



## **AYGAZ Q3 2022 Financial Results Conference Call**

Thursday, 3<sup>rd</sup> November 2022, 16:00 TR Time

### **Conductors:**

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

***Mr. Ali Sencer Turunç, Corporate Finance & Strategy Director***

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

SANVER S: Good afternoon, and welcome to our Earning Webcast for the Third Quarter of 2020.

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's believed that the expectations reflected in these statements are reasonable, they may be affected by a variety of variables and changes in underlying assumptions that could cause actual results to differ materially. Neither Aygaz Group 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.

As usual, I will start with a summary of the LPG market and operational highlights, then Mr. Turunç will comment on the financial overview, and provide you with an update on our new investments including United LPG Ltd in Bangladesh and Sendeo, our last mile delivery company. Finally at the end, we will have time for a Q&A session with our CFO, Mr. Dizemen.

Let's start with the key operational highlights for the third quarter of 2022 on Slide #3. Latest report published by Energy Market Regulatory Authority provides us the 8-month figures for Turkish LPG market where total consumption contracted by 5% year-on-year, on the back of higher end-prices and weaker purchasing power.

According to LPG sector report, the cylinder gas market that narrowed with a CAGR of 2.7% between the years 2012 and 2021, contracted by 14% in the first 8 months of 2022. This

deviation from the general trends mainly stems from weaker purchasing power led by inflation and higher end-prices that are calculated to be 116% higher year-over-year for one 12 kg cylinder.

The autogas market which grew with a CAGR of 3.2% in the pre-pandemic period between 2012 and 2019 is also negatively impacted from the decrease in purchasing power, and it contracted by 4% in January- August period of 2022. The autogas price has more than doubled previous year's price as of August.

The good news is that Aygaz continued its leadership position in the market and achieved market share increase in all segments. However, despite market share gains, Aygaz third quarter cylinder and autogas sales volumes were down by 8% and 4% respectively, compared to the third quarter of the previous year.

The United LPG Limited, our joint venture in Bangladesh who started its operations in the Bangladesh LPG market, sold 2,300 tons of LPG as of September, after getting its LPG operations license in August. United LPG also supplied LPG from 2 different vessels to its spheres in Chittagong facility in September.

Our last mile delivery company Sendeo has increased its average daily parcel amount by 7 times compared to the beginning of 2022 and reached a maximum of 80,000 daily parcel deliveries in September, after completion of expansion to 81 cities in February.

In terms of financial highlights, Aygaz profitability in Q3 reflects the positive impact of increasing distribution margins, despite contracting sales volumes. Our quarterly net profit reached 1.538

million TL, because of the high contribution of 1.368 million TL coming from EYAŞ and Entek.

As for our balance sheet items, September-end inventory is down by 17% compared to June end and net working capital needs decreased by 363 million TL, mainly driven by the precautions taken with regard to working capital management. Additionally, net financial debt came down by 562 million TL, compared to June end, consistent with decreasing working capital needs and higher net free cash flow figures.

Now, let's take a look at the key highlights for Aygaz market share and Turkish LPG market on Slide #4. Aygaz cylinder gas market share is 41.7% improving by 0.1 points year-on-year, and our autogas market share is 22.5%, up by 0.8 points year-on-year. Together with our market share of 37.3% in bulk gas segment, our total retail market share is realized as 26.0%, that rose by 0.4 points year-on-year. Aygaz continues to be the leader of Turkish LPG market.

On Slide #5, we tried to illustrate the developments of purchasing power in terms of our retail products, cylinder gas, and autogas. You can see how many units of 12 kilo household cylinders and how many liters of autogas can be purchased through 2016 and 2022, with the average monthly net minimum wage for the same period.

Purchasing power indications were at lowest levels in June 2022, and have reached previous year's average levels in October, with the increase in the minimum wage and the downturn in product prices. This graph is helpful in understanding the higher-than-expected contraction in cylinder gas demand, and also the impact on autogas market.

On Slide #6, let's have a look at the sales performance of our company in the third quarter. Third quarters are usually known for their better seasonality effects due to the above average mobility during summertime vacations, higher population in rural areas, and school openings.

Q3 2022 was no exception, even with weaker purchasing power and general economic conditions. Our cylinder gas, autogas, and total sales were all up by 28%, 27%, and 16% respectively, compared to the second quarter of the year. The scene is quite different when we make the comparison for the same period of 2021. Both our domestic retail sales and total sales, including wholesale, international, and trading volumes are down by 5% and 8% respectively year-on-year in Q3. The upward pointed arrow showed itself only in the wholesale sales in this quarter.

Looking at the 9-month sales volumes, domestic retail sales are at 734,000 tons and down by 4%, and total LPG sales are at 1,645,000 tons and down by 3% year-on-year. The sum of wholesale, international, and trading adds up to 911,000 tons, and it's 2% lower than the 9-month period of 2021.

