AYGAZ Q2 2023 Financial Results Conference Call

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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 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 S: Good afternoon and welcome to our earnings webcast for the Second Quarter of 2023. I am Corporate Finance and Strategy Director, Sencer Turunc 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 segments 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 Second Quarter of 2023. Energy Market Regulatory Authority, briefly EMRA, published LPG sector May report most recently. According to five-month figures, total Turkish LPG consumption grew by 28% year-over-year. Demand for both Turkish cylinder gas and auto gas markets increased by 3% and 23%, respectively. Aygaz total market share was 26.3% in the January-May period and Aygaz sustained its market leader position.

Aygaz' Half-Year sales performance was strong both in domestic retail sales as well as wholesale and international sales. Our auto gas sales were 24% higher year-over-year due to the rising economic advantage of LPG against gasoline. Together with the growth in bulk gas sales, total domestic retail sales reached 566,000 tons with a growth of 30%, compared to the same period of the previous year. Aygaz wholesale and international LPG sales were up by 44% and 70% year-over-year, where their total tonnage reachedto 874,000 tons. Unite 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. In the First Half of the year, a total of 21,000 tons were sold through 106 dealers.

In terms of financial highlights, LPG and natural gas business lines had a positive impact from higher LPG sales volumes and distribution margins. In the cargo handling and distribution business lines, our new investment, Sendeo, which continues its growth phase, incurred an operating loss of TRY369 million.

The consolidated January-June period net profit figure amounted to TRY1.4 billion on the back of the contribution coming from Eyas, that is accounted under equity methods. As of June, net financial debt amount reached TRY1.1 billion due to the increase in working capital.

Now let us look at the key highlights for Aygaz market shares and the Turkish LPG market on slide number five, which is the first slide of LPG and natural gas segment. As per May 2023 EMRA report, Aygaz achieved 40.8% market share in cylinder gas market down by 0.5 points year-over-year, and our autogas market share is 22.1%, which is parallel to the last year. Together with our market share of 38% in Bulk Gas segment, Aygaz total retail market share is realized as 26.3% that rose by 0.5% points year-over-year. Aygaz continues to be the uninterrupted leader of Turkish LPG market.

On slide number six, let's have a look at the sales performance of our Company as of June. Our domestic retail sales volume in Q2 is 288,000 tons up by 22%, compared to Q2 2022. And our total sales are 19% higher year-over-year with better performances of wholesale and international sales, which in aggregate is up by 16% year-over-year. Whenwe break it down, wholesale is up by 27% year-over-year and international sales are up by 7% year-over-year.

When we look at our six-month sales volume, domestic retail sales are at 566,000 tons and up by 30% and total LPG sales are up by 46% year-over-year at 1.4 million tons. The sum of wholesale and international is equal to 874,000 tons and 59% higher than the Six-Month period of 2022.

International LPG sales constitute a significant portion of our company's overseas sales revenue and have reached 513,000 tons and $309 million revenue was obtained for the first Six Months of 2023. Adding to LPG device exports of $20 million made by our Gebze facility, our total FX-based revenues come up to $329 million.

On slide number seven, let's cover the updates regarding our joint venture, United Aygaz LPG Limited in Bangladesh. According to the WLPGA report, Bangladesh 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 effects on the growth of LPG consumption in the country. Cumulative capital contribution of $49 million is injected 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 21,000 tons was reached in the Six-Month period of 2023. As of June end, the Company operates with 106 dealers and 3,500 sales points. In addition to two LPG sphere tanks with a total capacity of 6,000 tons, the installation process of three new sphere tanks with a total capacity of 7,500 tons continues in Chittagong. The total storage capacity of Chittagong facility will reach 13,500 tons. The permit process for the Dhaka facility, which we aim to spread our operations, continues.

Total number of employees has reached 159 as of June end. In the following years, we plan to establish Dhaka and Mongla operations after Chittagong and target to distribute LPG to almost all of Bangladesh, in line with our investment plan.

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, and welcome, everyone. The downward pressure on economic activity caused by the earthquake disaster at the beginning of 2023 continued in the Second Quarter of the year. In this quarter, Turkey has also gone through an important election process. The appointment of the new Economy Management team has started to show its impact on the Turkish economy. After the elections, the Central Bank of Republic of Turkey has increased interest rates twice, from 8.5% to 15%, and from 15% to 17.5% in the last two months period.

US dollar-Turkish lira parity increased by 35% from 19.2 to 25.9 between 31st of March and 30th of June 2023. The Economy Management team also gives signals of further credit tightening, which is expected to impact liquidity in the market as well. Despite all these challenges, we managed to sustain our leadership position in the Turkish LPG market and continue our 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 LPG prices, graph on slide eight. The Sonatrach price, which was moving upwards since the last quarter of 2022, decreased by $169 per ton, down to $506 per ton in April, due to the recession expectation in the global markets and the downward trend in the global LPG consumption, especially in the Far East. Despite supply concerns originating from Iran and Russia, concerns about the US economy, the ongoing fragility in the banking sector and the continued weakness in the manufacturing sector in China have caused crude oil prices to fall sharply since mid-April. In parallel with the contraction in demand and negative market view, LPG prices had shown another decrease by $17 per ton, down to $489 per ton in May.

In addition to the decline in economic growth and decreasing demand worldwide, the data from China showing that the post-pandemic economic recovery has slowed down, caused crude oil prices to drop sharply towards the end of May. In parallel with this, LPG prices in June decreased by $84 per ton to $405 per ton compared to the previous month.

