



## **AYGAZ Q2 2022 Financial Results Conference Call**

Tuesday, 16<sup>th</sup> August 2022, 16:00 TR Time

### **Conductors:**

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

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

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

OPERATOR: Welcome and thank you for joining the AYGAZ conference call and Live Webcast to present and discuss the Second Quarter 2022 Financial Results.

At this time, I would like to turn the conference over to Ms. Selin Sanver Nasuhoglu, IR Manager, Mr. Ali Sencer Turunç, Corporate Finance and Strategy Director and Mr. Gökhan Dizemen CFO.

Ms. Selin Sanver Nasuhoglu, you may now proceed.

SANVER S: Good afternoon, and welcome to our earnings webcast for the Second Quarter of 2022. After the call, as usual 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'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 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 LPG market and operational highlights, and then Mr. Dizemen will comment on the financial overview, and provide you with an update on our new investments including United LPG Ltd in Bangladesh and our

last mile delivery company, Sendeo. Finally at the end, we will have time for a Q&A session.

Let's start with the key operational highlights for the second quarter of 2022 on Slide #3. According to LPG sector report of Energy Market's Regulatory Authority for May, cylinder gas demand contracted by 13% in the first five months of 2022, on the back of higher end-user price that was 162% year-on-year for June, and lower population in rural areas compared to previous year when lockdowns were still in effect until the end of June.

On the other hand, Turkish autogas market is up by 2% year-on-year, despite the increase in end-user price that is calculated as 187% year-on-year for June. The economic advantage of autogas to gasoline continued its rise in the second quarter, and it has reached to 50% levels as of June. Accordingly, total LPG market decreased by 0.6% year-on-year. Aygaz continued its leadership position in the market during this period.

In line with the market, Aygaz Q2 cylinder gas sales were suppressed by increasing end-prices and economic conditions, while autogas sales were up by 12% year-on-year due to the growing economic advantage of autogas to gasoline, and the low base effect caused by the lockdown limitations that were in effect until the end of June last year. Aygaz autogas sales growth for the first five months of 2022 is 6% year-on-year, indicating a better performance of 4 points compared to the 2% growth of the Turkish autogas market in the same period.

Our new investments in Bangladesh, United LPG Ltd. has started cylinder gas sales as of August, as the two LPG sphere tanks constructed in Chittagong Terminal became operational and the commercial license was granted.

Our last-mile delivery company Sendeo has delivered a maximum of 45,000 daily packages in June, after completion of expansion to 81 cities in February.

In terms of financial highlights, Q2 profitability impacted from narrowing cylinder gas volumes in line with the contracting market, inventory losses caused by Sonatrach (SP) LPG price decline in the second quarter of the year, as well as, higher interest expenses and FX losses. Aygaz net profit excluding non-controlling interest in Q2 is realized as 1.1 billion TL on the back of the high contribution coming from EYAS, that is accounted under equity method.

Now, let's take a look at the key highlights for Aygaz market shares and Turkish LPG market on Slide #4. Aygaz cylinder gas market share is 41.3%, improving by 0.2 points year-on-year and autogas market share is 22.1% again up by 0.7 points year-on-year. Our market share is 34.4% in bulk gas segment that corresponds to 4% of Aygaz domestic sales in the first 5 months of 2022, and it's down by 2.4 points year-on-year. As a result, total market share is equal to 25.8% at the same level as the previous year, making Aygaz the leader of all the segments in the LPG distribution sector.

On Slide #5, let's have a look at sales performance of our Company in Q2. Our domestic retail sales volume in Q2 is

236,000 tons with no change compared to Q2 2021, whereas our total sales are 28% higher year-on-year, on the back of better performance of wholesale, international and trading sales, which in aggregate is up by 60% year-on-year. When we break it down, our wholesale sales are up by 77% year-on-year and international sales are up by 14% year-on-year. Third party trading volume generated by Aygaz UK is 45,000 tons, whereas in Q2 2021 there were no third-party trading activity.

When we look at our 6 months sales volumes, a normalization can be noticed for the yearly differences where domestic retail sales are at 436,000 tons and down by 3% year-on-year and total LPG sales are up by 1% year-on-year at 987,000 tons. The sum of wholesale, international and trading is equal to 551,000 tons and it is 5% higher than the six-month period of 2021.

Aygaz UK's transaction volume is 48,000 tons with a turnover of US \$35 million in the six-month period. International and transit LPG sales have reached to 253,000 tons and US \$214 million revenue was obtained for the six months of 2022. Adding the LPG device exports of US \$18 million made by our Gebze facility, our total foreign exchange-based revenue comes up to US \$267 million together with Aygaz UK.

