



AYGAZ Q3 2023 Financial Results Conference Call

Thursday, 26th October 2023, 16:00 TR Time

Conductors:

Mr. Gökhan Dizemen, Chief Financial Officer

Mr. Ali Sencer Turunç, Corporate Finance & Strategy Director

Conference Call Conducted by Chorus Call Hellas



CHORUS CALL HELLAS

PROVIDER OF TELECONFERENCING SERVICES

TEL: +30 210 94 27 300

FAX: + 30 210 94 27 330

Web: www.choruscall.com

OPERATOR: Ladies and Gentlemen, thank you for standing by. I am Mina your Chorus Call operator. Welcome and thank you for joining the AYGAZ conference call and Live Webcast to present and discuss the Third Quarter 2023 Financial Results.

At this time, I would like to turn the conference over to Mr. Ali Sencer Turunç, Corporate Finance and Strategy Director and Mr. Gokhan Dizemen, CFO.

Mr. Ali Sencer Turunç, you may now proceed.

TURUNÇ A: Good afternoon and welcome to our earnings webcast for the third quarter of 2023. I am Corporate Finance, Investor Relations and Strategy Director, Ali Sencer Turunç and we are together here with our CFO, Gökhan Dizemen. After the call, you can access the audio recording and 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 LPG market and operational highlights, then Gökhan Bey will comment on the financial overview and provide you with an update on LPG and natural gas statements and Sendeo operations. And at the end, as usual, we will have time for a Q&A session.

Let us start with the key operational highlights for the Third Quarter of 2023. On slide number three, Energy Market Regulatory Authority, briefly EMRA, published LPG sector July report most recently. According to seven-month figures, total Turkish LPG consumption grew by 24% year-over-year. Demand for both Turkish cylinder gas and Autogas markets increased by 6% and 20%, respectively.

Aygaz's total market share was 26.1% in the January-July period and Aygaz sustained its market-leader position. Aygaz's nine-month sales performance was strong both in domestic retail sales as well as wholesale and international sales. Our Autogas sales were 14% higher year-over-year on the back of the rising economic advantage of LPG against gasoline. Together with the growth in bulk gas sales, total domestic retail sales reached 874,000 tons with a growth of 19%, compared to the same period of the previous year.

Aygaz's wholesale and international LPG sales in total were up by 36% year-over-year, where their total volume reached 1.2 million tons. United Aygaz LPG, our joint venture in Bangladesh, continued its cylinder gas sales activities, which started in Chittagong in August 2022 by expanding to different regions. In the first nine-months period of the year, a total of 40,000 tons were sold through 104 dealers.

In terms of financial highlights, LPG and natural gas business line had a positive impact from higher LPG sales volumes due to the seasonality, higher distribution margins, and inventory gains coming from the upturn in SP. In the cargo handling and distribution business line, our new investment Sendeo, which continues its growth phase, incurred an operating loss of TRY192 million in the Third Quarter of 2023.

The consolidated Third Quarter net profit figure amounted to TRY2.4 billion including the contribution coming from EYAŞ, that is accounted under equity method. As of September, net financial debt amount declined to TRY29 million through the increased operational profitability and cash generation achieved in the Third Quarter.

Now let us look at the key highlights for Aygaz market shares and Turkish LPG market on slide number five, which is the first slide of LPG and natural gas segment. As per July, 2023, EMRA report, Aygaz achieved 41.4% and 22.1% market shares in cylinder gas and autogas markets respectively. Together with our market share of 38.3% in the bulk gas segment, Aygaz's total retail market share is realized as 26.1% that rose by 0.2 points year-over-year. Aygaz continues to be the uninterrupted leader of Turkish LPG market.

On slide number six, let us have a look at the sales performance of our company as of September. Our domestic retail sales volume in Q3 is 308,000 tons, up by 3% compared to Third Quarter of 2022 and our total sales are 2% higher year-over-year. Wholesale and international sales are up by 2% year-over-year in the Third Quarter of 2023.

When we look at our nine-month sales volume, domestic retail sales are 874,000 tons and up by 19% and total LPG sales are up by 29% year-over-year at 2,115,000 tons. The sum of wholesale and international is equal to 1,240,000 tons and 36% higher than the nine-month period of 2022.

