

WEB CAST TRANSCRIPT- August 13, 2020

Corporate Participants

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Presentation

Operator

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

Selin Sanver

Good afternoon. Welcome to our earnings webcast for the second quarter of 2020. I am Selin Sanver and we are together here with our CFO, Ferda Erginoğlu. 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 changes in underlying assumptions that could cause actual results to differ materially.

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I will start with a summary of the market and operational highlights. Then Mr. Erginoğlu will talk about the financial overview and at the end we will have time for questions.

Let us start with the key highlights for the second quarter of 2020.

Covid-19 pandemic and its effects on the markets and economy continues to be the number one agenda item. A severe downturn in demand was witnessed in the second quarter of 2020 with evolving consumer needs. Consumption priorities changed with the need for people's own economy and savings.

LPG sector had its portion w/o an exception. According to May EMRA report, total Turkish LPG demand tightened by 11.5% YoY. Cylinder LPG and autogas contracted by 2.5% and 13.4% respectively. Contraction in the cylinder gas slowed down compared with previous year's same period tightening of 5% as more people stayed and cooked at home with the Covid-19 measures taken. On the contrary, autogas market was disrupted from the lockdowns.

In the same perspective, Aygaz 6-month cumulative domestic retail sales are also down by 11.9% YoY, following the same trend of contraction for cylinder gas and autogas as 3% and 15% YoY respectively.

Under these circumstances, Aygaz continued to be the market share leader in all segments of the LPG market according to EMRA May report.

In terms financial highlights, both gross and operating profit numbers improved due to the inventory gain created by increasing LPG commodity prices in May and June after seeing historically low levels in April.

It is important to be able to say that Aygaz maintained its strong cash flow structure through close monitoring and managing of receivables as well as effective cost and capex management.

Ferda Bey will be sharing more details regarding the financials.

Now we can take a look at the key highlights for Turkish LPG market;

According to May LPG Market Industry Report published by Energy Market Regulatory Authority (EMRA), the total Turkish LPG demand for January-May period together with bulk amounted to 1 million and 400 thousand tons. Our Company's total market share stand out to be 25.1% for the same period. And our cylinder and autogas market share were 40.6% and 20.7% respectively.

In the first 6 months of 2020, Aygaz total domestic retail LPG sales are 441 thousand tons and down by 12% YoY. Our total sales reached 929 thousand tons showing a contraction of 9% YoY.

The gap is closed thanks to the increasing trading volumes realized by our UK branch which amounted to 94 thousand tons for the first 6 months of 2020. With this volume a revenue of 29 million USD was generated.

As most of you shall recall, after evaluating similar practices and developments in the industry, Aygaz opened a branch office namely, Aygaz UK in London in 2019 to engage in LPG trade.

Aygaz UK aims to;

- increase trade volume with third parties in international markets,
- support the company's import, export and transit operations by monitoring the opportunities in global markets more closely
- and finally create additional value from the supply chain.

Aygaz UK does both financial and physical trading. There were 36 and 41 thousand tons of financial trading volume for Q1 and Q2 respectively adding up to a cumulative figure of 77 thousand tons for 6 months. However, these amounts are not included in our total sales since they are not contributing to the revenue.

Aygaz 6-month autogas sales are down by 15% YoY. When we look at the monthly sales performances for autogas, April and May figures were lower by 41% and 35% YoY. The monthly June sales were down by 14% YoY starting to recover a little compared to previous 2 months as the vehicle traffic on the roads started to increase with the normalization process taken into effect on July 1st. As a result, 2Q autogas sales are at 130 thousand tons and down by 29% YoY.

Our 6-month cylinder sales are down by 2.7% YoY whereas the second quarter sales were up by 3.5% YoY. As we have mentioned earlier, this is basically due to Covid-19 related measures that led to more people staying and cooking at home.

2Q total LPG sales contracted by 3% YoY, despite the rise in cylinder and wholesale LPG sales and the contribution of Aygaz UK's trading volumes.

LPG exports and transit sales constitute a significant portion of our company's overseas sales revenue and have reached to 229 thousand tons and 75 million USD revenue was obtained for the first six months of 2020.

