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HELLENiQ ENERGY Holdings S.A.
Second Quarter & First Half 2024 Financial Results
Conference Call

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Conference Call Conducted by Chorus Call Hellas

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SHIAMISHIS A: Thank you very much. Welcome to our Second Quarter Results, which basically summarizes a good set of numbers. If you go to Page 4, where we have a high-level summary, effectively, what we have is a market which is stabilizing in terms of crude prices. And I would say, in terms of reasonably healthy refining margins for the quarter, we have a strong demand increase, which is a big part of our business. And that is effectively a demand driven by auto fuels, backed by high tourism, and it's still the beginning of the season, if I may add as well as improved economic activity in the country.

So, we have a reasonably positive environment. And as a company, we have strong operations across all of our business, with high utilization and high production in terms of refining. A number of initiatives have led, over the last few years, the company to be mainly international markets-based. And within international markets, we have exports, plus bunkering and aviation, which is effectively non-ground fuels sales in Greece. It accounts for about 74% of our total refining sales. But at the same time, we also have a good performance from our marketing businesses in Greece and outside of Greece.

Lastly, we have a good operation from the increasing portfolio of renewables, which is adding to the EBITDA numbers at a slow pace, part of the steady and increasing pace. So, all of these lead to an EBITDA…a clean EBITDA for the quarter of €230 million and a half -year performance of €560 million. Numbers, which are quite positive and are effectively a continuation of series of strong quarters.

We have not included the solidarity contribution in the reported numbers. We are highlighting in terms of disclosure given that the relevant legislation was enacted in July so that's going to be a Q3 item, but the numbers are there, and you can actually see them in the disclosure.

In terms of outlook and our strategic performance, we have effectively an outlook for the environment, which is weaker than what we had in the second quarter. As you will see in the refining margins, we have…what we expect and hope to be a temporary slowdown of refining margins compared to last year's third quarter.

And at the same time, we have an acceleration of the renewables' projects. Unfortunately, these types of projects are the on-and-off type of development of capital expenditure, i.e., you get nothing until the day they get electrified, and they start discharging power into energy into the system. So, we have a lot of such projects, which are either under development, under construction of mature development, which add nothing. And that is something which effectively proliferates itself with a step change as we move into the next quarters.

On E&P, we have completed the seismic acquisition. We are in the final stages of the interpretation. And if all goes well, we should be able to make a decision on drilling in the next 6 months.

In terms of our power and gas portfolio, I will effectively confirm that we are exploring our options in terms of the way forward and how we achieve synergies within the portfolio. Both of them are items which have been heavily covered in the press, so there is no need to spend more time on our strategy. It's been well explained in the past, and we are in the process of actually implementing the strategy.

Finally, business strategy is always supported by a good organization and the proper governance. So, within June, we had a change in our board, which led to an increase in the independent members by one. And we had a significant, I would say, reorganization in terms of HR through a voluntary early retirement scheme, which helps us to renew employees and our staff and also makes room to what skills, which are expected to be needed more going forward.

So, without much ado, I will pass you on to Dinos, Dinos Panas, who will cover the industry environment and the key points for the fuels' market. Dinos?

PANAS D: Thank you, Andreas. Good afternoon, everybody. On Page 6, you can see the key data on the industry environment, with crude remaining above $80 per barrel throughout the quarter. Euro at around 1.09, 1.08 for the last 2 years, let's say. And natural gas electricity prices lower than the previous same period of the second quarter 2023. And we had a drop in the first quarter of the year is priced at 60, it went…it averaged 68 in second quarter, now it's around 70, 71.

Now on Page 7, you can see that the gas and middle distillate cracks were around $18 both of them, and that Naphtha and HSFO remains at the same levels that we had in the first quarter. The overall benchmark margin was quite weaker than the first quarter at $5.5 per barrel, and we have a running benchmark margin for the first quarter at $3.9 per barrel.

And finally on Page 8, you can see the domestic consumption. Domestic market sales, which are the ground fuels, were up 1%, mostly driven by the increase in diesel, 5% in gasoline. In the preliminary data we have for car sales in first quarter…in first half of the year is 78,000 new cars, up 5.7% versus the same period of 2023, and out of which only 9.5% were electric. We had an increase in the aviation consumption during the quarter of 17%, while the bunker sales were 3% lower than the previous quarter.

And with this, I will pass you to Vasilis Tsaitas for the performance presentation.

TSAITAS V: Thank you. Thank you, Dino. Good afternoon, and many thanks for attending our conference call.