International LPG sales constitute a significant portion of our company's overseas sales revenue and have reached to 753,000 tons and \$395 million revenue was obtained for the first nine-months of 2023. Adding the LPG device exports of \$23.7 million made by our Gebze facility, our total FX-based revenue comes up to \$419 million.

On slide number seven, let's cover the updates regarding our joint venture United Aygaz LPG in Bangladesh. According to the WLPGA report, Bangladesh's LPG market, which grew by 13% in 2021 and reached 1.4 million tons, is one of the fastest-growing LPG markets in the world with an average annual growth rate of 32% between 2016 and 2021. The fact that natural gas is promoted to be used only in industrial facilities and for electricity production as a state policy continues to have its positive effect on the growth of LPG consumption in the country.

Cumulative capital contribution of \$49 million is made into the joint venture in line with the initial investment plan. Aygaz's share corresponds to an amount of approximately \$24.5 million. After the sales operations that started as of August 2022, a sales volume of 40,000 tons was reached in the nine-month period of 2023.

As of September end, the company operates with 104 dealers and 3,600 sales points. In addition to two LPG sphere tank in use with a total capacity of 6,000 tons, the installation process of four new sphere tanks with a total capacity of 10,000 tons is progressing. In the following years, we plan to establish operations in other regions after Chittagong and target to distribute LPG to almost all of Bangladesh in line with our investment plan. Within this context, the work and permit processes for the Dhaka facility, which we aim to spread our operations, continue.

Now, let me give the floor to our CFO, Gökhan Dizemen, for the financial highlights of all business lines, starting with LPG and natural gas segment.

DIZEMEN G:

Thank you, Sencer. Welcome, everyone. As we all follow, the downward pressure on the economic activity continued in the Third Quarter of the year with the current monetary tightened policies of the Central Bank of the Republic of Turkey (shortly "CBRT").

After the elections held in May 2023, the CBRT made consecutive interest rate hikes and the policy rate reached to 30% in the Third Quarter of 2023. And as we all follow, the Central Bank of Turkey has further increased the policy rate by 500 basis points to 35% today. During the Third Quarter of the year, US dollar-Turkish lira parity also increased by 6% to 27.5 levels. Despite all challenges we face in this macroeconomic environment, we have not only managed to sustain our leadership position in the Turkish LPG market, but also continued our new investments where we target to diversify our value and EBITDA generation by tapping into

new markets in our core LPG business like our Bangladesh investment.

As our starting point, let's have a look at Sonatrach's LPG prices graph on slide eight. The Sonatrach price, which was moving upwards since the last quarter of 2022, followed a decreasing track between April-July 2023 due to the recession expectations in global markets and the downward trend in the global LPG consumption, especially in the Far East.

LPG prices turned upward in August by \$112 per ton, compared to July and reached to \$467 per ton as a result of increasing crude oil prices during July, supported by the decreasing supply due to the Saudi Arabia and Russia's production cuts, signs of stable demand coming from the US and expectations that China will take new precautionary measures to boost up the economic activity in the country.

Despite the negative impact of slowing economic activities on demand due to monetary tightening in global markets, increasing crude oil prices continued in September. In parallel with that, LPG prices increased by \$77 per ton in September, compared to August and reached to \$544 per ton. October Sonatrach price has been announced at the end of September and it shows an additional increase of \$23 per ton compared to the September price.

Total inventory gain resulting from the increase in the Sonatrach price in the Third Quarter is realized at TRY293 million, which offsets the inventory losses incurred in the First and Second Quarters of the year. Accordingly, a total net

TRY57 million inventory gain is realized in the January-September period of 2023.

Moving on to slide 9, looking at the Third Quarter's financial results for LPG and natural gas segment, we see that all main income statement items are realized higher on year-on-year terms. Quarterly revenue was 34% above the last year on the back of increasing product prices and sales volumes. Gross profit is up by 108% with the contribution of the improvement in retail distribution margins, higher sales volumes and inventory gains.

The increase in operating expenses mainly, due to inflation and net FX losses incurred related to trade receivables and payables, have negative impacts on operating profit level and EBITDA. However, Q3 EBITDA is realized at TRY810 million, which is 2x the level of the last year, mainly due to the improvement in gross profit.

