



## **AYGAZ Q1 2021 Financial Results Conference Call**

Thursday, 6th May 2021 17:00 TR Time

### **Conductors:**

***Mr. Gökhan Dizemen, Chief Financial Officer***

***Ms. Şebnem Yücel, Finance and Risk Director***

***Ms. Selin Sanver, IR Manager***

OPERATOR: Ladies and Gentlemen, thank you for standing by. I am Maria your Chorus Call operator.

Welcome and thank you for joining the AYGAZ conference call and Live Webcast to present and discuss the First Quarter 2021 Financial Results.

At this time, I would like to turn the conference over to Ms. Selin Sanver, IR Manager and Mr. Gokhan Dizemen, CFO.

Ms. Selin Sanver, you may now proceed.

SANVER S: Maria thank you very much. Good afternoon, and welcome to our Earnings Webcast for the First Quarter 2021.

We are here together with our Finance and Risk Director, Şebnem Yücel and our CFO, Gökhan Dizemen. After the call, you can access the transcript on our website.

I would like to remind you that our presentation and the Q&A session might contain forward-looking statements that reflect the company management's current views with respect to certain future events. Although it is believed that the expectations reflected in these statements are reasonable, they may be affected by a variety of variables and change in underlying assumptions that could cause actual results to differ materially. Neither Aygaz nor any of its Directors, Managers, or Employees, nor any other person shall have any liability whatsoever for any loss arising from use of this presentation.

Now, I will start with a summary of the market and operational highlights, then Mr. Dizemen will talk about the financial overview, and at the end, as usual, we will have time for your questions.

On Slide #1, let's start with the key highlights for the first quarter of 2021. Now, that it has been more than a year since we first included the terms of COVID-19 and the pandemic in our earnings releases, starting from Q1 '20. We have come along 1/3<sup>rd</sup> of 2021 and the pandemic is still here.

Under these circumstances, according to Energy Markets Regulatory Authority, in short EMRA, EMRA's February report, Turkish cylinder gas and autogas demand contracted by 3% and 21% respectively in the first two months of the year. Aygaz market shares improved for both of the segments and we sustained our market leadership.

When it comes to our sales volumes in Q1, cylinder gas sales are 4% higher year-on-year, due to higher domestic consumption, whereas autogas sales are 8% lower due to the ongoing limitations with regards to COVID-19 pandemic. Consequently, Aygaz domestic retail sales are down by 4%. However, thanks to trading volumes and exports, our total sales volume grew by 33% year-on-year.

In terms of financial highlights of Q1, regarding the commodity price, we see an upsurge that works in favor of Aygaz. March Sonatrach LPG price is 33% higher compared to December 2020 figure, which creates an inventory gain for Q1 of 2021.

We were able to improve our gross profits and together with the inventory gain they had their positive effects on our operating level profitability in Q1. Finally, our financial debt increased due to a temporary increase in net working capital. Gökhan Bey will be sharing more details regarding financials.

Now, let's take a look at the key highlights for Aygaz market share and Turkish LPG market on Slide #2. According to EMRA's February report, the total Turkish LPG demand for the first two months of 2021 is down by 18% year-on-year, where the previous worst-case scenario before the pandemic was only a flat LPG demand in Turkey.

Our cylinder market share is 41.6% and autogas market share is 21.8%, which enables Aygaz to carry the leadership flag for the last 60 years now. We witnessed market share improvements by 1.1 and 0.2 points for cylinder and autogas respectively. In terms of total sales, which include bulk gas sales, our overall market share is 26%.

Moving on to Slide #3, the first quarter's domestic sales volume is 215,000 tons, and 4% lower year-on-year, where wholesale, export and trading volumes reached 320,000 tons with an increase of 81% year-on-year. Accordingly, our total sales volume reached 535,000 tons and it's 33% higher year-on-year.

Q1'21 cylinder gas sales are 4% higher on the back of a base effect where commercial and industrial consumption of cylinder gas sales contracted sharply in Q1 '20 with the start of pandemic related limitations.

Regarding the autogas sales volumes, we see that our monthly autogas sales were 20% higher year-on-year in March and in line with our program. This was after the meager sale volumes of January and February. We see that a snowballing numbers of COVID-19 cases in Turkey led more people to use their private cars.

