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HELLENiQ ENERGY Holdings S.A.
Third Quarter & Nine Months 2023 Financial Results
Conference Call

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Conductors:

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Mr. Vasilis Tsaitas, Group Chief Financial Officer

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OPERATOR: Ladies and Gentlemen, thank you for standing by. I am Gelly your Chorus Call operator. Welcome and thank you for joining the HELLENiQ ENERGY Holdings conference call and Live Webcast to present and discuss the Third Quarter & Nine Months 2023 Financial Results.

At this time, I would like to turn the conference over to Mr. Andreas Shiamishis, CEO, Mr. Georgios Alexopoulos, Deputy CEO, General Manager Group Strategic Planning & New Activities, Mr. Vasilis Tsaitas, Group CFO, Mr. Dinos Panas, General Manager, Oil Supply and Sales & Mr. Nikos Katsenos, Head of Investor Relations.

Gentlemen, you may now proceed.

SHIAMISHIS A: Thank you very much. Good afternoon to everyone. Thank you for joining us this afternoon with the aim of trying to understand a little bit more about our quarter and year-to-date results. So without further ado, I would ask that we go to Page 4, where we have the highlights of this presentation.

Overall, a very strong quarter, a very good quarter on all fronts. Markets felt and that actually with a relatively higher than mid cycle definitely benchmark refining margins at $12 per barrel on a system basis, a relatively stable domestic market demand with all the fuels exhibiting a small increase as well, and despite having the…despite not having the opportunities of last year with respect to switching from nat gas to hydrocarbons as source for the refineries, as well as, crude pricing opportunities, we still have a very positive factor for our company.

Operations we have high availability which means higher production, high exports at around 50% of the total production and a strong overperformance even though a much lower number than last year's respective quarter for the reasons I mentioned, the nat gas and the lack of alternative crudes priced at more advantage levels, but still a very strong production. And of course, our newest addition to the portfolio, the renewables portfolio which is growing in line with the growth in capacity.

From a financial point of view, just shy of a billion for the 9 months for clean EBITDA, which is definitely a very good performance, maybe not as good as last year, but I don't think a lot of people expect to see a repetition of last year any time soon. So a very strong performance with very good cash flows leading to a stronger balance sheet, €1.5 billion of net debt, and that includes significant investments in renewables as well, so to be refinanced by project finance, and that allows us to propose and the board approved earlier today an interim dividend of €0.30 per share which is 20% up on last year's interim dividend. So good market backdrop, solid operations and a very good set of numbers.

What about strategy? What are we doing in that respect? We have a continuation of the Vision 2025 strategy on a number of fronts. We've completed successfully most of our targets if not all of them that we set back in 2021, growing very fast on the new energy cycle, the renewables business, with new operating assets and a very strong pipeline, and of course, we have a number of de-carbonization projects under way which will take time to mature. There's no question about it, this is not a quarterly case, or not going to get hydrogen up and running or bio fuels on the first quarter of 2024, that's for sure, but we are moving in that direction. So in a nutshell, this is effectively our performance for the quarter and the 9 months.

We'd like to spend a couple of minutes going through the next 3 pages which show the progress on strategy, we have the Vision 2025 progress to-date. I'm not going to spend too much time on that, because effectively it's visualizing and putting in order what we already said. A strong performance and delivery of our strategy, and I'll focus more on the next 2 pages which is sharing with you, how we see the environment shaping up, and, with that in mind, why we believe that our strategy, as adapted from Vision 2025, is the right way to go.

So we have 3 trends which affect our business, and this has to do with…this has to do with the downstream sector, where we see a continued relevance of liquid hydrocarbons, in fact even if we project 20 or 25 years into the future, we still see that the absolute level of hydrocarbons needed, liquid hydrocarbons needed for the energy demand which is growing, is very close to today's levels.

So even if we had a magic wand, even if we said that there will be no more hydrocarbon demand coming up, for the next 20 years, our existing system should be at levels similar to where we are today. It means that we should be concerned and working on maintaining our refineries and making them compatible for the future.