Moving on to slide 10, Aygaz generated a revenue of TRY14 billion, up by 34% year-on-year and 47% quarter-on-quarter. Q3 gross profit is TRY1.6 billion, up by 49% quarter-on-quarter, with the contribution of net inventory gain resulted from upturn in Sonatrach price, increased volumes due to seasonality and higher distribution margins. The gross profit margin in our LPG and natural gas business line is 12%.

Moving on to slide 11, Q3 operating profitability reflects the positive impact coming from gross profit, which offsets the increase in operating expenses due to inflation. The net profit generated by the LPG and natural gas segment was TRY532

million, being higher than the last year's figure with the support of lower net financial expenses.

Concluding LPG and natural gas segment, let us have a look at our cargo handling and delivery segment on slide 12 and 13. We can start with recent updates regarding Sendeo, our new subsidiary in the last mile delivery business. In line with its investment plan, Sendeo's capital is increased by TRY430 million to TRY1.2 billion in 2023 and Aygaz participates in the capital increase corresponding to its share ratio of 55%.

As of the end of September, the number of distribution points is 408 and company has 1,551 active delivery points. Sendeo operates with 10 transfer centers and 13 distribution centers. The total number of delivered packages is 16.8 million in the nine-month period of 2023. 131,000 maximum daily package delivery is reached in September. And the number of customers is at 4,800, varying from leading Turkish e-commerce platforms to corporates which have strong e-commerce activities.

On slide 14, we can go over Sendeo's Q3 financial performance. Sales revenue is realized as TRY229 million in the Third Quarter of 2023, above the previous quarter due to the increased volumes. EBITDA in the first nine-month of 2023 within the scope of investment and growth period is a negative TRY531 million.

Moving on to slide 15 and slide 16, we can go over the consolidated financial performance. The positive performance of LPG segment offset the operating losses of Sendeo that is still in its growth phase and the consolidated EBITDA of

TRY991 million was generated in the first nine-months of the year. The net profit is TRY3.8 billion with the contribution coming from EYAŞ.

Moving on to slide 17, total contribution from EYAŞ, accounted under equity method is around TRY2 billion in Q3 of 2023. As a result, Aygaz's consolidated net profit (excluding non-controlling interest) is equal to TRY2.4 billion in Q3. There is no contribution from Entek starting from Q4 2022, which was transferred to Tüpraş with a partial demerger transaction.

On slide 18, you can see the evolution of our net working capital. The net working capital was realized at TRY1.4 billion down by 6% quarter on quarter. Net working capital to sales ratio, calculated from rolling 12-month average figures, stays in line with previous quarters. Our September-end inventory level is 156,000 tons, including in-transit inventory.

Moving onto our net financial debt and debt profile on slide 19. As of the end of September, net financial debt declined to TRY29 million on the back of the operational profitability and cash generation in the Third Quarter. Accordingly, our net financial debt over EBITDA ratio is 0.03x as of September-end.

Looking at the pie chart on the right side of the slide, 27% of our total debt is foreign currency denominated that corresponds to our loan of \$30 million and an additional \$8 million loan that was received in Q1 2023. In terms of FX position, we have a policy of keeping a neutral position after considering our inventories as natural hedges due to our

ability to reflect USD-Turkish lira parity increases to our pricing.

On slide 20, you can see our forward-looking statement for 2023. Our sales volume and market share guidance are as follows. Cylinder sales volume ranges at 245,000-255,000 tons and autogas sales volume ranges at 760,000 - 790,000 tons. Our cylinder market share is expected to be in between 41%- 43%, our autogas market share is expected to be in between 21.5% - 22.5%.

We have recently updated our autogas sales volume and market share expectations which were 750,000 - 780,000 tons and 22% - 23% previously due to the general autogas demand growth and recent market shares.

This concludes our presentation today. Thank you for your patience and now we can take your questions if any.

OPERATOR: Ladies and gentlemen, there are no audio questions at this time. We will now move on to written questions from webcast participants. Our first question from our webcast participant is from Yunus Emre Yenikalayci from Gedik Yatırım, and I quote. Its two questions, so: "WLPGA data is for United Aygaz back to 2021 data. Is this market figure just not reported anymore? I see the footnote on it is not the most recent. We're aware of the robust growth in the idiosyncratic market, but it would be nice to have a feel on current growth, maybe 2022-end figures if available? That's the first question." And second question, "do we have a timeline for Sendeo to turn EBITDA neutral at least?" And

third, "lastly, a general comment on SP prices, please? Where do we see ourselves looking a year ahead or so? Thanks".

