

OMV Q4 2019 Conference Call – Q&A Transcript

OMV published its results for January–December and Q4 2019 on February 6, 2020. The investor and analyst conference call was broadcast as a live audio– webcast at 11:30 am CET. Below is the transcript of the question and answer session, by topic, edited for readability.

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OMV Group

Update on strategy

Question by **Sasikanth Chilukuru – Morgan Stanley**:

I just wanted to check on the strategy itself. Now that you've mentioned acquisitions are back on the table, mostly on the low carbon assets, I just wanted to understand how big this would be or any in terms of size and whether the dividends and the distribution of dividends still maintain top priority post-CAPEX.

Answer by **Rainer Seele**:

Although we see now the business environment changing and especially the transition our industry has to prepare for, OMV will focus on the portfolio change, which is reflecting that we have to prepare the company for a low-carbon world. So when we're talking about these acquisitions, and I repeat myself, we are not talking only about acquisitions. Don't pick only one message. This was a combination. I have started with divestments and not with acquisitions, to be honest. And repeating what I have had presented at speech, so it will be both when I talk about portfolio optimization. It will be in the framework of the strategy the OMV Board has presented to the financial market. And if you remember, our strategy we have set and we have written a budget until 2025 for acquisitions. By the way, we have not budgeted the divestments, but I think we have to give you then later on some guidance where this will lead. But first of all, we have to say this will be just in the framework of our explained strategy, corporate strategy to the financial markets, which means also that the dividend policy, which was part of our strategy, is not impacted at all. I can't give you numbers, but the dividend policy stays as it is like we have explained to the market, although we have to go for a portfolio optimization.

Cash flow targets

Question by **Michael Alsford – Citi**:

I was just wondering if you could maybe elaborate a little bit more on how you see your progression towards your medium-term targets. Clearly, cash flow generation in the year was actually pretty good despite what was obviously a challenging 4Q environment. But you've talked about getting to over EUR 5 billion of cash generation over the medium term. So given the macro outlook, which has clearly changed a lot, could you maybe give some confidence as to delivering that sort of target over the midterm?

Answer by **Reinhard Florey**:

Regarding your question about our propositions and targets on the mid or long term, on the cash flow side, the target of EUR 5 billion seems to be with further execution of our strategy, a value that is in reach. Of course, we are very much aware about volatilities in the commodity markets these days. However, of course, also, our strategy will adapt to those situations and the target to increase the level, which started at a level of EUR 3 billion for a couple of years. Now I think the third year in a row, we delivered above EUR 4 billion. And now the next logical step until 2025 midterm is EUR 5 billion, and we would confirm that.

Dividend outlook

Question by **Henri Patricot – UBS**:

A question around the dividend and if you can provide just a bit more detail around your thinking going forward, pulling this, again, sizable increase for the 2019 dividend. So should we expect to see similar increases in the future as long as you keep the debt levels below your target range? Any indications around that would be helpful.

Answer by **Reinhard Florey**:

Regarding your question on dividend, as you have heard the proposal of the management of OMV is to increase the dividend payment per share to EUR 2. This is a clear increase from EUR 1.75 by almost 15%. This is very much in line also with the increase of the profit per share that we have in comparison to 2018. So this is, if you take EPS comparison, very much in line and is also, of course, in line with the dividend policy that we have given. We think that this is very much adequate also to a situation where we were able to keep a gearing at 28%, very much in the line with our target ranges that we have for the midterm. And we have enough firepower based on the stability of our balance sheet in order also to do the transition that Rainer has talked about.

So we stick with the dividend policy also for the coming years, to say that there will be a progressive increase targeted of the dividend year after year. And this is what you have seen now in the fifth consecutive year, if you go to the past. So I think we have demonstrated that it's not only words, it is exactly what we deliver.

Gearing outlook

Question by **Joshua Stone – Barclays**:

On net debt, what is your outlook here, what do you think about net debt and gearing in 2020, given the CAPEX and macro outlook you've presented?

