



## **AYGAZ Q3 2021 Financial Results Conference Call**

Friday, 5<sup>th</sup> November 2021, 16:00 TR Time

### **Conductors:**

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

***Ms. Şebnem Yücel, Finance Director***

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

OPERATOR: Ladies and Gentlemen, thank you for standing by. I am Maria your Chorus Call operator.

Welcome and thank you for joining the AYGAZ conference call and Live Webcast to present and discuss the Third Quarter 2021 Financial Results.

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

Ms. Sanver, you may now proceed.

SANVER S: Thank you Maria. Good afternoon. I would like to welcome you to our Earnings Webcast for the Third Quarter of 2021. We are together here with our Finance and Risk Director, Şebnem Yücel, 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 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.

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 at the end, as usual, we will have time for a Q&A session.

Let's start with the key highlights for the third quarter of 2021. According to August Report of Energy Markets Regulatory Authority (EMRA), Turkish cylinder gas market contracted by 3% year-on-year, whereas autogas consumption is up by 2% year-on-year in the first 8 months of the year. Aygaz market shares improved for both segments compared to the same periods of the previous year, and our market leadership is sustained.

When it comes to our sales volumes in Q3, our domestic retail sales are 2% higher year-on-year, while our wholesale international and trading volume is up by 28% year-on-year. And as a result, our Q3 total sales volume is up by 15%. Q3 autogas demand is positively affected from the elimination of restrictions stemming from the pandemic, as well as the holiday season and Bayram mobility. On the other hand, it was a quarter where we observed a pressure on demand due to increasing LPG prices.

In terms of financial highlights, while talking of increasing LPG prices, on the financial aspect it led to an inventory gain of 52 million TL in Q3. Together with higher sales volumes, our Q3 gross profit came up to 433 million TL and our EBITDA is 240 million TL. We see a positive contribution of 124 million TL from the investments accounted under equity method namely Enerji Yatırımları A.Ş. (EYAŞ) and Entek. Together with the one-off

deferred tax income of 61 million TL from revaluation of fixed assets, Q3 net profit came up to 321 million TL.

Now, let's take a look at the Key Highlights for Aygaz's Market Shares and Turkish LPG Market on Slide #2. According to EMRA August report, Turkish autogas consumption is up by 2%, and the total Turkish LPG demand for the first 8 months is 1% higher year-on-year. On the other hand, cylinder gas demand contracted by 3% year-on-year. Aygaz well preserved its market leader positions once again.

Our Cylinder market share is 41.6% and autogas market share is 21.7% for the January-August period. We see market share improvements for both segments compared to the same period of the previous year. In terms of total retail sales, including bulk gas, Aygaz takes the lead with an overall market share of 26%.

Moving on to Slide #3, our domestic sales volume in Q3 is up by 2% year-on-year, whereas wholesale, export and trading volumes are 400,000 tons with a rise of 28%. Thanks to this simultaneous hike in these 2 segments, highest quarterly sales volume of 712,000 tons was reached in Q3. This figure is 15% higher compared to Q3 of 2020. We see that autogas sales are 3% higher year-on-year, due to increasing traffic with holiday and Bayram mobility as well as schools opening for face-to-face education. Aygaz Q3 cylinder gas sales are down by 3% on the other hand.

Thanks to the expanding customer portfolio with new collaborations, wholesale sales volumes is 142,000 tons, up by

15% year-on-year in Q3. This is where our company acts as a supplier of other LPG distributors in Turkish LPG market.

Exports and transit sales volume reached 162,000 tons and is 15% higher year-on-year in Q3. These are mostly transit trade transactions structured to optimize our LPG supply chain.

Aygaz UK doubled its third-party trading transactions in Q3, compared to the same period of the previous year. It reached 95,000 tons whereas it was 47,000 tons in Q3, 2020. Aygaz UK also handles cargoes to be used in Aygaz's own procurement.

On Slide #4, let's have a look at 9 Months Sales Performance of our Company. Our Autogas sales is up by 3%, while our Cylinder gas sales are down by 2% year-on-year for January-September period. Subsequently, Aygaz domestic sales volume reached 763,000 tons and it's up by 2% year-on-year.