DIZEMEN G: Thank you for the question. Let me start with the first one. World LPG Association regularly reports the market figures for each country in its annual report. 2022 report has not yet been published. Hence, we don't have a detailed knowledge regarding the size of the Bangladesh market.

On top of it, there is not a regulator in the country that reports the market size and market shares on a regular basis, as opposed to Turkey. As we all know, in Turkey, the Energy Market Regulatory Authority reports on a monthly basis the size of each energy market as well as the sales figures of the relevant players in the market, but there's not such a regulator in Bangladesh.

What we know from the sales of our dealers is that, the growth in the LPG market continued in 2022, however, not as the same pace of 2021, but we can say that the growth continues. We'll be able to report the relevant market figures once the World LPG Association makes its recent annual report available for 2022.

As for the second question regarding Sendeo's break-even EBITDA, obviously, as we all know, this is a business where we started from scratch. It's a greenfield business for Aygaz and 55% of this investment is owned by Aygaz and 45% is owned by Koç Holding. This is a scale game and as you can imagine, the company needs to increase its daily parcel delivery volumes to hit break-even EBITDA figures.

Currently, as we discussed during the presentation, we deliver around 90,000 parcels per day and because of the current macroeconomic environment, it's getting harder for the existing cargo players to reflect costs on prices. Also, there's a competitive market environment with the new capacity expansions of existing players, so it seems that it will take time for Sendeo to hit EBITDA break-even levels. But eventually, this is a scale game and the company needs to increase its daily parcel delivery volumes.

The last question was on the Sonatrach prices. I think this is really hard to estimate, because we have been passing through very volatile environments. As you remember, last year, after the war between Russia and Ukraine, we have seen the Sonatrach prices as high as \$900 per ton. And this year, it declined to \$350 per ton. There's a huge volatility and it's really hard to estimate prices. But overall, when you look at the historical averages, it seems that \$500 - \$600 per ton levels are the figures that we can expect going forward. But, as I mentioned, there's huge volatility in the market, that's been impacted due to the geopolitical risks as well as the supply-demand dynamics. Thank you.

OPERATOR: Our next question from our webcast participants is from Uğur Bozkurt with Deniz Yatırım and I quote. "Hello, thanks for the presentation. I have a question about Sendeo business. When will you arrive at break-even in cargos business? Also, what is the reason for declining customer numbers in cargo business? Thanks."

DIZEMEN G: I think that we have covered the first question regarding Sendeo's break-even point in the previous questions. As for

the customer numbers, the numbers are increasing obviously, when you compare with the start of this operation back in December '21. Currently, we have more than 4,500 customers ranging from big e-commerce platforms to corporations which have strong e-commerce activity as well as SMEs. Being a nationwide player is of paramount importance to Sendeo, as it enables them to make a collaboration opportunity with the large e-commerce platforms that are operating across the country. Thank you.

OPERATOR: Thank you. Our next webcast questions are from Umut Ozturk with ATA Invest and I quote. "Thanks for the presentation. I have three questions. One, do you think the strong Third Quarter 2023 operating profitability is sustainable in upcoming quarters given that nearly TRY300 million inventory gains were recorded in the last quarter? How do you see the outlook in Q4 2023 and 2024? Second question, do you expect the improvement in net debt position in Third Quarter 2023 to continue in Fourth Quarter? And third question, when do you expect Sendeo to start generating positive EBITDA?"

DIZEMEN G:

Thanks for the questions. Let me start again with the first one which was related with the operating performance we achieved in the Third Quarter of this year. Obviously, the increase in inventory gains compared to the First Quarter and the Second Quarter of this year created additional profit for Aygaz in the Third Quarter. We don't know how the Sonatrach prices will evolve going forward but, what we try to achieve is to have decent levels of gross distribution margins.