Additionally, with the easing of pandemic measures, such as announcements of new normal conditions according to different cities and partial termination of lockdowns starting from the beginning of March, they all caused progress in autogas demand. However, a regression can be expected in April and May with the current lockdown. Regardless, we are keeping our sales volume expectations for 2021.

Moving on to Slide #4, we can see the previous quarters for comparison. The wholesale sales where Aygaz acts as the supplier of other LPG distributors are 66,000 tons and down by 15% year-on-year in Q1 due to lower demand in the market.

The main game changer in Q1 was the trading sales volume contribution of 139,000 tons of Aygaz UK. We should keep in mind that there was no such impact on Q1, '20. Aygaz UK trading activity generated a turnover of US \$76 million.

LPG exports and transit sales constitute a significant portion of our company's overseas sales revenue where a total of \$64 million revenue was obtained. It reached to 116,000 tons and it's up by 16% year-on-year in Q1.

Now, let me give the floor to our CFO, Mr. Dizemen for the financial highlights.

DIZEMEN G: Thank you, Selin. Welcome to our earnings webcast for the first quarter of 2021. We have all started this year by sharing the same expectation that it will be the end of global COVID-19 pandemic. In this challenging period, at Aygaz, we are putting all our efforts to our businesses and I'm pleased to tell you that it has been a quarter where we were able to sustain and even improve our profitability in our core LPG distribution business. We were able to increase our gross profit and operating profit in the first quarter of 2021, both quarter-on-quarter and year-on-year basis.

Let us start with the graph that displays the Sonatrach LPG prices on Slide #5. As you all know, this is essential in terms of Aygaz's inventory valuation. After closing December 2020 at 406 US dollars per ton levels, January LPG price came up to 489 US dollars per ton with an increase of 20% on a monthly basis. This sharp increase in Sonatrach prices generated the largest portion of the inventory gain of 35 million Turkish lira recognized in Q1, '21. Following this price hike in January, February and March prices also increased by 3% and 6% respectively on a monthly basis. As a result, March Sonatrach LPG price reached to 538 US dollars per ton, which is 43% higher year-on-year, while it is up by 32% compared to 2020 year end levels.

Moving on to Slide #6, we see the summary of our Q1,'21 financial results with year-on-year changes. Our quarterly revenue reached to 2.9 billion Turkish lira, up by 31% year-on-

year mostly due to higher sales volumes with the contribution of Aygaz UK trading volumes and exports.

Higher exchange rates is the other component of this revenue increase since global LPG prices are all denominated in US dollar. Q1, '21 gross profit is realized at 271 million Turkish lira, almost three times of Q1,'20 gross profit and up by 5% quarter-on-quarter basis.

Gross profit in the current period includes an inventory gain of 35 million Turkish lira while we incurred inventory losses in the amount of 98 million Turkish lira during the first quarter of last year due to sharp decline in the prices at that period.

Now, we move on to operating profit on Slide #9, we see that our operating profit reached to 117 million Turkish lira and it is up by 31% quarter-on-quarter. In line with our enhanced gross profit and operating profit, Aygaz's Q1 '21 EBITDA including other operating income and expense is 159 million Turkish lira up by 21% quarter-on-quarter.

On Slide #11, let us have a look at contributions from our investments that are accounted under equity pick up method namely EYAŞ through which we hold shares of Tüpraş and Entek, Koç Group's power generation company.

In Q1 '21 EYAŞ and Entek have contributed minus 82 million Turkish lira and 19 million Turkish lira respectively to Aygaz's consolidated financial result.

Even though the total contribution from investments accounted under equity methods have improved compared to the first quarter of 2020, it is still a loss and this deteriorates Aygaz's consolidated financial results significantly at profit before tax and net profit levels.

As a result of this negative contribution coming from EYAŞ, Aygaz recorded a net loss of 11 million Turkish lira despite it's better performance at gross and operating profit levels.

Moving on to Slide #13, our net debt increased by 334 million Turkish lira to 938 million Turkish lira as of the end of March 2021, compared to year end figure. This increase in net debt position stems mainly from the corresponding increase in net working capital. We will cover this rise in net working capital in upcoming slides.

