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"Third Quarter 2020 Financial Results" Conference Call

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Mr. Christian Thomas, CFO

Mr. Dinos Panas, General Manager, Oil Supply and Sales

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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 2020 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. Georgios Alexopoulos, General Manager, Group Strategic Planning & Joint Ventures, Mr. Christian Thomas, CFO, Mr. Dinos Panas, General Manager, Oil Supply and Sales & Mr. Vasilis Tsaitas Investor Relations Officer.

Gentlemen, you may now proceed.

SHIAMISHIS A: Thank you very much. Good afternoon to all of you. First of all, let me say how flattered we are that we are actually attending this call when you have the U.S. Elections, the COVID measures taking place. So we are really honored to have you on the call.

Joking aside, this has been probably the most challenging quarter in my 15-16 years of being with Hellenic Petroleum. It’s the first quarter where we’ve seen a straight run of negative benchmark margins for the system without any ray of sunshine during that period. And of course, it’s a period when demand in various shapes and forms, be it transport fuel, auto fuel, heating fuel, C&I fuel, and of course, aviation and shipping fuel has taken a turn for the worst.

However, what we have to report is a positive quarter. It's positive adjusted EBITDA for the third quarter. A marginally negative net income result for the same quarter on an adjusted basis, which is to a large part, due to the contango trades benefit that we ended into at the beginning of the year in the second quarter, and they are partly being unwound, their benefits are being realized, and of course, to a very efficient operation in the refineries despite the shutdown in Aspropyrgos and a partial shutdown of the polypropylene unit in Thessaloniki, and a very flexible and proactive supply and trading policy, and transactions carried out by Dinos Panas and his team.

Also, a big win for us is the successful and incident free completion of the 5-year mega turnaround in Aspropyrgos. We feel very…very proud of having achieved that for a number of reasons. First of all, this shutdown has been the biggest one in the last 12 to 15 years, a very sizable amount of work to be done in a very short space of time, which on its own is a big challenge. And, of course, with the COVID issues that we had to face, it has been a logistical nightmare.

First of all, just getting the scope of works to be done ready, because with reduced headcount in the refineries, . it's very difficult to do all the inspections and all the pre-shutdown work that is needed, and with traveling restrictions and more than 2,500 people coming in the refinery on a daily basis for last 2 months, it has really been a very big challenge.

So key points, at this refining macro, I don't think I need to dwell on that, I think you all know the facts, strong operational performance in contango benefits, we have more than 50% of that, unwinding in the third quarter and the rest unwinding in the fourth quarter of this year. We had increased exports as a result of the product contango trades, and we had the Aspropyrgos refinery down for all of September and a few days in August, and all of October, which is going to carry over the impact in the fourth quarter. And the refinery started up about a week ago and gradually it's going back to full operation in the next few days.

On the liquidity side, we have the issuance, re-tap if you will of a €100 million on the old bond, the '24 bonds which is earmarked if you will for the Kozani project. A very competitive financing cost and a net debt increase which is driven mainly by contango trades which are still on the balance sheet. We have more than 400,000 tons of products and crudes on proper contango trades, carried over from the second quarter, as well as, what we call mini contango trades which is effectively a few weeks to a couple of months of pricing opportunities that we take advantage of, and we generate a bit of a different margin in the process. And of course, the Aspropyrgos turnaround impact on inventory.

Moving on to developments in this quarter, I think we've talked enough about the Aspropyrgos successful turnaround. The Kozani project which is…if you will the signal that we take renewable energy sources seriously, and we are taking a step in that direction for the future has been closed. So all of the CPs have been achieved. We are at the verge of breaking ground, the key equipment, the long lead orders, if you will, all this have been placed and we expect that construction and erection of the equipment will take place over the next few weeks, subject to COVID restrictions, that were there, and the financing as we've already mentioned has been secured.

