



## **AYGAZ Q2 2024 Financial Results Conference Call**

Tuesday, 6<sup>th</sup> August 2024, 15:00 TR Time

### **Conductors:**

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

Conference Call Conducted by Chorus Call Hellas



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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 Second Quarter 2024 Financial Results.

At this time, I would like to turn the conference over to Mr. Gokhan Dizemen, CFO.

Mr. Gokhan Dizemen, you may now proceed.

DIZEMEN G: Hi everyone, thank you for joining our earnings webcast for the second quarter of 2024. With me today are Duygu Yener, Financial Reporting and Control Manager of Aygaz, and Dalya Hasanca, Investor Relations Lead of Aygaz. Dalya has recently joined our finance team.

Before we begin, let me remind you that our presentation and comments in the Q&A session might contain forward-looking statements and assumptions based on our business environment as we see it today, and they might be subject to change. As always, I will start with a summary of the LPG market and operational highlights, together with an update on our Bangladesh Investment and Sendeo operations, then continue with the financial overview. And at the end, as usual, we'll have time for a Q&A session.

Please remember, you can access the audio recording and the transcript on our website after the call. Let us start with the key operational highlights for the First Quarter of 2024 on slide number three. The latest LPG report published by Energy Market Regulatory Authority, briefly EMRA, is as of May 2024, and according to January-May volumes disclosed

in the report, total Turkish LPG consumption declined by 8% year-on-year, due mainly to the high base year resulting from additional bulk gas sales occurred in 2023.

Turkish cylinder gas market declined by 8% and autogas market grew by 1% during the first five months of the year. Aygaz's total market share was 25.1% in January-May period and during this period, we continue to lead the LPG market in Turkey. In the First Half of the year, Aygaz's auto gas and cylinder gas sales volumes in total declined by 1% compared to the same period of the last year.

Auto gas sales was up by 1% year-on-year and could partially offset 7% year-on-year decline in cylinder gas sales volumes. Bulk gas sales declined by 71% as opportunistic LPG industrial customers of the First Quarter of the last year shifting back to natural gas due to the loss of price advantage of LPG over natural gas. With the loss in cylinder gas and bulk gas sales volumes, total domestic retail sales in the First Half of the year were realized as 510,000 tons, 10% below last year's level.

Aygaz's wholesale and international LPG sales volumes in total were down by 8% and realized at 623,000 tons. United Aygaz LPG, our joint venture in Bangladesh, continues its cylinder gas sales activities, which started in Chittagong in August 2022, by expanding to different regions of the country. In the First Half of the year, a total of 49,000 tons of LPG sales were reached through 140 dealers.

In terms of financial highlights, EBITDA of our core LPG and natural gas business line amounted to TRY784 million, which is 36% lower than the same period of the last year. The

increase in US dollar/Turkish Lira exchange rate, back in May-June period of last year after the elections, had a positive impact on the EBITDA due to the inventory gain resulting from exchange rate hikes. This was the main reason of the year-on-year deterioration in the First Half EBITDA performance of Aygaz in 2024.

In the parcel delivery business line, Sendeo's operating loss continued as part of its growth period. However, company's negative EBITDA performance in the First Half of the year declined by TRY139 million thanks to increased parcel delivery volumes and improvements in operational performance metrics. We'll be covering Sendeo separately in the upcoming slides.

As of June-end, Aygaz managed to sustain its net cash position, which is at TRY1.25 billion. Now let's take a look at the key financial highlights for Aygaz's market shares and Turkish LPG market on slide number 5. As per May 2024 EMRA report, Aygaz achieved 41.2% and 21.9% market shares in cylinder gas and autogas markets, respectively, in the January-May period.

Together with our market share of 36.4% in bulk gas segment, Aygaz's total retail market share is realized as 25.1% and Aygaz continues to be the uninterrupted leader of the Turkish LPG market. On slide number 6, let us have a look at the sales performance of our company as of June-end. Our domestic retail sales volume in the First Half is 510,000 tons, down by 10% compared to the same period of last year.

The negative year-on-year deviation in the retail sales was mainly from the decline in bulk gas and cylinder gas sales. The price advantage of LPG against natural gas during the First Quarter of 2023 resulted in higher opportunistic bulk gas sales in that period. In the case of cylinder gas, our six-month sales volumes declined by 8% year-on-year due to the overall contraction in the Turkish cylinder gas market, especially during the Second Quarter of this year, which resulted from worsening economic conditions.

Total wholesale and international LPG sales were down by 8% year-on-year in the First Half of 2024. As a result, Aygaz's total LPG sales during the first six months of the year were realized at 1.1 million tons down by 9% year-on-year.

