



## **AYGAZ Q1 2022 Financial Results Conference Call**

Monday, 9<sup>th</sup> May 2022, 17:30 TR Time

### **Conductors:**

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

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

***Ms. Selin Sanver Nasuhođlu, IR Manager***

OPERATOR: Welcome and thank you for joining the AYGAZ conference call and Live Webcast to present and discuss the First Quarter 2022 Financial Results.

At this time, I would like to turn the conference over to Ms. Selin Sanver, IR Manager and Mr. Gökhan Dizemen, CFO.

Ms. Sanver, you may now proceed.

SANVER S: I would like to welcome you to our earnings webcast for the First Quarter of 2022. I am Selin Sanver Nasuhoglu 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 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 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.

As usual, I will start with a summary of the LPG market and operational highlights, then Mr. Dizemen will comment on the financial overview, and provide you with an update on our new investments including Bangladesh LPG investment and Sendeo. And at the end, as usual, we will have time for a Q&A session.

Let's start with the key highlights for the first quarter of 2022. According to February report of Energy Market Regulatory Authority, Turkish LPG demands contracted by 2% year-on-year. Turkish cylinder gas demand is down by 11% year-on-year in the first 2 months of the year, whereas auto gas consumption is close to previous year's level.

In line with the global LPG price hikes, increases in end prices continued in the first quarter of 2022. As of end of March, autogas and cylinder gas prices are up by a 182% and a 137% year-on-year respectively. Accordingly, Aygaz Q1 domestic retail sales performance is negatively impacted from high product prices and general economic environment.

In terms of financial highlights, Aygaz revenue and gross profit enhanced on the back of higher LPG prices and FX rates, compared to the same period of previous year. On the other hand, operating profit worsened due to expenses incurred related with the rollout of our new investments in partial delivery business, (i.e., Sendeo) and rising inflation, as well as increase in FX losses that are classified under "other income and expenses from operations". Thanks to the positive contribution of a 193 million TL coming from EYAŞ and Entek that are accounted under equity method, net profit excluding non-controlling interests reach to 201 million TL in Q1, 2022.

Now, let's take a look at the key highlights for Aygaz market shares on Slide #2. Aygaz cylinder market share is 41.7% and autogas market share is 21.6% for the January-February period. In terms of total retail sales, Aygaz market share is realized as

25.6%. Cylinder gas market share improved by 1 basis point year-on-year, whereas autogas market share is slightly below last year's figures, which can be explained by the competitive pricing environment in the LPG sector.

On Slide #3, let's have a look at the sales performance of our company in the first quarter. Our domestic retail sales volume in Q1 is 200,000 tons and it's down by 7% year-on-year, mainly due to the higher end prices that pressurized consumer demand. Aygaz cylinder gas sales and autogas sales contracted by 10% and 6% respectively.

The total of international wholesale and trading LPG sales is equal to 221,000 tons. This figure is also down by 31% year-on-year, mainly due to decrease in trading volume of Aygaz UK with third parties. Wholesale sales volume is 108,000 tons and it's up by 65% year-on-year thanks to our expanding customer portfolio with new collaboration.

Aygaz UK's trading transactions with the third-party stayed limited in the first quarter and most of its trading activity was for Aygaz's own procurement. The total third-party trading volume of Aygaz UK was only 3,000 tons in the current period compared to 139,000 of Q1, 2021.

International and transit sales volume reached to 110,000 tons and it's 5% lower year-on-year. These are mostly transit trade transactions without other LPG distributors in Turkey structured to optimize our LPG supply chain.

International, transit and trading LPG sales constitute a significant portion of our company's overseas sales revenue and US \$91 million revenue was obtained for the first 3 months of 2022. Adding the LPG device exports made by our Gebze facility, our total FX based revenue comes up to US \$98 million.

Now, let me give the floor to our CFO, Mr. Dizemen for the financial highlights.

DIZEMEN G:

Thank you, Selin and welcome everyone. After talking to you about our 2021 year-end figures back in February this year, we were wishful that 2022 will bring a recovery in the global economy after the end of COVID-19 pandemic. At that time, we were already concerned about rising commodity prices, inflation, and the instability in the Turkish economy due to the FX rate hikes.

However, our agenda now also includes the war between Russia and Ukraine, and its current and potential effects on both energy markets, as well as global economies.

As our starting point, let's have a look at Sonatrach LPG prices graph on Slide 5. After reaching 7-year high in the last quarter of 2021, both crude oil and LPG prices continued to remain strong in the first quarter of 2022, due to general recovery in demand and low global stock levels after the pandemic.