On DEPA, we are monitoring a process which involves the privatization of the various parts of DEPA. The progress is there, but I have to say not as fast as we would like to see it. Of course, given the challenges that the market is facing, maybe it's not such a bad thing. However a done transaction is much better than a transaction which is in the works.

In terms of looking-forward, we are seeing a ray of hope in that. We do not have negative refining margins in the fourth quarter. In that respect we have been lucky with the Aspropyrgos turnaround, because we had the turnaround during a period when refining margins were negative, so maybe we didn't lose that much. However, we still had another 2 refineries operating.

Now, we don't know how things will develop over the last few days. We've seen increased lockdown measures, I think, today, we had the Greek lockdown announcement taking place for the next 3 to 4 weeks, which means that we will see again a curtailment of demand on transport fuels. So it's very difficult to project how things will evolve. All-in-all, we do think that the next 3 to 6 months will continue to be challenging. And we are bracing if you will, for that reason.

On results, as I mentioned, we have the positive adjusted EBITDA at around €66 million, very low financing costs compared to the past. And that brings the year-to-date adjusted EBITDA at just under 260m. and a marginally positive adjusted net income, which is, of course, a key KPI for us…for the year.

On balance sheet, as I mentioned, we have increased debt, but that is for the right reasons, given that we carry increased stocks…significant increase in stocks or provisionally price stocks which reduce risk of price exposure and provide an additional benefit in a very difficult situation. And CAPEX of just under €150 million with the shutdown completed and Kozani project taking the stage if you will, we expect that number to be just over €200 million for the full year depending on timing and phasing of this project.

On the Industry Environment, I will ask our in-house expert to take us to the next few pages. So Dinos, if you…

PANAS D: Okay, thank you Andreas. Good evening to everybody. I have 3 slides on the refining business environment. Slide

#6, as you all know, the crude prices recovered in the third quarter of this year from the lowest in the second quarter. And the Brent, they recovered at around $40 per barrel well above the $29 per barrel in the second quarter. This, of course, came as a result of the global demand picking up from its lows in…from its lows in the second quarter, especially April and May, and of course the supply cuts from OPEC and non-OPEC countries. The registered availability of crude in the area led to Urals being stronger than Brent in the quarter. But also if you are in more expensive CPC compared to what we had in the first half of the year, which was not in our favor.

Now going to Slide 7, as you already know, the gasoline and the middle distillate cracks were very low for other quarter. The Jet fuel crack which is not only the crack was actually negative minus $2 per barrel versus plus $16 per barrel in the third quarter of 2019.

Consequently, our refinery benchmark margins were negative during the period. And actually were negative for 5 months in a row from May onwards to only go positive in October. This is what we euphemistically would call adverse business environment.

Now, coming to page…Slide 8, you can see the numbers on domestic consumption. Overall the demand was down by 8%, gasoline down by 6% and diesel down by 10%, a bit better than we expected since the comparison level was quite high with 2019…in the third quarter 2019 being a record year for tourism in Greece.

On the other hand, Jet is down by more or less 60%, the marine gas oil was down by 30%, the bunker fuel oil by…down by 42%, the reduction in all the bunker sectors, costal, cruise and seagoing. September was the best month of the quarter with gasoline down by just 1.7%, and diesel down by 5.1%. The trend that we saw continuing in October, but the official numbers for consumption in October have not been published yet.

Without that, I will pass you to our CFO, Mr. Christian Thomas.

CHRISTIAN T: Thank you, Dino. Good afternoon for me as well. Moving on to Page 10. This is a usual causal track that we show you every quarter where you can see the difference between 3Q '19 and 3Q '20. On the negative side, obviously, you can see what the environment has done. The benchmark refining margins have cost us a very big amount there. At the same time, we've got the loss from FX due to the strengthening of the euro.

And finally, we've also got the lost sales contribution, which is due to COVID, mostly from the domestic market. On the upside, we've got the gain from the first part of the contango trades. And also, as mentioned before, the efficiency in our operations and the flexibility from our crude selection has helped with €13 million upside. At the end…ending up with €66 million on the bottom right of the page.