On Slide 7, let us go over the Sonatrach price, which is the base benchmark price in the Turkish LPG market. Sonatrach price, in short SP, was at \$534 per ton as of the end of 2023. Despite a limited increase observed during the First Quarter of the year, SP declined by \$122 per ton during the Second Quarter due mainly to the high butane stocks in the Mediterranean basin.

On the demand side, negative impact of high interest rates on economic growth also put pressure on the LPG demand at the global level. As a result of the Sonatrach price movements occurred in the First Half of the year, Aygaz recognized a total inventory loss of TRY179 million.

With the impact of summer season demand, Sonatrach price increased by \$69 per ton to \$515 per ton in July 2024. This increase in SP in July will have an inventory gain impact in

Q3 of 2024, which is expected to partially offset the inventory loss incurred in Q2. Obviously, this offsetting impact will depend on the price movements in August and September as well.

On Slide 8, we'll be covering the updates regarding our joint venture, United Aygaz LPG in Bangladesh. Cumulative capital contribution of \$61 million is made into the joint venture in line with the initial investment plan. Aygaz's share within this cumulative contribution corresponds to an amount of around \$30.5 million.

In addition to four LPG sphere tanks in use with a total capacity of 11,000 tons, the installation process of two new sphere tanks with a total capacity of 5,000 tons is progressing in our Chittagong facility. The commissioning of these two new sphere tanks is planned before the year end. With these capacity increase, United Aygaz will be able to bring larger LPG vessels to the country and benefit from higher supply advantage.

Regarding our second facility in Dhaka, the capital of Bangladesh, the necessary legal permits have been obtained and construction works for establishing a LPG storage facility and cylinder filling plant have commenced. As for the sales performance, United Aygaz reached a total volume of 49,000 tons in the First Half of the year with 140 dealers and approximately 9,500 sales points.

The joint venture company generated a revenue of \$43.2 million and an EBITDA of \$2.1 million, and as part of the equity method of consolidation, United Aygaz's net profit contribution to Aygaz's consolidated financial results

amounted to TRY10 million in the First Half of the year. Concluding the developments in LPG and natural gas segment, let us have a look at Sendeo, our investment in the parcel delivery segment on Slide 9.

As for Sendeo's performance, we have been observing positive developments in some of the key operational metrics, including on-time delivery and complaint ratios. The on-time delivery rate, which was 88.6% in June 2023, increased to 95.6% in the same month of this year. This is also having a positive impact on the new customer acquisitions and retention of the company's existing customers.

Accordingly, the average number of packages delivered daily during January-June 2024 period is at 99,000, which is 24% higher than last year. Monthly sales volumes continue to show an increasing trend in the First Half of the year and a total of 13.1 million packages were delivered since the beginning of the year.

All legal documentation, including share purchase agreement and shareholder agreement and share transfers for conducting the activities of Sendeo and Kolay Gelsin under the Kolay Gelsin brand with the principle of equal partnership of Sendeo shareholders, i.e., Koç Holding and Aygaz and Mr. Ahmet Musul, have been completed as of the end of June 2024.

After the relevant transactions, Mr. Ahmet Musul owns 50% of Sendeo shares, and Sendeo owns full shares of Kolay Gelsin. Aygaz's shareholding at Sendeo declined to 27.5% from 55%, and according to the new shareholder structure,

Koç Group and Mr. Ahmet Musul have obtained direct joint control in Sendeo and indirect joint control in Kolay Gelsin.

It may also be worth highlighting the fact that July onwards, Sendeo became a joint venture investment for Koç Group, and according to this structure change, it will be accounted by using equity method under Aygaz's consolidated financial statements.

As informed you before, we believe that the combined parcel delivery volumes of these two entities will generate synergies in both costs, including facilities, main haul, and last mile operations, as well as the administrative expenses of the two entities. With this increased scale and synergies, we expect that the merged entity will hit break-even profitability levels at an earlier stage.

Moving on to slide 11, I'll now walk you through the key drivers for our core LPG business segment's financial performance compared to the prior year. The increase in the US dollar/Turkish lira exchange rate observed in the Second Quarter of last year, right after the elections had a positive impact on gross profit and EBITDA levels in Q2 of 2023, with the inventory gain coming from exchange rate increases.

Due to this high base impact, gross profit and EBITDA for the second quarter of this year are 26% and 66% lower than the same period of last year, respectively. The decrease of 66% or in absolute amounts, TRY549 million observed in EBITDA for the Second Quarter of 2024 is reduced to 32% or in absolute terms, TRY69 million at the operating profit level, due to the impact of the decrease in net foreign exchange losses related to operational activities recognized



under other operational income and loss. The operating profit for the First Half of 2024 is also TRY69 million (%16), lower than the same period of last year due to the deviation coming from Q2.