This is a continuous income for Aygaz obviously. Especially, decreasing pricing environment, as we observed during the First and the Second Quarters of this year, enables retailer companies, like us, to be able to manage their distribution margins much more efficiently, and we always prefer low pricing environment as this is also having a positive impact on demand.

Especially, in the case of our autogas segment, we follow the difference between the sales price of autogas and gasoline. As long as - these levels - the current difference between the autogas price and the gasoline price continues, we expect that the market will continue to grow as well.

Also, in the case of our cylinder gas market, again, lower prices are always beneficial for our consumers because it creates additional demand. It very much depends on the macroenvironment as well as the Sonatrach prices going forward. These factors will largely determine the demand and supply dynamics and the operating performance of the company.

The second question was on the improvement in net debt position. As you all know, Tüpraş and Tüpraş's parent company EYAŞ distributed dividends in the Fourth Quarter of this year, very recently. This will have a positive impact on our debt position in the Fourth Quarter of this year as well. And, because of the seasonality in the winter season, we can also expect an additional increase in prices if the demand comes especially from the Far East and the US. If the prices increase, this could result in better operating performance for

the company in the last quarter and could improve the net debt position.

The third question was again on Sendeo. I think we have covered this one during the first question.

OPERATOR: Thank you. Our next question from webcast participants is from Mehmet Gerz with ATA Portfolio Yönetimi, and I quote. "How long are you prepared to finance the loss-making cargo business?"

DIZEMEN G: Thank you for the question. Obviously, as we discussed during the presentation, up until now, we injected around TRY1.2 billion of capital to this cargo business. Of this 1.2 billion Turkish Lira, 55% comes from Aygaz and 45% comes from Koç Holding as these are the 2 shareholders of the company. This is a business where you have to establish a scale to be able first, become break-even and then, make profit. You need to establish capacity to be able to achieve this scale.

Going forward, depending on the needs of the company, we will consider either investing more as a capital to the company or start using financial debt on the balance sheet of the operating company. This will be subject to the decision of the Board of Directors of both Aygaz and Koç Holding as the two shareholders of the company. Thank you.

OPERATOR: Our next question from our webcast participants is from Orkun Godek with Deniz Invest and I quote. "Hi, this is Orkun Godek from Deniz Invest. Could you explain that clearly? What's factoring debt? What do we think about it?"

TURUNÇ A: Hello, this is Sencer Turunç. I'll be replying to the question. Thanks for the question. You receive cash in return of your customer receivables from the factoring companies. That's how the typical mechanism of the factoring works.

Actually, as Aygaz, we are trying to decrease any financial expense by increasing the variability of the tools we use. On our balance sheet, we have foreign-based debt, we have Turkish lira-based loans, we have also bonds. And now, we are also exploring this factoring as a tool to create cash, create funds for our operations. So, we switch to each other instrument which we find more feasible according to the market conditions.

DIZEMEN G: Just to add on what Sencer mentioned, we try to diversify our funding base as much as we can. And to do that, we also tap into new financing instruments like factoring. As long as we see there's a benefit, especially in terms of the interest rate, and for that purpose, we discounted some of our receivables and used factoring transactions in the Third Quarter of this year. The rates of these factoring transactions were competitive compared to bank loans. As I said, this created an additional financing tool for Aygaz. Thank you.

OPERATOR: Thank you. Our next question from our webcast participants is from Ahmet Çetin and I quote. "Do we expect new spheres will finish end of this year after getting permission from the state of Bangladesh?"

DIZEMEN G: Thank you for the question. As we discussed during the presentation, there are already two sphere tanks that are

operational within our Chittagong terminal and to be able to increase our sales volume in the country, we are investing in new sphere tanks.

The plan is to have four additional sphere tanks with a total capacity of 10,000 tons in Chittagong facility. And with these four new sphere tanks, the total storage capacity of the Chittagong facility will be around 16,000 tons. Of these four new sphere tanks, the construction of two of them have already been concluded. So they will be operational soon.

The other two new additional sphere tanks of these four new sphere tanks are still under construction. We plan to finalize the construction of these spheres as soon as possible.

I can also say that there's no issue in relation to the permissions from the relevant regulatory authorities as we have already received the permissions for our Chittagong facility.

OPERATOR: 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.

DIZEMEN G: Thank you for joining the call. See you. Bye-bye.