Power utility EPS Liquidity on Shaky Ground

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To what extent will this public company succeed in having the positive balance in the next three years will depend on the inflation increase, the percentage of billing, foreign exchange and credit risk.
Electric Power Industry of Serbia plans to continue positive operation in next three years, up to and including 2019.

That implies that the revenues are higher than expenditures by EUR 133.6 million this year, and in 2018 by EUR 196.4 million and in 2019 by EUR 203.6 million, according to the consolidated business plan of this public company.

Such results are desirable, primarily because of the constant complaints by the Fiscal Council related to operation and delay in the restructuring of this public company, and therefore, the President of the Council, Pavle Petrovic has recently repeated that EPS now achieves profit, but the investments are higher than depreciation, which is why this system is collapsing. The debt of the company amounts to 1.1 billion euros and is doubled compared to 2009.

According to the plan, EPS will spend the most money on employees this year, around EUR 514.3 million, EUR 243.1 million on purchasing electricity and EUR 321.9 million on depreciation.

On the other hand, the electricity billing should fill EPS budget to a great extent. The planned profit is EUR 1.8 billion, while the sale of coal for industry and mass consumption would encash about EUR 40.2 million.

Consolidated business plan also includes the risk related to company liquidity, which may cause a large outflow of cash for financing the planned investments.

To what extent the business plan will be implemented depends on the market risk, i.e. the volume of demand and the electricity price, the supply - demand ratio, as well as problems in the supply of gas.

EPS also relies on the foreign exchange risk, because each percentage of growth of dinar exchange rate increases the costs of operation for around EUR 3.2 million per year.

There is a concern of interest rate risk, since most loans have variable interest rates, and each of their increase has a negative impact on planned financial stability of EPS.

Each percentage of billing reduction is decreasing the inflow of cash by about EUR 16,1 million per year. The inflation rate higher than expected would jeopardize the positive operation and the power balance.

Because each percentage of unexpectedly higher inflation leads to an increase in operating costs of EPS by EUR 8.0 million dinars per year.

Likewise, each increase in the percentage of electricity losses reduces revenues by about EUR 12.1 million, while only one 10 days extension of overhaul in thermal power plant "Kostolac" reduces profit by about EUR 6.8 million dinars per year. At the same time reduction of coal production by only five percent in MB "Kolubara" would decrease revenues by around EUR 33.8 million.

The key external risk is the uncertainty in terms of Eurozone economy growth which has a direct impact on the demand and market prices. Other risks are related to dynamics of economic reforms and fiscal consolidation measures, according to three-year consolidated statements of EPS, adopted by the Board of Directors.