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

DIZEMEN G:

Thank you, Selin, and welcome everyone. Q2 was a challenging period for our Company where we had several battlefronts like most of the Turkish corporates. Rising inflation, higher interest

rates and commodity prices as well as the hampered risk sentiment by the war between Ukraine and Russia are the key global challenges that we all have to navigate in 2022.

On top of these global challenges, import based business model of the LPG market in Turkey, combined with the high price sensitivity of our domestic consumer segment have created additional sector specific challenges in an increasing FX rate and LPG price environment.

Despite all these challenges, we managed to sustain our leadership position in the Turkish LPG market and continued our investments where we target to diversify our value and EBITDA generation by entering new growing markets in our core LPG business, like our Bangladesh investment, as well as, exploring on new business opportunities by utilizing our existing assets, as it is the case in our new parcel delivery business. I will provide you more information regarding the progress in these two new investments at the end of the presentation.

As our starting point, let's have a look at Sonatrach LPG prices graph on Slide 6. 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 US \$912 per ton due to the harsh impact of the war between Russia and Ukraine during that period.

With the OPEC+ increasing production and US offering supply to the markets from its strategic oil reserves, May Sonatrach

prices eased by 12% on a monthly basis and was announced as US \$804 per ton. In June, Sonatrach price was at US \$797 per ton, down by slightly by 1% on a monthly basis.

However, July Sonatrach price was announced as US \$665 per ton, indicating a noteworthy decrease of 17% on a monthly basis. While LPG prices in US, North Europe, and Arabian Gulf (CP) contracted on a limited basis, Sonatrach which is the price index for Turkey and the Mediterranean basin, contracted by US \$132 per ton, separating itself from the global market sharply. This sharp decline in July SP price is important for our Q2 results, as we had to book an inventory loss provision in the amount of 172 million Turkish lira over our priced-in and unhedged inventory level as of the end of June 2022.

Moving on to Slide 7, looking at the second quarter financial results;

Aygaz generated revenue of 9.6 billion Turkish Lira, nearly 4 times of last year's figure on the back of enhanced LPG international, wholesale and trading volumes, higher LPG price levels compared to Q2 of the previous year and the continuing devaluation of Turkish Lira.

Gross profit is equal to 442 million Turkish Lira and is up by 96% year-on-year, performing a growth above inflation even with the narrowing cylinder gas sales and inventory loss caused by falling LPG prices. Despite the increase in the Company's gross profit on a year-on-year basis, higher operating expenses and FX losses that are classified under other income and expenses led to deterioration at operating profit level. An operating loss of 63 million Turkish lira was realized in Q2

compared to an operating profit of 56 million Turkish Lira in Q2 2021. Operating expenses in Q2 are higher mainly due to the increase in transportation, personnel, and energy costs, as well as expenses from our new investments in the parcel delivery business (i.e., Sendeo).

Q2 EBITDA figure is calculated as 60 million Turkish lira, after eliminating the effect of other income expense from operations and amortization from operating profits. Net effect of other income and expense from operation in Q2 is negative 62 million Turkish lira compared to a positive 26 million Turkish lira in Q2 2021. Total net FX losses classified under other income and expense accounts amounts to negative 126 million Turkish lira in Q2 2022, whereas this figure was negative 11 million Turkish lira in Q2 2021.

After adjusting Sendeo's initial ramp-up period operating losses, which is in the amount of 110 million Turkish lira in the second quarter of 2022 and total inventory loss of 190 million Turkish lira in Q2 of this year due to SP price decrease, Q2 EBITDA rises to 360 million Turkish lira. In Q2 2021, there was an inventory loss of 25 million Turkish lira and Sendeo's operating loss was equal to 11 million Turkish lira, adding up to a total negative impact of 36 million Turkish lira compared to the sum of 300 million Turkish lira negative impact coming from inventory loss and Sendeo for Q2 2022.

Total contribution of 1.2 billion Turkish lira from EYAŞ and Entek, that are accounted under equity method, compensated for the negative effects of contracting operating profit and increasing net financing expenses. As a result, Aygaz's net profit excluding non-controlling interest is equal to 1.1 billion



Turkish lira in Q2 2022, mainly with the high contribution coming from EYAŞ.

Moving on to Slide 11, you can see the evolution of our net working capital. All components of net working capital including trade receivables, inventories and trade payables continue to increase in Q2 2022 by 5%, 41% and 8% respectively due mainly to higher FX rates and LPG prices. Average US dollar / Turkish lira rate was up by 13% in Q2 compared to Q1 of this year.