On top of these, supply concerns stemming from the war between Russia and Ukraine fueled the energy prices further in March. Accordingly, January, February, and March Sonatrach LPG prices were announced as US \$711, US \$772, and US \$851 per ton respectively.

As the concerns increase about the sanctions imposed on Russia by the European Union will get tighter, and no solid results will be achieved regarding the peace talks, April Sonatrach price hit the peak of the last 8 years at \$912 per ton, and it is 80% higher than last year's figure. With the OPEC+ increasing production and US offering supply to the markets from its strategic oil reserves, May Sonatrach prices eased and is announced at US \$804 per ton.

Moving on to Slide 6, when we look at the first quarter's financial results, Aygaz generated a revenue of 6.4 billion Turkish lira more than doubling the last year's figure due to increasing LPG price and devaluation of TL.

Gross profit was equal to 465 million TL including an inventory gain of 104 million TL compared to a gain of 35 million TL in Q1 of 2021. On the inventory valuation, it is important to note that inventory gains booked under gross profit, include both the impact of rising LPG prices as well as US dollar TL currency rate changes due to the FX linked pricing mechanism on product prices.

We should keep in mind that US dollar TL currency rate related inventory gains on gross profit are offset by FX losses on US dollar denominated trade payables booked under other expenses from operations line according to Capital Markets Board's reporting standards. Accordingly, the inventory gain of 104 million TL at gross profit level came to 4 million TL at operating profit level.

Looking at the operating profit in Q1, we see the impact of increasing operating expenses due to inflation and our new investments in the parcel delivery business (i.e., Sendeo), as well as FX losses classified under other income and expenses from operations.

Operating expenses are higher by 88% year-on-year on the back of higher staff, transportation, and energy costs. Sendeo's total operating expenses in Q1, which were mainly related with the rollout of our new cargo business line across the country, was realized as 49 million TL.

While operating profit excluding other income and expenses from operations is equal to 129 million TL and 40% higher year-on-year, operating profit eroded to 19 million TL together with negative 110 million TL net effect of other expenses from operations mainly formed by FX losses of the trade payables. Q1 EBITDA figure excluding other income and expenses from operations is 183 million TL up by 36% year-on-year. If we are to exclude Sendeo's portion in operating expenses, the figure comes up to 229 million TL.

On Slide 11, we see strong contributions from both EYAŞ and Entek, our investments that are accounted under the equity pickup method. In Q1, 2022, total contribution from EYAŞ and Entek adds up to 193 million TL compared to negative 62 million TL in Q1 of previous year. As a result, Aygaz's net profit excluding non-controlling interest is equal to 201 million TL in Q1 of 2022.

Moving on to Slide 13, you can see the evolution of our net working capital. All components of net working capital including

trade receivables, inventories and trade payables continued to increase in Q1 2022 due to higher FX rate and LPG prices. Our March end inventory value compared to year end increased by 15% whereas inventory volumes held for March decreased by 12% compared to December. Our net working capital days are in line with historical averages, which is hovering around 9 days.

Moving on to our net debt on Slide 14. As of end of March, in line with the rising working capital needs, our net financial debt increased by 45% compared to year end and stood at 1.251 billion Turkish lira. Our net financial debt over EBITDA is 1.7 times, still indicating a healthy leverage level for Aygaz despite the negative impact of our new investments on our net financial indebtedness.

Moving onto our debt profile table on Slide 15, keeping or focus on strengthening our gross cash position in Q1 2022, we see cash and cash equivalents increasing by 251 million TL compared to December end up to 1.9 billion TL. We also made new TL borrowings that increased our total financial debt by 643 million TL compared to year end regarding cash outflows related to our new investments and financing needs.

When you look at the pie chart on the right side of the slide, you can see that 15% of our total debt is comprised of FX denominated loans corresponding to US \$30 million. 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\$/ TL parity increases to our pricing.



On Slide 16, you can see our forward-looking statements for 2022. Our sales volume and market share guidance are as follows. Cylinder sales volumes ranges at 280,000 to 290,000 tons and autogas sales ranges at 690,000 to 720,000 tons and our Cylinder market share is expected to be between 41% to 43%, our autogas market share is expected to be between 21.5% to 22.5%.

On Slide 17, let's cover the updates regarding our joint venture, United Aygaz LPG in Bangladesh. Company continued to put strong efforts in Q1 2022 towards being a part of Bangladesh LPG market that reached around 1.4 million tons in 2021 and currently it is the fastest growing LPG market in the world with an average annual growth rate of around 50% over the last 5 years. To cover the necessary investments within the business plan, company's capital is increased from 1.1 million Bangladesh Taka up to 2.1 billion Bangladesh Taka in February 2022. This corresponds to around US \$25 million paid in capital for the JV company, United Aygaz LPG.

