Currency: USD
Consensus as of Oct-31-2023 12:56 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2022	0.54	0.57	1 5.56 %
FQ4 2022	0.55	0.52	2 (5.45 %)
FQ1 2023	0.53	0.50	3 (5.66 %)
FQ2 2023	0.55	0.50	4 (9.09 %)

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Call Participants

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Scott Deghetto
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Presentation

Operator

Good day, everyone, and welcome to the Hawaiian Electric Industries Third Quarter 2023 Earnings Call. Today's call is being recorded. [Operator Instructions]

I would now like to turn the conference over to Mateo Garcia, Director of Investor Relations. Please go ahead, sir.

Mateo Garcia
Director of Investor Relations

Thank you. Welcome, everyone, to HEI's Third Quarter 2023 Earnings Call. Joining me today are Scott Seu, HEI President and CEO; Scott Deghetto, HEI Executive Vice President, CFO and Treasurer; Shelee Kimura, Hawaiian Electric President and CEO; Ann Teranishi, American Savings Bank President and CEO; and other members of senior management.

Our earnings release and our presentation for this call are available on the Investor Relations section of our website. 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.

Today's presentation also includes references to non-GAAP financial measures. You should refer to the information contained in the slides accompanying today's presentation for definitional information and reconciliations of historical non-GAAP measures to the closest GAAP financial measure.

Now Scott Seu will begin with his remarks.

Scott W. H. Seu
President, CEO & Director

Aloha kakou, and welcome, everyone. Given the August wildfires that impacted our customers and communities, our discussion today will be different from our usual earnings calls. I'll start with an overview of what we're doing across our companies to reinforce our commitment to serving our communities for the long term. Shelee Kimura will then provide an update from the utility on our response in rebuilding efforts. Scott Deghetto, who started as HEI's CFO on October 1, will then walk you through the quarter's financials and provide an update on our guidance.

It's been 3 months since the tragedy of the August 8 wildfires forever altered the lives of so many of Maui's and Hawaii's residents. The tragedy is still fresh for us, and the scale of the loss is difficult for our hearts and minds to process. We have friends, family, neighbors and employees on Maui, who have experienced loss and pain on a scale that no one ever should.

One of Hawaii's greatest strengths is our ability to work together. We have a concept here, which we call laulima, meaning many hands working together, and that is what it will take for our state to get through this and emerge in a position of strength. Yesterday, Governor Josh Green announced a multiphase initiative to support Maui's recovery, protect our communities against future extreme weather events and ensure that, as a state, we can attract the capital needed to keep our communities safe and our state on the path to a sustainable future.

The first phase is focused on providing financial support for families who have lost a loved one and those who are severely injured in the Maui fire. Payment will be offered on an expedited basis, providing an alternative to a lengthy legal process and the costs associated with it. Those who choose to participate will waive their ability to get compensated again through litigation related to associated claims.

The state of Hawaii, County of Maui, Hawaiian Electric and Kamehameha Schools have agreed to see this fund as part of the One Ohana initiative. Over $150 million has been raised to date, and Hawaiian Electric will contribute up to $75 million of the total. Hawaiian Electric's contribution will be funded by insurance, not customers. This is the start of a constructive and collaborative process.

The next phase is intended to support property owners and businesses who have been severely impacted by the fire, followed by statutory and regulatory changes to be proposed in early 2024 to protect Hawaii consumers and businesses from climate risks. We look forward to working with the Governor, the County of Maui, Kamehameha Schools and others in our communities to help address the many tragic impacts of the Maui wildfires. Additional details will be provided in the months ahead.

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As a result of this late-breaking development, we will be delaying the filing of our 10-Q to early next week. Separate from the events on August 8, the fundamentals of our businesses remain strong. While we had utility equipment damage and lost the ASB branch in Lahaina, both our utility and bank have made the necessary adjustments to continue serving the people of West Maui at a time when they most need us. Our recovery and restoration efforts have required close collaboration with the community, and this coordination will remain crucial going forward.

