

WEB CAST TRANSCRIPT- November 4, 2020

Corporate Participants

Ferda Erginoğlu

Aygaz – CFO

Selin Sanver

Aygaz – IR Manager

Presentation

Operator

Ladies and gentlemen, welcome to Aygaz Third 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 and welcome to our earnings webcast for the third quarter of 2020. I'm here with our Finance Manager, Sebnem Yucel, and 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. 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 Mr. Erginoğlu will talk about the financial overview, and at the end, we will have time for your questions.

Let's start with the key highlights for the third quarter of 2020.

According to Energy Market Regulatory Authority (EMRA) August report, Aygaz continued to be the market share leader in all segments of the LPG market. We also see improvement in our market share compared to May, June, and July data. As the COVID-19 pandemic measures were started to loosen gradually, economic activity began to give some signals of picking up after June. For Turkish LPG consumption, the total tightening, which was 11% year-on-year in the first six months of 2020, is calculated as 8% for the January-August period. It's better off by three points. This exposes recovery in July and August consumption data, especially in autogas as travel limitations were lifted off.

When we look at Aygaz sales volumes, nine months domestic retail sales are down by 8% year-on-year, while our total sales are at the same level as the previous year with the support of domestic wholesale sales and our trading volumes. And Aygaz Q3 total sales are 16% higher year-on-year with the backing of domestic wholesale sales and the exports.

In terms of financial highlights;

both gross and operating profit numbers continued to improve due to continued inventory gains realized in Q3.

Aygaz retained its strong cash position through close monitoring and managing of receivables as well as effective cost and CapEx management. There was a decline in financial debt accordingly. As always, 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 August LPG market industry report published by EMRA, the total Turkish LPG demand for January-August period together with bulk amounted to 2.56 million tons. Total Turkish cylinder and autogas demand contracted by 2% and 9% year-on-year respectively for January-August period whereas it was 1% and 13% year-on-year for the first six months. We see recovery for autogas demand in July and August with the mitigation of the measures taken within the framework of COVID-19.

Autogas also benefitted from being a more cost-effective alternative for gasoline at a time when all the consumer segments became more price sensitive.

Our company's total market share stands out to be 25.6% for the first eight months of 2020, and our cylinder and autogas market shares were 41.5% and 21.5% respectively. We see improvement in our market shares as the COVID-19 impact on big cities where more of our sales network is located dropped with the elimination of lockdowns and travel limitations. As the normalization process started to be more effective in big cities, it enabled us to enhance our sales performance.

In the first nine months of 2020, Aygaz total domestic retail LPG sales volume is at 749,000 tons of which 30% is cylinder gas and 67% is autogas sales. Domestic retail sales are down by 8% year-on-year, whereas our total sales, including wholesale, export and trading reached 1.548 million with no change year-on-year.

The gap is closed thanks to the increased domestic wholesale sales which is 9% higher year-on-year and the trading volumes realized by our UK branch whose quantities reached 141,000 tons as of end of September, generating a revenue of \$47 million.

Aygaz UK does both financial and physical trading. There were 36,000 and 41,000 tons of financial trading volumes for Q1 and Q2 respectively adding up to a cumulative figure of 77,000 tons for nine months. However, these amounts are not included in our total sales figures, since they are not contributing to the revenue.

Aygaz nine months autogas sales are down by 10% year-on-year compared to 15% year-on-year decrease at the end of June. With the normalization process taken into effect on 1 July, the vehicle traffic on the roads started to increase. As a result, Q3 autogas sales are at 216,000 tons and down by only 1% year-on-year. Our average monthly autogas sales for Q3 is up by 67% QoQ to 72,000 tons.

Our nine months and Q3 cylinder sales are both down by 3% year-on-year. Cylinder sales contraction slowed down basically due to COVID-19 related measures that led to more people staying and cooking at home.

Total Q3 LPG sales increased by 16% year-on-year as wholesale LPG sales and exports expanded by 24% and 22% year-on-year respectively, as well as the contribution of Aygaz UK's trading volumes. LPG exports and transit sales reached 370,000 tons for the first nine months of 2020, by which \$124 million revenue was generated.

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

Ferda Erginođlu

Hello everybody, welcome to our earnings webcast for Q3 2020.

I'm happy to say that it has been a good quarter for Aygaz both operationally and financially in these challenging times that we all want to leave behind. As all of you know, our country and the whole world is still struggling with the COVID-19 pandemic and its impacts on both the economies and on people's daily life routines. Now, let's take a look at our Q3 financials under these circumstances.

