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Corporate Participants

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Presentation

Operator
Ladies and gentlemen, welcome to Aygaz Fourth Quarter 2019 Financial Results Earnings conference call. I will now hand over to IR Manager, Selin Sanver. Please go ahead.

Selin Sanver
Thank you. Good afternoon. Welcome to our earnings webcast for 4Q 2019. I am Selin Sanver and I have here with me Ferda Erginoğlu our CFO and Şebnem Yücel, our Finance Manager. After the call, you can access a replay facility on our website together with the transcript.

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 change 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 I will hand over to Mr. Erginoğlu for the financial overview and at the end, we will have time for questions.

Let's start with the key highlights for the final quarter of 2019. This quarter, Aygaz autogas sales were 13% higher year-on-year. Autogas consumption benefit from the prospering market environment and the good weather conditions. Additionally, our target-oriented sales policies proved to be effective. In 4Q, developments on the inventory valuation side was positive due to the increasing commodity prices in October, November, and December without cease. Another good update was on the restructuring of the financial borrowings where we closed some of our loans before maturity in order to gain interest rate advantage. Ferda Bey will be giving more details on that. Also during the year for 12 months, sales volumes surpassed 2 million tons with a 3% increase year-on-year. Our consolidated sales revenue is up to TL 10.2 billion, which is 7% higher than previous year. Our gross profit improved by 51% year-on-year thanks to better cylinder profitability and high supply advantage created. Even in adjusted terms where provision and inventory affects are eliminated, the progress in gross profit is at 32% level. Aygaz continues to be the market leader in all segments of LPG, with 42% and 22% in cylinder and autogas respectively.

Now, we can take a look at the key highlights for Turkish LPG market. According to the latest LPG market industry report published by Energy Market Regulatory Authority (EMRA), the cylinder gas market has tightened by 2.9% year-on-year in the first 11 months of 2019. Whereas, the autogas market was 1.8% higher than the previous year's figures. The total Turkish LPG demand for January and November period, together with bulk is 3.8 million tons, and up by 0.5% year-on-year.

In the last three months of 2019, Aygaz total domestic retail LPG sales are 257,000 tons and up by 7% year-on-year. Aygaz 3Q autogas sales are up by 13%, as we have mentioned earlier. And cylinder sales are down by 2% year-on-year. Fourth quarter total LPG sales increased by 16% compared to last year, due to acceleration both in autogas, wholesale and international sales. Yearend total Aygaz LPG sales reached 2,068 million tons up by 3% compared to previous year, with the support of 17% growth in our international sales. Cylinder LPG sales are 302,000 tons and autogas sales are 734,000 tons, that sums up the domestic retail sales of 1,075 million together with our bulk sales.

Aygaz domestic sales were repressed until the last quarter of 2019 due to profit-oriented sales policies and the fierce competition in the market. LPG exports and transit sales constitute a significant portion of our company's overseas sales revenue, and they have reached 993,000 tons up by 10% compared to last year, and $262 million revenue was obtained in 2019.

Cylinder LPG sales were 4% lower than the last year. The main reasons stand out to be the continuation of lower commercial sales, expansion of natural gas transition and the urban transition, and also our company's choice to remain relatively unresponsive to the price competition in the market.

Aygaz autogas volumes are up by 0.6% year-on-year, as we have explained earlier, which was due to better market environment and weather conditions, and also our high sales targeting sales policies.

Now, let me give the floor to Mr. Erginoğlu for financial highlights.

Ferda Erginoğlu

Hello and welcome to our Q4 2019 earnings webcast.

As usual, I would like to start with LPG – Brent world prices chart, since the changes in LPG prices are one of the determinants of Aygaz inventory valuation, and thus its effect on our financial figures. We are on slide number six now.

As you may recall, the Algerian state-owned LPG supplier Sonatrach's prices are used as the basis for Turkish LPG pricing mechanism. When we look at the chart for 2019, LPG prices increased in the first quarter, then decreased in the second and third quarter, more than it decreased in the Brent price, due to the increase in U.S. LPG inventories. This has caused the crude LPG ratio to drop to a level they have not seen for the last five years, which meant LPG became relatively cheaper than the other petroleum products. Afterwards, the LPG prices returned with a hike in the final quarter of 2019. We see that in the chart. The December Sonatrach price, as you may see, is $437 per ton, which went up about 44% from its September figure of $304 per ton. If you compare December prices year-on-year, the increase is 15%.

The changes in LPG prices affecting Aygaz operations together with the foreign exchange rate movements led to an inventory gain of 21 million in Q4 2019. Let me remind you, again, that the other determinant for the local LPG prices is change in FX.

