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"Third Quarter 2019 Financial Results" Conference Call

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Conductors:

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Mr. Christian Thomas, CFO

Mr. Vasilis Tsaitas Investor Relations 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 Hellenic Petroleum conference call to present and discuss the Third Quarter 2019 Financial Results with the Management of the Company.

At this time, I would like to turn the conference over to Mr. Andreas Shiamishis, CEO, Mr. Christian Thomas, CFO and Mr. Vasilis Tsaitas, Investor Relations Officer.

Gentlemen, you may proceed.

SHIAMISHIS A: Thank you very much for attending. Welcome to our Third Quarter Results for 2019. It's a pleasure to have you again with us. Before I start, I would like to welcome Christian Thomas, as the new CFO of the Group. Unfortunately, he only joined a day ago yesterday, so it's a bit difficult for him to do the presentation, but hopefully he will pick up all the issues and next time around he will be able to participate in this presentation.

So without further ado, let me go to Page 2 where we have the key highlights of the quarter. Overall, a positive quarter for us, just over €200 million of adjusted EBITDA, a significant improvement over the first half of the year where we experienced one of the worst refining margin environment in the last 5 years.

In terms of operations, we've had a stable environment… stable operations. The only issues that we had to worry about was the scheduled shutdown in Elefsina which started at the end of the quarter, beginning of the fourth quarter. And the completion of the IMO test runs in Aspropyrgos. Other than that, solid operations.

In terms of the domestic market demand, we had an increase which is very positive in the third quarter for the auto fuel demand and we've seen the continuation of the growth in bunkering and aviation fuel. Clearly, reported results have been affected by the inventory losses in the quarter. Just to give you an idea, if you compare last year with this year, there's a €100 million swing on the reported results simply because of the inventory gains and losses in the previous and in this quarter.

A strong message on the financing… in the balance sheet, we have a reduction, a further reduction of financing cost by 19%, it's clearly a signal of improved balance sheet, better terms on the loan facilities and the overall strengths of the company.

As you know, a few weeks ago we completed the issuance of a new Eurobond at 2%, that is probably the lowest we have ever issued at in recent years and excluding the syndicated bank facility of 2007, which was at LIBOR plus 18, plus 18 bps, we have the best transaction in a number of years. The savings from this transaction which has been used to repay the bond in July and a tender process of €250 million is estimated to be at €15 million per year, so there is further reduction to come in the next quarter.

As a result of the performance, the Board has approved an interim dividend of €0.25 per share and that is to be paid in January 2020. The reason for putting in January 2020 is because we don't have the new legislation date as yet, and that new legislation effectively changes the withholding tax from 10% to 5%, so it is something that we don't want to get caught up in terms of planning. A final dividend will be decided in February 2020.

From an operating standpoint, we had the full turnaround completed in the fourth quarter of Elefsina. We have the unit in start-up mode, in a couple of units we have oil-in and we expect that the performance following the start-up, so it's a beginning of the run performance, will be very positive and it will offset part of the opportunity cost during these months of shut down. The IMO test runs have been completed for Aspropyrgos and we are switching to the new operating mode in the fourth quarter of '19. In the next couple of weeks, we should be…we shall be moving into that operating mode. At the same time, we have a small shutdown scheduled for Aspropyrgos with a plan to tie in the new ETBE unit which will also allow us to operate with the new specifications going forward.

During the last couple of months, we've had the ratification of the 4 new E&P licenses by Parliament. Unfortunately, I would probably have to confirm our previous announcement saying that, we are not at the stage to be able to announce any findings in the E&P business given that we haven't started any work yet. So, this is an area which we have very little to say in terms of news.

On the strategy agenda, we've had a new organizational change. We expect to have a new EGM in December for the alignment of the Articles of Association with the new Company's Law that will be called in the next few weeks. So, before the end of the year, we need to have this EGM. We have moved closer to our strategic rationale in terms of the business units, which are there to support the various priorities that we've set. And we are planning a Capital Markets Day for tomorrow in London, in order to communicate the first part of our strategic thinking.

In terms of numbers on Page 4, we see the adjusted results by business units. The main drop comes from the refining, supply and trading simply as a result of significantly lower benchmark margins since 2018, in the respective period of 2018. And overall, we have a strong performance. I would like to remind you that 2018, 3Q was the highest on record as a performance for the Group.