As usual, we can start with LPG Brent Oil World Price Chart on slide number six to understand the positive inventory valuation in Q3 2020 that contributed to our profitability.

As you know, the global supply and demand imbalances as a result of COVID-19 pandemic and measures stated to be taken by the Governments almost all around the world had an immediate negative effect on energy prices at the beginning of this year. In parallel, Sonatrach LPG prices fell starting from the beginning of 2020. As the COVID-19 crisis deepened and oil prices plummeted to \$25-30 per barrel levels in March, LPG price also went down to \$148 per ton in April from the \$469 per ton levels of January, a very sudden drop of 68%.

After this period and with positive developments in Asia, especially in China, regarding the control of the COVID-19 related effects, LPG prices started to escalate in May and June, which led to an inventory gain of TL 49 million in Q2 2020. June LPG price was \$248 per ton and subsequently in July and August and September, LPG price stayed well above \$300 per ton levels that led to an inventory gain of TL 40 million in Q3 2020.

For October and November, we continued to see this rising trend of LPG prices to the levels of \$367 and \$388 per ton respectively.

On slide seven, alongside with the higher LPG prices, better sales volume resulted in net sales figure of TL 3.045 billion being 19% higher than Q3 2019, despite lower natural gas sales of Aygaz on a year-on-year basis. We have to mention that increase in exchange rate in this period had an important role on sales figures. In this quarter, both gross profit and operating profit are better than previous years and previous quarters.

On slide ten, you can see our Q3 gross profit with TL 337 million is 22% higher year-on-year, thanks to the inventory gain and recovery in sales volume. We were also able to increase our cylinder and autogas gross margins at or better than inflation rate.

On slide 11, operating profit for the third quarter is TL 172 million, with an increase of 34% year-on-year and 103% quarter-on-quarter. We sustained our saving efforts on costs and CapEx

expenditure, which also had a positive impact on our numbers. In this quarter, our general administration, marketing and R&D expenses increased by only 6% year-on-year.

Consistently, our EBITDA for the third quarter is TL 210 million, with 31% increase year-on-year and 63% increase over the same period last year. Net profit for the quarter is TL 83 million due to the recovery in gross and operating profit, while the contribution from investments accounted under the equity method is TL 24 million lower than the same period on the previous year.

On slide 12, as you can see, contribution from EYAŞ had been negative TL 42 million in Q3 2020, and it was TL 233 million and TL 22 negative in Q1 and Q2, respectively. Meanwhile, Entek continues to contribute positively to Aygaz net profit with TL 29 million in Q3, which results in a total value of TL 90 million for nine months. As a result, the total contribution from EYAŞ and Entek is negative TL 12 million in this quarter, compared to positive TL 12 million in Q3 2019.

On slide 13, Entek, with 73% of its total capacity in hydroelectric plants once again continues to enjoy the results of better hydrology. In addition, market clearing prices were 9% higher year-on-year for the first nine months of 2020. Entek with 53% of its total installed capacity on YEKDEM has benefitted from higher FX rates, which generated higher YEKDEM earnings in all three quarters of 2020.

Moving onto slide 16, our net debt fell by TL 244 million to TL 588 million as of 30 September 2020. We are keeping our cautious approach and continue to keep our high liquidity levels against COVID-19 impacts. Meanwhile, we managed to refinance all of our Turkish lira bank loans with almost all in single-digit interest rates.

Our working capital figure is TL 197 million, which is TL 61 million lower compared to 30 June 2020 figure. This is the result of changes in our trade receivables, inventory, and trade payables with increases of 49%, 11%, and 46% respectively compared to June figures. We constantly keep an eye on our dealer risks and track them on a daily basis, and I should say we managed this risk well so far throughout this pandemic period.

Looking at our debt profile on slide 18. This pie chart shows that we carry minimal FX loans as a result of our FX policy. Currently, 96% of our debt portfolio is comprised of Turkish lira.

When we come to forward-looking statement slides on page 21, as we have only two more months to finalize 2020, we keep both our sales volume and market share guidance the same. Cylinder sales volume range at 285,000-300,000 tons and autogas sales range at 660,000-700,000 tons. Our cylinder market share is expected to be between 41.5-43.5%. our autogas market share is expected to be between 21.4 and 22.6%.

Thank you for the patience and now it's time for your questions.

Q&A

Operator

We have a question from [Ondrej Slama].

“Could you remind us of milestones of the Bangladesh expansion and update us on the progress of the investment there? From 2020 profit, what would be the management’s recommendation for dividends considering the financial results, the Bangladesh project, but also strong balance sheet by yearend?”