Moving on to Page 10 to have a look on our financial performance. So, volumes were higher on refining. The strongest sales for the last 4 years, similarly in marketing and generated power from renewables, with a total turnover of €3.3 billion for the quarter and €6.5 billion for the first half.

In terms of adjusted EBITDA, all business have increased their contribution, mainly driven by refining, given the very strong realized margin. But also, petrochemicals, marketing and renewables increased their…improved their performance.

Associates' contribution, both gas and power were flat year-on-year. Certainly, the market conditions have not been supportive for both ELPEDISON and DEPA Commercial. And that gets us to an adjusted net income of €73 million, twice…more than twice as much as last year.

Let me note here that the impact of the EU solidarity contribution that was rolled over and will affect '24 based on '23 profitability. The law was voted and enacted in July '24 and will affect our financial statements in the third quarter by a net effect of €173 million. There is a relevant disclosure on our financial statements.

In terms of our balance sheet, our net debt is largely flat versus the end of the year, a little bit lower versus the first quarter. We have guided for some volatility on our working capital, mainly because the distractions in Red Sea that are affecting the shipping routes from Middle East are still affecting us. So that will be also the trend for the coming quarters. And in terms of CAPEX, this is slightly higher than last year, reflecting mainly renewables investments outside of Greece.

On Page 11, the usual…causal track versus last year, effectively, the refining environment has been somewhat more favorable versus the second quarter of '23, and our operations with a high utilization, strong sales and a very strong export reading, especially taking advantage of opportunities in the Black Sea has led us to a higher adjusted EBITDA profitability.

Moving on Page 12. Effectively, in July, we returned to the market a few months ahead of the maturity of our existing bonds. So, while we have significant headroom, we wanted to retain our presence in the markets. We wanted to facilitate the rollover of existing bondholders to a new issue. That explains the structure of a new issue combined with a tender offer on the existing bonds.

And the final result proved our expectation in the sense that 2/3rds of the book came from existing bondholders, given the very strong demand and the ability to reduce our yield versus the initial pricing guidance. We also had to upsize the transaction to €450 million versus the original €400 million, a very successful transaction. The existing bond that is maturing in October has another €300 million outstanding that will be repaid out of cash and other bank facilities.

So, the Eurobond issue effectively completes the refinancing cycle of the first half, but you know, including the €1.4 billion of bank facilities that were refinanced earlier in the year, improves our maturity profile significantly with an average maturity of close to 5 years. This is you know, the best that we've had for more than a decade.

A very good term taking advantage of the upgrade of Greece to investment grade and capturing very low spreads. We also took the chance to rebalance a little bit our exposure to floating rates, so a more like balanced picture, and ample headroom to be able to fund our plants and for it is management purposes.

Moving on now to the performance of the business segment, starting with refining, supply and trading on Page 16. So, as we mentioned before, a very good performance, close to

6% increase in adjusted EBITDA for the quarter, and more or less flat in the semester. CAPEX is flat year-on-year if you look at the first 6 months, mainly channeled to long-term maintenance in tank farms, ports, safety, these kinds of projects. There's no much maintenance activity this year as we're planning the turnarounds for Aspropyrgos and Elefsina in '25.

In terms of realized margin for the second quarter, just over $13 per barrel, driven by both a high benchmark refining margin as well as a very strong over performance driven by export sales.

On Page 17, we discussed about the higher production across our refining system. Exports represent 55% of the total, close to 2.2 million tons, while non-ground sales outside the ground fuels domestic market are 3 quarters of the total.

In terms of the crude feedstock, effectively that is driven by the availability and relative pricing of the various good trades and our S&T team is looking to pick and choose the best available opportunities to optimize our production and financials.

Moving on, on Page 18, effectively you see a depiction and a time series of our realized margin split between benchmark and over performance. So, we're able to, even after the energy crisis for the last few quarters, we're able to maintain very strong over performance and sustainable performance of anywhere between $7.50 to $9.00 per barrel.

Moving on to petrochemicals on Page 20, effectively in the second quarter, we saw a continuation of the trend of recovery in polypropylene margins. So, profitability is getting closer to what we got used to saying as mid-cycle, so €40 million for the first half and €16 million for the second quarter, a third better…more than a third better than last year.

In fuels marketing, we saw another quarter of very good operational improvement in terms of high penetration of differentiated premium fuels in retail, stronger aviation sales, higher NFR contribution. However, the cap on margins…the regulatory cap on margins continues and you know, inflation on OPEX over the last couple of years has affected profitability. As a result, profitability has not moved in line with the improvement…the operational improvements in the domestic market.