Our June end inventory level is 177,000 tons, including in-transit inventory, and it is 74,000 tons higher compared to March end. Net working capital over sales ratio, calculated from average net working capital amounts are in line with previous quarters. Our average net working capital days are in line with historical averages which is hovering around 7 days for Q2.

Moving on to our net financial debt and debt profile on Slide 12, as of end of June in line with the rising working capital needs and the capital injections made to our new investments, including Sendeo and United LPG Limited, our net debt amount increased by around 1 billion Turkish lira compared to March end and stood at 2.2 billion Turkish lira.

Our net financial debt over EBITDA ratio also increased to 3.0 levels due to the rise in net financial debt and deterioration in EBITDA, stemming from inventory loss and initial ramp-up period operating losses of Sendeo. We see cash and cash equivalents decreasing by around 500 million Turkish lira

compared to March end to 1.5 billion Turkish lira. Out of our total gross debt figure of 3.7 billion Turkish lira, around 50% is long-term loans.

At the beginning of July, our application for the issuance of debt instrument with a total nominal value up to 1 billion Turkish lira was approved by the Capital Market's Board. We have recently completed the issuance of bonds with a total amount of a 100 million Turkish lira at the end of July. We continue to be active in the Turkish bond market in the upcoming months to further diversify our funding base between bank loans and bond issuance. As of the end of June 2022, total TL denominated bonds make up around 13% of our total gross debt.

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 US \$30 million. In terms of FX position, as you all know, we have a policy of keeping a neutral position after considering our inventories as natural hedges due to our ability to reflect US dollar/Turkish lira parity increases to our pricing.

On Slide 13, you can see our forward-looking statements for 2022. Our sales volume guidance for both cylinder gas and autogas are revised due to the negative impact of end-price increases on demand. We update our cylinder sales volume guidance down by 30,000 tons to a sales range of 250,000 tons to 260,000 tons. We also update our autogas sales volume guidance, down by 20,000 tons to a sales range of 670,000 to 700,000 tons. On the other hand, we have not revised our

market share expectations for 2022. Our cylinder market share is expected to be between 41% to 43%. Our autogas market share is expected to be between 21.5% to 22.5%.

On Slide 14, let's cover the updates regarding our joint venture, United LPG Limited, in Bangladesh. In line with the investment plan, company's capital has reached to US \$37 million corresponding to 3.3 billion Bangladeshi Taka as of the end of June. The total corresponding amount of approximately US \$12 million to Aygaz's share was paid in cash in February and June 2022. As mentioned in Q1 2022 webcast, United LPG Limited received its commercial license issued by Bangladesh Energy Regulatory Commission as of August 2022 and the company has started cylinder gas sales in the Bangladesh market recently.

You can see on Slide 13, construction of the 2 LPG sphere tanks with a total capacity of 6,000 tons in Chittagong terminal is completed. They are ready for LPG supply by sea vessels. Please recall that Chittagong Port Authority permit was already obtained in Q1 of this year. The company is putting huge effort in expanding its sales and distribution network. Contracts with 40 dealers are signed currently and it is aimed to reach 60 dealers as of year-end. Considering the good example of the Turkish LPG market, United LPG Limited is taking rigorous steps forward to build a long-lasting and healthy dealer network structure where principle of mutual benefits is favored. In the meantime, staff in Bangladesh has reached to 57 as of June end.

On Slide #15, let's go over recent updates regarding Sendeo, our new subsidiary in last mile delivery business. In line with the investment plan, we have increased Sendeo's capital by 280 million Turkish lira from 143.5 million Turkish lira up to 423.5 million Turkish lira in February this year.

As Aygaz, we paid our portion of 154 million Turkish lira in cash in two equal payments in February and July. Sendeo became operational in 81 cities as of February 2022, following the start of Istanbul operation back in May last year. Commercials were released on digital channels to announce the launch of operations for 81 provinces in April. Becoming a nationwide last mile delivery player is of paramount importance to Sendeo, as this will increase collaboration opportunities with big e-commerce players.

Looking at the line graph on the slide, it can be noticed that after completing the roll-out phase of its operation with the nationwide expansion in February this year, the company is now at the initial ramp up period, as both number of packages and number of customers are enhancing each month.

