



AYGAZ Q4 2023 Financial Results Conference Call

Tuesday, 5th March 2024, 16:00 TR Time

Conductors:

Mr. Gökhan Dizemen, Chief Financial Officer

Conference Call Conducted by Chorus Call Hellas



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OPERATOR: Ladies and Gentlemen, thank you for standing by. I am Konstantinos your Chorus Call operator. Welcome and thank you for joining the AYGAZ conference call and Live Webcast to present and discuss the Fourth Quarter 2023 Financial Results.

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

Mr. Gokhan Dizemen, you may now proceed.

DIZEMEN G: Thank you, Konstantinos. Good afternoon, everyone. Thank you for joining our Earnings Webcast for the Fourth Quarter of 2023. 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.

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 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 2023 on Slide 3. Energy Market Regulatory Authority, briefly EMRA, published LPG sector December report. According to annual figures, total Turkish LPG consumption grew by 14% year-on-year. Demand for both Turkish cylinder gas and autogas markets increased by 1% and 14%, respectively. Aygaz's total market share was 25.7% in 2023 and Aygaz sustained its market leader position.

Aygaz's 12-month sales performance was strong, both in domestic retail sales as well as wholesale and international sales. Our autogas sales were 11% higher year-on-year, on the back of the rising economic advantage of LPG against gasoline.

Together with the growth in bulk gas sales in the first quarter, total domestic retail sales reached 1.1 million tons, with a growth of 13% compared to the same period of 2022.

Aygaz's wholesale and international LPG sales in total were up 18% and reached to 1.6 million tons.

United Aygaz LPG, our joint venture in Bangladesh, continued its cylinder gas sales activities, which started in Chittagong in August 2022, by expanding to different regions of the country. In its first annual operational year, a total of 59,000 tons of LPG sales were reached through 108 dealers.

In terms of financial highlights, our core LPG and natural gas business line had a strong annual financial year, thanks to increased

LPG sales volumes, higher distribution margins and inventory gains recognized during the third quarter of the year.

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

The consolidated net profit figure for 2023 amounted to TRY6 billion, including the contribution coming from EYAŞ that is accounted under equity method.

As of the end of the year, net cash position improved to TRY1.3 billion, largely due to the increased operational profitability of our core LPG business and dividend income received from EYAŞ.

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

As per December 2023 EMRA report, Aygaz achieved 41.1% and 22.0% market shares in cylinder gas and autogas markets, respectively.

Together with our market share of 38.3% in bulk gas segment, Aygaz's total retail market share is realized as 25.7% and Aygaz continued to be the uninterrupted leader of Turkish LPG market.

On Slide 6, let us have a look at the sales performance of our Company as of the year-end. Our domestic retail sales volume in Q4 is 259,000 tons, down 5% compared to the same quarter of last year. The negative year-on-year deviation in the retail sales was mainly from the decline in bulk gas sales. As you may recall, there was a price advantage of LPG against natural gas during the last quarter of 2022 and this resulted in higher bulk gas sales during that

period. Wholesale and international sales were down 21% year-on-year in Q4. This was largely driven by the third-party trading volumes and spot sales opportunities realized in Q4 of prior year.

Looking at the 12-month sales volumes, domestic retail sales are at 1.1 million tons and up by 13%, wholesale and international sales are at 1.6 million tons and up by 18%. As a result of these increases in both segments, Aygaz's total LPG sales in 2023 reached to 2.7 million tons.

Let us now have a look at Sonatrach LPG (SP) prices graph on Slide 7.

The Sonatrach price, which was moving upwards since the last quarter of 2022, started to decline between April-July period, largely due to the recession expectations in the global markets and the downward trend in the global LPG consumption especially in the Far East. As a result of this, Sonatrach price declined to \$355/ton in July 2023. This was one of the lowest levels of LPG prices since the pandemic.

July onwards, the prices started to hike again and reached to \$534/ton as of the end of the year. Geopolitical tensions in Ukraine, Middle East and Red Sea together with the economic data coming from China, would continue to be the key factors determining supply and demand dynamics of LPG in the upcoming periods.

As a result of these price movements occurred in 2023, Aygaz recognized a total inventory gain of TRY103 million in 2023, resulting from higher SP realized in the second half of the year which offsets the inventory losses incurred in the first half of the year.

On slide number 8, we will be covering the updates regarding our joint venture, United Aygaz LPG in Bangladesh.

According to the World Liquid Gas Association's report, Bangladesh is one of the fastest growing LPG markets in the world with an average annual growth rate of 22% between 2017 and 2022. Bangladesh LPG market size is estimated as 1.4 million tons in 2023. Of this total market volume, ~80% comes from domestic sales, including cylinder gas sales.

Cumulative capital contribution of US\$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 around US\$30.5 million.

Sales operations of United Aygaz started as of August 2022 and a sales volume of 59,000 tons was reached in 2023, which is the first full operational fiscal year of the company. As of the year-end, the company operates with over 100 dealers and 7,000 sales points.

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. The commissioning of these 2 new sphere tanks is planned for the third quarter of 2024.

In the following years, we plan to expand our operations in other regions of the country and target to distribute LPG to almost all of Bangladesh, in line with our investment plan.

Within this context, the necessary legal permits have been obtained and construction works for establishing an LPG storage facility and

cylinder filling plant have commenced in Dhaka, the capital of Bangladesh.