In our international business, similarly, we have equally very good performance, with you know, increased market shares, higher NFR contribution, but we were able to realize this positive environment and you know, the operational improvements with an adjusted EBITDA for the quarter at €21 million 14% higher year-on-year.

At this point, I'll pass you on to George to discuss our renewables and power business. George.

ALEXOPOULOS G: Thank you, Vasilis. Good afternoon, everybody. A positive quarter for renewables, reflecting the continuation of our growth plan with capacity addition in Cyprus, the increasing profitability would have been higher were it's not for the high curtailments we observed versus last year in both of our markets. This situation has improved in the third quarter. For the whole year, we expect production of approximately 700 gigawatt hours, which corresponds to 80% to 85% of our group's power purchases.

Turning the page, looking at our portfolio and our growth plans, we remain confident on reaching our 1-gigawatt target by the end of next year. We currently have 620 megawatts under construction or ready to build, which if added to our current operating portfolio, they take us to 1 gigawatt plus. We have also increased and matured our pipeline, which currently stands at 5 gigawatts, reflecting a number of technologies, including pumped storage.

On ELPEDISON, it was a challenging quarter. The second quarter, as you know, is historically a difficult one because of low demand and at the same time, ever-increasing production of renewables, so performance deteriorated versus the same quarter of last year. We continue to see no opportunities in gas trading, and we are observing an improvement in the market in the third quarter, which is traditionally the strongest quarter for the power business.

This concludes our presentation, and I believe we will open the floor for questions.

OPERATOR: The first question comes from the line of Rezende Riccardo with Morgan Stanley. Please go ahead.

REZENDE R: Hi. Good afternoon and thanks for taking my question. If I may, a couple of questions. The first one, if you could comment a little bit on how you're seeing the refining margin outlook for the rest of the year. I know that you provided an indication on the quarter-to-date performance on the benchmark margin, but how do you see that for the rest of the year, including the outperformance?

And then the second question, we continue to see a decline in the number of stations on the network in Greece. How should we think about the network size in the coming quarters? What's the scope for the network to be cut even further? Thank you.

SHIAMISHIS A: Thank you very much. I'll ask Dinos to cover the refining margins question as best as we can. And I'll cover the station question.

PANAS D: Okay. On the refining margin outlook, it seems that we currently have a market that is well-supplied. And the positive things to expect as a refiner is that we have a maintenance…heavy maintenance period coming, starting up in September, with something like close to 1 million barrels per day capacity going offline. And we also have us going into the winter, expecting an increase, let's say, demand in diesel. Now, I have seen different market analysis and concessions, more or less, currently is that the second half of the year is going to be close to the second quarter of this year. But I will need to remind you that last year we had zero refinery margins in the 01st of May, $5 margins in the 01st of June, $10 per margin in the 01st of July. So, we hope that we see this type of volatility again.

SHIAMISHIS A: Yes. I think we will second that hope. But as we've mentioned, the last month and a half have been quite challenging in terms of refining margins. Now, on the petrol stations, one should expect to see further decline of the stations. The number of petrol stations is defined by the size of the market and by the geography of the market. As you know, Greece has roughly about 11 million population, and during the tourist season, we go up to 40 million, which means that there are petrol stations which are in islands or remote areas, which for 8 months in the year do not work. They work for 4 months in the year. You cannot shut them down. I would expect to see a further decline by a small number, maybe anything between 10 and 15 petrol stations a year on our network. And I believe that we should be expecting to see a similar trend on other companies as well, given the starting position that is on a percentage basis.

REZENDE R: Okay. That's clear. Thank you.

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

ATHANASOULIAS N: Hello, from my side, regarding the maintenance that you mentioned before, you mentioned something about 2025 for Aspropyrgos and Elefsina. Can you show us just the timeline for this…this is going to be in the beginning of the year, following the 1 million barrels that you mentioned for September? That's my first question.

The second one is regarding the environment on petrochemicals. Do you see an improvement of the environment to continue in the second half of the year?

And the last question is regarding renewables. Given that you faced some curtailments in Q2, are you considering maybe changing the mix and further reducing merchant from 30% to 10% or 5%? Thank you.

SHIAMISHIS A: On short-term and refining margins, I will ask Dinos again to.

PANAS D: Yes. Okay. We have a planned shutdown for the Elefsina refinery in the first half of the year, Aspropyrgos is planned to be at the end of next year. Maybe depending on how the other shutdown will be, maybe it will be some months later than that.

Now, on the business environment, I think we discussed this as better as possible.

SHIAMISHIS A: George, do you want to cover the renewables?