As we have clarified in our previous webcasts, the inventory gain for the first quarter was TL 17 million, then came inventory losses of 20 million and 10 million in Q2 and Q3 respectively. As a result, we see a cumulative inventory gain of TL 8 million for the whole 2019, whereas it was 14 million in 2018, approximately similar in Turkish liras.

Looking towards 2020, January Sonatrach price is even higher than December at $469 per ton levels. Yet all energy prices have gone down lately, as you may recall, due largely to coronavirus in China.

Now, we can take a look at our financials with these figures in mind. We're on page seven and eight.

Our Q4 net sales is TL 2.566 billion, being 9% higher than Q4 2018, which is mainly due to the increase in commodity price and higher sales volume. Aygaz achieved significant year-on-year improvements both at gross and operating income levels, thanks to the higher profitability levels accomplished for all segments, but especially for the cylinder gas business, and better supply advantage realized by our supply team. As we have told you before, we are planning to start physical trading operations at Aygaz U.K. in London, as all the infrastructure and team is ready. Those physical trades will mainly be destined to Asia with a few cargoes for Aygaz Turkey when there are arbitrage opportunities.

Moving to slide number nine. In 2019, our Q4 gross profit is TL 280 million, whereas it was just about TL 1 million in the previous year, on unadjusted terms. As you may remember, we provided details regarding the provision for price revisions of TL 179 million for our natural gas business in our earnings release report of Q4 2019. We still keep this provision even though no payment has been demanded yet, so we have adjusted our gross profit and operating profit figures on this chart, so as to eliminate one-off provision amounts and the period's inventory FX.

Thus increase in quarterly gross profit becomes 45% year-on-year after;

- the elimination of TL 98 million of the indicated amount of provision corresponding to 2018, and that was accounted under the cost of sales,
- and the inventory effect that was 81 million negative for Q4 2018, where the Sonatrach price made a sharp decline of 27% from November to December 2018, on the back of falling Brent prices because of increased production from Saudi Arabia, to offset any possible supply shortage as a consequence of the sanctions on Iran.

And regarding the operating profit adjustments were done for;

- the remaining amount of 81 million of the total provision corresponding to 2017, that was accounted under operating expense for natural gas provision.
- and foreign exchange gains and losses related to main operating activities to eliminate the effect on inventory gain and loss are also adjusted. FX effect was TL 62 million in Q4 2018, whereas it was 5 million negative in Q4 2019.

Consequently, year-on-year change in the quarterly operating profit becomes more profound at 46%.

Operational expenses are 155 million, being 22% higher than Q4 2018, which can be explained by the inflation and increase of prices. The cumulative effect of other operating income and effects are negative 10 million for Q4 2019, whereas it was TL negative 2 million for Q4 2018. At the end, our unadjusted operating profit is TL 114 million.

In parallel, our EBITDA for the fourth quarter is TL 147 million, and our adjusted EBITDA is TL 131 million, which represents 45% increase year-on-year.

And finally, the net profit for the quarter is TL 75 million, up by 186% year-on-year.

Jumping to slide 13, contribution from EYAŞ and Entek has been TL 22 million in Q4 2019, whereas it was 86 million in Q4 2018. EYAŞ cumulative contribution for 2019 is only 48 million compared to TL 373 million of 2018. On the other hand, Entek contribution adds up to 88 million, which positively contributed to Aygaz net profit in all quarters of 2019.

On the next slide, Entek had a very good year in 2019, where it succeeded to increase its revenues up to TL 1.2 billion, up by 140%, and its EBITDA to TL 422 million, up by 193% year-on-year. These improvements, as we had outlined in the previous webcast, were due to higher hydroelectric production realized in 2019 because of the better and exceptional hydrology. Kılavuzlu and Menzelet hydropower plants were operational in 12 months period, as opposed to 10 months in 2018. Higher market clearing prices for mainly Menzelet only, which is not on YEKDEM operating hydroelectric power, and lastly, the YEKDEM prices benefitted from the higher FX rate. YEKDEM is Turkish Renewable Energy Resources support mechanism prices based on U.S. dollars.

When it comes to net cash position, on the next slide, we see that our net debt came down to TL 582 million as of December 2019.

On slide 17, we would like to underline our efforts to reduce our financial costs under the falling interest rate environment, especially in the second half of 2019, and mostly in the last quarter.

As a result, we managed to restructure and replace most of our financial borrowings with lower financing costs, while net debt amount was being lowered with the liquidity created.

In 2019, some of the loans with a total amount of 800 million were closed before the maturity date in order to gain the interest advantage, and they were replaced with new loans, totaling to TL 600 million with lower rates, thus interest rates were improved and the terms were extended.

