



## **AYGAZ Q1 2023 Financial Results Conference Call**

Friday, 28<sup>th</sup> April 2023, 19:00 TR Time

### **Conductors:**

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

***Mr. Ali Sencer Turunç, Corporate Finance & Strategy Director***

***Ms. Selin Sanver Nasuhođlu, Investor Relations Manager***

SANVER S:

Welcome to our earnings webcast for the First Quarter of 2023. I am Selin Sanver Nasuhođlu and we are together here with our Corporate Finance and Strategy Director, Ali Sencer Turunç, and 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 Quarterly Operational and Financial Highlights. As you may recall, we have started to present our earnings release on a segmental basis as of Q4 2022. We will begin with LPG and Natural Gas segment, as our core business area, where I will be commenting on the latest developments regarding Turkish LPG market, AYGAZ market shares and our sales performances.

Being a component of our LPG business, recent developments regarding United AYGAZ LPG operations will be covered under this segment.

Then Mr. Turunç will comment on the financial overviews of all segments including LPG and natural gas, as well as cargo distribution and handling and also consolidated figures. Finally, at the end, we will have the Q&A session with our CFO, Mr. Dizemen.

Let's start with the Key Operational Highlights for the First Quarter of the year, on slide number 3. Energy Market Regulatory Authority, briefly EMRA, published LPG sector January report most recently. According to one-month figures, total Turkish LPG consumption grew by 45% year-over-year on the back of stronger purchasing power led by minimum wage increase and the downturn in product prices.

Demand for both Turkish cylinder gas and auto gas market increased by 13% and 33% respectively. In January, the economic advantage of LPG to gasoline increased by 16 points year-on-year and restored to its growth field of 39% levels, stimulating consumers to enhance their average use of auto gas. AYGAZ total market share was realized as 27.2% with market share gains in all segments.

As the EMRA LPG report gives the initial sign of recovering demand, AYGAZ Quarterly Sales Performance was strong both in Domestic retail sales, as well as Wholesale and International sales. Our Auto gas sales were 27% higher year-over-year due to its rising economic advantage to gasoline. The weather conditions that were above seasonal normal also supported consumption in the market. Together with the growth in Bulk gas sales, total Domestic retail sales reached 278,000 tons with a growth of 39% compared to the same period of the previous year.

AYGAZ Wholesale and International LPG sales were up by 66% and 176% year-over-year respectively where their total tonnage reached 492,000 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. In the First Quarter of the year, a total of 9,500 tons were sold through 90 dealers.

In terms of Financial Highlights, LPG and Natural Gas business line had a positive impact from higher LPG sales volumes and advanced margins. In the cargo handling and distribution business line, our new investment, Sendeo, which continues its growth phase, realized an operating loss as planned.

The consolidated quarterly Net Profit figure amounted to 687 million TL on the back of a contribution from EYAŞ, that is accounted under equity method. As for our Balance sheet items, net financial debt came down by 1.5 billion TL compared to year-end consistent with increasing operating cash flow and dividend income.

Now let's take a look at the Key Highlights for AYGAZ Market shares and Turkish LPG Market on slide number 5, which is the first slide of LPG and natural gas segment. As per January EMRA report, AYGAZ achieved 41.6% market share in cylinder gas market, improving by 0.6 points year-over-year. And our auto gas market share is 22.3%, up by 1 point compared to previous year. Together with our market share of 38% in Bulk Gas segment, AYGAZ total retail market share is realized as 27.2% that rose by 2.2 points year-over-year. AYGAZ continues to be the uninterrupted leader of Turkish LPG market.

On slide number 6, let's have a look at the Sales Performance of our Company where the First Quarter of 2023 came with good and reassuring news. Our Auto gas sales were up by 27% compared to the First Quarter of the previous year. Cylinder gas sales were parallel to Q1 2022 figure with a slight decrease of 1% year-over-year.

Bulk Gas sales were 6 times of the previous year's First Quarter figure, with supplies made to the industrial customers on the back of the cost advantage of LPG compared to natural gas that first started in the last quarter of 2022. This advantageous situation of LPG compared to natural gas ended in March with the decrease in natural gas prices. As a result, AYGAZ Q1 domestic retail sales reached 278,000 tons and it was 39% higher year-over-year.

As the domestic retail demand was better off, wholesale sales, where AYGAZ acts as the supplier of other LPG distributors in Turkey, also enhanced and it reached 180,000 tons being 66% higher year-on-year. International LPG sales were 312,000 tons and USD\$211 million revenue was generated for the first three months. Adding the LPG device exports of USD\$11 million made by our Gebze facility, our total effects-based revenue comes up to USD\$222 million dollar.