As many of you know, we took prudent actions during the quarter to reinforce our financial strength. We recognize that our decision to suspend the quarterly cash dividend impacts many of you, especially those who rely on the dividend as an important source of income. This was not a decision we took lightly. We believe it was the right decision to support our ability to be a strong partner to our communities and empower a thriving future for Hawaii.

Toward that end, Hawaiian Electric is reexamining and updating its near- and long-term capital expenditure plan to further mitigate the risks of extreme weather events. This is a priority for us, and the work is ongoing. I know there is a lot of interest in the causes of the fire, and our community deserves answers. Hawaiian Electric and others are working to gain a full understanding of what happened before, during and after the fire, particularly as we advance efforts to figure out what we need to do collectively to keep our communities safe.

We know that the litigation process is top of mind for many of you. And I can tell you that as of November 7, Hawaiian Electric has been named as a defendant in 64 lawsuits by plaintiffs claiming losses related to the August 8 windstorm and wildfires. HEI has been named in 65. Many of those lawsuits also named other defendants, including the County of Maui, the State of Hawaii, private landowners and developers and telecommunications companies.

We will vigorously defend the litigation, and we intend to contest both causation and negligence. Most of the lawsuits are in the State Circuit Court for Maui County. We will need to file our responses to the first lawsuits with the court by November 17, and we will then need to file our counterclaims against other defendants by January 19 of next year. Each of those dates is subject to extension or change by the court, but that's what we have currently.

The first trial date is scheduled for October 21, 2024. Lawsuits have also been filed on behalf of shareholders, alleging losses from a decline in the stock price and claiming that the HEI Board of Directors has breached its fiduciary duties. Those cases are on different paths and have been tendered to our separate D&O insurance carriers.

Turning to the slides. Our core operations have remained strong, while we work alongside others in recovery and rebuilding efforts. On a consolidated basis, third quarter earnings per share were $0.37 for the quarter, net of about $0.19 of wildfire-related costs. Excluding these costs, we earned $0.56 per share for the quarter. Scott Deghetto will speak to the quarter's financials in more detail shortly.

A few brief updates on the utility and bank operations during the quarter. Our utility performed well despite working through the challenges of restoring power to our Maui customers following the wildfires. We've requested deferral treatment of windstorm and wildfire-related expenses. And we've asked the PUC to issue a decision on an expedited basis by the end of the year.

Last week, we reached a stipulated settlement with the consumer advocate, paving the way for a PUC decision. The final award group selection and announcement under the Stage 3 RFP, which we've updated you on each quarter this year, has been delayed by a little over a month given the events on Maui. And for Oahu, Hawaii Island and Maui's variable generation portion, the utility will announce the selection of the final award group on December 1. Proposals for the firm generation portion of the Maui RFP are due in January of next year.

Turning to the bank. ASB continues to be in a strong position to support our customers and community with a strong capital position, excellent credit quality, lending capacity and ample liquidity. Customer deposits are safe, and there is no risk to customer deposits as a result of legal claims related to the wildfires. ASB's deposit base remained stable and was 77% insured and 87% insured or fully collateralized as of quarter end. The deposit base remains majority retail at 84%. We have not seen meaningful deposit outflows as a result of the events on Maui.

ASB remains focused on supporting teammates, customers and community members affected by the events of August 8 and is committed to helping Maui recover. The bank has donated nearly $150,000 to support Maui relief efforts and is offering waived ATM fees as well as 90-day forbearance and deferment for commercial and consumer loans. Customers are able to apply for an emergency personal line of credit up to $5,000. I'm also proud to say that ASB teammates have contributed numerous volunteer hours to support the Maui community through donation drives, cleanups and fundraising activities.

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In summary, our core operations remain strong across the enterprise and we continue to be well positioned to serve our customers and community. I'll now turn the call over to Shelee Kimura, President and CEO of Hawaiian Electric, to provide detail on the utilities recovery and response efforts.