However, one cannot ignore a de-carbonization strategy which clearly covers our core business, but also our new investments which is why, since a couple of years ago, we've committed to investing the biggest chunk of our new capital into renewables. And we have seen a massive increase in the interest and the amount of energy provided by renewables, and this is you know the combined effect of moving into electrification, and within electrification, moving into green electrons.

Last but not least, working in our direction is the fact that Greece has formally been upgraded. We have most of the macro KPIs working in a positive way, which means that over the next 2 to 3 years, we expect the already very strong Greek economic growth to become even stronger, and that is something which we believe justifies the strategy that we have in a simplistic diagram on Page 8 which states that our pillars going forward, have to do with strengthening the de-carbonization of the downstream business, so we have to make this more relevant for future needs.

We have to take advantage of that strong position and grow into what we call adjacencies, which is hydrogen economy, biofuel, synthetic fuels, e-mobility, and we have to take advantage of a very strong position that we already have, and at the same time grow the second pillar, which is the green energy. And all of this has to be carried out with a consistent, not identical, but a consistent governance structure, and, of course, an operational excellence mindset.

So, with that, I will stop there and ask Dinos Panas to walk us through the environment pages. Thank you, Dinos.

PANAS D: Thank you, Andrea. Good afternoon, everybody. 3 slides on the international industry environment and domestic one. On Page #10, you can see that we had a quarter-over-quarter increase in the crude prices, while the foreign exchange remained flat. Natural gas and electricity prices remained close to the previous quarter, but definitely much lower than a year ago. And EUAs at €85 per ton, we've seen them trading in October below €80 per ton.

Now, on Page 11, we've seen some high cracks for ULSD and gasoline and HSFO, during the third quarter of the year, and Naphtha remained weak. We're still seeing quite strong cracks on ULSD, but gasoline, of course, is a little bit lower as expected after the driving season. One of the biggest benchmark margins in the history of $12.6 per barrel.

And finally, on domestic market, we have seen similar levels in all markets, domestic aviation, bunkers with the previous year, gasoline is 4% higher, diesel 2% lower. We've seen a strong increase in our sales in October, both in gasoline, but also higher in diesel.

And so with this, I will pass you to Vasilis Tsaitas, CFO for the analysis of the group performance. Vasilis.

TSAITAS V: Thank you, Dino. Good afternoon to all attending our call today and many thanks. So, moving on to Page 14, effectively, we're looking at an overview of our results. So, refining sales flat for both refining and marketing business. Sales turnover has been driven mostly by lower commodity prices, especially more so in euro terms as we're seeing below.

Adjusted EBITDA, as I mentioned before, is shaped at €400 million, driven primarily by refining supply, and trading, and the refining economics environment, which was one of the strongest we've seen, but certainly not as strong as the record high of Q3 '22.

In terms of our associates business, again, the comparable for both our Elpedison J.V. as well as our participation in DEPA Commercial was affected by an exceptional environment last year versus a normalization of the environment in electricity and natural gas in the third quarter of '23.

Our finance cost, on the one side there is certainly negatively affected by much higher benchmark rates, with Euribor at around 4% versus almost zero at the same time last year, it was just getting positive. On the other side, we mitigated to a significant extent the negative impact of the benchmark rates through reducing our gross debt courtesy of very strong cash flow profitability, as well as tightening the spreads on our debt.

Nothing special, I mean, you have the comparison of last year with a solidarity contribution that affected our taxes for '22. In terms of net debt at €1.5 billion, among the lowest in the last several years, and gearing ratio of net debt to capital employed of 33%, the lowest for more than a decade.

Moving on to Page 15, effectively…from you know, a very strong comparable of €500 million, we had a positive impact from refining margin of around €132 million. However, Benchmark EBITDA does consider running at natural gas for our hydrogen units as well as for our own consumption. Last year, let me remind you that the relative pricing of gas versus oil products prompted a full switch to oil products for own use and for hydrogen reforming.

This is something that we are one of the few refineries that have this kind of flexibility. So, as nat gas prices normalized, that kind of positive impact that we took advantage of last year was not in play anymore. And that has an impact of around €100 million…just over €100 million on our gross margin. Similarly, crude differentials, especially for high sulphur and heavier crudes have… pricing have increased significantly versus Brent, which is the base.