On slide 12, you can see the quarterly evolution of our gross profit and EBITDA in 2023 and 2024. We have already discussed the Q2'24 vs. Q2'23 EBITDA performance on the previous slide. On this slide, I just want to emphasize the fact that, if we are to exclude the impact of inventory gain/loss stemming from Sonatrach price changes on our Q2 and Q1 financial results, there is a 20% increase in EBITDA performance in the Second Quarter compared to the First Quarter of this year.

Now, turning to the next slide on page 13, we'll go over our consolidated financial performance including Sendeo and EYAŞ investment that is accounted under equity method. Sendeo was fully consolidated in the First Half consolidated results as the transactions related with Sendeo/Kolay Gelsin merger process has been completed as of the end of June.

In line with the improvement in its operational indicators and the increase in sales volumes, Sendeo has achieved a lower operational loss in Q2'24 compared to the same period of last year. Thus, the consolidated operating profit/ loss performance for both the Second Quarter and the cumulative six-month period are above last year's performance by 69% and 60% respectively, thanks to Sendeo's better operational performance in 2024.

While the consolidated operating profit/loss is above last year, the main reasons for the net profit attributable to the

equity holders of the parents being lower than last year is the decrease in the net profit contribution coming of EYAŞ.

One of sales loss and deferred tax expense resulting from the change of control transactions at Sendeo also had a negative impact on the consolidated net profit performance in Q2 of this year.

Moving on to slide 13, you can see balance sheet items as of June end. As of March end, our net working capital requirement is at TRY890 million, and net cash position is at TRY1.25 billion. The slight decline in net cash position of around TRY250 million compared to the year-end of 2023 stems mainly from the increased net working capital requirement as a result of the decrease in trade payables.

Looking at the pie chart on the right side of the slide, 90% of our total debt is foreign currency denominated that corresponds to USD loans of \$45 million as of the end of June 2024. As a part of our financial policy, we always target to keep a neutral FX position after considering our inventories as natural hedges.

On slide 14, you can see our forward-looking statements for 2024. Our sales volume and market share guidance are as follows; cylinder sales volume ranges at 240,000 to 250,000 tons and autogas sales ranges at 770,000 to 800,000 tons. And our cylinder market share is expected to be in between 41.0% to 43.5%. Our autogas market share is expected to be in between 21.5% to 22.5%.

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

OPERATOR: Ladies and gentlemen there are no audio questions at this time. We will move on to written questions from webcast participants. Our first webcast question is from Umut Ozturk with Ata Invest, and I quote, "Thanks for the presentation. How did you manage to improve your net cash position, quarter-on-quarter, despite the dividend payment and rise in working capital?"

DIZEMEN G: Thank you for the question. Looking at the figures on page 14, you can see that our net cash position is at around TRY1.2 billion as of the end of June 2024 and it's almost at par compared to March end. The net cash position as of March-end was around TRY1.1 billion. There's a slight increase at TRY100 million. And compared to the year end, there is a decline of around TRY250 million on our net cash position. This decline mainly stems from the additional net working capital need on our balance sheet compared to the year end of 2023. And apart from that, the operational cash that we generated from our core LPG business had a positive impact on our cash position. On top of it, we received dividends from EYAŞ and paid dividends to our shareholders during Q1. They net off each other. These were the main cash flow items that we had during the First Half of the year. Thank you.

OPERATOR: The next webcast question is a follow-up question from Mr. Umut Ozturk with Ata Invest and I quote, how do you see the outlook of the Second Half 2024 in terms of LPG markups and inventory gains losses? Thank you.

DIZEMEN G: Thank you Umut Bey for this question. First of all, as discussed during the presentation in Q2, there was a decline in Sonatrach LPG prices. Due to this decline, we incurred an

inventory loss of TRY179 million in total in the First Half of the year.

As you might already follow, Sonatrach has announced July and August prices. In July, there was \$69 per ton increase in the Sonatrach LPG prices, which will result in an inventory gain in Q3. In August, the prices were almost flat and there was no change, and we don't expect any inventory gain or loss in August. We'll see September prices. And as the winter season kicks in, there could be additional demand coming from the US as well as China and this might also have a positive impact in the prices, which can increase them during the last quarter of this year. This very much depends on the supply and demand dynamics that will occur in the last quarter of this year. But overall, we expect to offset a good portion of the inventory loss that we booked in the first half of the year with this additional inventory gain that we'll be booking in July. Thank you.

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 our call. See you again in the next Third Quarter Financial Conference. Bye-bye.