Aygaz UK's 9-month third party transaction volume of 234,000 tons that is up by 66% year-on-year affected total sales volume positively. Our 9-month export sales volumes are higher by 9% year-on-year, whereas our wholesale sales are at previous year's level. Accordingly, our total sales volume reached 1.7 million tons for the first 9 months of the year and it's up by 9% year-on-year.

LPG exports and transit sales, together with Aygaz UK's trading activities, constitute a substantial portion of our Company's overseas sales revenue. A total turnover of US \$381 million was generated in 9 months period.

Now, I'll give the floor to our CFO, Mr. Dizemen for the financial highlights.

DIZEMEN G: Thank you, Selin. Welcome to our Earnings Webcast for the Third Quarter of 2021. As always, I will start with the Sonatrach LPG prices graph on Slide #6. As you already know, changes in Sonatrach prices are the key to assess the inventory valuation of Aygaz. After closing June-end at \$493 per ton, prices have increased further by US \$168 per ton and reached to US \$661 per ton as of the end of September, which was up by 34% compared to June end.

Aygaz recognized an inventory gain of 52 million TL in Q3, which is 12 million TL more than the figure of Q3 2020 and 39 million TL higher than the second quarter of 2021.

In line with the normalization process and increasing mobility worldwide, all sorts of energy demand, including LPG is on an increasing trend. However, supply lags behind demand due to limited new investments, especially in fossil fuels as a result of net-zero emission targets of many countries by 2040 or 2050.

Together with important rises in Brent price, October Sonatrach LPG price came up to US \$762 per ton, reaching its highest level of the last 7 years with a monthly increase of around US \$100 per ton, up by 15% monthly. While entering the winter season where consumption is higher seasonally, lower levels of U.S. stocks also increase concerns about supply shortage. With this supply shortage concerns, recently announced November Sonatrach price came up even further to US \$824 per ton, up by 8% monthly. We expect that Aygaz's Q4 financial results will

also benefit positively from this increasing LPG price environment due to the inventory gains to be recognized.

At this point, it would be worth highlighting the fact that we are actively using financial hedge transactions to manage the effect of possible price movements on our profitability in order to eliminate swings in our annual earnings and dividend distribution capacity.

As you may remember from our previous calls, we hold around 60,000 tons of LPG inventory on average in our tanks as our optimum “priced-in” stock level to maintain our operations efficiently and this optimum inventory level mainly generates inventory gains / losses for Aygaz.

As of today, around 75% of our optimum priced-in stock level has been hedged with financial instruments including propane and butane financial papers traded on European commodity markets.

As you can imagine, main drawbacks of rising LPG price environment are increasing pressure on demand and restrictions on our ability to rise distribution margins, including our dealer margins. Especially for autogas, with the latest hike in November, the price increase is around 70% since the beginning of the year. In September, we observed that even though the number of cars entering our autogas stations are higher due to the increased traffic with the opening of the schools, the average purchasing quantity is lower, which signals the price sensitivity of the autogas consumer segments.

Moving on to Slide #7, we see the summary of our Q3 2021 financial results with year-on-year changes. Aygaz's quarterly revenue is 4.8 billion TL and up by 57% year-on-year and 89% quarter-on-quarter due mainly to higher LPG prices and exchange rates and increasing sales volumes.

Q3 '21 gross profit is realized at 433 million TL and it's 28% higher year-on-year and 92% higher quarter-on-quarter. Gross profit improved mainly due to higher sales volume and the positive impact of inventory valuations. As mentioned before, current period's gross profit includes an inventory gain of 52 million TL whereas it was 40 million Turkish lira in Q3 2020.

Moving on to Operating Profit on Slide #11, we see that our operating profit in Q3 is realized at 193 million TL, up by 12% year-on-year and almost triple of the figure recognized in the previous quarter of this year. Despite increasing operating expenses due to the expenses in relation to our new investments and rising personal& logistics costs in line with the jump in inflation and energy costs, we have managed to increase our operating profits thanks to improved top line and gross profit performances.

Q3 consolidated operating expenses includes initial business roll-out expenditures of our new investment in parcel delivery business, i.e. Sendeo, in the amount of 14 million Turkish lira. Excluding this initial business roll-out expenditures, our quarterly operating profit rises from 193 million TL to 207 million TL.