And the good environment overall has deteriorated, that was another €90 million that negatively affected our profitability. The dollar still strong, however not the parity level that we had last year an impact of €40 million, more or less. And in terms of operations, we had the impact of an intermediate turnaround at our Aspropyrgos refinery over most of September. A better overall performance in our refining business with increased export premia, increased contribution for marketing, as well as renewables as capacity is ramping up and leading us to the €400 million adjusted EBITDA.

Moving on to Page 16, we signed recently the refinancing of the last maturity of '23. We rolled this over for... that was a €400 million facility, RCF with a Greek Bank that we rolled over for 5 years. Effectively, that completes our refinancing round of €2.2 billion of bank debt that we started last year, with improvement on commercial terms, lower spreads, as well as, changes in a number of terms and conditions to better reflect the new group structure and the growth in renewables.

Overall, a very healthy balance sheet. You're looking at deleveraging of close to €1 billion over the last year or so. From peak to trough, it's actually even more. The lowest gross debt since 2009, and a significant headroom that does not include the project finance facility that we announced last July.

Moving on to Page 15, looking at an overview of our cash flow. Effectively, on the left-hand side, you have our EBITDA profitability for the 9 months. The usual cash outflows that you would expect, like the same business CAPEX for our refineries, you know, the turnarounds, required emission reduction, maintenance, safety projects, replacement of catalysts, and all those things that we have to undertake to make sure that our refineries are up and running properly.

Our interest costs across our debt providers, whether it's the capital markets or bank debt. The taxation…the payment of taxes started in the third quarter for last year's earnings. That does not include solidarity contribution, the recurring part and other cash flow items that get you to, let's call it normal cash flow from operation of €650 million.

Considering working capital growth of just over €200 million, that mainly relates to the normalization of the commodity price environment versus '22. So, the high working capital built during '22 un-wounded in '23, and on better work capital management, obviously, as well as €100 million of payment for the EU solidarity contribution of the additional taxation on '22 earnings.

So, overall, the…let's call it reported cash flow from operation is just under €800 million that allows us to sustain on our dividend policy. We distributed €230 million so far. That includes the interim dividend and the final dividend for '22 results, as well as investing in growth opportunities at our renewable business and a number of projects in refining. With €464 million of you know, excess cash flow following all these items, that means significantly deleverage versus last year, with net debt under €1.5 billion, excluding leases.

Now, moving on to the individual business unit performance, starting from refining, supply and trading. As we mentioned before, high production as Thessaloniki refinery was fully available this quarter. Sales volume almost flat versus last year. CAPEX represents mostly maintenance of our refineries mostly Aspropyrgos during the quarter, and a strongly aligned margin comparable to last year.

On the next page, on Page 21, effectively, on the top graph, you see a visualization of full availability of Thessaloniki refinery that has undertaken a full turnaround in September last year. So, production of Thessaloniki in the third quarter at a normal of around 1 million tons. Strong utilization at Elefsina and Aspropyrgos slightly lower due to the pit stop of some of the conversion units in September.

On the bottom left, effectively, our feedstock sourcing is driven by a tighter crude market on the heavy high sulfur side that has affected the pricing, as we mentioned before. That was partially mitigated by the flexibility of our refining system to use lighter crude slate. And you know, where available, we took advantage of opportunities either in the vicinity or in other areas outside the traditional North African and Black Sea markets. Product yields more or less similar to last year with no material change.

And moving on to our sales on Page 22, our domestic deliveries represent a lavish market overall that we discussed before. A very strong export performance with very good returns as export premia during the period were very good. And that was one of the contributors on Page 23 on a very strong over-performance versus benchmark. So, despite the tighter crude market and the normalization of natural gas prices that we mentioned before, still, we were able to yield an over performance and additional margin of around $8 per barrel versus the benchmarks.