On the next page, we show you the credit facilities, again, well spaced out in the next few years the finance costs, you can see underneath that we're down again, and we're running at approximately €25 million per quarter, so €100 million per annum. The…we had the recap of the €100 million on the October 2024 bond or the Kozani project. We were able recently to refinance an RCF of $250 million to increase the committed part of our funding in the mix. And we're very close to refinancing a couple more, which are due in the next couple of months in the beginning of 2021. Overall, we have an additional capacity of €200 million compared to June. Underneath you can see the yield how the 2024 bond is trading.

And on that note, I'm going to hand back to Vasilis now, who will take you through the performance of the business units. Thanks.

TSAITAS V: Thank you, Christian. Good afternoon, Ladies and Gentlemen. We will now move on to discuss the performance of the individual business units starting from refining, supply and trading on Page 14. As an overview, you know, the key factor that drove results was the environment which has been discussed before with benchmark refining margins down more than $5 per barrel versus last year with a significant impact on our numbers. The euro was also stronger versus the dollar. And on top of that we also had the impact from the domestic market decline.

On that note, we were able to materialize around half of the benefit of the contango trades that we entered into back in April, and capturing the crude spreads mostly on the light/sweet grades and managing to deliver positive EBITDA on this business.

The other important event was obviously the turnaround at Aspropyrgos which included on top of the usual projects…the usual turnaround process, environmental projects that will have a positive impact on the performance of the refinery. This is also reflected on our CAPEX numbers for the quarter.

Moving on to Page 15, a closer look on Operations, the utilization was down mostly due to the Aspropyrgos refinery, if we allow for utilization over the availability of equipment, so when excluding the Aspropyrgos refinery, we run our units at planned utilization at very high levels with production down around 14% at the net level. And the yields and the crude slate were obviously driven by both the Aspropyrgos IMO model if you compare versus last year, and the turnaround if you're looking at yields; however, with diesel and gasoline combined at 75%.

On Page 16, the Impact on Sales was on…the turnaround was not as much as in production, because of the unwinding of contango trade. So products…so output produced in the second quarter was effectively sold in the third quarter, enabling an increase in exports, but partially offset the negative impact from COVID on our domestic market sales.

On Page 17, we present the performance versus the benchmarks. Ee have shown separately the impact of contango around €30 million, $1.3 per barrel, which is you know, compared with the rest of the time series is not a recurring event; it will affect positively the fourth quarter as well.

On Page 19, moving on to petrochemicals, the main driver of the performance was the still weak polypropylene margin, as well as, the reduced propylene output in September, due to the Aspropyrgos turnaround. As you may recall propylene contributes something like 70% to 80% of the total polypropylene value chain contribution with result at €15 million flat versus the previous quarter.

In terms of our domestic marketing business on Page 21; third quarter is traditionally the strongest for this activity due to the tourism season, and as it kicked in, in July following the spring lockdown, results recovered versus the second quarter with adjusted EBITDA at €17 million. However, with the tourism arrivals more than 60% lower versus last year, it has affected the contribution of both our aviation business, as well as, our retail business especially in high margin areas like the islands and other tourist destinations.

On Page 22, in terms of our international marketing, the impact on profitability was not, as much as, in other business, with adjusted EBITDA at €17 million, 16% lower versus last year. The COVID impact on our market was varying, with Cyprus and Serbia faring better than the others, that's how the decline was much lower.

At this point, I'll hand you over to George Alexopoulos that will discuss our renewables and power and gas business.

ALEXOPOULOS G: Good afternoon, everybody. On the renewables side, we are very pleased to report that our pipeline of projects keeps growing. We are now at over 1.1 gigawatts, and we more than doubled our pipeline in the last 12 months. Of course, Kozani is a very important part of this pipeline. As Andreas mentioned already, the acquisition has closed, and so has the financing. We have given notice to proceed to the EPC contractor. The main equipment and material orders have been placed. And we are starting the construction. And as we've said before, we are targeting commercial operation in the beginning of 2022 barring any unforeseen developments with COVID-19. So far we have not faced any major obstacles.