As you can see on the slide, construction works are still ongoing as planned at our initial facility investment in Chittagong. A couple of updates on our investment process; final Chittagong Port Authority (CPA) permit which is critical for LPG supply at the facility was obtained. We plan to put the relevant 2 spheres into use by June and once the storage spheres are completed, they will be ready for inspections by the government authorities. We plan to obtain our final operating license and start filling operations at full capacity. In the meantime, our staff in Bangladesh has reached 54 as of March end.

On Slide 18, let's go over recent updates regarding Sendeo, our new subsidiary in parcel delivery business. After starting operations in 16 cities in September 2021 expansion to all 81 cities is completed as of February 2022. Sendeo delivered around 40,000 daily parcels in April through 8 transfer centers and 5 distribution depots.

As a result, total number of packages distributed in the first 3 months of 2022 surpassed 2 million. Sendeo's young and talented staff in office and on field reached 815 employees as of the end of March, which was 580 as of the last year end.

In line with the investment plan, we have increased Sendeo's capital by 280 million TL from 143.5 million TL up to 423.5 million TL in February 2022. As Aygaz we paid 77 million TL out of our total portion of 154 million TL. The remaining capital injection is planned to be made in the second half of this year.

Finally, on Slide #22, let me go over the highlights of the recent transaction regarding the transfer of Entek shares to Tüpraş through partial demerger. Within the framework of our company's strategic plans, with the target to create value by using Aygaz's existing equity and borrowing capacity by focusing especially on international LPG investments and other business areas such as cargo distribution, it has been resolved to transfer Entek shares in our company's assets which corresponds to 49.6% of the registered Entek capital, to Tüpraş through a partial demerger transaction through the model of share transfer to Aygaz's shareholders.

Simultaneously the Entek shares registered in the asset of Koç Holding will be transferred to Tüpraş through a partial demerger transaction through the associates model.

Entek shares which are not listed on the stock exchange will be transferred based on their fair value while Aygaz shareholders will receive Tüpraş shares. Thus, we believe that the value of Entek shares will be crystallized. On Aygaz's side, as the subsidiaries in our portfolio other than Entek are publicly traded, the fair value of core LPG business will become more visible and measurable.

As a result of the transaction, 26.7% of Aygaz shares will be cancelled; in exchange for this cancelled Aygaz shares, 0.15485 Tüpraş shares will be received by shareholders of Aygaz. Shareholders of Aygaz will have 73.3 of Aygaz shares following the capital decrease and they will receive 0.041 Tüpraş shares in exchange for Aygaz shares. To illustrate an Aygaz shareholder holding 100 Aygaz shares, will own 73.3 Aygaz shares and 4.1 Tüpraş shares after the transaction.

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

## Q&A

OPERATOR:

We have a question from a webcast participant, from Ondrej Slama with Wood & Co. "Could you please tell us, what Sendeo's EBITDA was in Q1 2022 and what EBITDA potential you see in this year? Would you have any revenue and EBITDA guidance for the coming years? Do you have any LT market share targets?"

DIZEMEN G: Thank you for the question. As you know, Sendeo is an important strategic asset for Aygaz and it's still in its rollout phase of the operations across the country. We have already informed during the presentation that the rollout of the business has been completed across Turkey and the company became a nationwide parcel delivery player in Q1 of this year. As Sendeo is in its rollout phase, we have been burning cash especially for the operating expenses incurred within the company. In the first quarter of this year, the total EBITDA of the company was negative 46 million TL of which mainly comes from the operating expenses incurred during that period. You can expect around 150 to 200 million TL of negative EBITDA in 2022 by considering the first quarter result.

OPERATOR: The second question is "When do you expect to receive the full license and what does it mean for contribution to Aygaz?"

DIZEMEN G: I think this is related with Bangladesh business. Regarding United Aygaz LPG, we are about to finalize the construction process of 2 sphere tanks in our Chittagong facility that are targeted to be operational in the second half of this year. Once these 2 sphere tanks become operational, we will be able to get the full operational license and operate in full capacity from these tanks. We have also ordered 4 more sphere tanks to extend our operations there. I think these are the points that I can comment in terms of the LPG business that we plan to start in Bangladesh.

OPERATOR: Thank you. 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.

SANVER S: Thank you, all for joining us today. We hope to see you in the second quarter results.

DIZEMEN G: Thank you.