Shelee M. T. Kimura
President, CEO & Director

Thank you, Scott. Aloha, everyone. I'll start by echoing Scott that our hearts ache for the many people who have been affected by this horrible tragedy on Maui. I have spent much of my time over the last several months on Maui and have seen the devastation in Lahaina firsthand. I know I speak for the entire Hawaiian Electric team when I say that we will stand with the Maui community to help recover and rebuild for however long it takes.

Since August 8, over 400 employees have been assisting on the ground, alongside first responders, FEMA, and other federal, state and county agencies to assist in the recovery efforts. Our team has shown unwavering dedication in helping our communities on Maui. Power has now been restored to 99% of customers who lost electricity in West Maui and Upcountry Maui. Collaborating with the state, Maui County, Maui Emergency Management and other county officials on the path forward for Lahaina and Maui is a critical priority for us.

As an example, Maui emergency management officials have asked us to start replacing poles and other electrical equipment that was damaged in and around Lahaina. This involves installing temporary poles, transformers, power lines and other equipment that enables us to provide safe and reliable power while long-term community-driven plans are developed for Lahaina and its future energy needs.

We have been keeping our utility regulators well informed on restoration efforts. And as Scott mentioned, we have filed a request to defer expenses related to the wildfires. We expect to work in coordination with the PUC as we continue our restoration work and further strengthen our grid's resilience to impacts from climate change and extreme weather.

The risk of wildfires was only one of a number of Hawaii's unique mix of risks identified through our resilience planning efforts. Hawaiian Electric first began developing its wildfire safety strategy in 2019 and continues to adapt it to address the elevated risks in Hawaii. Hawaiian Electric is focusing its efforts in areas identified by the State of Hawaii as being at-risk for wildfires.

The 3-phase safety strategy starts with immediate actions, including expanding the segments of our system to immediately turn off power if a fault or disturbance is detected on a circuit in an elevated risk area. The power stays off until crews visually confirm that it is safe to restore power. The second phase encompasses some of the work that will be done with the $95 million in federal funding from the U.S. Department of Energy under the Infrastructure Investment and Jobs Act, which contributes half of the capital for the $190 million grid resilience plan that we filed in June 2022. This is subject to PUC approval.

The plan includes investments to strengthen critical transmission lines to withstand extreme wins, bolster distribution lines serving essential community facilities, hardened targeted utility poles, enhanced vegetation management that falls under the utility's purview and deploy devices to help prevent and respond to wildfires. As Scott mentioned, we are updating our capital expenditure program to further harden our system.

We are working in partnership with others to evaluate our resilience and wildfire defense strategies as risks evolve We are doing that work now by developing Hawaii-focused solutions to threats posed by climatological events like the one we experienced on August 8, solutions that are tailored to the mix of geologies, topographies, climate and community needs that are unique to the islands we serve.

The launch of the One Ohana initiative that Scott spoke about is a step forward in this regard. While it is still early days, we see this as the start of a constructive and collaborative process that could lay the foundation for work we need to do to improve and harden the grid and better protect Hawaii from extreme weather events going forward. I'll also highlight that a working group of the state legislature recently issued a draft report on wildfire prevention actions that could take shape as legislation in the coming months.

The reports, conclusions and recommendations aligned with Hawaiian Electric's own analysis and action steps described in our wildfire safety strategy, including development of best practices on prevention and ignition during extreme weather conditions and prioritizing undergrounding lines and fire risk hazard areas. We will continue to work closely with our legislators as well as regulators, the communities we serve and others, to develop and implement statewide strategies to keep our communities safe and ensure nothing like the events of August 8 ever happens again.

I'll now turn the call over to Scott Deghetto, who will provide detail on the quarter's financials.