On other projects, as I said, our development activities are progressing fast. We have 50 megawatts of PV projects in the final stage of development. And we now have 450 megawatts of production licenses, and it is equivalent of the electronic permitting process that RAE has recently instituted in lieu of the production license. And we expect some additional projects to mature in the next few months.

Turning to Page 26, on our Power Business Elpedison, we are pleased to report another strong quarter, considerable improvement over last year. The main reason being, the much more competitive LNG feed for our power plants. We also note that the new target model came into force, long expected target model came into operation as of the first of November. And, of course, it's too early to say, but our initial impression is that a number of the market issues that we face in the past seem to be better addressed under this new market scheme, we will, of course, monitor it closely and we will report further on this.

Turning to Page 27, DEPA, better contribution on higher sales volumes for this quarter. On the M&A side, the DEPA infrastructure, and DEPA commercial processes are both in progress. They have both entered the due diligence process, and currently the binding offers for both are actually scheduled for March of next year.

And with this, I will turn it back to Andreas.

SHIAMISHIS A: Thank you very much, George. We have completed the brief presentation of the key actions during the quarter and the performance of our key units. So, we'll turn over to you for any questions you may have.

Q&A

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

PATRICOT H: Yes. Hello everyone. Thank you for the update. I have 2 questions please. The first one on the refining operations in the fourth quarter. So you mentioned that Aspropyrgos it's restarting now. Can you give us a sense of the utilization rate that you'll have for the rest of the quarter, and we've seen some of your competitors in your region cut utilization in the fourth quarter? Do you plan to run at full capacity yourselves, over November, December, given the current level of margins?

And then secondly, well, it's been a year since you're invested and the world has changed quite a lot since then. So do you think you could give us a bit of an update on the financial framework in particular and on the pace of your investments at the time you mentioned income...of maintenance, CAPEX of around €130 million from next years. And then the growth CAPEX between 100 and 150, we kind of focus around renewables. So I was wondering if you are still thinking about your spending as much or are you going to address that given the more challenging macro conditions? Thank you.

SHIAMISHIS A: Thank you very much, Henri. Let me take the questions, on utilization rates, the Aspropyrgos refinery has started a few days ago. Today we're bringing up the next tranche of unit, so all of them will be up and running by the end of the week. We expect to have a very high utilization rate going into the quarter, not only because the refining system is complimentary and allows us to benefit from the production, but also because our business model…the integrated business model, which has the supply and trading bolted onto the refinery. We're not just a swing refinery, which has benchmarked refining margin, maybe a little bit of outperformance and then cash cost to take out. We also have the domestic market premium, which clearly has synergies compared to other swing refineries, export refineries, and the international trading we have established ourselves as one of the key suppliers in the East Med. So, we expect to see a very high utilization rate. Also the shutdown will boost our over performance, given that it's a start-of-run refinery and it would be able to generate that extra beat that we need to make the numbers.

On CAPEX, you're absolutely right, in making the comment. We need to be very careful for the next year or so. Our CAPEX is split into, I would say 3 elements. The first one is maintenance CAPEX, which is I'd say in business CAPEX, not necessarily maintenance from technical point of view, but for example petrol stations, they have a cycle of RVIs and maintenance projects that need to take place. So, there is an element of cyclicality there, which is anything between €100 million and €120 million, a year which needs to be spent, on average, in order to maintain the production level, and the trading levels that we have.

Then we have a bit of an expansion CAPEX, which is debottlenecking and small projects which, if you will, assess on an economic basis. So, there is some flexibility depending on how profitable the product is. For example, if you have a project spend €50 million, and it's going to give you a payback of one year, then it makes up sense to proceed, irrespective of the conditions. If on the other hand, the payback is not as high, and it makes sense to pushit back by a couple of quarters then we will do that.

