



AYGAZ Q1 2024 Financial Results Conference Call

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Conductors:

Mr. Gökhan Dizemen, Chief Financial Officer

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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 first quarter 2024 Financial Results.

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

Mr. Gökhan Dizemen, you may now proceed.

DIZEMEN G: Thank you, Mina. Good afternoon, everyone. Thank you for joining our earnings webcast for the first quarter of 2024. With me today are Kozan Nabi Çiftçi, Corporate Finance Manager; and Duygu Yener, Financial Reporting and Control Manager of Aygaz.

Before we begin, let me remind you that our presentation and comments in 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.

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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 will have time for a Q&A session. After the call,

you can access the audio recording and the transcript on our website.

Let us start with the key operational highlights for the first quarter of 2024 on Slide 3. Energy Market Regulatory Authority, briefly EMRA, published LPG sector report for the period of January-February of 2024. According to 2-month figures, total Turkish LPG consumption declined by 10% year-on-year due mainly to the high-base resulting from additional bulk gas sales occurred in 2023. Turkish cylinder gas market declined by 3% and autogas market grew by 4% during the first 2 months of the year. Aygaz's total market share was 25.1% in January-February period and we managed to sustain our leadership position.

In January-March 2024, Aygaz's autogas and cylinder gas sales were in line with the last year. Bulk gas sales declined by 78% as opportunistic LPG industrial customers of the first quarter of the last year shifting back to natural gas due to the loss of the price advantage of LPG over natural gas. With the loss in bulk gas sales volumes, total domestic retail sales in the first quarter of the year were realized as 238,000 tons, 14% below last year's level.

Aygaz's wholesale and international LPG sales in total were down by 18% and realized as 288,000 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 quarter, a total of 25,000 tons of LPG sales were reached through 140 dealers.

In terms of financial highlights, our core LPG and natural gas business line had a strong quarter in its operational profitability performance thanks to increase in distribution margins and inventory gain recognized. In this context, the EBITDA of the LPG and natural gas segment in the first quarter reached TRY464 million, which is 25% higher than last year.

In the parcel delivery business line, Sandeo's operating loss continued as part of its growth period.

As of March end, Aygaz's net cash position was at TRY1.1 billion.

Now let's look at the key highlights for Aygaz's market shares and Turkish LPG market on Slide number 5.

As per February 2024 EMRA report, Aygaz achieved 41.7% and 21.8% market shares in cylinder gas and autogas markets, respectively, in the January-February period. Together with our market share of 34.7% in bulk gas segment, Aygaz's total retail market share is realized as 25.1% and Aygaz continued to be the uninterrupted leader of the Turkish LPG market.

On Slide 6, let us have a look at the sales performance of our company as of the March-end.

Our domestic retail sales volume in the first quarter of the year is 238,000 tons, down by 14% compared to the same quarter of the last year. As mentioned at the beginning of the presentation, the negative year-on-year deviation in the retail sales was mainly from the decline in bulk gas sales. The price advantage of LPG against natural gas during the first quarter of 2023 resulted in higher opportunistic bulk

gas sales during that period. The total wholesale and international sales were down by 18% year-on-year in the first quarter of 2024.

As a result, Aygaz's total LPG sales during the first 3 months of the year were realized as 526,000 tons, down by 16% year-on-year.

On Slide 7, let us go over the Sonatrach price, which is the base benchmark price in the Turkish LPG industry.

Sonatrach price was \$534 per ton as of the end of 2023. Weak economic data from China, positive news results regarding the ceasefire talks in the Israel-Palestine conflict, and the strengthening U.S. dollar put downward pressure on prices, and Brent oil continued its fluctuating course throughout January. In February, Sonatrach LPG prices showed a limited increase of \$3 per ton in parallel with crude oil prices. Supported by the ongoing wars in the Middle East, crude oil prices continued to rise throughout March. As a result of these price movements occurred in the first quarter, Aygaz recognized a total inventory gain of TRY58 million versus an inventory loss of TRY92 million in the first quarter of the last year.