Ferda Erginoğlu

Let me start with the Bangladesh project. Well, our closing for the Bangladesh project, which we plan to acquire 50% of already existing United LPG Company’s shares depends on a number of conditions precedent, and one of the very important ones was the Chittagong Port’s clearance from the Chittagong Port Authority. Due to the pandemic related measures in Bangladesh, it has been delayed. The number of Covid-19 cases in the country maybe even more than what is stated. Now, the Government offices are running not at full speed, but they are working, they started working, and meanwhile, the Chittagong Port Authority’s chairman has also changed, and we are seeing developments. Hopefully, we will try to conclude the deal by the yearend. This is my personal opinion. For that purpose, our CEO is going to Bangladesh next week and we don’t see any negative opinion, it’s just a matter of time and matter of Government offices starting to work at full speed. That’s one question.

The other one was, I think, related to dividend. Our cash generation is very good. Apart from the first impact of price fall at the end of the first quarter, we continue to create very good cash with lower CapEx and lower operational expenditures. Apart from new projects, Bangladesh, depending on its cash requirements, we always try to pay-out dividends, so it depends on our yearend results and we will see how it’s going to develop. Other than that, I cannot comment on what we are going to distribute at this hour, because it depends on our management and shareholders.

Selin Sanver

We have one more written question from Mehmet Gerz. It says, “Is EYAŞ contribution market to market value of Tüpraş?”

Ferda Erginoğlu

I think we are, as per the equity method, we are getting the 10% of Tüpraş equity into our numbers, and any change on that is profit and loss, so it’s not exactly the current price of Tüpraş on the stock market. So, it depends on how the market and analysts are valuing EYAŞ shares for the target prices and normally they take a discount for the liquidity or NAV discount, so that’s what I can say about that question.

Selin Sanver

We have one more question from Umut Öztürk. “Could you please provide some color on outlook for the fourth quarter of 2020? Should we expect the recovery in sales and profitability to continue?”

Ferda Erginoğlu

As far as our sales volumes are concerned, on the autogas side, we are hitting our budget numbers exactly and on the cylinder side, also we are right at the target of our budgets. This shows a little contraction against last year in cylinder gas, and a little growth on autogas. So that means we're not seeing any effects of pandemic anymore, but with the start of a second wave or second stage of first wave, whatever you call it, the Government has started taking measures. If there is no lockdown, I believe we can hit our budget numbers on sales volumes. Let me also mention, we started doing hedging again, and we are trying to – when we find prices suitable and we will try to continue doing so. This would give us some safety net if something happens in the prices. Therefore, I don't expect any big fall in LPG prices related inventory losses, and I mentioned our margins are better than inflation, so I expect the continuation of similar strong cash generation.

Selin Sanver

We have a follow-up question from Mehmet Gerz. "EYAŞ valuation, as you suggested seems subjective, will you be recording gains when Tüpraş stock price rises?"

Ferda Erginoğlu

This is not how our recording of Tüpraş related profit and loss, but if Tüpraş value goes up, I believe our share price has to go up, but that will also depend on the prospects of Tüpraş future profitability. So, there are two things, we should not mix them. One is how we record Tüpraş P&L into our P&L, and as far as valuation or business valuation is concerned, that's something else, that's a bit future looking and it depends on how Tüpraş share is going to perform in the near future. So, if it goes up, I expect our share price to go up as well.

Selin Sanver

We have one more question from Ondrej Slama saying, "Could you please update us on the London trading unit and if it has become a significant contributor in the overall margin year-to-date?"

Ferda Erginoğlu

We have started trading this March and so far, we have handled eight cargos and three of them came to Aygaz, and it has been a difficult year for LPG in terms of supply and demand. I don't expect any big contribution this year. But next year, without any effects or deep effects of pandemic, we shall see contribution, but I don't expect a big contribution to overall Aygaz numbers. This is just a small diversification on Aygaz portfolio. But if we manage to grow this business in the future, we shall see how it's going to affect our financials, but so far, this has been a difficult year. We don't see any big negative effect on our numbers, but next year, we shall see.

Selin Sanver

We have one more follow-up from Mehmet Gerz asking, "Do you record dividend income from Tüpraş separately?"

Ferda Erginođlu

First of all, on our CMB reports, as I said, we pick up their equity on our shareholdings in EYAŞ or through EYAŞ and the dividend is netted out, therefore, we only book Tüpraş equity through EYAŞ.

Conclusion

Selin Sanver

We don't have any more written questions here.

Thank you so much for joining us today and have a great evening.