On slide number 7, 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 the years 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 USD\$49 million is injected into the joint venture, in-line with the initial investment plan. AYGAZ share corresponds to an amount of approximately USD\$24.5 million. After the sales operations that started as of August 2022, a sales volume of 9,500 tons was reached in the First Quarter where a revenue of USD\$9 million was generated.

The positive profit coming from United AYGAZ contributed to the profitability before tax. As of March end, operations are carried out with 85 dealers and 3,500 sales points.

In addition to the two LPG sphere tanks in use with a total capacity of 6,000 tons, the installation process of three new spheres 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 Dhaka facility, which we aim to make operational in 2023, continues. Total number of employees has reached 136 as of March 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 Corporate Finance and Strategy Director Mr. Turunç for the Financial Highlights of all business lines starting with LPG and natural gas segment.

TURUNÇ A:

Thank you Selin and welcome everyone. 2022 was a challenging year where the effects of the Russian-Ukrainian war, global inflation and recession were on the agenda. Hopes that were postponed to 2023 were shattered with the earthquake disaster at the beginning of the year.

We extend our sympathies to the grieving families who lost their loved ones in the devastating earthquake and wish recovery to all the injured. May all those who have passed rest in peace. We have full faith that with the power of unity and solidarity, we will navigate through these difficult times and heal together.

LPG's portable feature and its position in the energy sector came to the force once again with this disaster, where cylinder gas and

LPG-powered devices were and still are crucial in terms of meeting the most basic needs of the earthquake victims, such as heating and cooking under severe winter conditions. AYGAZ immediately delivered LPG cylinders, cookers, stoves and illuminators at its disposal to the earthquake area. In addition, the drinking water required for the uninterrupted supply of the region's water needs was sent to the earthquake zone.

As Koç Group and AYGAZ, we remain committed to supporting our people by mobilizing all possible means. We are working with all our might to help recover and rebuild our communities for the future of our Country. Despite these challenges and the uncertainties caused by the elections ahead, we sustained our leadership position in the Turkish LPG market and continued our new investments where we target to diversify our value and EBITDA generation.

As our starting point, let's have a look at Sonatrach LPG (shortly "SP") prices graph on slide 8. As we started 2023, the upward momentum in crude oil prices was suppressed with the concerns that rising COVID-19 cases in China, the largest importer of crude oil, could dampen economic activity. Concurrently, there were increasing concerns for supply due to Russia's decision to stop oil sales to countries that apply price ceiling for Russian crude oil and OPEC's decision for production cuts.

After closing 2022 at USD 594 per ton, SP price came down by USD 20 per ton in January with contracting demand and negative market sentiment. On February, the unexpected increase in US crude oil inventories and the geopolitical tensions between the USA and China put pressure on crude oil prices. LPG prices diverged from the crude oil price and increased by USD 90 per ton compared to January.

With the ongoing supply concerns parallel to the fluctuating crude oil prices throughout February, LPG prices increased by USD11 per ton in March compared to the previous month. The average SP price for the First Quarter of 2023 was equal to USD 638 per ton and it was 11% higher than the figure of the Fourth Quarter of 2022 average price.

The SP price, which was moving upwards since the last quarter of 2022, decreased by USD169.5 per ton down to USD\$506 per ton in April due to the recession expectations in the global markets and the downward movement in global LPG consumption especially in the Far East. This was recorded as the highest monthly decrease since the pandemic where the prices fell by USD227 per ton.

In order to soften the impact of April price fall, a provision for impairment on inventory has been set aside in the First Quarter of 2023 that resulted in a net inventory loss of TRY92 million for the January-March period of 2023. The quarterly inventory gain of SP was positive TRY26 million in the First Quarter of 2022.

Looking ahead, the ongoing strikes in France since mid-March are affecting Mediterranean butane prices upwards. With the supply concerns, LPG prices in May can be expected to be in line with April or to increase slightly.

Moving on to slide 9, looking at the First Quarter's Financial Results for LPG and Natural Gas segments, we see that all main income statement items are realized higher on year-over-year terms. Higher sales volume led to stronger sales revenue, while Gross Profit increased by 61% with improvements in distribution margins in line with inflation.



The impact of the TRY150 million provision for impairment on the inventory was offset thanks to higher margins, lower net financing expenses and positive contributions from United AYGAZ LPG and a Net Profit of TRY144 million was generated in the first three months of 2023, higher than the previous year's figure.

Moving on to slide 10, AYGAZ generated a Revenue of TRY12.3 billion, doubling last year's figure on the back of higher sales volume. Q1 Gross Profit is TRY792 million and the Gross Profit margin of our LPG and Natural Gas business line is 6%.

On slide 11, Q1 Operating Profitability reflects the positive impact from higher margins that offset the negative impact of inventory valuation. The Net Profit generated by the LPG and Natural Gas segment was TRY144 million, being 4 times the previous year's figure on the back 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. We can start with the recent updates regarding Sendeo, our new subsidiary in last mile delivery business. In line with the investment plan, Sendeo's capital is decided to be increased by TRY430 million from TRY753.5 million to TRY1,183.5 million at the General Assembly held on March 15, 2023.