On Slide 12 and 13, we see quarterly figures of EBITDA, both including and excluding other operating income and expense figures. Our quarterly EBITDA is around 240 million TL and the EBITDA margin that we recognized in the third quarter of this year is around 5%.

Moving on to the contributions from our investments that are accounted under equity pickup method, namely EYAŞ and Entek on Slide #14; EYAŞ's contribution to Aygaz's consolidated financial result in Q3 was 99 million TL thanks to continuing recovery in refining margins and inventory gains from rising crude oil prices. Decline in EYAŞ's contribution compared to Q2 of this year, stems mainly from rising FX losses of Tüpraş. Together with Entek's contribution of 25 million TL, the figure came up to 124 million TL in Q3, whereas it was negative 12 million TL in the same period of the previous year.

As we mentioned in our previous calls, Entek our power generation company, operates a total power generation capacity of 436 megawatts with 8 hydroelectric power plants with a capacity of 264-megawatt, one wind power plants with 60 megawatts installed capacity and one natural gas plant with capacity of 112 megawatts. Of the total generation capacity of Entek, 75% comes from renewables.

Despite the negative impact of countrywide draught on Company's hydro power plants, Entek continued its strong performance consequently in all 3 quarters of 2021, thanks mainly to higher market clearing prices which were 77% higher year-on-year in Q3.

On Slide #15, we see Aygaz's net quarterly profit reaching 321 million TL in Q3 2021, as a result of the improvements in gross profit and operating profit, together with the positive contribution coming from EYAŞ and Entek and the one-off deferred tax income from the revaluation of fixed assets which is allowed by the General Tax communique published by Ministry of Treasury and Finance.

Moving on to Slide 16, our net debt came down by 477 million TL to 589 million TL due to the extended payment terms with suppliers for 2 LPG cargoes that are procured by Aygaz UK on behalf of Aygaz's domestic operations. Accordingly, our net debt to EBITDA multiple is down to 0.9 times as of the end of September 2021, due to enhanced net working capital needs.

Looking at the Debt Profile table on Slide 17; we see cash and cash equivalents increasing by 78% compared to June end to 1.3 billion TL.

As you can see on the pie chart, on the right side of the slide, our total debt, including 100 million Turkish lira of bond issued is completely denominated in TL. According to our risk policies, we don't carry any FX exposure after taking into account our LPG inventories as natural hedges, due to our ability to reflect USD/TL parity increases to our pricing.

Looking at our Working Capital chart on Slide 18; trade payables increased by 92% compared to June end level due to increased exchange rate, commodity prices and the 2 cargoes that I mentioned before of Aygaz UK procured on behalf of Aygaz with extended payment terms.

And you can also note that there is an increase of 42% in our inventory compared to previous quarter. This increase resulted mainly from the rising LPG prices, exchange rates and approximately 10% increase in inventory volumes quarterly.

On Page 19, looking at Forward-looking Statements for 2021, we update our autogas sales volume guidance down by 20,000 tons for 2021, from the sales range of 690,000 to 720,000 tons to 670,000 to 700,000 tons due to the impact of increased end user prices on demand, which reflect the rising commodity prices and the exchange rate. On the other hand, we have not revised our autogas market share and it is still expected to be in between 21.5% to 22.5%.

We have not changed our cylinder gas market estimation since the beginning of the year. Our expectation for our year-end cylinder gas volume ranges at 285,000 to 295,000 tons and our cylinder market share is expected to be between 41% to 43%.

Now, let's look at the update regarding our Bangladesh investment and parcel delivery business. Let us start with Bangladesh and our joint venture United-Aygaz LPG on Slide #20.

According to the most recent data from World LPG Association Report (WLPGA), Bangladesh LPG market reached to 1.2 million tons in 2020, up by 28% year-on-year which makes it the fastest growing LPG market in the world. The market grew by 52% in CAGR terms in the previous 5 years and according to

market projections, it is expected to reach to 4 million tons by 2029.