Scott Deghetto
Executive VP, CFO & Treasurer

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Thank you, Shelee. I'll start with our results for the quarter on Slide 6. We earned consolidated net income of $41.1 million and EPS of $0.37 for the third quarter. This included $20.4 million or $0.19 per share of wildfire-related expenses. And excluding those expenses, core net income and EPS of $61.5 million and $0.56 compared to $62.1 million and EPS of $0.57 for the third quarter of last year. Utility net income included $10.4 million of windstorm and wildfire-related impacts, bank net income included $6.3 million and holding company and other segment net income included $3.8 million.

Our consolidated last 12 months core ROE remains healthy at 10.4%, excluding wildfire impacts. This is down slightly from 10.5% last year due primarily to last year's gain on sale recorded at Pacific Current and this year's higher holding company loss and lower bank earnings. Utility core ROE was up 20 basis points to 8.3%, excluding wildfire impacts, and bank core ROE on an LTM basis was up 220 basis points to 16.4%, excluding wildfire impacts. The higher bank ROE reflects the impacts of higher interest rates to bank AOCI, which reduces shareholders' equity.

On Slide 7, we show major variances across the enterprise compared to the third quarter of last year. On the utility side, we saw higher ARA and MPIR revenues, higher fossil fuel cost risk-sharing revenues and higher AFUDC from increased CapEx. These were offset by $17 million in higher O&M, $10 million of which was related to the Maui windstorm and wildfires. These expenses included legal, outside services and consultant costs. The remaining $7 million O&M increase was due to higher transmission and distribution expenses, higher customer support costs and higher overhaul costs.

On the bank side, lower net income was primarily due to variances in provision for credit losses, noninterest expense and net interest income, partially offset by higher noninterest income. The higher provision for credit losses was primarily due to additional credit reserves related to the Maui wildfires, and $5.9 million of the $9 million variance in provision was wildfire-related. ASB's credit exposure in Maui is approximately $742 million, with 95% of those loans secured by real estate. The provision for credit losses for this portfolio includes reserves relating to the expected economic disruption brought on by the wildfires resulting in added credit risk.

The higher noninterest expense of $4.8 million included wildfire-related expenses of $2.7 million as well as higher compensation benefits expenses of $1.3 million. The $2.7 million of wildfire-related noninterest expense included $1.3 million of professional services costs and about $1 million of other extraordinary expenses related to the destruction of our Lahaina Bank branch, which was a leased location.

The lower net interest income was primarily due to higher interest expense from increased wholesale borrowings and certificates of deposit and lower interest and dividends on investment securities. The higher holding company and other segment net loss was primarily due to lower Pacific Current performance and the $3.8 million of after-tax wildfire-related expenses mentioned.

Turning to Slide 8. Given the uncertainty stemming from the August 8 wildfires, we are not providing full year 2023 EPS guidance at this time. We will revisit our ability to provide guidance as we develop better clarity into potential impacts related to the Maui wildfires. I will address how we are thinking about near-term liquidity as we know this is top of mind for many of you.

With the downgrades to utility and HEI credit ratings from all 3 rating agencies, our capital markets access is constrained. We ended the previous quarter with a higher cash position as we had prefunded the November $100 million utility maturity earlier this year, and as a result, had considerable cash on the balance sheet as of June 30. The drawdown of the HEI and utility revolvers following the wildfires provided $370 million of immediately available cash.

We also suspended HEI's dividend, which represents about $40 million of cash quarterly. We believe these were prudent and measured actions. The revolver draws and dividend suspension have created significant liquidity runway as we work through the timing and potential impacts of litigation. As of the end of the third quarter, the holding company and the utility had $127 million and $275 million of cash on hand, respectively.

In closing, I want to acknowledge what a challenging 3 months this has been for all of our stakeholders, including our shareholders, many of whom are part of our communities here in Hawaii. We wanted you to know that we are resolved to continue taking the right steps to remain a financially healthy enterprise best positioned to support the needs of our customers and the state of Hawaii.
And with that, let's open up the call to questions.

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Question and Answer

Operator

[Operator Instructions] We'll take our first question from Mike Lonegan with Evercore.