In April, Sonatrach LPG prices showed a limited decrease of \$9 per ton to \$560 per ton, diverging from crude oil prices within the framework of high butane stocks in the Mediterranean Basin and supply-demand dynamics. In May, Sonatrach LPG prices decreased further by \$67 per ton, caused by expectations that the United States may begin purchasing crude oil to replenish the strategic petroleum reserve, the current production cuts of OPEC+ countries,

the ongoing tension in the Middle East, the impact of high interest rates on growth and low demand at the global level.

Let us move to the next slide, where 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 \$30.5 million.

In addition to 4 LPG sphere tanks in use with a total capacity of 11,000 tons, the installation process of 2 new sphere tanks with a total capacity of 5,000 tons is progressing in our Chittagong facility. As we mentioned in our previous calls, the Chittagong facility will be the satellite facility of our investment in Bangladesh. The commissioning of these 2 new sphere tanks is planned before the year-end. With this 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 an LPG storage facility and cylinder filling plant have commenced.

As for the sales performance, United Aygaz reached a total volume of 25,000 tons in the first quarter with 140 dealers and approximately 9,000 sales points.

The joint venture company generated a revenue of \$23.5 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 TRY20 million in the first quarter 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 number 9.

As of the March-end, Sendeo operates with 11 transfer centers and 23 distribution centers and has 1,344 active delivery points across the country.

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. Obviously, these improvements are also having a positive impact on the new customer acquisitions and retention of these customers. Accordingly, maximum number of daily packages delivered reached to 143,000 during March and daily average packages realized as ~100,000 up by around 20% compared to the same month of the last year.

As you may remember from our last call, we informed you regarding the merger process of Sendeo with Kolay Gelsin under Kolay Gelsin brand with the principle of equal partnership of Sendeo shareholders, including Aygaz and Koç Holding and Kolay Gelsin's sole shareholder, Mr. Ahmet Musul. In relation to this process, approval of the Competition Authority has been recently obtained. The transaction is aimed to be closed before the end of the second quarter after signing the binding legal documentation including the shareholders agreements and the share purchase agreements.

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

Once again, it may be worth highlighting the fact that once the transaction is completed, Sendeo will become a joint venture for Koç Group and Aygaz and it will be accounted by using equity method under Aygaz's consolidated financial statements, rather than the current full consolidation method.

Moving onto slide 11, I'll now walk you through the key drivers of our core LPG business segment's financial performance, when compared to the prior year. Please bear in mind that the financial figures on this presentation are adjusted according to inflation accounting principles in accordance with IAS-29. Hence, all figures expressed on slides 11 to 13 are based on the purchasing power of Turkish Lira as of March-end 2024.

Sales revenue showed a decline compared to the previous year, mainly caused by; (1) lower average Sonatrach prices of around 15% compared to last year, (2) decline in the bulk gas sales volumes and (3) Aygaz UK trading sales realized in the first quarter of last year.

The primary factors contributing to 15% year-on-year gross profit growth include the impact of improvement in distribution margins above inflation and higher inventory gains.

In line with the performance at gross profit, EBIT and EBITDA of the company were up by 64% and 25% respectively.

All-in-all, the operational profitability indicators displayed a positive year-on-year performance in the first quarter for the LPG and natural gas segment.

The improvement in net financial expenses due to the net cash position is being eroded by the monetary loss incurred within the scope of inflation accounting. As a result, the profit before tax (PBT) of our core LPG and natural gas business realized at TRY321 million and it is 29% lower than last year.

Now, turning to the next slide on page 12, we'll go over our consolidated financial performance including Sendeo, our fully consolidated subsidiary and EYAŞ investment that is accounted under equity method.

Consolidated EBITDA in the first quarter of the year is 4 times higher than the previous year thanks to the positive contribution of the LPG and natural gas segment and a decrease in operating loss at Sendeo.

The decrease in contribution from investments accounted under the equity method, notably from EYAŞ and the monetary loss incurred within the scope of inflation accounting have negatively impacted PBT and net profit compared to last year.

Moving on to Slide 13, you can see the major balance sheet items as of March-end.

Our net working capital requirement is at TRY853 million and net cash position is at TRY1.1 billion as of the end of March 2024. The decline in the net cash position of around TRY350 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, 84% of our total debt is foreign currency denominated that corresponds to US dollar loans of \$45 million. And as a part of our financial position for 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 gas sales volume ranges at 240,000 tons and 250,000 tons. And autogas sales ranges at 770,000 tons and 800,000 tons.