Our first phase of LPG facility investment started in May in Chittagong which is the largest export and import hub of the country. We foresee a total CAPEX of 25 million US dollars. The relevant investment is ongoing as planned. This CAPEX amount includes 2 sphere tanks with a total capacity of around 6,000 tons, one cylindrical tank, LPG filling systems and equipment and cylinders to be procured from Aygaz's Gebze Plant.

Based on initial business plan, market expansion is planned in 3 regions, i.e. Chittagong, Dhaka, and Mongla. In parallel to our Chittagong investment, we are also exploring on organic and inorganic growth opportunities in Dhaka and Mongla regions of the country.

Within the scope of dealer network establishments, negotiations with dealers and distributors are carried out primarily in Chittagong and Dhaka and we have agreed with 8 dealers for the initial roll out of our cylinder business. Our team in Bangladesh is putting all their efforts to start our cylinder filling and sales operations in the country by the end of this year.

We expect a ramp up in our sales after the completion of the construction of 2 sphere LPG tanks at our Chittagong facility in the last quarter of 2022.

On Slide #21, let me give you more details on the most recent updates regarding our Parcel Delivery Business. The legal title of our subsidiary in this business was changed to Sendeo Dağıtım

Hizmetleri A.Ş. along with the brand transformation of Aykargo aiming to reflect innovative perspective of the company. As you can see on Page 21, Sendeo also has a newly designed logo as part of its new brand identity.

Sendeo's capital is increased by 108 million TL to 143.5 million TL in the extraordinary general assembly meeting in the first week of September. To remind you the company is operating under 45% Koç Holding and 55% Aygaz ownership and the corresponding payments for the capital increase are completed.

Official website of the Company “www.sendeo.com.tr” has been launched and the call center started to serve for 7 days, 24 hours. Following Istanbul operations that started in early May, business roll out have been completed in 16 cities as of September 2021. We operate 5 distribution centers and 6 delivery depots. Sendeo's total number of employees working in office and field including couriers have reached to 400 as of end of September.

As for the next key milestone ahead, expansion to 81 cities in order to become a nationwide player, is aimed to be completed in the first quarter of 2022.

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

## Q&A

OPERATOR: We have a question from Ondrej Slama with Wood & Co. And he says: "I actually have 4 questions, and the first one is, could you please give us more details on how well the trading business in London is performing now, and adjusted for the trading results, what was the growth margin on the domestic LPG sales in 3Q 2021? Was it higher or lower than 2Q 2021?"

DIZEMEN G: Let me start with the first question on Aygaz UK operations. As you all know, our target for opening a branch in the UK for LPG trading is to optimize our supply chain as well as create additional value from third-party trading transactions. As you can imagine, the margins in the trading industry are usually thin and they are at \$5 to \$10 per ton levels. These are gross profit targets of traders to lock in their trading margins.

In 2021, Aygaz UK handled one LPG cargo per month. These cargoes were procured from US and either sold to various outlets around the world mainly including Asia or brought to Turkey for Aygaz's local needs.

Within the general picture of Aygaz, the contribution of trading business is limited as of today. To increase the UK trading office's contribution to Aygaz's consolidated financial results, we have to increase volumes. This is one thing that we need to achieve. And, geographical arbitrage opportunities, especially between U.S. and other parts of the world have a major impact on the profitability of Aygaz UK's operations. This year, these geographical arbitrage opportunities were also limited given the strong prices in the U.S. market for butane as well as for

propane. And as I said, in order to increase the contribution of Aygaz's U.K. trading office's profits within the overall Aygaz's consolidated financial statements, we have to increase volumes.

OPERATOR:

The rest of the questions from the same participant are: "Given the substantial investments in Sendeo and Bangladesh. Do you have any guidance on dividend from years profit, whilst Entek's contribution lower quarter-on-quarter? Is this caused by a less favorable weather conditions or either other factors present? And lastly, do you have any projections on LPG prices? And will those affect your inventory levels? Are you planning to decrease your inventories before LPG prices start falling?"

DIZEMEN G:

Okay, let me start with the first question on dividends. As of today, we don't have any guidance on our dividends. But as you already know, Aygaz is one of the most important dividend players in the Borsa Istanbul universe. We have been continuously distributing dividends historically and we have an announced dividend policy and according to this policy, we target to distribute minimum 50% of our distributable profits by taking into account our cash flow projections, financial policies and the cash flows required for our new investments. This year's dividend will be determined by the General Assembly of the company in the first quarter of 2022.

