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Corporate Participants

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Presentation

Operator
Ladies and gentlemen, welcome to Aygaz Second Quarter 2019 Financial Results earnings conference call and webcast. I will now hand over to Ferda Erginoğlu, CFO, Şebnem Yücel, Finance Manager, and Selin Sanver, IR Manager. Sirs, please go ahead.

Selin Sanver
Welcome and thank you for joining us this morning on our first earnings webcast.

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.

I will start with a summary of the market and operational highlights, then I will hand over to Mr Erginoğlu for the financial overview. At the end, we will have time for questions.

Let's start with the key highlights for Turkish LPG market. According to the LPG Market Industrial Report published by Energy Market Regulatory Authority, the cylinder gas market has tightened by 5% year-on-year in the first five months of 2019, whereas the autogas market was in line with previous year's figures with a limited contraction of 0.8% year-on-year. The total LPG demand for January and May period together with bulk is 1.6 million tons and 2% lower than the past year.

In terms of market share, Aygaz continued its leading position in all segments of the market. However, effects from profitability focusing sales strategies can also be seen. Our cylinder LPG market share as of May is 41.1% down by 0.5 points year-on-year. Autogas market share is 21.3% and 1.4 points lower than the previous year. As of the end of June 2019, total LPG sales reached 1 million and 16 thousand (1,016 Thousand) tons and our company achieved a consolidated revenue of TL 5 billion and 96 million (5,096 million TL). Aygaz cylinder LPG sales are 146 thousand tons and autogas sales are 336 thousand tons,that sums up the domestic retail sales of 501 thousand tons together with bulk sales. LPG exports and transit sales constitute a significant portion of our company's overseas sales revenue, and have reached 351 thousand tons up by 20% compared to last year, and 161 million USD revenue was obtained for the six months of 2019.

Now, let's look at the yearly changes in Aygaz sales volumes. Starting with the cylinder LPG segment, the six months cumulative sales were 7% lower than the last year. The main reasons stand out to be lower commercial sales due to worsening household income and purchasing power, continuation of natural gas transition in locations where cylinder gas consumption is strong, and finally, our company's choice to remain relatively unresponsive to the price competition in the market in line with our profitability priority. Aygaz's six months cumulative autogas volumes are down by 6% compared to last year. This can be explained by the lower demand due to the economic slowdown in a market where price sensitivity of the consumers is very high and our cautious sales policies towards our deals aiming to manage trade receivables and risks.

In this environment, Aygaz Q2 total sales are higher by 6% compared to last year, thanks to the international sales that were up by 40% year-on-year. This increase in the exports and transit trade segment is mainly due to the spot sales realised in June. On the other hand, wholesale sales were lower due to more national LPG distribution companies starting importing for themselves. While the reason of contraction in volumes is parallel with the ones that I mentioned for six months figures, the expected decrease in Sonatrach price affected some portion of the sales negatively in June.

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

Ferda Erginoğlu
Hello, welcome to our first webcast. I would like to start with LPG-Brent world prices chart, this is a very important chart to explain our inventory change and loss differences.

If you see the first half of 2018 and if you compare it with the first half of 2019, it was the sort of opposite of each other. The first quarter of 2018 has seen a decline in Sonatrach price, which is the basis for our price mechanism in Turkey, and then the second quarter has seen an increase.

Whereas in 2019, the Sonatrach price increased in the first quarter and then decreased in the second quarter, thereby causing inventory loss.

In the next page, I would like to give you quarter two sales change. Our quarter two 2019 sales has been TL 2.7 billion, which is 24% higher than quarter two 2018, due to the price changes, and the reason for the price changes is devaluation in Turkish lira, as you may recall. There is also slight volume increase because of our transit export sales.

On the next page, for the gross profit, I think the most important thing to mention is the differences in inventory gain and loss. In Q2 2018, the inventory gain was, as I explained during the chart presentation, was TL 51 million, whereas in Q2 2019, due to decrease in Sonatrach price, inventory loss was 20 million, so the difference between two quarters in Q2 2018 and Q2 2019 was TL 71 million, this is the variance between two quarters. If you compare the first half of 2018 and 2019, the change has been TL -39 million, so this sort of explains why our gross profit differs so much.

As to the operating profit, it was TL 54 million in the second quarter of 2019 and the decline as opposed to Q1 2019 was, again, due mainly to inventory loss because of the changes in the Sonatrach prices.

For the net profit slide, the reason why the Q2 was so much different than Q1 2019 was because of our investments accounted under the equity method. EYAŞ has shown a loss in the first quarter whereas in the second quarter, it recovered. There is about TL 120 million difference between the first quarter and the second quarter and also there is a 40 million difference in the operating profit. With the other small differences our second quarter net profit has recovered considerably.

For the Entek side, well, Entek operates with eight hydroelectric power plants and one natural gas site being planned in Kocaeli, whose capacity was reduced to 97 MW, together with the other impacts that we incurred a TL 14 million impairment due to this reduction in capacity in Kocaeli. About 53% of 265 megawatt hydroelectric power plants are based on YEKDEM, YEKDEM is Renewable Energy Sources Support Mechanism Price, which is 7.3%, therefore, it is pegged to the U.S. dollar and because of increase in U.S. dollars, because of increase in hydrology as well as swap pricing, Entek's results has improved considerably. As a result, it contributed 30 million and 24 million in Q1 and Q2 2019 respectively. There is a considerable increase compared to 2018.