So, we've made up some of the ground that we lost in the first half of the year. Adjusted EBITDA at €453 million, which means that even in a very bad year, we should be expecting to be somewhere around €600 million to €650 million of EBITDA. We will have to wait and see the impact of the shutdowns and the impact of the heating gasoil which is starting to slowly increase in all honesty, to see how the performance of the fourth quarter will be.

In terms of net debt, you can see that we have just over a €1.5 billion, which excludes the IFRS 16 liabilities. That's a number which is at the bottom of the target range. So, we feel very comfortable about the balance sheet of the Group.

Moving on to Page 6, in terms of the environment, we have the drop of the crude oil prices, as I mentioned earlier, and a stronger USD versus euro, which is helping our results.

In terms of the crude differentials, we are seeing a tightening of the Brent-WTI spread, which effectively helps European refineries in terms of the competitiveness versus U.S. refineries. And we have Brent-Urals parity for the quarter despite the volatility during that period. That's something which is maybe a bit odd because one would expect to see higher sulfur crudes losing ground to sweeter crudes. However, that's not been the case up until now.

Moving to Page 7, we have the refining margins; it’s a clear recovery of refining margins especially for Elefsina, the hydrocracking/coking refining margin. We are starting to see the opening of the ULSD to HSFO crack spreads which is effectively a reflection of the IMO implications to come.

In terms of the Greek domestic market, the messages which are positive on all accounts, we have an increase in the domestic market and increase in the bunkering and aviation markets. And that is something which has been going on for a few quarters now. So, it's becoming a trend with respect to the Greek domestic market. As a point of reference, it's worth recalling that the Greek domestic demand dropped by about 40% between 2009 and 2014, as a result of the crisis. A lot of that change came in the heating gasoil business and the auto-fuels business. So we are starting from a very low base and we expect to see some of the recovery benefits coming in, in the next few quarters.

Page 10 has a very high level causal track of this year's quarter compared to last year's quarter. I remind you the highest ever third quarter for the group. We try to split the impact by driver, so that people can understand how our numbers are reflecting the environment and expectations. So you can see that the impact of the environment is overall negative and it is made up of a reporting change, which is the IFRS16, the lease accounting standard. So we have lower benchmarks, we have a more difficult crude pricing environment compared to euros with this. And it's… the only positive thing here has to do with the dollar exchange rate and the IFRS 16 impact which is a reporting impact.

On the performance side, as I mentioned we had the end of run performance of Elefsina and the preparation for the shutdown which started at the end of September beginning of October, plus the IMO testing, which meant that we had to give up some of the refining margin in those two refineries.

In others, we have a number of factors. The most notable have to do with Intra-group consolidation on profit in stock with the loss on Petchems because of pricing, given that the price drop at the end of the quarter and a small increase in operating costs.

The following page describes the transaction on refinancing where we have effectively 3 different transactions. We had the repayment of the €325 million, 5.25% Eurobond, which we issued… which we repaid in 2019, just at the beginning of the third quarter out of cash reserves. And we also had the tender process for the ‘21 Eurobond that were taken out €250 million.

The third transaction was a new Eurobond, which effectively we capped at €0.5 billion, the demand was very strong, we had €1.4 billion demand, and within a space of a few hours we had demand…we had to book for the new money because the tender was rolled into the new issuance. So for the €0.25 billion new money that we printed we had 5 times over subscription, that meant that we closed the books very quickly within a couple of hours and we were able to price much tighter. You can see that the impact of this is quite material, and part of it is seen in the third quarter because we repaid the loan at the beginning of July. But the rest of it will be seen in Q4 and in 2020.

The following page shows the maturity profile of our committed facilities. I think the only thing which we probably need to address is the 2020 maturity and maybe put it back to 2022 or even further. But other than that we have ample capacity and well-spaced out maturity goals. So we don't have to worry that much about the financing of the group. And as you can see, we expect that within the next quarter we will probably have a forward-looking run-rate which will show below €100 million of interest costs.

Now, that brings me to the end of the description for the group. And I would like to turn over to our Investor Relations Officer, Vasilis Tsaitas to walk us through the various business units' performance. Vasilis?