Aygaz UK's transaction volume is 96,000 tons with a turnover of US \$63 million. International and transit LPG sales have reached 383,000 tons and a \$305 million revenue was generated for the first 9 months of 2022. Adding the LPG device exports of US \$28 million made by our Gebze facility, our total FX based revenue comes up to \$396 million, including Aygaz UK.

Now, let me give the floor to our Corporate Finance and Strategy Director, Mr. Turunç, for the financial highlights.

TURUNÇ A:

Thank you Selin, and welcome everyone. The downward momentum that characterized the first half of 2022 is further maintained in the third quarter, as uncertainty and volatility remained elevated throughout the period. Global markets continue to be affected by the ongoing crisis in Russia and Ukraine, decades high inflation, aggressive interest rate hikes and extreme movements in currency markets.

The winter that is coming is expected to bring its effects, considering Russia's latest measure against US, European Union, and the UK, threatening to shut down its Nord Stream pipeline for as long as Western sanctions are in place.

Additionally, import-based business model of the LPG market in Turkey, combined with the high price sensitivity of our domestic consumer segments have created sector specific challenges in a high inflation environment, where real purchasing power of the consumers diminished. Despite these challenges, we sustained our leadership position in the Turkish LPG market and continued our new investments where we target to diversify our value and EBITDA generation.

As our starting point, let's have a look at Sonatrach LPG prices graph on Slide 7. In the first quarter of 2022, general recovery in demand and low global stock levels after the pandemic led to strong Brent and LPG prices. April Sonatrach price hit the peak of the last 8 years at 912 USD per ton due to the harsh impact of the war between Russia and Ukraine during that period. With the OPEC+ increasing production and United States offering supply to the markets from its strategic oil reserves, Sonatrach prices started to ease after April.

In July, Sonatrach price was announced as 665 USD per ton indicating a noteworthy decrease of 17% on monthly basis. After this sharp fall in July, August, and September prices were at 650 USD per ton and 620 USD per ton and were down by 2% and 4% respectively on a monthly basis.

Average LPG price for Q3 2022 is 645 USD per ton and 23% lower than the figure of second quarter of 2022 average price on the back of decreasing Brent price due to recession concerns and expectation of global economic slowdown.

October SP price is announced as 547 USD per ton, which is down by 12% on a monthly basis with the extension of recession pricings. However, due to the continuation of supply concerns, seasonal increase in heating demand and utilization of LPG as a substitute for natural gas, November SP price is announced as 585 USD per ton, and it is 7% higher than the previous month.

We have added a graph on the slide demonstrating the inventory impact of SP price on Aygaz's quarterly financials. The quarterly inventory impact of SP stayed limited at -4 million TL, as the inventory loss due to the sharp decline in July were already booked within second quarter financials in the amount of 172 million TL. And for the nine-month period, SP decreased by 100 USD per ton from December 2021 to September 2022. This resulted in a net inventory loss of 164 million TL for the January-September period, calculated after the hedge transaction.

Moving on to Slide 8. Looking at the third quarter's financial results. We see that all main income statement items are realized higher both on year-over-year and quarter-over-quarter terms

for the third quarter of the year. The profitability of 2022 got the negative impacts of Sendeo's ramp up period operating loss, inventory loss due to SP impact, higher expenses due to the inflation and fuel and increase in financing expenses.

These effects were significantly offset by margin increases and an EBITDA of 512 million TL was generated in the first 9 months where operating profit excluding Sendeo comes up to 553 million TL and it is 69% higher than the previous year's figure.

Moving onto Slide 9. Aygaz generated a revenue of 10.5 billion TL, more than doubling last year's figure on the back of higher exchange rates. The average USD/TL exchange rate in Q3 is up by 110% year-over-year and 14% quarter-over-quarter. Q3 gross profit is 706 million TL, and it is up by 63% year-over-year with the improvement of distribution margins despite contracting domestic retail sales due to lower purchasing power.

Moving on to Slide 10. Q3 operating profitability reflects the positive impact from higher sales volumes and lower SP related inventory loss compared to second quarter. Operating profit realized in Q3 is equal to 314 million TL and after adjusting Sendeo's initial ramp-up period operating losses of 122 million TL, it rises to 436 million TL. Q3 operating profit also includes the provision reversal amount of 189 million TL related to the price revision arbitration process within the scope of the supply contract of Aygaz Doğalgaz with Akfel.

Moving onto Slide 11, total contribution from EYAS and Entek, accounted under equity method is realized as 1.4 billion TL in Q3. Entek's profitability is higher mainly because of the deferred tax income of 322 million TL which corresponds to Aygaz share,



calculated from the revaluation of fixed assets according to Tax Procedural Law. Entek contribution to Aygaz financials is recorded until end of August due to partial demerger transaction. As a result, Aygaz's net profit excluding non-controlling interest is equal to 1.5 billion TL in third quarter of 2022 with the high contribution from both EYAS and Entek.

Moving on to Slide 12, you can see the evolution of our net working capital. September-end inventory is down by 17% compared to June-end and net working capital decreased by 363 million TL due to the precautions taken with regards to the working capital management.