Out of this TL430 million, it was decided to pay TL300 million before the registration procedures and as AYGAZ, we paid our portion of TL165 million in cash on March 21, 2023. The payment for the remaining part of the capital increase and AYGAZ's portion is TL71.5 million is planned to be completed until December 31, 2023.

As a reminder, Sendeo has 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 operation 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 March, the number of distribution points is 422 and the company has 1,547 active delivery points. Sendeo operates with 10 transfer centers and 9 distribution centers.

The total number of delivered packages is 5.3 million in the First Quarter of 2023 and Sendeo reached 111,000 maximum daily package delivery within March. And the number of customers is at 5,500 varying from leading Turkish e-commerce platforms to corporates who have strong online sales from their websites. Sendeo mainly operates in B2C segments targeting small and medium-sized enterprises. Sendeo's staff working in the field reached 1,449 as of March end, making the total number of employees 1,769.

On slide 14, we can go over Sendeo's Q1 Financial Performance. As the Company's growth period continues, a net loss of TL150 million was generated within the scope of investment and growth. Earthquake-related negative impact is also observed within the e-commerce market in the First Quarter as people tend to suspend their spending. On the other hand, Sales Revenue and Gross Profit improved by 72% and 29% respectively compared to the previous quarter.

Moving on to slide 15 and slide 16, we go over our Consolidated Financial Performance. The positive performance of LPG segment offset the operating loss of Sendeo that still is in growth phase and consolidated EBITDA of TL38 million was generated. The Net Profit is TL687 million with a high contribution coming from EYAŞ.

Moving on to slide 17, Total Contribution from EYAŞ, accounted under equity method, is 7x higher than the same period of the previous year in Q1. As a result, AYGAZ's consolidated Net Profit, excluding non-controlling interest, is equal to TL687 million in Q1 2023. 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. As of March, trade payables and inventory are down by 26% and 67% respectively compared to December-end and net working capital decreased by TL235 million. Our March end inventory level is 42,000 tons and it is 138,000 tons lower compared to year-end. Trade payables are up by 12% compared to year-end. Net Working Capital to Sales Ratio calculated from rolling 12-month average figures stayed in line with previous quarters.

Moving on to our Net Financial Debt and Debt Profile on slide 19. As of end of March, Net Financial Debt is lower by TL1.5 billion compared to year-end, consistent with decreasing working capital needs, higher net free cash flow figures and dividend income in First Quarter of 2023. Accordingly, our net financial debt over EBITDA ratio also improved and came down to 0.8x. In Q1 2023, TL1 billion dividends were received from EYAŞ, while AYGAZ paid a dividend of TRY220 million.

Looking at the pie chart on the right side of the slide, 25% of our total debt is foreign currency denominated that corresponds to our loan of USD30 million and an additional USD8 million loan that was received within 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/TL parity increases to our price.

On slide 20, you can see our Forward-Looking Statements for 2023. Our Sales Volume and Market share guidance's are as follows. Cylinder sales volume ranges at 245,000 tons to 255,000 tons and Autogas sales ranges at 730,000 tons and 760,000 tons. Our Cylinder market share is expected to be between 41% to 43% and our Autogas market share is expected to be between 22% to 23%. We have recently updated our Autogas sales volume expectation which was 700,000 tons to 730,000 tons previously with regards to the general demand growth in the market.

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

OPERATOR: The first question comes from the line of Yilmazturk Burak with Yapi Kredi. Please go ahead.

YILMAZTURK B: Hi, thank you for the presentation. I have a couple of questions actually. I appreciate if you can give some color on autogas and bulk gas sales volumes. Especially on the bulk side, the quotation price of LPG is coming down, so are do you still have competitive advantage to natural gas? On the Autogas side, gasoline futures started to decline after the peak in March, but we will enter the driving season in summer soon, so do you expect the spread between Autogas, and gasoline to continue? My second question, I can continue or ask the second one later, which one do you prefer?

GÖKHAN D: Burak Bey, thank you for the question. This is Gökhan. We can start with this one then move on to the next question. Let me start with a general overview of the LPG market in Q1. As Selin and Sencer mentioned, the volumes increased year over year in

all segments, including cylinder gas and bulk gas, as well as autogas segments. In the case of bulk gas, as you mentioned, the price advantage of LPG against natural gas, which started in the last quarter of 2022, had a positive impact on our sales volumes. But due to the decline in natural gas prices December onwards, this price advantage has erased as of March 2023. So, we managed to increase our bulk gas sales volumes in Q1 of this year, but the price advantage, as I mentioned, has been eliminated for the time being.