And our cylinder market share is expected to be in between 41,0% and 43,0%. Our autogas market share is expected to be in between 21.5% and 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 now move on to written questions from webcast participants.

Our first webcast participant question is from Umut Ozturk with Ata Invest. And I quote, hi, thanks for the presentation.

Could you please give me more financial data about Bangladesh? How much was revenue and EBITDA contribution in the first quarter of 2024? And how do you expect it to be in 2024? Thank you.

DIZEMEN G:

Thank you for the question. First of all, at this point, I think it may be worth mentioning the fact that our Bangladesh investment is a joint venture. And due to this reason, we do not fully consolidate the financial results of the joint venture company. Rather, we use equity method of accounting to consolidate the results of the company within our consolidated financial statements.

Having said that, we give detailed information to our shareholders and investors regarding the financial performance of the joint venture in Bangladesh in our financial report. And in the first quarter of this year, as also mentioned during the presentation, the joint venture company generated a revenue of \$23.5 million and an EBITDA of around \$2 million.

But as I said, we, at Aygaz level, do not consolidate the sales and EBITDA performance of the company in our financial results. And as for the equity method of consolidation, we had around TRY20 million profit coming from Bangladesh investment in our consolidated results, which has been reflected below the EBITDA and operating profit levels at the profit and loss statement.

Well, I think, we can take the next question.

OPERATOR: Of course, sir. And the next webcast question is from Ahmet Çetin, a Private Investor. And I quote, what is your estimate on when the facility of Dhaka will start production? Thank you.

DIZEMEN G: As again mentioned during the presentation, we've been continuing to make investment in our satellite plant in Chittagong, whereby we currently installed 4 LPG sphere tanks with a total capacity of 11,000 tons and the installation process of 2 new spare tanks with a total capacity of 5,000 tons is ongoing.

On top of this, we've started our investment in Dhaka, which will be the second facility of United Aygaz within the country, and which will also enable the company to be able to reach much more regions across the country. And regarding this investment in Dhaka, we have obtained all the necessary legal permits and expect the facility to commission by the end of this year. Thank you.

OPERATOR: Thank you. We have a follow-up question from Mr. Umut Ozturk with Ata Invest. And I quote, could you please remind again how much stake Aygaz will have in cargo business after the transaction is completed? Thank you.

DIZEMEN G: Thank you for the question. As we mentioned during our presentations and as you can also follow up from our financial reports, Aygaz currently owns 55% shares in Sendeo and the remaining 45% is owned by Koç Holding. After this potential merger transaction, once it has been completed after taking all the necessary permits as well as completing the legal documentation, the expected share structure will be 50% Koç Group and 50% Mr. Ahmet Musul. And due to this new structure, Aygaz's share within the merged entity will decline to 27.5%. Accordingly, as again mentioned during the

presentation, this will be a financial investment for Aygaz and will not be fully consolidated and be accounted under the equity method within the consolidated financial results. Thank you.

OPERATOR: Thank you, sir. Our next webcast question is from Ezgi Yilmaz with Ak Yatirim and I quote, thank you for the presentation. What do you expect about the EBITDA performance of LPG operations in 2024?

DIZEMEN G: As discussed during the presentation, in the first quarter of the year, our cylinder gas and autogas sales performed in line with our expectations and on a year-on-year basis, the sales volume figures were flattish. And accordingly, we haven't changed our guidance regarding our sales volumes for the whole year as well as our market share.

As for the EBITDA performance, unfortunately, we can't provide it. That is not something that we provide for our financial results. We only provide the volume expectations as well as the market share expectations of the company as a part of our public disclosure policy.

But overall, I can say that our current expectation is in line with what we budgeted during November and December period of last year and we haven't changed our market share guidance for the sales volumes and market share. Thank you.

OPERATOR: Ladies and gentlemen, there are no further questions at this time. I will now turn over to Management for any closing comments. Thank you.

DIZEMEN G: I think there are no other question. So, we can close the presentation. Thank you for joining and look forward to seeing you on our next investor call. See you. Bye-bye.