Answer by **Reinhard Florey**:

Regarding net debt, you have seen that we were able to reduce our net debt from quarter three to quarter four from EUR 4.9 billion to below EUR 4.7 billion. In principle, I have already indicated our midterm gearing expectation, that the gearing target of 30%, excluding our effects from the IFRS 16, would still be what we see on the midterm. Of course, this company has theoretically a much higher capacity to take net debt. However, we follow, I would say, a financial stability strategy on the midterm, which allows us to exactly execute on the strategy as we have done so far. So don't forget, we have come a very long way on our strategy already without overstressing the financial capacity of this company, and we will also continue and keep the situation on the midterm target as we have indicated.

Upstream

Long term production guidance

Question by **Michael Alford – Citi**:

In production, you've talked about 600,000 barrel per day target. I'm just wondering whether you can talk about, given the portfolio changes, if that is still a target that you feel you can meet with the current portfolio?

Answer by **Johann Pleininger**:

Regarding your question on the long-term production, long term until 2025, how do we achieve the 600,000 barrels, which we have promised in March 2018 in London? What you have seen in Q4 is that we have the capacity to go slightly above the 500,000 already right now. As Rainer mentioned, it depends very much also on the security situation in Libya. So that's why we forecast for this year, the 500,000, around 500,000 barrels in average for the entire year. If we start from there, where we have started already, it's also portfolio optimization. So we'll sell 5,000 barrels roughly in Maari in New Zealand from our well production. Kazakhstan, we started already the process. What we have been producing in the last two years was between 7,000 and 8,000 barrels per day. Additional production will come from Neptun until end of 2024 around 70,000 boe; from Achimov, 4A/5A until 2025; also 70,000-80,000 barrels per day from our Russian asset. Sapura, we have been starting last year with around 12,000-13,000 boe per day. With the startup of the Larak field, we have been doubling the production since January this year, and we'll more than double the production from where we are right now. So we go beyond 50,000 boe/d. So if you add this up, 70,000 boe/d Neptun, 70,000-80,000 boe/d Achimov, 25,000 boe/d Sapura and Nawara in Tunisia, we will bring onstream also this year around 10,000 boe/d, then you will end up with 180,000 barrels plus. And then you need to deduct the decline and some portfolio optimization, as I mentioned before, and then you will see that we are clearly above 600,000 barrels per day.

Neptun Deep

Question by **Henri Patricot – UBS**:

I want to follow up on the topic of Romania. If you can give us an update on Neptun Deep. You mentioned in an answer to a question earlier a potential 2024 startup. So I was wondering if you could give us an update on the latest around both the regulatory framework and whether you're more confident about that framework. And secondly, around the structure of the partnership to develop the field.

Answer by **Johann Pleininger**:

As you have maybe realized there is no government anymore since yesterday. So our hope is that the offshore law will be approved by the government in these days, let's say, in Q1. Right now, we have to put a question mark on this topic because there is no government. So we cannot speculate when we will get this approval of the offshore law. But what we can say right now is that we keep the first guess, the startup of production end of 2024 because it's still feasible and realistic. But we would need and we would get or we want to get government approval, I would say, as soon as possible. From the deal structure here, you need to ask ExxonMobil. ExxonMobil is in the driving seat. We have a 50% share in Neptun. We will keep the 50% share. ExxonMobil, what we know will test the market. What I can ensure you that we will not take over the 50% from ExxonMobil, but the rest is with ExxonMobil, how they are deciding how to test the market.

Libya production

Question by **Sasikanth Chilukuru – Morgan Stanley**:

A follow-up on the production guidance. I was just wondering what you're putting in for Libya for 2020. I know it's kind of contingent on that. But what are those numbers? How long do you think the shutdown will happen in your guidance for 500,000 barrels a day?