TSAITAS V: Thanks Andreas. Good afternoon ladies and gentlemen. We'll move on to the business unit performance and starting from Refining, Supply & Trading on Page 14. Key numbers are the stronger dollar, which does support our business, the recovery in benchmark margins and the over performance which is now just shy of $6 per barrel for the quarter, taking the realized margin to double-digits and that is reflected obviously in the headline adjusted EBITDA of €127 million. Key event as mentioned before is…for the fourth quarter will be the switching off of Aspropyrgos refinery to the new IMO operating model in the next couple of weeks. While Elefsina will also start contributing in the fourth quarter in the next few days.

Moving on to the next page on Page 15, as you can see, production also recovered. You see growth production to 4.3 million tons. And it was only for the slowdown of Elefsina ahead of the turnaround towards the end of

September that kept us short of record production and utilization levels. Looking at our crude and feedstock sourcing, the impact of the test run of Aspropyrgos is evident on the higher intake of Egyptian, as well as, other crudes, that would include actually as other light North African crudes and U.S. WTI mostly, which will be there in the months to come within the operating model.

And on Page 18…sorry on Page 16. Looking at our sales more or less in line with third quarter '18; exports were a bit lower as we had to increase inventories ahead of the turnaround that also had a small impact on our working capital, a temporary impact.

On Page 17, we have the usual time series, displaying our benchmark and realized margin performance. As we mentioned before €127 million of adjusted EBITDA is the best performance in the last 4 quarters with realized margin in line with the average of the last couple of years.

Moving on to petrochemicals business on Page 19, adjusted EBITDA is a bit lower than last year. I think there are 2 main factors to highlight. One is a small decline in sales volumes, you do have the seasonal manufacturing slowdown in the region that, with the holiday period in August, does affect sales in this time of the year and you may have a slippage of 1,000 or 2,000 tons of sales.

On the other hand, we do have a small amount of inventory losses; it is our standard practice not to report inventory effect on our Petchems and marketing business. So but this is in line with what we've been doing that's why the small decline in operating income still however on the nine-month basis a very strong performance.

Moving on to our fuels marketing business on Page 21 starting from domestic. The headline numbers obviously are affected by the IFRS16 implementation. So I will draw your attention on the comparable EBITDA, which is higher year-on-year both on the third quarter and the nine months. More specifically on the third quarter, it is mainly driven by higher volumes in our retail business, as well as, small gains in aviation fuels.

In international marketing, we have a significantly improved picture on the comparable EBITDA again, if we look at it, volumes are higher in most markets we operate with knock-on effects… knock-on positive effect on our EBITDA contribution.

Concluding our core business and moving on to our associates on Page 24, I guess, the main events to highlight here is the high participation of nat gas fired units in the energy mix at the expense of lignite. Our plants also were part of this increase…increasing production significantly versus last year and that is reflected on our EBITDA profitability…on the Elpedison EBITDA profitability. It's important though to note that what used to be flexibility and capacity mechanism is still not in place.

And last but not least we move on Page 25 on DEPA group. I think once again it is important to highlight that we are looking at a different business versus last year in the absence of DESFA that was sold in the fourth quarter.

Important to highlight that the third quarter is a typical seasonal slowdown of the retail business, given the absence of heating volumes that usually support the numbers of this business in the first and the fourth quarter. That's why the comparison to last year on a nine-month basis results are in line with what we would expect in the absence of DESFA, and definitely commensurate with a much smaller capital invested in this business.

In terms of newsflow we had the announcement of a new legislation on DEPA restructuring and intended privatization. As far as the company is concerned, our strategy will be determined once the transaction structure is in place by the seller… the privatization fund.

At this point, we conclude the main part of the presentation. I will handover to Andreas and for any questions that you guys may have.

SHIAMISHIS A: Thank you very much, Vasilis. So a good third quarter results much better than the first half of the year, and we are available for any questions you may have. Thank you.

Q&A

OPERATOR: The first question comes from the line of Grigoriou George with Pantelakis Securities. Please go ahead.

GRIGORIOU G: Hello. Good afternoon. Two questions, if I may. One is regarding your effective tax rate, both in the third quarter and on a 9-month basis is very low. I know it's a bit odd to calculate it on the 9-month basis. But I was wondering whether you could provide us with any guidance for the full year?

And the second question is, if you could give us a bit more details regarding the strong rebound, both in Greece and abroad regarding your marketing operations, I'm talking about ex-IFRS16? Thank you.