In July, SP price, which has not shown correlation with crude oil within the framework of difference of usage area and supply-demand dynamics, decreased further by $50 per ton to $355 per ton due to the high stock levels and low demand in the Mediterranean region. In order to reflect the impact of July price fall, a provision for impairment on inventory has been set aside in the Second Quarter of 2023. That resulted in a net inventory loss of TRY144 million for March-June period 2023.

Total inventory loss resulting from the decrease in Sonatrach price is realized as TRY236 million in the first Six-Month period of 2023. August Sonatrach price has been recently announced yesterday and it shows an increase of $112 per ton, compared to July price. Obviously, this will enable Aygaz to recover a substantial portion of the inventory losses booked in the First Half of the year in the Third Quarter.

Moving on to slide nine, looking at the Second Quarter 's financial results for LPG and natural gas segments, we see that all main income statement items are realized either in parallel or higher year-on-year terms. Despite the 46% increase in total sales volume, compared to the previous year, sales revenues were realized in parallel due to the decline in product prices.

Gross profit increased by 124% thanks to higher FX rates and distribution margins in Q2 2023. The increase in operating expenses due to inflation and net FX losses related to trade receivables and payables have a negative impact on operating profit and EBITDA. Nevertheless, as a result of the improvement in gross profit, an EBITDA of TRY491 million was generated, which is 3x the level of the last year.

Moving on to slide 10. Aygaz generated a revenue of TRY9.6 billion which is in line with the last year and down by 22% quarter-on-quarter. Q2 gross profit is TRY1.1 billion, up by 39% quarter-on-quarter, due to higher sales volumes, FX rates and distribution margins. The gross profit margin for our LPG and natural gas business line is 11%.

Moving on to slide 11, Q2 operating profitability reflects the positive impact coming from gross profit, which offset the increase in operating expenses due to inflation, and net FX losses related to trade receivables and payables. The net profit generated by the LPG and natural gas segment was TRY127 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 slides 12 and 13. We can start with the recent updates regarding Sendeo, our new subsidiary in the last mile delivery business. In line with the investment plan, Sendeo's capital is decided to be increased by TRY430 million to TRY1.184 billion, the General Assembly held on March 15, 2023. Out of this TRY430 million, Aygaz decided to pay TRY300 million before the registration process, and as Aygaz, we paid our portion of TRY165 million in cash on 21st of March, 2023. The payment of the remaining TRY130 million was completed by the shareholders at the beginning of July, 2023, and Aygaz participated in the capital increase corresponding to its share ratio.

As a reminder, Sendeo was started as an innovation project to create added-value from Aygaz existing assets by leveraging Aygaz brand value, widespread dealer network and home delivery experience in strategic business areas. With this aim, after starting its operations in May 2021 in Istanbul, the expansion in all 81 provinces was completed in February 2022 in less than a year. As of the end of June 2023, the number of distribution points is 405 and the company has 1,629 active delivery points.

Sendeo operates with 10 transfer centers and 13 distribution centers. The total number of delivered packages is 10.8 million in the Six-Month period of 2023. 108,000 maximum daily packages deliveries reached in June, and the number of customers is at around 5,400, varying from leading Turkish e-commerce platforms to corporates which have strong e-commerce activities. Sendeo’s staff working in the field reached to around 1,5420 as of June end, making the total number of employees 1,859 as of the end of June.

On slide 14, we can go over Sendeo's Q1 financial performance. Sales revenue is realized as TRY148 million in the Second Quarter of this year, which is above the previous quarter due to the increased volume. EBITDA in the First Half of the year within the scope of investment and growth period is a negative TRY348 million. Net loss in the Second Quarter of this year is down by 12% quarter-on-quarter with the effect of increased volumes as well as cost-efficiency efforts.

Moving on to slide 15 and slide 16, we go over consolidated financial performance. The positive performance of the LPG segment offset the operating loss of Sendeo that is still in its ramp-up phase, and consolidated EBITDA of TRY364 million was generated in the First Half of the year. The net profit is TRY1.4 billion, with the contribution from Eyas.

Moving on to slide 17, total contribution from Eyas accounted under equity consolidation method is TRY670 million in Q2 2023. As a result, Aygaz's consolidated net profit, excluding non-controlling interest, is equal to TRY724 million in Q2 2023. There is no contribution from Entek, started from the Fourth Quarter of 2022, which was transferred to Tupras with a partial demerger transaction.

On slide 18, you can see the evolution of our net working capital. The net working capital was realized as TRY1.5 billion, up by 171% quarter-on-quarter, mainly due to the increasing stock level with the impact of the seasonality. Net working capital over sales ratio calculated from the rolling 12-month average figures stayed in line with previous quarters. Our June-end inventory level is 142,000 tons, including in transit inventory.

Moving on to our net financial debt and debt profile on slide 19, as of end of June, net financial debt is higher by TRY800 million compared to previous quarter and due to the increase in working capital. Accordingly, our net financial debt over EBITDA is at 1.7x as of June end. And looking at the pie chart on the right side of the slide, 40% of our total debt is in 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 US dollar-Turkish lira parity increases to our pricing.

On slide 20, you can see our forward-looking statements for 2023. Our sales volume and market share guidance are as follows. Cylinder sales volume ranges at 245,000 tons to 255,000 tons, and autogas sales ranges at 750,000 tons to 780,000 tons. And our cylinder market share is expected to be in between 41% to 43%. Our autogas market share is expected to be in between 22% to 23%. We have recently updated our autogas sales volume expectations, which was initially 730,000 tons to 760,000 tons, thanks to the general demand growth in the market.

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

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: Thanks again for joining our call. See you. Bye-bye.