Michael B. Lonegan
Evercore ISI Institutional Equities, Research Division

So obviously, you spoke about the runway you have with your liquidity position. You said you're reexamining and updating your capital program to harden the grid. You talked about resiliency. I was just wondering, how should we think about your maintenance level of spending? Is that like the ARA-approved level? And what would be on top of that, that you're planning in terms of capital spending?

Scott W. H. Seu
President, CEO & Director

Mike, this is Scott Seu. I'm going to ask Shelee if she can comment on -- or actually, I'm sorry, I'm going to ask Paul Ito, Hawaiian Electric CFO, if he can comment on that.

Paul K. Ito
Senior VP, CFO & Treasurer

Yes. So Mike, thanks for the question. So our typical maintenance spend is somewhere in the range of $300 million a year. As you know, we're prioritizing spend on -- we've always been spending on resilience in wildfire, but obviously, we're going to be accelerating some of that. We also mentioned that we have IIJA funding that will be part of the mix as we go forward here.

We're currently in the process of establishing our 2024 CapEx budget, so I don't have anything to report at this time. But typically, our budget process runs through the end of the year, and then we report to the Board next year. But again, we will be prioritizing wildfire-related type investments, and we think it's the right thing to do. We've been doing it, but we're just going to start accelerating that program.

Michael B. Lonegan
Evercore ISI Institutional Equities, Research Division

Great. And then I have one follow-up. Again, it looks like you have some runway with liquidity. Just wondering, is there anything you could say about whether you're pursuing asset sales? Like if the bank is a candidate or on a smaller scale Pacific Current? And then if you are doing that, any anticipated challenges to closing such a transaction?

Scott Deghetto
Executive VP, CFO & Treasurer

Yes, Mike, it's Scott Deghetto. At this point, we just are not going to speculate on any of those potential options.

Operator

We'll take our next question from Julien Dumoulin-Smith with Bank of America.

Julien Patrick Dumoulin-Smith
BofA Securities, Research Division

Excellent. Best wishes to you and the employees and the impacted customers here, and welcome Scott as well. Look, just coming back to the core plan here, obviously, you talked about prioritizing spend and accelerating some of the CapEx. Can you talk about just where you stand today given the pro forma cash balances, what your cash flow profile looks like through the course of next year given that outside spend?

Can you give us any kind of further clarity on just sort of status quo with that accelerated spend, how long that cash could last given without tapping capital markets or debt capital markets further? Again, I get that's a difficult question, but I just wanted to ask it here at the outset. Whatever you can offer.

Scott Deghetto

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Executive VP, CFO & Treasurer

Yes. And I think, Julien, at the end of the third quarter, as we previously said, the holding company and utility had $127 million and $275 million of cash on hand, respectively. We believe that, that provides us with a good level of runway at this particular point in time.

Julien Patrick Dumoulin-Smith
BofA Securities, Research Division

Excellent. And then when you think about the state's actions, obviously, there's a number of things moving already here. Can you comment at all about any potential backstop elements or other wildfire-related avenues being pursued by the state that could help bolster and backstop your liquidity and your ability to invest here, if you will?

Scott W. H. Seu
President, CEO & Director

Yes, Julien, at this stage, it is still early. There's a lot more discussions to be had, including with the state. One of the things that we have mentioned or was mentioned in the announcement of -- by the governor yesterday, was working together to see what can be done here in Hawaii to provide greater coverage, looking at various options, which would not only provide for the resilience of Hawaii, but also make sure that the customers are protected and the businesses in Hawaii remain financially strong. So there's a lot more detail still being -- to be worked.

Julien Patrick Dumoulin-Smith
BofA Securities, Research Division

Got it. And if I can be a little bit more specific here. When do you expect wildfire reports here? And what's the statute of limitations to get those in as well, right, in terms of some of the liabilities?

Scott W. H. Seu
President, CEO & Director

Julien, just to clarify, are you asking about utility filing wildfire mitigation plans?