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 9.

As of the year-end, Sendeo operates with 10 transfer centers and 15 distribution centers and has around 1,500 active delivery points across the country. The maximum number of daily packages delivered reached to 220,000 units in November, thanks to increased e-commerce activity during that month.

With regards to Sendeo operations, we have announced a very recent development through the Public Disclosure Platform on 11th January. A non-binding Memorandum of Understanding has been signed to express the purpose of merging the operations of Sendeo with Kolay Gelsin under Kolay Gelsin brand with the principle of equal partnership of Sendeo shareholders, including Aygaz and sole shareholder of Kolay Gelsin, Mr. Ahmet Musul. Kolay Gelsin is a regional parcel delivery player established by Ekol Logistics, one of the largest logistics groups in Turkey, and the company operates in 49 cities with a focus on e-commerce activities.

We believe that the combined parcel delivery volumes of these two entities will generate synergies in costs and enable the merged entity to hit break-even profitability levels at an earlier stage.

Following the legal, financial and tax due diligences to be conducted by the parties, if binding agreements are signed, the transaction is aimed to be closed within the first half of 2024. Of course, the

closing is also subject to regulatory approvals, including the approval of Competition Authority.

Once the transaction is completed, Sendeo will become a joint venture for Koç Group and Aygaz and be accounted under equity method in Aygaz's consolidated financial statements.

Moving onto slide 11, I will now walk you through the key drivers for our core LPG business segment's financial performance, when compared to the prior year. Please bear in mind that the financial figures in 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 the end of 2023.

Starting with the top line, total revenues were down 10% due to a notable 26% decline in average Sonatrach price compared to 2022. However, total annual sales volume was up by 15%, which partially offset the decrease in Sonatrach price.

The primary factors contributing to 27% year-on-year gross profit growth include the impact of higher LPG volumes, improvement in distribution margins above inflation and higher inventory gains.

In line with the performance at gross profit, EBITDA and operating profit were up 18% and 48% respectively. Income from investment activities was up TRY269 million, largely due to dividend income from financial assets and interest income on FX protected deposits booked under financial assets.

Monetary gain realized in 2023 decreased due to the increase in equity with the dividend coming from EYAŞ. This was partially offset

by the decrease in net financial expenses, largely driven by lower financial indebtedness in 2023. As a result, profit before tax, PBT, was up 23% thanks to solid operating profitability of our core LPG business.

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.

The operating profit realized as TRY1.267 billion in the LPG business line, which we have presented in the previous slide, declined to TRY211 million at the consolidated level due to Sendeo's operating loss of TRY1.054 million incurred in 2023.

Income from investment activities was down TRY850 million year-on-year, due mainly to lower contribution coming from EYAŞ under equity method of consolidation. As a result, consolidated profit before tax was also down by around TRY1 billion year-on-year and realized as TRY5.5 billion in 2023.

Moving onto slide 13, you can see balance sheet items as of December-end.

As of December-end, net working capital requirement is at TRY766 million and net cash position realized as TRY1.3 billion, mainly due to the increased operational profitability of our core LPG business and dividend income received from EYAŞ.

Looking at the pie chart on the right side of the slide, 56% of our total debt is foreign currency denominated, that corresponds to USD loans of \$38 million. It may be worth here highlighting the fact that,

in terms of FX position, we have a policy of keeping a neutral 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 sales volume ranges at 240,000 to 250,000 tons and autogas sales ranges at 770,000 tons to 800,000 tons. And our cylinder gas market share is expected to be in between 41.0% to 43.0%. Our autogas market share is expected to be in between 21.5% to 22.5%.

This concludes our presentation today.

Thank you for your patience and now we can take your questions.

OPERATOR: There are no audio questions at this time. We will now move to our webcast question. The first webcast question comes from Umut Ozturk with ATA Invest and I quote.

OZTURK U: "Thanks for the presentation. Apart from Sendeo, what was the major reason for the significant fall in EBITDA in fourth quarter '23 despite inventory gains recorded in the quarter? Thank you."

DIZEMEN G: Thank you for the question. First of all, when you look at our financial statements historically, you can see that the fourth quarters usually show weak performance due to a couple of reasons, the first one being the seasonality impact on our autogas and cylinder gas sales. In the case of autogas, as you can imagine, driving season ceases in the last quarter of the year and we can see a decline in our sales volumes. And, in the case of cylinder gas, during this period, schools open, people move from smaller towns and their seaside houses to the larger cities where natural gas is much more common. Our main cylinder customers are based in towns, so that this move from towns

to larger cities of the country results in a decline in our sales volume. This is the first thing that I can comment in relation to the fall in EBITDA compared to the previous quarter of the year.

On top of it, especially in the fourth quarter, the operating expenses rise. This is also another historical trend that we observe. We usually push forward our operating expenses to the fourth quarter to see whether the year will go well in terms of financial performance. So that we decide to make those spending's usually at the end of the year, especially those that are related to our marketing campaigns and other sales activities. These are the two main reasons that I can comment on the EBITDA performance for the fourth quarter. Thank you.

OPERATOR: Ladies and Gentlemen, there are no further questions at this time. I will now turn the conference over to Mr. Gökhan Dizemen for any closing comments. Thank you.

DIZEMEN G: Thank you again for joining our call. I look forward to catching up again in the next quarter's conference call. See you. Bye-bye.