Our EBITDA numbers are in parallel to operating profits, so there is not much to say about that. As for our net cash position, I think we have to mention this IFRS 16 effect on our numbers. This 818 million includes about 118 million lease liabilities because of the IFRS. This is not a financial lease, this is as a result of IFRS 16, so if you exclude that, our net cash position or net debt has improved in comparison to the last quarter.

Our working capital is slightly above than the last quarter, because of one cargo up, one cargo down, so there is no story about that, so from time to time our working capital changes because of these – arrival of the cargoes, payment of the cargoes and the like. For our debt value, we're trying to manage our debt profile with the longer maturities. It has been difficult to do so in the last one year, but meanwhile we are trying to hold at least one year's liabilities in cash to be liquid in this market, and [audio] passing the income statement and balance sheet summaries. As for the guidance, we will not change the guidance. We are keeping those numbers the same, so that's about it from my end. Thank you very much.

Question and Answer Session

Operator
Our first question comes from Koray Pamir, ÜNLÜ Securities. Please go ahead.

Koray Pamir
A couple of questions if I may. First of all, to double-check if I understand correctly, the inventory impact in the second quarter alone on the gross profit was 20 million. Could you double-check that? Secondly, can you provide an update on the Bangladesh prospect, when should we expect a milestone in the investment? Thirdly, is there a very broad net debt to EBITDA ratio that you are aiming for, for the next 12 months? The fourth quarter of last year inflates that figure, so it should come down, but is there a particular figure that you are aiming for?

Ferda Erginoğlu
Let me give you exact figures for the inventory effect. In the first quarter of 2018 it was minus 15. In the first quarter of 2019 it was positive 17, a difference of 32 million. For the second quarter of 2018 it was 51 million positive inventory gain and in the second quarter of 2019 it was minus 20, so both numbers are reversed. In the first half of 2018 it was totalled as 36, minus 15 plus 51, so it was positive 36, whereas in the first half of 2019 it was minus 3, so the difference is 39 million. I haven't mentioned, but we are trying to hedge our propane stocks, 20,000 tons, and luckily we are getting good rates on that, but unfortunately in the case of butane, it's not easy to do so because of the illiquidity of butane, Sonatrach butane prices, but we are trying to find counterparties to do that in the near future. Hopefully, if we can, if we can get good pricing, we will try to hedge, so we don't like these discrepancies or these ups and downs in inventory. I mean, if you look at the prices in the chart, the SP came down quite considerably, because of the inventories in the U.S., but at the end of the day, in the winter times the ratio between crude oil and Sonatrach price or LPG comes together, converges, to a ratio of one, even higher than that. That means that the LPG prices must go up in the winter times. I think this was the first question.

The second question was Bangladesh project. I mean, we are working on that. We have SPs… the CPs, condition presence, that we need to meet until closing and the most important one is the extension of the licence, and in that part of the world things are not so fast. I know that the regulator is going to pay a visit to the site that we're going to construct our first facility, so once they do that visit, hopefully we will know better, but it will take some time. However, our aim is to conclude by the end of this year, but this is just the closing and then afterwards we're going to get the approvals for the construction, and then there is going to be a construction period and so forth. The most single important item in the condition presence is this extension of the licence, preliminary licence.

For the net debt to EBITDA, normally with the accumulation of cash our ratio improves. With the inclusion of these lease liabilities it's around two times, but exclude that it's better. Hopefully, we will end up lower than that, but we have room to invest in our leverage, other than the Bangladesh we don't have any other projects to mention, so I would assume that our net debt to EBITDA is going to improve by the year-end. Does that answer your question?

Koray Pamir
Yes, very clear, thank you very much for the answers. Just one follow-up. There has been some news flow regarding the removal of restrictions of autos with LPG being allowed in the shopping malls. Is this is a minor issue or would you expect the removal to have a tangible impact on the auto LPG demand?

Ferda Erginoğlu
Well, I mean, autogas has been used by many different types of cars, but nobody knows that even the luxury cars are using the auto LPG, but… I mean, with the removal of the restriction for autogas cars going into the shopping malls or parking lots, covered parking lots, I think it's going to improve the image of autogas. I do not expect too much volume effect on autogas, but again, I'm just the finance person. It's going to be good for the image of the autogas I think.

Selin Sanver
We have one more question from Can Yurtcan, Tacirler Securities. I would like to read it to you.

Can Yurtcan is asking, "Could you please confirm the IFRS 16 effect on net debt as TL 118 million? In addition, could you please provide the preliminary guidance on Q3 '19 performance so far?"

Ferda Erginoğlu
As I explained, IFRS net effect on net financial debt has been TL 118 million. This figure did not exist last year and there is a 5 million negative effect on our net income as well, but at the end of the day, there is no cash effect of IFRS 16 throughout its life, so as I said, TL 118 million for our net debt.

Regarding the second question, I don't have any figure for Q3 '19 guidance yet. The summer is very important for our performance, both in domestic LPG and autogas, so we need to see those numbers. I think that would answer your question.

Selin Sanver
I would like to thank everybody once again for joining our first webcast. I hope to see you in different events. Thank you so much, have a nice day.