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Corporate Participants

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Presentation

Operator

Ladies and gentlemen, welcome to Aygaz First Quarter 2020 Financial Results Earnings Results conference call. I will now hand over to IR Manager, Selin Sanver. Please go ahead.

Selin Sanver

Thank you, Denis. Good afternoon and welcome to our earnings webcast for the first quarter of 2020. I am Selin Sanver and I have here with me, Ferda Erginoğlu our CFO and Şebnem Yücel, our Finance Manager. 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 now start with the key highlights for the first quarter of 2020. Then I will hand over to Mr. Erginoğlu for the financial overview, and at the end, we will have time for questions.

As we all know, COVID-19 pandemic became the most important agenda in the world and in Turkey, especially starting from the second half of March. With the understanding that LPG is a necessity product for its consumer, all Aygaz sea terminals, storage facilities, filling plants and distribution centers ran and continue to run without any interruption since the beginning of this challenging period. However, our domestic retail sales and total sales contracted by 3% and 7% year-on-year respectively.

During the quarantine period, lockdown and travel limitations had their effect on consumption habits. In the LPG sector, households who stayed and cooked at home increased domestic cylinder gas demand, whereas commercial cylinder gas and autogas usage were limited. Aygaz continued to be the market share leader according to EMRA February report.

Regarding our investment in Bangladesh, since some of the conditions precedents determined in the contract were not completed, an amendment to the contract was signed between the parties on 31 March 2020 that allows closing to take place on 31 December 2020 at the latest.

In terms of financial highlights, Aygaz maintained its strong cash flow structure through close monitoring and managing of its receivables. Sharply falling LPG prices created inventory loss that had its impact on our profitability. Ferda Bey will be giving more details on these.

Now, let’s take a look at the highlights for Turkish LPG market. According to the latest LPG market industry report published by Energy Market Regulatory Authority, the cylinder gas market has tightened by 3.6% year-on-year in the first two months of 2020, whereas the autogas market was 7.7% higher than previous year’s figures. The total Turkish LPG demand for January-February period, together with bulk, is 626,000 tons and up by 5.7% year-on-year.

In the first three months of 2020, Aygaz total domestic retail LPG sales are 225,000 tons and down by 3% year-on-year. Aygaz autogas sales are 155,000 tons and 0.4% higher year-on-year. When we look at the monthly sales performances for autogas, January and February figures were higher by 9% and 8% year-on-year, especially after the second half of March as COVID-19 pandemic became more forceful in Turkey and more precautions were put into effect, our sales were also affected. The monthly March sales were down by 15% year-on-year, taking back the moves of the first two months.

Our cylinder sales are at 62,000 tons and down by 10% year-on-year. The expected price reduction in April caused some portion of March sales to be rolled over to April.

First quarter total LPG sales are 438,000 tons and contracted by 7% compared to last year, due to fall in sales volumes of cylinder, wholesale, and our international sales.

LPG exports and transit sales constitute a significant portion of our company’s overseas sales revenue and have reached to 100,000 tons and $44 million of revenue was obtained for the first three months of 2020.

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

Ferda Erginoğlu

Hello and welcome to our first quarter 2020 earnings webcast. I hope you and your loved ones are all well.

We have stated in our previous presentations that, as Selin mentioned, changes in LPG prices are one of the determinants or Aygaz inventory valuation and thus its effect on our financial figures. First quarter of 2020 is a good example of that. Unfortunately, it was on the negative side.

Looking at the LPG Brent world prices chart on slide number five, the Algerian state-owned LPG supplier, Sonatrach, closed 2019 with December price of $437 per ton. Later, for January, SP prices increased to $469 per ton. With the initial effects of COVID-19 pandemic and the imbalance of global supply/demand, the prices fell starting from the beginning of the year in line with petroleum. February and March prices were both lower, with $444 and $375 per ton respectively, where March price was 20% lower than last year.

As you well remember, due to the deepening effects of COVID-19 crisis and the start of an oil price war between Saudi Arabia and Russia over a disagreement after OPEC+ meeting in the first week of March, the oil price plummeted to $25-30 level. In parallel, April SP price came down sharply to $148, a level 61% lower than March. This sharp fall in LPG prices together with the foreign exchange movements led to an inventory loss of TL 98 million in the first quarter 2020.

May Sonatrach LPG price announced at $200 per ton with a 35% increase compared to April might be giving us the signals that what goes down must come up. As you are aware, the recovery in oil prices are still continuing.

Under these conditions, our first quarter net sales is TL 2,206 million being 6% lower than first quarter 2019, which is mainly due to the decreased sales volume.

Moving onto slide eight, first quarter gross profit is TL 93 million due to the inventory loss and decreasing sales revenue as a result of lost volume due to COVID-19 effects.

In line with the falling gross profit, operating profit is TL -57 million, despite contraction in expenses. Operating profit excluding other operating income and expenses is TL 63 million.

Consistently, our EBITDA for the first quarter is TL -26 million, and our EBITDA excluding other operating and expenses is TL 31 million.

As a response to the effects of COVID-19, we took some precautions to control our expenses with a small effect on our first quarter results. As a result, operational expenses came in at TL 156 million, approximately 10% higher than the first quarter 2019.

Finally, the net profit for the quarter is TL -226 million. While the negative contribution from EYAŞ deteriorated net profit, one-off profits coming from the sale of idle land in Bursa, which used to be one of our filling plants, and the annulment cost taken from Unicredit made some compensation.

Jumping to slide 10, contribution coming from EYAŞ is TL -233 million in quarter one of 2020, whereas Entek continues to provide positively to Aygaz with a net profit of TL 32 million. The total contribution from EYAŞ and Entek is TL -201 million compared to TL -10 million in Q1 2019.

On the next slide, Entek had a good start for the first quarter of 2020, because of three reasons, actually. One is the water levels coming to the catchment basins were high in Q1 and, secondly, the market clearing prices were 17% higher for Q1 2020 year-on-year, and the YEKDEM price benefitted from FX increases.

Moving to slide 14, we see our net debt rising by TL 225 million to TL 807 million as of 31 March 2020. After the cash outflow with the payment of TL 150 million dividends and the uncertainty created by COVID-19 pandemic, new loans were utilized against any possible liquidity risk.

Regarding the working capital, we see that the figure is TL 204 million, down by 18% both for March and December 2019. You can see these on slide number 15.

On slide 16, as an evident to our financial risk policies, where we aim not to carry any FX position, we see that the share of FX loans came down to 7% from 14% on December 2019. As a result, 93% of our debt portfolio is comprised of Turkish Lira.

Finally, we have updated our sales volume guidance for 2020 due to changing market conditions as a result of COVID-19 epidemic. Regarding sales volume, we revised cylinder sales range down by 5,000 tons to 285,000-300,000 tons from 290,000-305,000 tons. For autogas sales, the change is downwards by 150,000 tons to 590,000-630,000 tons from 740,000-780,000 tons.

Regarding the market share, we kept the same intervals for both cylinder and autogas, as our cylinder gas market share is expected to be between 41.5-43.5%, and our autogas share is expected to be between 21.4-22.6%.

This is the end of my presentation, thank you. Now, we will have some time for your questions please.

Q&A

Operator

[Operator instructions]

We have no questions. Dear speaker, back to you, the floor is yours.

Conclusion

Selin Sanver

Hopefully everything was clear for everyone. We thank you all for joining us today on our webcast and wish you a pleasant day. Thank you.