Now, moving on to petrochemicals, effectively, over the last year or so, we have entered a cycle of weaker margins driven by global and regional supply and demand balances. So, the result for this year is likely to be…is shaping to be lower than the mid-cycle that we've seen in the previous several years in our petrochemicals business. That said, polypropylene sales are still strong, higher than last year. Last year, we had the shutdown also of Thessaloniki, so lower production and availability of our power plants. So, this year, higher availability meant higher sales.

Now, fuels marketing business on Page 27, looking at the reported numbers on the EBITDA, effectively, you have the unwinding of the negative impact of pricing on inventory effect. So, the third quarter EBITDA €31 million versus €21 million at the respective period of last year. If we strip out the impact of pricing on the inventory valuation of our retail business, as well as, the pricing formula for our aviation sales, which is a global convention, our comparable let's say, numbers without any pricing impact are still higher than last year by 15%, same goes for the 9 month period with comparable EBITDA just over the respective period of last year.

In our international marketing business, growing performance was very strong, profitability in most of the markets that we operate was similar, even slightly better than last year with the exception of Bulgaria, where weaker margins drove our adjusted EBITDA at €23 million for the quarter.

On this point, I am going to pass you on to George to discuss our renewables and gas and power businessss. Thank you. George.

ALEXOPOULOS G: Thank you Vasilis. Good afternoon, everybody. Another good quarter on renewables reflecting our increased installed capacity, €34 million EBITDA for the 9 months, €13 million for the quarter.

If we go to the next page to give you an update on the progress of our growth strategy, we are now at 356 MW operating, consisting of wind and solar, and we have secured a clear path to over 1 gigawatt of installed capacity by 2025 with projects that are either under construction or ready to build at…or at a pretty advanced stage of licensing. So we feel quite confident about reaching our near-term goal and through our pipeline, which currently stands at 4.2 gigawatts, we believe that we can get sufficient capacity to reach our medium-term target of 2 GW by 2030. We have a diversified pipeline across technology and geography. We are already present in three countries, Greece being our main market with Romania becoming a second important pillar. And we are transitioning our revenue model from support schemes to a mixture of corporate PPAs and merchant exposure.

We have a well-balanced pipeline across the various development stages as you can see at the bottom right with almost 20% in advanced stages from which we will get the capacity to get to our near-term goal and significant projects in all other different development stages, also diversified by technology with a leading position in storage where we secured 100 MW in the recent auction by RAE and also with a pipeline of close to 1 GW in storage projects. This picture does not include offshore wind, because this is a segment where the development is just starting so we currently do no report any projects on our pipeline. The wind that you see is all onshore wind.

If we move on to power generation with our 50% stake in Elpedison, as Vasilis said, this is a quarter which is more normal, if you will, versus an exceptionally good quarter last year. In comparison, we had reduced share of natural gas in the generation mix and also lot of opportunities in international trading which led to a lower EBITDA of €17 million for the quarter.

Moving on to DEPA where we have a 35% participation in DEPA Commercial and DEPA International Projects, DEPA Commercial being the main unit, a challenging quarter for DEPA, weak margins, lower domestic demand and also contract pricing…supply contract pricing which was not particularly competitive in the market context this quarter together with increased cost related to security of supply type cost like network fees and LNG terminal slots led to a weak quarter for DEPA.

I think this concludes the presentation, and we can move to the Q&A section of this call.

Q&A

OPERATOR: The first question is from the line of Athanasoulias Nikos with Eurobank Equities. Please go ahead.

ATHANASOULIAS N: Hello and congratulations on the great set of results. I have 3 questions if I may. The first one relates to your renewables pipeline and recent M&A activities. Given that your pipeline exceeds by far your 2030 target, will you continue your M&A activity in Southeastern Europe or will you focus on developing and maybe will you upgrade your target for 2030?

The second question is, do you have an update regarding the profitability cap on marketing and whether and when will this be lifted given that all of the regulatory amendments… the temporary regulatory amendments in the energy space are being lifted at the end of the year?

And third, this has to do also with the regulatory amendments and for Elpedison if you know that we read in some press reports that the full amount or the clawback will be €300 million to be paid by electricity suppliers. Have you estimated, do you know what Elpedison will pay of that? Thank you very much.