ALEXOPOULOS G: Yes. On renewables, look, there's no easy answer to curtailment, but curtailment is here to stay. The way we're handling curtailment is by increasing our position in storage and we are one of the leaders in this market in Greece, and in fact, we are starting the construction of our first storage…standalone storage asset in Thessaloniki. Longer term, we are looking at renewables projects as potential hybrid projects, which are much better placed to deal with curtailment. Having said that, I think all market participants need to prepare to deal with this issue, because as the penetration of renewables increases, even with increased storage, there will be periods of curtailment, which will vary based on a number of things.

OPERATOR: Mr. Athanasoulias, have you...

ATHANASOULIAS N: Okay, great. Thank you very much. That's very clear.

OPERATOR: The next question comes from the line of Katsios Nestoras with Optima Bank. Please go ahead.

KATSIOS N: Yes. Hello from my side. Can you please give us the latest developments regarding the DEPA and ELPEDISON Associates? Thank you.

SHIAMISHIS A: Yes, I think I mentioned that at the opening statement that this is something which is in progress. I don't have anything which is announceable at this point in time, so we'll wait and see. There's a lot of cover in the press. Most of it are guesses and sort of a combination of news that have been distributed, but our position has been made very clear. We need to streamline our portfolio and make the portfolio work in a synergistic way. I can assure you that as soon as we have something which is announceable, we will do so.

KATSIOS N: Thank you.

OPERATOR: There are no further audio questions. 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 have a question through the webcast from Nicholas Patton with Edison. How significant is the impact from the Red Sea issues and whether it would be possible to quantify? And the question regarding renewables, could you confirm which quarter you will hit the 1-gigawatt capacity in 2025, 4Q or earlier? And given curtailments, he mentions that curtailments have surprised negatively 2 quarters in a row. Are you confident that the third quarter will be better?

SHIAMISHIS A: On Red Sea, Dinos do you want to comment on what's happening?

PANAS D: On Red Sea, what we have is we usually take a Cargo of Basra and now it's going around the Cape. So, we have some more working capital into this, but 1 million barrels per cargo, and we have an increase in freights. So, recently, for the first time, we made a deal with the Iraqis and we will take VLCC, because you usually use at least 2 cargos…2 Basra cargos in the system. That's an additional cost, let's say, from going through the space of something like 1.5 million for the 2…VLCCs, plus the additional cost that we have for the working capital.

SHIAMISHIS A: Now, on renewables, George, I think we've...

ALEXOPOULOS G: Yes, I think on curtailment, I believe I mentioned that the situation is much better. I mean, Q3, we already…we have already seen 2 of the 3 months and these are the most difficult months. September is usually better and the situation is much better because demand is much higher. But as I said, it's an issue that we and other market players, we need to manage going forward.

OPERATOR: Ladies and gentlemen, there are no further questions at this time. I will now turn the conference over to management for any closing statements. Thank you.

SHIAMISHIS A: Thank you very much for attending our call. As I mentioned at the beginning, it's been a strong quarter. It's a continuation of a series of strong quarters. Clearly, we're coming off the peaks of the previous 18 months and we see that there is a normalization in the industry. July and August have surprised us with lower than expected refining margins. But we expect and hope that this will not last for much longer and we'll see some recovery in the next few weeks.

Going forward, the company is focused on improving its existing businesses and performance, which is either through investment strategies in the refineries and in our regular operations or increasing our exports and direct access to international markets. At the same time, we are making an effort on improving the setup and the operation of the company with initiatives on procurement, on reorganization, on streamlining our processes, which will allow us to deliver more value at any given environment case. Now, that's the you know, nuts and bolts of the business that we do.

At the same time, we are investing to develop the second pillar, which we've said a number of times is mainly around renewables and green energy. It is not an easy process. We've done a good job over the last 3 years, but things are getting more difficult in terms of the permitting delays, in terms of the curtailment. So, there is some slowdown overall in the market. However, it is an area which we believe that will continue to be relevant. And with the appropriate and careful investment strategies, we should be able to increase our capacity and hit our targets towards the end of 2025. Now, which quarter exactly is very difficult to know, but clearly the 1 gigawatt is something which is within reach, given the projects that we have in the pipeline as under construction or under mature development.

Now, as far as the rest of the year is concerned, without being able to project how things will go, I would expect that we will have probably a slightly softer landing on the third quarter, but a recovery during the fourth quarter, either because of a shutdown period in other refineries or because of a recovery or a normalization, I would say, of the refining margins.

Once again, thank you very much for taking the time to listening to the call, and I hope we see you on the third quarter results. Thank you very much.