But in accordance with the supply diversification policy of some industrial companies we believe that there will be additional demand coming in the bulk gas segment in the upcoming quarters. So overall, even though the price advantage has been eliminated for the time being, and the fact that this diversification policy is quite important for many industrial companies, we believe that bulk gas sales will continue in the upcoming quarters.

In the case of autogas segment, again, as you correctly pointed out, the price difference between gasoline and LPG is of paramount importance to our sales volumes. And in the First Quarter of this year, this worked in favor of LPG compared to last year, and this had a significant impact on our autogas sales volumes and due to the decline in the prices in April, the price advantage also widened. And again, as you correctly pointed out, the driving season is approaching. And if these price levels continue, we believe that autogas market will continue to pick up in the summer season as well. That's why we also adjusted our year-end autogas sales volume by 30,000 tons and increased it to 730,000 - 760,000 tons. That's the range we expect for the autogas market in 2022.

This also very much depends on the US dollar/Turkish lira parity. As you can imagine, the other parameter that determines the price of LPG in Turkey is the US dollar/Turkish lira. But this is also valid for gasoline. As long as the price difference continues, we believe that the Autogas segment will continue to grow in the upcoming quarters as well. I hope that this clarifies your question. If you have any follow-up questions on this, we'll be more than happy to respond.

**YILMAZTURK B:** Much appreciated. Thanks. My second question is related to working capital. Assuming LPG prices continue to come down in the next couple of months, should we expect some further improvement in the working capital requirement? Can you give some color on the terms, if possible?

**GÖKHAN D:** Yes. As for the Net Working Capital, one thing that you should bear in mind is that, on average, our sales receivables and trade payables and inventory terms are quite similar compared to the previous periods. On average, we collect our receivables within 20 days and our average inventory turnover days is around, again, 20 days and our average trade payable days is around 30 days.

So, it makes around 5-10 days of net working capital days in AYGAZ's overall balance sheet position. This is approximately 2 to 2.5 percent of our total sales. Because of the stable net working capital days, the net working capital figure of AYGAZ reported is quite constant and stable. The decline in the prices is creating a beneficial position on AYGAZ's balance sheet, and this is also having a positive impact in our net working capital needs.

But on the other hand, the increasing sale volumes also have a positive impact on revenues, and this is also creating additional net working capital need and having an impact on the balance

sheet. But overall, I can say that we have a very stable net working capital to sales ratio and net working capital days figure and the decline in prices is always beneficial in terms of the solidity of AYGAZ's balance sheet and its financial metrics.

YILMAZTURK B: Thank you. My last question will be related to Sendeo business. Looking at the monthly figures, you are entering into a slightly higher base from last year, but considering you have a great growth potential, what should we expect in terms of growth? Should we expect any deceleration or growth, I mean in terms of volumes mostly, what should we expect there?

GÖKHAN D: Thank you again for the question, Burak Bey. As for Sendeo, as you know that this is a greenfield business for us, and we started from scratch. Because it's a greenfield business, it takes time to see the contribution both at the top line as well as the EBITDA and the other bottom lines of the profitability. But up until now, we did quite well especially in terms of the rollout of the business across the country as well as ramp up in the sales and the cargo numbers distributed since the establishment of the company.

Sencer mentioned the figures during the presentation. We reached maximum daily packages of 111,000 packages in March. And the growth continues in-line with the acquisition of new customers both in the large e-commerce segment as well as the small and medium-sized segments of the various e-commerce players.

And in line with our investment plan, we have already injected around 1 billion TL of capital to the company. Of this 1 billion TL, 55% came from AYGAZ and 45% came from Koç Holding. As you know, Koç Holding is also one of the shareholders of this new subsidiary of AYGAZ.

And going forward, we expect the ramp-up to continue with the acquisition of new customers. We are currently a nationwide player. That is also of paramount importance to us because this enables Sendeo to be able to make collaboration opportunities with the big e-commerce players. Being a nationwide player is quite important in that sense. We believe that the ramp-up will continue. We also believe in the long-term value generation capacity of this new investment in terms of the diversification of AYGAZ'S value and the EBITDA generation.

YILMAZTURK B: I assume growth will continue at the same pace if it doesn't accelerate. You don't have any bottlenecks in the short term. Am I understanding this correctly?

GÖKHAN D: Yes, I mean, as a startup business, as a greenfield business, we expect the growth to continue and we expect that the acquisition of new customers will be quite important in terms of the growth potential of this business together with the increase in the e-commerce activity, especially in the short term, with the increase in the purchasing power of the consumers and much more stable economic environment.

YILMAZTURK B: Thanks. Very useful.

GÖKHAN D: Thank you, Burak Bey.

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

SANVER S: Thank you, everyone, for joining us.

GÖKHAN D: Thank you.

TURUNÇ A: Thank you.