ALEXOPOULOS G: Thank you Nikos. I will take the first question. I mean, your observation is correct. We do have a pipeline today which currently exceeds by quite a bit our target. Having said that, we cannot expect that the entire pipeline will be converted to installed capacity and the timeframe is also uncertain. So yes, it is likely that most of the capacity will come from the development of our own pipeline, but we do not exclude selected acquisitions of projects, which do not necessarily have to be operating. They can also be projects under development at, you know, different stages. But indeed, with the pipeline we have…we believe that most of our capacity can come from our own development.

SHIAMISHIS A. 32:10: Okay, on the retail part, you're absolutely right, we know that the cap on margin is maintained until the end of the year. Whether it's justified or not? I'm not sure, I can support that position. We expect that this will not be continued, we hope it will not be continued because tampering with the free market is no way to run the industry and having artificially low price also leads to other reactions, like some members of the market, which is scaling the last thing we want. So maintaining an artificially low price is not an answer to something which is better than was so high taxes.

On a Elpedison, George you want to?

ALEXOPOULOS G: On Elpedison, I'm afraid we do not have an estimate to share with you at this point.

ATHANASOULIAS N: Great. Thank you very much for your answers.

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

GRIGORIOU G: Yes, hello, thank you for taking my questions. Given the variability or volatility in…on a quarterly basis regarding your associate income both on Elpedison and DEPA? Is there any way you can actually help us out in trying to model what to expect for the fourth quarter at least? That's my first question?

The other question is, and as I know, it's probably going to be a long shot. But have you been approached for the ongoing or planned, I don't know exactly, sale of Lukoil's refinery in Bulgaria, as well? Thank you.

Well, let me put it another way, would you be interested? Thank you.

SHIAMISHIS A: Yes, well, George, I mean, they're both very good questions. And it's…the things that we also discuss and debate amongst us. Let me start with the associates, which is a very valid observation; on Elpedison I would say that the current year is more representative of what one would expect within 80%, I think this is what the run rate of the 2 CCGTs and retailer with added 10%, or thereabouts, of market share, should be reporting. Having said that, I cautionyou, because we do have a problem at one of the Elpedison plants which has to do with the recent spell of bad weather. There's a spare part which was damaged and that may take the unit off the system for a few months. But having said that, I think it is fair to say that this year's performance is reflective of what we expect it to be as a baseline.

On DEPA, it's a totally different ball game. DEPA has been reporting results which are highly volatile, and they are a a factor of 3 things. The first one has to do with the energy crisis and the engagement of DEPA by the 65% shareholder, which is the State as the last resort in terms of nat gas, which means that this safety has a cost and that cost, to some extent, has been borne by DEPA and that creates some volatility.

The second has to do with the contracts that DEPA has in place. As you may know, LNG spotis much lower price today than it was a few months ago. And that is creating a mismatch and an arbitrage between TTF price contracts and LNG. So I would say that neither last year nor this year is reflective of DEPA performance. It could be that if you average the 2, you can have a reasonable projection going forward. But those 2 are extremes for the wrong reasons like saying we average the COVID year and 2022 for the refineries. But if you want a guidance as a number, I would say that the average of the two should not be far away.

Now on the Lukoil refinery in Burgas. It is a case which has been brought to our attention; as you know, we have a material operation, it is not the market leader, but it is a material operation with more than €100 million of investment in Bulgaria, and a very good supply chain coming up from Thessaloniki.

So, we are monitoring the situation, this is driven by politics rather than industry and business rationale. As you know, our Vision 2025 is suggesting that we do not commit significant capital in refining assets. And I would see as having a lot of challenges if we were to invest in such an asset. But given the proximity, we are monitoring the situation there. And we'll see how it goes. But it has been on as a rumor, it has been in the market for the last year and a half almost, definitely year to be honest.

GRIGORIOU G: Okay, thank you. And if I may 2 follow-up questions, one regarding Elpedison: the new power plant in Thessaloniki, have you shelved the idea of building a new one? Or are you still considering it?

And my last question is regarding Marketing, the retail operations here in Greece? How…suppose that the cap on margins remains for next year as well, given that this government seems to be very much interested in trying to tame inflation; How do you see the industry, the market if you like, evolving next year in terms of both growth, obviously, it's linked to tourism and in terms of the competition as well? Thank you.