The company has reached 45,000 maximum daily package delivery in June this year through its 8 transfer centers and 5 delivery depots. As a result, total number of packages delivered in the first 6 months of 2022 reached to 3.2 million. While volumes are growing, 94% on-time delivery was achieved this year. The number of distribution points which was 82 at the end of 2021, reached 441 in June and 1,200 Pick-up Drop-off (PUDO) points are active as of June. Sendeo's

staff working in the field reached to 896 as of June end, making the total number of employees 1,097.

Now, this concludes my presentation today. Thank you for your patience and now we can take your questions.

## Q&A

OPERATOR: Our first question is from our webcast participant Slama Ondrej with Wood & Co. "Hi, this is Ondrej Slama from Wood & Co. I have 3 questions. #1, What is behind the cylinder sales drop into in Quarter 2? What shall we expect going forward? Question #2, When can we expect more detailed financial exposure on Bangladesh and Sendeo? Question #3 How will you book the Bangladesh earnings in the future? Thank you."

DIZEMEN G: Thank you for the questions. Let me start with the cylinder gas sales drop in Q2 of this year. As mentioned during the presentation, the key reason of this decline was the high product prices in this period resulting from the high LPG prices, as well as the US dollar / Turkish lira parity. On top of this, there was lower mobility towards the rural areas in Q2 of this year compared to 2021 where we observed much more mobility because of the COVID restrictions; people preferred to live in the rural areas where our main customer base is existing due to the limited natural gas reach to those areas.

All in all, in Q2 Aygaz cylinder gas sales declined by around 23% year-on-year, in line with the market. We expect a normalization because of the corresponding decline in the LPG

prices, especially after June. As discussed, July Sonatrach price decreased by around USD\$130 per ton which also had impact on the end consumer prices. Accordingly, we see a normalization in our July and August sales in the cylinder gas market.

As for the second question, the financial exposure on Bangladesh and Sendeo, we try to cover the financial contributions of Bangladesh and Sendeo as much as we can during our presentations. As discussed, in Q2 of this year, Sendeo's total operating loss was around 110 million Turkish lira and we fully consolidate Sendeo's financials on a line-by-line basis.

In the case of Bangladesh investments, since it's a joint venture, we use equity pickup method while consolidating its financial results. In the first half of this year, total negative contribution coming from United LPG Limited was around 5.5 million Turkish lira. This information has also been disclosed in our Q2 financial report; you can find it in the disclosures regarding the joint ventures.

I think the last question has already been covered. As mentioned, we use equity pickup method and will be just taking Bangladesh investments net income to our consolidated results as a proportion of our investment there. Thank you.

OPERATOR:

The next question is from Bozkurt Ugur, from the company Deniz Yatırım. "Hello congratulations for the results. When we consider full year effect, what will be sales and EBITDA

contribution of Bangladesh and cargo operations as TRY and their EBITDA margins? Thanks”

DIZEMEN G: Thank you for the questions. As we discussed in our previous calls, it may be worth emphasizing the fact again that these investments are greenfield investments and they are both in their roll-out or ramp-up phases. Because of this, it will take some time to see the positive EBITDA and net profit contributions of these investments. We have already provided some information regarding the contribution of Sendeo, the operating loss figure that we consolidated in our financial statements. I think apart from these actual figures, it wouldn't be sensible to provide any additional forward-looking information on these investments. As mentioned, these are greenfield investments and it will take time to see the positive contributions.

OPERATOR: The next question is from Ozturk Umut with Oyak Securities. “Thank you for the presentation. How do you see the second half of the year in terms of both sales and profitability? Thank you.”

DIZEMEN G: Thank you for the question. In terms of our sales performance in the second half of the year; as discussed in Q2, we saw significant decline especially in the cylinder gas sales volumes. But from June-end onwards, especially with the decline of LPG prices in July, we see a normalization. However, as mentioned in the presentation, we decided to revise our year-end forecast by 30,000 tons compared to our initial forecast that we disclosed at the beginning of this year.

In the case of autogas sales, again there is a contraction resulting mainly from the high-end prices, but on the other hand, autogas continues to have its advantage against gasoline and this is also having a positive impact on autogas sales volumes. We also updated our autogas sales volume guidance by around 20,000 tons for the year end.

In terms of the profitability, we expect a more stable LPG pricing environment in the second half of the year. If this happens, we will not incur any additional inventory losses, and given the current margins that we have, we expect a stable profitability if we don't see any further LPG price decline or a higher US dollar / Turkish Lira FX environment. These are the key areas that have an impact on our profitability. Thank you.

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: Thank you everyone for joining us and hope to see you in our third quarter earnings webcast.

DIZEMEN G: Thank you. Bye-bye.

SENCER TURUNC A: Thank you. Bye-bye.