SHIAMISHIS S: Vasilis, you want to take the tax rate…

TSAITAS V: Sure. Thank you, George for the question. In terms of effective tax rate, it is lower than the Greek nominal tax rate. There are 2 main reasons for that, so one has to do with a higher contribution of our international marketing business Cyprus, Bulgaria, so… countries with lower tax rate that bring down the overall effective tax rate for the group. The other is deferred tax booked out of new assets capitalized during the quarter, thus will actually be taxed at a much lower rate under IFRS. So these are 2 main components and the latter has also been there for the last 2 quarters, and it is expected to also be there given the part of the new CAPEX that will be spent also in the fourth quarter for the full year as well.

SHIAMISHIS A: Thank you. On marketing, I presume that you referred to the domestic marketing. In any case, the domestic marketing we have 3 main reasons for this improvement.

The first one is that we have increased the COMO network size in the network which starts generate higher EBITDA either through better selling or up-selling of premium products or NFR. Overall, we are seeing a better market which is something enjoyed by all petrol station operators so we are seeing an ATP and margin stabilization if not improvement.

And thirdly, it is the geographical dispersion of sales during the tourist period. The petrol stations in the islands tend to have a better performance than the Mainland petrol stations. So those are the 3 reasons why we have these improvements.

On international, it is an overall improvement in most countries which is both volume and a bit of margin stabilization. So overall it is a business which is performing better than last year. I wouldn't tell you it is performing as we would like it to, because we are referring to EBITDA. But you have to recall that there is a big capital employed behind these businesses, but its positive news. Thank you.

OPERATOR: The next question comes from the line of Patricot Henri with UBS. Please go ahead.

PATRICOT H: Yes, hello, everyone. Thank you for the presentation. I have 3 questions, please. The first one, over the clarification on the comments you have made around switching to the IMO mode, if I understood correctly, you will be switching to that mode in 2 weeks, within the next 2 weeks. And so, we will be entirely switching Aspropyrgos to the sweet crude feed that you mentioned previously. And is the feed in the third quarter with more… as there enough African and U.S crude represent pivot of what you will be running or are you going to make some different choices based on the test run that you've made recently.

And secondly, still on the topic of IMO 2020, I was wondering if you started selling very low sulphur fuel oil in the bunkering market, what type of interest and prices you are seeing for the time being, if you are putting in place some sort of longer term contracts potentially. And finally, just want to check what kind of impact you have seen from the higher freight rates that we saw earlier this quarter impact on your… your operation around well, the crude prices, but maybe some positive impact on the products cracks? Thank you.

PANAS D: Hi, hello, this is Dinos Panas, on the subject of IMO, yes, we are switching to IMO mode at the end of the month and the crude slate is going to be more or less what we discussed the previous time, this type of crude, Azeri, sub-Saharan and WTI, so these are main crude we will be using for the IMO operation.

Now, on prices and interest, interest currently is relatively low. So, we are now working and trying synchronize production with demand, a little bit of optimization there. On prices, we have seen some price in the market, but I would not like disclose them at this point of time. A little bit better, then closer to gas oil than the current indications that we see from plans, that actually reflect the limited availability and interest of the product currently in our view. We do not have any long-term contracts for selling or buying at this point of time, but we are still working on that.

And finally, on the higher freight rates, we are not really affected directly since most of the crude that we bought during this period were short haul cargos, so not really affected by this higher freight rates that you saw recently.

PATRICOT H: Got it, okay.

PANAS D: Okay.

OPERATOR: Ladies and gentlemen, there are no more questions registered at this time. You may now proceed with your closing statements. Thank you.

SHIAMISHIS A: Thank you very much for attending the 3Q call. As I said at the beginning, it has been a positive quarter, which addressed some of the softer environment that we witnessed in the first half of the year. The fourth quarter of the year is going to be stronger from an environment point of view. We will be affected by the maintenance schedule, but that is only a temporary option given that the refineries will be performing much better and we will be seeing the benefit of the stronger environment.

As we complete this year, it's good to be able to demonstrate that even in a very weak environment we have a system of refineries that can perform very well and generates significant free cash flow for the Group and be able to distribute part of that back to the shareholders.

We expect that 2020 will be a challenging year for us with the IMO changes, but we expect that in a positive way and we should be able to utilize and leverage on the quality of our assets and our teams even more. Thank you very much for attending this call. And we will speak to you again in 3 months' time when we have the full year results. Thank you.