Our net financial debt to EBITDA multiplier is hovering around 1.6 and this ratio implies a healthy balance sheet and an ample financing room for Aygaz to fund it is new investments.

On Slide #14, we have provided our total financial debt and gross cash figures. Total financial debt increased by around 200 million Turkish lira compared to last year end. We continue to preserve our strong cash position in order to support our prospective liquidity needs including dividend payments, loan repayments and capital injections to our subsidiaries.

As you can see on the pie chart on the right side of the slide, 98% of our total debt is denominated in Turkish lira. As part of our financial risk management policies, we always target to



keep a neutral FX position after taking into account our LPG inventories as a natural hedge due to the FX linked pricing mechanism.

Slide #15 summarizes Aygaz's net working capital figure. Our net working capital increased by 300 million Turkish lira compared to the end of December to 545 million Turkish lira. This increase resulted from Aygaz UK operations. Due to the bad weather condition in the USA during February, Aygaz UK had to deliver one of its LPG cargo late which was purchased from their supplier in Texas. This has created a temporary rise in trade receivables.

It may be worth mentioning here that the relevant trade receivables of Aygaz UK are fully secured by letters of credit and do not constitute any credit risk on our balance sheet.

And finally, moving on to forwarding looking statements on Slide #16, we keep our sales volume and market share guidance for 2021 without making any update. Given their sales volume ranges at 285,000 to 295,000 tons and autogas sales volume ranges at 700,000 to 730,000 tons, and our cylinder market share is expected to be between 41% to 43%, our autogas market share is expected to be in between 21.5% to 22.5%.

Now, I want to provide some updates regarding our Bangladesh investment and our new cargo business. Let us start with Bangladesh and our new joint venture, United-Aygaz LPG on Slide #17. Right after the signing of the shareholders agreement, we appointed the CEO and CFO of the joint venture as of February 2021 and they have started to work in Dhaka in

March. In line with the initial Business Plan, the first LPG facility investment will start in Chittagong which is the largest port city of the country and export- import hub of Bangladesh.

The preparatory initial work has already started on the field regarding the first phase of our Chittagong LPG facility investment which will include 2 sphere LPG tanks, 1 bullet LPG tank and cylinder filling systems & equipments.

Construction of the 2 sphere LPG tanks at our Chittagong facility is planned to be completed in the last quarter of 2022. However, we target to start our cylinder filling and sales operations in the last quarter of this year by using the bullet tank investment in the facility. Meanwhile, United-Aygaz executive team is working on the organizational structure, dealer network, market research and branding alternatives.

We envisage a total CAPEX of \$25 million for the first phase of our Chittagong facility investment. You may remember from our previous calls and public disclosures that our total planned CAPEX in Bangladesh over the next five years is around \$150 million.

On Slide #18, the next slide, I also want to share the most recent updates on our cargo business under our recently established subsidiary Aykargo.

In terms of the organizational structure, assignment of CEO and n-1 level of employees have already been completed at Aykargo. As we mentioned before, Aykargo will mainly focus on B2C segment in the fast growing e-commerce business. As a part of

this business strategy, Alternative Delivery Point contracts which are also called as PUDO or pick up drop off points have been signed with around 1,300 Aygaz dealers, to increase the accessibility of Aykargo. Also, 2 transfer centers and 2 distribution centers have been rented in Istanbul.

Looking at our key milestones at Aykargo ahead, first of all, we target to start our Istanbul operations within this month in May, with 2 transfer and 2 distribution centers, and we also plan to rent 3 additional distribution centers across Istanbul in the upcoming months.

By September 2021, this year, it is also planned to start operation in seven large cities including Ankara, Antalya, Izmir, Adana, Bursa, Trakya Region and Konya. And finally, in the first quarter of 2022, we aim to complete our expansion to 81 cities across the country and become a nationwide cargo player.

I think this concludes my presentation today. Thank you for your patience and now we can take your questions, if any.

## Q&A

OPERATOR: Ladies and gentlemen, there are no further questions at this time. I will now turn the conference over to management for any closing comments.

SANVER S: Okay. So, since there are no questions, we hope everything was clear for everyone. Thank you all so much for joining us today.

DIZEMEN G: Thank you. Bye-bye.