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

Ferda Erginoğlu

Thank you, Selin. Welcome to our earnings webcast for Q2 2020. I hope everybody is staying safe. I would like to start by giving you some insight on the precautions that our company has taken regarding the COVID-19 epidemic.

First of all, we have taken all necessary actions to minimize possible effects of COVID-19 on Aygaz operations and its financial status. Despite the developments and slowdown in LPG sector and the general economic activity, there were no disruptions in the LPG supply chain. On the sales side, however, there were some fluctuations in the sale activities due to contracting demand. For the production and logistics side, in all of our facilities and plants, all necessary measures were taken based on the required standards. I want to explain these precautions in five titles.

Offices;

- We have established a Crisis Management Team as per our ERP and we have enacted our Crisis Management Plan against the pandemic.
- Remote work, short-term work and leave planning have been implemented.
- Employees in the risk groups continue to work remotely or they are on administrative leave.
- We have obtained "COVID-19 Safe Production Certificate" for our Gebze Plant and Yarimca Terminal.

On the expenses side;

- In order to control our cash position, we have reduced or postponed some of our CapEx and operational expenses, especially those that would not create any safety risk.

On the working capital side;

- Stocks, inventory and receivables are closely watched and managed.
- Dealer risks were continuously, on a daily basis, observed and dealer support program has been implemented.

On the liquidity side;

- While continuously renewing our current loan portfolio with lower interest rates, as the interest rates declined, additional long-term loans have been borrowed in order to maintain high liquidity against the impacts of the pandemic.
- By starting the use of e-letter of guarantee process, we aim to ensure the continuity of the guarantees received during a period while almost all businesses and banks switched to work remotely.

On the supply chain side;

- Demurrage risks arising from increasing stock levels as a result of declining demand in the country has been eliminated with the purchase cancellations and overseas sales.

After these, I can proudly say that in a crisis like no other, Aygaz maintained its solid business continuity and furthermore tried to serve the community through donations.

At this time, let's get into more details about our Q2 financials.

Almost all of you are familiar with how the changes in LPG prices affect Aygaz inventory valuation and thus the profitability. Let's look at LPG Brent World Price Chart on slide number six.

Sonatrach LPG price fell starting from the beginning of the year, in line with the crude prices, as a result of the COVID-19 pandemic impacts the imbalance between the global supply and demand. As the COVID-19 crisis deepened and oil prices plummeted to \$25-30 per barrel levels in March, LPG price also touched down to \$148 per ton in April. It was a sharp drop from March price of \$375 per ton, which resulted in inventory loss of TL 98 million and it was accounted in Q1.

Furthermore, in the second quarter, sharp drop of prices, as I said, continued to affect our financials in the month of April as we had some March priced vessels arriving in April, which resulted in an increase in the cost of goods sold, and this affected our April results TL 83 million negatively. This is on top of 98 million stock inventory loss in the first quarter.

LPG prices then started to escalate in May and June due to demand recovery with the initial steps taken towards normalization in the world. May price was \$200 per ton and in June it came up to \$248 per ton. This led to an inventory gain of TL 49 million in Q2 2020.

As a side note, in July, prices went up further to \$316 per ton, but this did not change our first half results.

Under these conditions, our Q2 net sales have been TL 1.944 billion being 29% lower than Q2 2019, which is mainly due to lower LPG prices and sales volumes.

Both gross profit and operating profit are better than previous year and previous quarter. Our gross profit is TL 223 million with an inventory gain and a despite a decrease in revenue and lower sales volume due to COVID-19 effect.

Operating profit for the second quarter is TL 84 million, an improvement of 56% year-on-year. Saving efforts from cost and CapEx also had their positive impact. As a result, our operational expenditures came at TL 139 million, which is 9% lower year-on-year and 11% lower compared to Q1 of the year.

Consistently, our EBITDA for the second quarter is TL 129 million, being 50% higher year-on-year. Net profit for the quarter is TL 41 million due to the recovery in gross and operating profit, while the contribution from investments accounted under the equity method is 104 million lower than the same period of the previous year.