And the third part has to do with M&A and acquisition; I will put the Kozani project under that title. There, we have committed that irrespective of the issues that the economy is facing, we will engage more aggressively in the energy transition program and we want to have a Group that will be appropriate and fit for purpose as a market leader in the energy sector in the next 20 years. So, if we are going to do that, we need to expect that and accelerate that transformation agenda. So, if we have the right opportunity, we will probably invest in such opportunities. So the bid which I would probably put as more of a discretionary CAPEX is going to be the second pot which is more marginal improvement projects which can be some tens of millions of course, and allows us to manage cash flow a bit better.

PATRICOT H: Thank you.

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

GRIGORIOU G: Yes, hello. I have got a couple of questions. Going back to what as you said about the M&A also on CAPEX, just how much have you earmarked over the last couple of years…at least you are thinking hoping to invest. What about the new CCGT plant, any further news on that? And I have a couple of questions as well, but I'll take them one by one I think.

SHIAMISHIS A: Good afternoon, George, I think we probably heard both part of the question. The first one has to do with the M&A and the second, if I understood, has to do with the CCGT plant, correct?

GRIGORIOU G: Yes, exactly.

SHIAMISHIS A: Okay. For the first one, we have committed €130 million for the Kozani project under this M&A and development target which is taking place in the next year, most of it, some of it will be this year. And we have several serves a target to be at around 400 to 500 megawatts by the end of 2021. That means that we still have another 100 to 200 megawatts to grow for in the next year. That is installed and producing capacity, give or take a quarter if you will, which means that as a soft commitment, if you will, as a consistency check with what we want to do, one would expect another €50 million to €100 million to be spent behind renewables as a minimum. However, the Group balance sheet is quite healthy. The strategy is very clear. The commitment of the shareholders is there, so if we find opportunities of a bigger scale then we have the capacity to go for them. However, what we do not want to do is to get carried away and participate in an over bidding frenzy for projects in Greece. So we need to be very careful there because at present there is an investment hype in renewables, so we need to be very careful.

On the CCGT plant, we are progressing with the pre-investment work that we need to do. We have not taken the FID yet. So, I guess that is something that we will probably have to take a rain check. We'll probably come back in the next one to two quarters of that before a commitment is actually made and communicated. Thank you.

GRIGORIOU G: Okay. Some more questions, if I may, please. I think Vasilis mentioned about 50% contango trades were actually realized in Q3. Does that mean we should expect another give or take €30 million in EBITDA in the third and fourth quarter?

Tsaitas V: Hi George. Yes, more or less, it's 50%, so you could expect another give or take €30 million in the fourth quarter.

GRIGORIOU G: Again, 2 questions for George. I'm dragging it on here. When you mentioned that 50 megawatt and PV in development, when we should be expecting it to come on-stream. You mentioned the target model because I am afraid that even things are looking improved after the introduction of this model. Does that mean better pricing or am I getting it wrong. And finally, on DEPA IP International Projects, I presume it would be reimbursed for selling or for the stable lease taking over that 25% overall? Thank you.

ALEXOPOULOS G: Okay. I will start from the last question. Clearly, if we sell our participation in DEPA International Projects, there will have to be a fair consideration for that stake. So we would be reimbursed, the part that is transferred without reimbursement to the state is the part that belongs to the privatization fund. Regarding the €50 million…the 50 megawatts of PV that are maturing, they are currently in the stage of environmental permitting and you know receiving connection terms. These processes tend to be not very predictable regarding to how long they may take. They could mature in the next few months, they could take longer. And then it will also depend on what is the regime for renewables at the time. They may be built under an auction regimen if there are still auctions at that point, we don't know. As you know, there will be some decisions on this very shortly, or they may end up being merchant or plans which we have PPA, with the market participants. So, all options are on the table, it's hard to predict the exact timing of these plants reaching maturity.

GRIGORIOU G: Okay. Thank you.