SHIAMISHIS A: Well, the answer on Elpedison is straightforward, we haven't shelved it. We have maintained the optionality of actually progressing with the…with the FID in due course, but it is something that we need to be careful about. There is a lot of volatility, there is a lot of noise in the gas market; if you look at the latest national energy and climate plan, it's actually suggesting that gas is no longer part of the strategy. So, we have to be a bit careful when committing hundreds of millions of euro. This is an investment close to €0.5 billion. So, not to be carried away by temporary arbitrage opportunities in the market. So the answer is, it's still a live project, but it's not post-FID phase.

On retail, it is a challenge and unfortunately there are 2 sets of companies that operate in Greece. There are companies which will always find a way of making money irrespective of what the price level is, and there are companies which have a priority on service delivery and quality and quantity of fuels. So, we happen to be in the second category and that means that we are hurt when the market is not behaving properly.

On the other hand, EKO and BP are 30% to 35% depending on the type of products you look into, of the markets and that's a big route-to market for a downstream player such as us. So, I am not saying that we run the business not for profit, on the contrary, but one has to look at the big picture and we will continue to be placing focus on quality. The right quantity of fuels delivered, premiumization. Today, we are talking about almost 30% of our products being sold at the premium level, about non-fuel revenue and about gradually shifting into a more digital and different types of offerings, like e-mobility and NFR. It's not an easy one, but I don't think it's going to move the needle at a group level.

GRIGORIOU G: Thank you.

OPERATOR: There are no further audio questions at this time. I will now pass the floor to Mr. Katsenos to accommodate any written questions from the webcast participants. Mr. Katsenos, please proceed.

KATSENOS N: Thank you Operator. We do have a question from Mr. Nestor Katsios from Optima Bank who is asking: How is the refining environment so far in the fourth quarter and can you provide us with an updated EBITDA guidance for 2023?

TSAITAS V: Thank you Niko and thanks Nestor for the question. Effectively on the refining environment, the refining environment is still very good. You have a seasonal weakening of gasoline cracks which is expected at the end of the driving season for the north hemisphere and they switch to winter grade. The rest of the products sustained very good cracks. So, versus the third quarter, margins are a little bit lower driven by gasoline. So, anywhere between $7 to $8 per barrel on average or at least the first month of the quarter that we have run already.

In terms of guidance, as you know we don't provide guidance for our full year results. So, you know, with adjusted EBITDA already at close to the 1 billion and the refining environment still very good, not as strong perhaps as the third quarter, we should be looking at a very good overall performance, certainly shy of last year, but most probably the second best…historically.

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.

SHIAMISHIS A: Thank you very much for your attendance and your patience. Definitely another pleasant quarter for us. I mean, it's much more pleasant to sit here and explain why we had such a good performance. The good thing is that we expect this performance to continue as Vasilis just mentioned. Clearly, we have favorable backdrop extending into '24 and maybe '25 as well. '25 will see the SECA legislation coming into play in the Med which might lead to another spike or in any case another sort of upset to the diesel market in the Med. So, we expect to see a good performance in the next year to sort of 18 months as well.

In terms of Greece, we have all of the positive signs. Clearly, the sort of international increase in financing cost is not helping expansion into renewables which are capital-intensive projects. So, it gleans the opportunity for enhancing returns with financial structuring, but, nevertheless, it is something which is delivering value to the shareholders.

Finally, our internal transformation program is progressing very well. I have to say that I am very pleased with the way that all of the organization has embraced all of the initiatives, which are not easy initiatives. We are one of the biggest organizations in Greece in terms of numbers of people, in terms of procedures, in terms of systems and changing this organization is not an easy thing to do. So, the fact that we have been able to grow profitably, we have been switching direction. We have changed the compass and we are still moving into greener energy, and at the same time we are making our company fitter and leaner and better managed. I think it is something which clearly we all feel proud of as a management team and not only, all of the employees are on the same page.

Once again, thank you for your time and we hope to be able to repeat another good quarter in a few months' time. Thank you.