Julien Patrick Dumoulin-Smith
BofA Securities, Research Division

Well, I was thinking more in the context of wildfire reports on just the status of the actual -- the Lahaina fire, specifically, right, in terms of the documentation around those -- that fire -- and then separately, the statute of limitations for liabilities and when we'll see that statute expire, if you will?

Shelee M. T. Kimura
President, CEO & Director

So Julien, this is Shelee Kimura. We plan to file with the PUC report about the August 8 incident. I don't have a timing on that. That work is still ongoing. But that's about all I can say right now.

Julien Patrick Dumoulin-Smith
BofA Securities, Research Division

And there's no specific statute that you'd be looking to in terms of when claims need to be filed by? Or that's ambiguous still?

Scott W. H. Seu
President, CEO & Director

Yes, Julien, we'll have -- I think that's -- it's a legal question, I'm sorry. We'll have to get back to you on that one. But in general, again, as I talked about earlier, the pathway forward using the court system, that will play out. And like I mentioned, the first trial is not scheduled until October of next year. There will be continuing discussions for sure between parties, but that's about all I can say right now.

Julien Patrick Dumoulin-Smith
BofA Securities, Research Division

Got it. All right. Fair enough, guys. I'll leave it there. You guys take care.

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Scott W. H. Seu
President, CEO & Director

Yes, thank you.

Operator

[Operator Instructions] We'll take our next question from Paul Patterson with Glenrock Associates.

Paul Patterson
Glenrock Associates LLC

Just wanted to follow up on Julien's questions. And I apologize if I missed this, what is the total amount in the suits that's being sought from those 65 or so suits that have been filed? What are the damages that they're asking for?

Scott Deghetto
Executive VP, CFO & Treasurer

Paul, this is Scott. At this time, there are no specified monetary amounts in the lawsuits.

Paul Patterson
Glenrock Associates LLC

Okay. And then with respect to the program, which you guys are funding $75 million -- or the insurance companies are filing $75 million, where does that leave your insurance coverage for the remaining -- how does -- let me put it this way, including that, what is the level of insurance coverage that you guys have liability that could be applied potentially for the damages?

Scott Deghetto
Executive VP, CFO & Treasurer

Yes. So we have $165 million of liability insurance. So if you just simply take the $75 million and subtract it from the $165 million, that would leave $90 million of additional coverage.

Paul Patterson
Glenrock Associates LLC

Okay. And with respect to the program where this alternative to litigation program, when would people -- what is the cutoff period for people to apply under that methodology?

Scott W. H. Seu
President, CEO & Director

Yes. The details are still being worked on that, Paul. The governor statement indicated that once you get through more details of the program design and the launch that participants could perhaps start to receive their compensation second quarter of next year.

Paul Patterson
Glenrock Associates LLC

Okay. And then the 10-Q timing, I apologize if you guys did mention that, I guess it's delayed. When is the ETA on the 10-Q?

Scott W. H. Seu
President, CEO & Director

Yes. We would expect that early next week. And the reason really was due to the governor's announcement yesterday.

Paul Patterson
Glenrock Associates LLC

Okay. Great. Much appreciated, and hang in there, guys.

Scott Deghetto
Executive VP, CFO & Treasurer

Thank you, Paul.

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Scott W. H. Seu
President, CEO & Director

Thank you.

Operator

And there are no further questions at this time. I'd like to turn the call back over to Scott Seu for any additional closing remarks.

Scott W. H. Seu
President, CEO & Director

Thank you. As we've said before, our overarching objective is to remain a strong, financially healthy enterprise. Hawaiian Electric, American Savings Bank played very critical roles here in Hawaii, and it's important that they continue their service to our customers, communities and to Hawaii.

The utility is focused on working with the Governor and other parties to uplift the people of Lahaina and Maui and to do what's needed to make all of Hawaii stronger and more resilient against extreme weather events. American Savings Bank is strong and secure and continues to serve its customers as well.

So with that, I just want to thank all of you. Mahalo to all of you for joining us today.

Operator
Thank you. And that does conclude today's presentation. Thank you for your participation, and you may now disconnect.

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