OPERATOR: We have a follow-up question from the line of Grigoriou George with Pantelakis Securities. Please go ahead.

GRIGORIOU G: Sorry I don't want to take up your time. Regarding this lockdown that was introduced from actually from Saturday onward. Would you...would it be fair to assume that demand for auto diesel and motor gasoline should actually fall by about 8% in November, you reckon at least something about that?

PANAS D: No, George, of course, we expect the demand will go down, let me see the levels. It's a little bit different from the situation that we had in the first lockdown. But, definitely, we will not see, I mean, the improved numbers that we saw in September and October. But we're looking at on a daily basis to see what the actual impact will be, but definitely it will be negative.

GRIGORIOU G: Okay. Thank you, very much.

SHIAMISHIS A: Thank you.

OPERATOR: The next question is from the line of Lamb Jonathan with Wood & Company. Please go ahead.

LAMB J: Good afternoon. Thanks for the presentation. I want to ask a little bit of a hypothetical question. The election is not finished yet in the U.S. but it looks like we may have a New President, according to what's been said before, has a very different view on Iran than the one that's leaving. If the, U.S. goes back to the old Iran deal will you be able to buy Iranian crude again?

SHIAMISHIS A: Well, the answer is, yes. If there are no restrictions in sanctions, yes.

LAMB J: Presumably, that would also help the heavy light differential market as well.

SHIAMISHIS A: Of course.

LAMB J: Thank you.

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 taking the time this afternoon to attend our call. As I said, it has been the worst refining environment that we have ever had to operate in. And it is something, which we see gradually improving, but it is not close to what we expected coming into the year. So, 2020 and most of 2021 are going to be challenging from a financial performance point of view. However, this is something which will affect all of the industries, all of the sectors. So, in that respect, we're not alone.

What we see ourselves doing is to make sure that we take advantage of our unique advantages that we have as a Group, with the regional setup, the synergistic business model between refining, supply, and trading and retail, the flexibility given by a system of refineries is not just a single refinery. We have a system which can deviate from the expected, and the normal yield slate. The tank farm, the fact that we have the largest tank farm in the East Med, the port facilities that we have…the extended geographical cover in this part of the world.

And of course, let us not forget the diversified portfolio on power and gas and renewables. So, our job is to make sure that we take advantage of this diversity of the business model and generate as much compensating cash flow as possible in these circumstances. The other thing which we are looking to do is to manage the balance sheet, and the DEPA transactions, are a clear sign of how we want to move forward. We want to convert assets into either cash or cash flow, generating assets. And this is something that, we will do on investments in companies, as well as, investments in real assets, which are sitting idle. So, both fronts are being tackled on a daily basis.

The third thing which we are doing is a transformation agenda for the Group. We are not letting go of the fact that we need to have a different Group in the next 2 to 3 years from today. It has to be a Group which will be relevant for the energy needs of tomorrow. It has to be a Group that will be able to diversify its activities, and grow into more relevant businesses than our traditional business. And that needs to change. We need to change the way we approach the market. It's a totally different business model moving into renewables than running a refinery.

However, it is something that we have to do. And at the same time, we need to reinvent a lot of the things that we do, mainly through a high degree of adoption of digital transformation, something that we have started, something that we're working on. It is not a silver bullet, but it is a continuous, it's a marathon, if you will, it's a never ending marathon that we need to embrace as a management team, and as a Group.

2020, will be a difficult year, we hope that we have seen the worst part of the year in terms of the industry. We should not forget the health issues which can lead to significant risks in the operations of a company. So that remains a high priority for us as well, and also, the need to be close to a society that has been challenged by the pandemic. So, our CSR programs have been strengthened. And we have been aiming to provide as much support as possible to the National Health System, mainly in Greece, but also in other markets that we operate.

With this, once again, I would like on behalf of the Group to thank you for attending this conference call, and to renew our appointment for the full year results sometime at the end of February. Thank you very much.