As a result of this, our net debt to adjusted EBITDA ratio improved to 1.2 compared to 2.2 of 2018 year-end. Aygaz Doğalgaz natural gas provisions were eliminated here.

On page 17, as you can see, the net debt has increased in the second quarter with the effects of declining cash due to the dividend payment that lagged to April, and increase in lease liabilities within the scope of IFRS 16. And the Q4 net debt figure includes TL 104 million lease liabilities.

On page 18, as for working capital, we see that TL 251 million December figure is just 10% higher than the December figure of 228 million TL of 2018.

On slide 19, I would like to reiterate our financial risk policies again. Our FX position is very minimal. We mostly prefer fixed rates and when possible we extend the maturities of our loan portfolio. Due to these policies, our debt portfolio is comprised of 86% Turkish Lira and only 14% FX loans.

For the guidance, on page 22, we make some revisions to our guidance for 2020.

Regarding the sales volume, the revised cylinder sales range down by 5,000 tons to 290,000-305,000 tons from 295,000-310,000 tons range. And for autogas sales, the change is upwards by 45,000 tons to 740,000-780,000 tons, from 695,000-735,000 tons. These changes are due to our belief that the positive environment for autogas sales continues, and we will continue with our target-oriented sales policies.

Regarding the market shares, we are keeping the same totals for both cylinder and autogas, as cylinder gas market share is expected to be in between 41.5-43.5%, and our autogas market share is expected to be in between 21.4-22.6%.

Thank you for listening. Now, we will have some time for your questions.

Q&A

Operator

[Operator instructions]

The first question comes from Koray Pamir from Ünlü & Co. Please go ahead sir.

Koray Pamir

Many thanks for the presentation. Two questions, if I may. First of all, can you provide a brief update on the Bangladesh prospect regarding the potential cash injection and the timing of operations there?

And secondly, I know you may not be able to answer this, but if the need arises in terms of higher capital commitment to Bangladesh or another project, would you consider or are you considering to divest your stake in Yapı Kredi. Thank you.

Ferda Erginoğlu

Yes, Bangladesh, we've been working day and night to close the deal. Things are moving slowly in there, but we are seeing positive intentions and positive developments. We are on a stage where we are trying to complete some of the last approvals from the State departments, including the Chittagong Port authority. Once we get those clearances from them – I'm saying clearance because some of them are approved, some of them are no objection letters, so once we clear those, the other agreements are almost near to final stage. Hopefully, within the first half, we will close it, and then we will start construction.

Meanwhile, we will try to expedite our start of the operations while we construct the spheres. So we'd like to start immediately after closing, with a short period time. But, obviously, these are really small operations. Once we build our spheres, we will have a bigger trust into the market. So if we can do that, then the first cash injection is going to be right after the closing.

For the second one, we don't have any other project currently. We are working on different regions Pakistan, Vietnam, South Africa, and all sorts of places but we don't have any live project yet that I can declare. But none of them are at that stage where I have a figure in mind that would preclude our cash position.

For the Yapı Kredi stakes, I think that's a question that you should direct to Koç Holding, but I know that Koç Holding has done a very good job in the last transaction, because of UniCredit's intention to, not exit from Turkey, but because of their balance sheet, not because of Turkey-related or Koç-related etc, so again that's for Koç Holding to say. As a result, we are still holding the same value in Yapı Kredi lately. As it translates into numbers, Yapı Kredi valuation has gone up.

Koray Pamir

Understood. As one final question regarding the competitive landscape, following the Demirören exit and OYAK entry, even beyond that, are we seeing any material changes in the competitive environment, which is usually quite competitive. Any color regarding 2020?

Ferda Erginoğlu

First of all, that's only news. I'm sure they are serious. The latest we've heard, Milangaz was also in the package, but nothing has been confirmed yet. For the petrol stations, for the Total and M Oil, that's a bigger question for Opet than us, but I don't think it would change our position materially. But for the cylinder gas business, that would be different. I'm sure OYAK is going to be a very good player in the market if they acquire Demirören's cylinder gas business, but it's just very recent news and I'm not so sure whether it's correct.

Operator
[Operator instructions]

The next question comes from Can Alagoz from QNB Finansinvest. Please go ahead.

Can Alagoz
Thanks for the call. My questions were also related with the Bangladesh investment, so they have been answered. Thank you.

Operator
[Operator instructions]

There are no further questions. I now give back the floor to the speakers. Thank you.

Conclusion

Selin Sanver
Thank you very much for joining us this afternoon and see you in our next webcast.