Jumping to slide 12, as you can see, contribution from EYAŞ has been negative TL 22 million in Q2 2020, and it was 233 million negative in Q1. Meanwhile, Entek continues to contribute positively to Aygaz net profit with 29 million in Q2. As a result, the total contribution from EYAŞ and Entek has been TL 7 million compared to 111 million in Q2 2019.

On slide 13, Entek whose 73% of the total capacity is hydroelectric plants continues to enjoy better hydrology with the high water levels coming to catchment basins where its facilities are located. Also, market clearing prices were 14% higher year-on-year for the first half of 2020. This is true mainly for Menzelet which is not a YEKDEM project. Furthermore, YEKDEM earnings also benefitted from higher FX rate in Q1 and Q2 of 2020. Just to remind you, Entek's 53% of total installed capacity is on YEKDEM.

Moving onto slide 16, our net debt rose by 25 million to TL 832 million as of 30 June 2020, and there is an TL 80 million increase in the net debt as a result of IFRS 16, as some of our logistic contracts have been changed to fixed payments, which qualifies for IFRS 16.

As we've said, our liquidity is boosted against COVID-19 impact. Our loans will continue to be renewed with lower interest rates in a decreasing interest rate environment.

Our working capital figure is TL 258 million, which is TL 54 million higher compared to 31 March figure. We see an expansion in the bars where inventory, trade payables, and trade receivables increased by 108%, 74% and 36% compared to March figures.

On slide 18, once again, I would like to reiterate that we carry almost no FX position. This pie chart is proof towards this aim. We see that share of FX loan came down to 4% from 7% in March 2020 and from 14% in December 2019. Currently, 96% of our debt portfolio is comprised of Turkish lira.

Finally, on page 21, we have updated our autogas sales volume guidance for 2020 due to the change in market conditions, as a result of lifting/easing of major second quarter COVID-19 epidemic.

While keeping our cylinder sales volume range at 285,000-300,000 tons, we have revised our autogas sales upwards to 660,000-700,000 tons. As you remember, it was 590,000-630,000 tons previously. There are no changes regarding the market shares, we are keeping the same intervals both for cylinder and autogas as our cylinder market share is expected to be between 41.5-43.5%, our autogas market share is expected to be in between 21.4 and 22.6%

This concludes my presentation, and we will have some time for questions.

Q&A

Operator

[Operator instructions]

Our first question comes from Can Alagoz from QNB Finansinvest. Please go ahead.

Can Alagoz

Thank you for the call. I have two questions. The first one on your OpEx level. As you stated, there's a material improvement in this quarter. Do you expect this trend to be maintained throughout the year, and can you remind us on your new CapEx budget for this year? And any update on Bangladesh investment will be appreciated. Thank you.

Ferda Erginoğlu

Thank you very much. Yes, we plan to continue. Even though we have relaxed our cost cutting measures program for the last two months, we still expect to continue saving from our CapEx and OpEx for the rest of the year, but it will not be as planned in the first quarter. We have not disclosed that before, but as I said, it's going to be better than our budget for sure.

For the CapEx figure, it's going to be, in Turkish lira terms, similar to last year's levels, so we don't expect any increase on that.

For Bangladesh, unfortunately the Covid-19 cases are increasing in Bangladesh. The Government officers are returning to their jobs but not at full scale, and the key to our investment was our Chittagong Port investment and our partner has a jetty there and started getting international vessels to that jetty. I'm hoping that's a good sign for us but, unfortunately, because of the increasing cases, deaths are not that increasing, but again I'm not so sure about those numbers, but as far as cases are concerned, it's going up. Bangladesh is one of the top countries in the world where cases are increasing. Therefore, things are getting slow, but hopefully starting from September, we are expecting some developments and getting our no objections certificate from the Chittagong Port Authority throughout the remainder of the year. There is nothing bad going on, it's purely pandemic effects on the country. Things are not so good as far as the pandemic is concerned and you can see the numbers in India, so Bangladesh is no different than that. This is how it is in Bangladesh.

Thank you.

Operator

[Operator instructions]

There are no further questions. Dear speakers, back to you for the conclusion.

Conclusion

Selin Sanver

Thank you so much, Denis. We thank you everyone for joining us today and hopefully everything was clear for all of you, wish you a happy afternoon.