The second question was on the projections on LPG prices and the inventory level. As mentioned during the presentation, we carry around 60 thousand tons of priced in LPG inventory in our tanks to sustain our operations efficiently. This can be deemed as an optimum and kind of a neutral priced-in inventory level for

Aygaz. And this is creating inventory gains and losses on our balance sheet and P&L.

As mentioned during the presentation, as of today, around 75% of our priced-in inventory level has been hedged through financial paper instruments including propane and butane papers that are traded on the European market.

Given the rising LPG pricing environment, we will start the next year with higher LPG prices. And if there would be a fall in the upcoming year in the LPG prices, this could have a negative impact on our P&L. In order to eliminate swings in our P&L and dividend distribution capacity, we also plan to continue using financial instruments in the upcoming year to eliminate potential negative impacts on our balance sheet and profitability in relation to the volatility in LPG prices.

As a result, we don't have any plan to either increase or decrease our optimum priced-in inventory level, but we plan to continue using financial hedging instruments to eliminate swings in our P&L and dividend distribution capacity.

OPERATOR: Thank you. We have another question from our webcast participant, Umut Öztürk with Oyak Securities. And he says: "Thank you for the presentation. How much contribution to financials, do you expect from cargo business and Bangladesh investment in 2022?"

DIZEMEN G: Both of these new business initiatives of Aygaz including our LPG investment in Bangladesh and our investment in parcel delivery business in Turkey through Sendeo are our strategic



and greenfield investments. We have recently started our investments phases as discussed during the presentation. In the case of our parcel delivery business, we plan to become one of the nationwide players by the first quarter of 2022. Because this is a greenfield investment, it wouldn't be sensible to expect a positive contribution in the first 2-3 years as we will be investing for the roll out of the business across the country, and probably burning cash in this initial investment phase.

This is also valid for our Bangladesh investment where we plan to start our cylinder filling operations by the end of this year. Our 2 sphere tanks with a total capacity of around 6,000 tons will be operational by the fourth quarter of 2022. We expect to see a ramp up in our sales in our Bangladesh operations by the end of 2022. As a result, we are not able to provide you any guidance on the contributions of these new investments as of today given their greenfield nature, and as we are still in the investment phases for these 2 business initiatives.

OPERATOR: Thank you. We have another question from our webcast participant Uğur Bozkurt with Deniz Invest. And he asks: "What was the contribution of Sendeo to sales and EBITDA in 2022?"

DIZEMEN G: I think this was covered within the previous questions, so we can pass on to the next one.

OPERATOR: Okay. Thank you. We have a question from Mehmet Gerz with ATA Asset Management. And he asks: "Can you quantify the expected contributions of Bangladesh and Sendeo to 2022 financials and in the mid-term?"

DIZEMEN G: And this is also related to the previous question we responded. I think we can move on to the next one.

OPERATOR: Of course, and the last question is from Ezgi Yilmaz with BGC Partners: "Thank you for the presentation. What would you expect about your net debt position in the next quarter? Do you expect Aygaz UK trading activities to create volatility in working capital going forward?"

DIZEMEN G: As you follow from our presentations, our net debt to EBITDA is hovering around 1.0x to 1.5x during this year, and we don't expect much volatility in these figures. From time to time, Aygaz UK's trading activities might create volatility because of the large volumes they handle. One VLGC LPG cargo that Aygaz UK handles per month is in the amount of 45,000 tons, and this corresponds to around \$40 million in value terms as of today. This might create some volatility on the balance sheet as of month ends, but this is not something that is a recurring item on our balance sheet.

There are also some tools that we can use to deal with the net working capital requirements of our UK trading activity like the trade finance tools that we have started to use recently, including discountable LCs. All in all, as for our net debt to EBITDA position, we don't expect much of volatility in the upcoming quarter.

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.

SANVER S: Thank you, Maria. We have one more question from Uğur Bozkurt asking about Sendeo sales contribution to EBITDA which we have already answered. So that will conclude our presentation today.

Thank you all for joining us. And have a nice day.

DIZEMEN G: Thank you. Bye-bye.