Our September-end inventory level is 143,000 tons including in-transit inventory and it is 34,000 tons lower compared to June end. Other components of the net working capital are trade payables and trade receivables are up by 7% and 16% respectively compared to June end. The net working capital to sales ratio, calculated from rolling 12-month average figures stayed in line with the previous quarters.

Moving on to our net financial debt and debt profile on Slide 13. As of end of September, net financial debt is lower by 562 million TL compared to June-end, consistent with decreasing working capital need and higher net free cash flow figures in third quarter.

Our net financial debt over EBITDA ratio also improved and came down to 2.2 times as of September end. Looking at the pie chart on the right side of the slide, 14% of our total debt is foreign currency denominated that corresponds to our loan of \$30 million. In terms of FX position, we have a policy of keeping a neutral position after considering after considering our inventories as

natural hedges due to our ability to reflect USD/TL parity increases to our prices.

On Slide 14, you can see our forward-looking statements for 2022. Our sales volume and market share guidance are as follows. Cylinder gas sales volume ranges at 250,000 to 260,000 tons and autogas sales ranges at 670,000 and 700,000 tons. And our cylinder gas 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%.

On Slide 15, let's cover the updates regarding our joint venture, United LPG Ltd. Bangladesh. According to the WLPGA reports as of 2021, Bangladesh has the fastest growing LPG market in the world with an average annual growth rate of 53% in the last 5 years. The fact that natural gas will only be used in industrial facilities and electricity production as a state policy is expected to have a positive effect on the growth of LPG consumption.

Cumulative capital contribution of \$37 million is injected into the company in line with the initial investment plan. Aygaz share is corresponding to an amount of approximately \$19 million. The company has received its LPG operation license issued by Bangladesh Energy Regulatory Commission at the beginning of August and more than 2,000 tons of LPG was sold as of September. 4,200 tons of LPG supply from 2 different vessels to the sphere tanks in Chittagong Terminal is also completed at the same period.

The company is currently carrying out its sales activities through 33 dealers. It aims to reach 40 dealers as of year-end. The total number of employees has reached 58 as of September. In the

following years, we plan to establish Dhaka and Mongla operations after Chittagong and target to distribute LPG to almost all of Bangladesh in line with our investment plan.

On Slide 16, we wanted to share some recent photos from our facility in Bangladesh showing our team's excitement and enthusiasm.

On Slide #17, let's go over recent updates regarding Sendeo, our new subsidiary in last-mile delivery business. In line with the investment plan, Sendeo's capital is increased by 80 million TL from 423.5 million Turkish liras up to 503.5 million TL at the extraordinary general assembly has on August 23, 2022. As Aygaz repaid our portion of 44 million TL in cash on August 31, 2022.

After completion of expansion to 81 cities in February, Sendeo increased its average daily parcel amount by 7 times compared to the beginning of 2022 and reached a maximum of 80,000 daily parcel deliveries within September. Consequently, the total number of delivered packages reached 6.4 million and 92% on time delivery was achieved in 2022.

The number of distribution points, which was 82 at the end of 2021 reached 447 as of September. The company currently operates with 10 transfer centers, 6 distribution centers and 1,441 PUDO points. Sendeo staff working in the field reached 1,303 as of September-end, making the total number of the employees 1,577.

And this concludes our presentation today, and thank you for your patience, and now we can take your questions.

## Q&A

OPERATOR: We have a question from one of our participants on the webcast, Ahmed Çetin; "Aygaz holds some shares of Koç Financial Services, what is the benefit for Aygaz? Has Aygaz received any dividends from this participation so far? Thank you."

GÖKHAN D: Thank you for the question. As you all know Koç Financial Services is a strategic asset for Koç Group and it's controlled by Koç Holding. Aygaz holds around 4% of shares in Koç Financial Services. Depending on the dividend distribution capacity of the relevant investment, Aygaz receives dividend from Koç Financial Services. This year in 2022, the said dividend amount was around 16 million TL. You can access more detailed information from our financial reports.

OPERATOR: Thank you. Another question from one of our webcast participants Mr. Uğur Bozkurt with Deniz Yatırım; "What is your expectation for dividend?"

GÖKHAN D: Thank you for the question. I think it is still quite early to comment on the dividend expectation. As you know, our General Assembly decides on the dividends, and we haven't had any General Assembly until now regarding the dividend. Aygaz has a publicly announced dividend policy where it is targeted to distribute minimum 50% of our distributable profits calculated in our financials in accordance with the Capital Markets Board's requirements. You should also bear in mind that when our Board takes a decision on dividends, they always consider our operational cash needs, CAPEX requirements, capital injections for our new investments and cash generations for the budget year and leverage and ultimately dividends level is decided. After the

distribution of dividends, we always want to make sure that our balance sheet is still healthy, strong and our leverage is at healthy levels. So, these are the main considerations when deciding on dividends. But, as I said, there are no decisions taken yet on dividends for the time being.

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

SANVER S: We thank everyone for joining us.