Answer by **Johann Pleininger**:

For 2020, our guidance is 35,000 boe per day if Libya is on-stream. So regarding when it will come on-stream, we can't say anything right now.

Romanian gas prices

Question by **Sasikanth Chilukuru – Morgan Stanley**:

I just wanted to understand your expectations of Romanian gas prices, what your expectations are for 2020 and a little bit beyond.

Answer by **Rainer Seele**:

I said this morning in an interview with CNBC, I really need to have an ice blizzard to talk about better gas prices. We have guided you that the gas prices will be slightly below the unsatisfactory price level we have seen last year. So I'm not very, very optimistic on the gas prices. The impact on Romanian gas prices will be less than the impact on Western European gas prices. This is something I can tell you. The reason is, because of the coronavirus outbreak, we do see more LNG cargoes landing in Europe, impacting the hub prices, especially in Northwestern Europe. And that's the reason why I think we need to have a stronger demand to compensate or to absorb the additional volumes coming from China or we need to have super medicine that the infection rate of the coronavirus goes down. So these are the two topics I have to say in the context of the gas prices in Europe.

Upstream hedges

Question by **Oleg Galbur – Raiffeisen CENTROBANK**:

I have a short follow-up on the hedging policy for the Upstream segment. So my question is if you have, for 2020, any hedges in place and if you could provide more details on how much gas has been hedged.

Answer by **Rainer Seele**:

The shortest answer, no hedges in Upstream.

Downstream

ADNOC Refining

Question by **Michael Alsford - Citi**:

On ADNOC Refining, you made a small contribution in the quarter. You mentioned a onetime effect. I was just wondering if you could perhaps talk a bit about what you think the contribution can be from that business in 2020. You mentioned the FCC issues, but just wondering what you think that, that could deliver this year.

Answer by **Thomas Gangl**:

About ADNOC Refining, so we expect that the operational performance will improve, and we expect to receive a dividend for the financial year 2020. We are, at the moment, supporting with our experts on-site, also to improve the stability of the rFCC cracker. As Reinhard mentioned, there is a turnaround this year in the first half and there are activities planned to improve that. And midterm, we anticipate a dividend yield of above 10%, as mentioned earlier. So everything in line with previous statements.

Question by **Joshua Stone - Barclays**:

So I was hoping for an update on ADNOC Refining. I know there was the outage in the fourth quarter, whether that's been fixed now and what your expectations are kind of earnings run rate in 2020.

Answer by **Thomas Gangl**:

About ADNOC Refining and the rFCC, we had in the fourth quarter still issues with the performance of the rFCC. The unit was running, but not with the quality that we expect. So we have now the opportunity in the turnaround, which is in these weeks now, to fix some topics there, and we hopefully see the results and the improvement. So this is an ongoing activity, but we see a good chance to fix most of that.

Petrochemicals

Question by **Henri Patricot – UBS**:

I'd like to ask around the petrochemical business, which was pretty much weak in the fourth quarter. And you mentioned a number of products delivering very weak margins. It seems like things have improved a little bit in the first quarter. So I'd expect a bit of a rebound in terms of the EBIT contribution from both your own operations and Borealis in 2020 compared to the level of the fourth quarter.

Answer by **Rainer Seele**:

Let's talk about petchem because petchem is very important in these days. If you recall that we have seen a EUR 363 per ton in the fourth quarter we are talking mainly about ethylene and propylene, about the performance of our petchem business. The other products I have mentioned are smaller products like butadiene and benzene. Our assumption for 2020 is a different level, margin level like we have seen in the fourth quarter. We have guided you that this is something around EUR 400 per ton. And we don't see that already in the market. I think in the fourth quarter, we have seen the bottom line in C2, C3 margins, and we have seen a recovery of the margin end of January. We are now on a more healthy level. It was helpful that we have seen in Europe also some maintenance shutdowns of some crackers. And especially, you have to see that there was an incident in Tarragona in Spain. It was in the ethylene value chain. You might look into that because this had an impact into the market. So as we speak about the petchem business, I think, over here in Europe, we feel comfortable with our EUR 400 per ton right now. The other products like benzene - benzene is a roller coaster product. This is the price curve you see in the market, and you should be prepared for a roller coaster also in 2020. But I repeat myself, the benzene business is really small compared to our ethylene, propylene business in petchem. Butadiene is lacking, of course, the low call in the tire markets. Still, we do have a comfortable price level. Let's wait and see how the impacts of the coronavirus will be on the automotive industry. From my point of view, it's more important to look into ethylene and propylene and don't worry too much about the two other product groups when you evaluate OMV with the expected performance in 2020.

Question by **Raphaël Dubois – Societe Generale**:

One question on petchem. Can you share with us if either at Borealis or at OMV, you're thinking about postponing any of the projects that are currently in the pipeline?

Answer by **Reiner Seele**:

Can you specify a little bit which projects you have in mind?

Question by **Raphaël Dubois – Societe Generale**:

Well, for Borealis, I'm thinking about Borouge 4, and also the potential new cracker in India, the one in Kazakhstan and you also have this MoU for something in Indonesia. So considering the change in environment, are those projects still on the table?

Answer by **Thomas Gangl**:

So the projects that you mentioned, most of them are more long term, addressing the growth in demand there in these regions. And so these projects are more MoU type of, except Borouge. Borouge 4, the activities are ongoing, so the project is in development. So we think there is good progress on that one. For the other one, let's see where we will then land. This is something where I do not expect that the actual development of margins is really the relevant one. We see for petchem prices always this cycle, and this is something where we are now not on the top, more on a lower level, but this will not influence the decisions for those projects.

Borealis dividend

Question by **Sasikanth Chilukuru – Morgan Stanley**:

I just wanted to comment on the Borealis dividend. Essentially, it has been stronger. But looking into the future, are you expecting any material reduction in the dividend that you're expecting from Borealis?

Answer by **Reinhard Florey**:

On the Borealis dividend, Borealis is an extremely success company in the market, of course, also undergoing the cycle. And we are seeing currently cycle in petrochemicals rather on the lower level than on the higher level. Nevertheless, this is a company that has also, in the past, given a very steady flow of dividends. We have seen some extra dividend in this year. We might not expect this special situation in the years to come. However, the overall performance is seen to be very strong and very stable. So don't worry about the dividends in general.

Answer by **Rainer Seele**:

I will have the same story. You shouldn't worry too much about the dividends. Whatever we see and we have guided, our dividend policy is written in stone.

Nord Stream 2

Question by **Michael Alsford - Citi**:

I just wanted you to elaborate more on Nord Stream 2. It gets a lot of headlines. I wondered if you could maybe just confirm some of your financial exposure to the project, how you see the return being to repay over the medium term and then just sort of timing around the progress on the project. That would be helpful.

Answer by **Rainer Seele**:

Let me have a look into the crystal ball. Well, it's a little bit complicated to say anything about the timing. What I can say is that OMV more or less has financed the project. So we are not expecting high cash calls from Nord Stream 2 Company in 2020. We have already financed something around EUR 700 million into the project. The delay of the project, it doesn't matter which startup date we both are talking about, has no impact on the rate of return of our participation in the project, which means that the cash return is a bit later, but might come on a higher level. That's point number one when we talk about all the impact. We do have contractual agreements where I cannot go into detail because of confidentiality agreements, but we feel comfortable that the risk in the project is not that we are losing our money. Timing? Well, first of all, let's wait and see what kind of fantasy in terms of sanctions is developing. I'm not joining the club of speculators, what kind of additional sanctions might come. I see that in the press. But at the end of the day, we have to deal with the situation as it is. There are no construction activities, pipe lay activities, at the moment for Nord Stream 2 pipeline. The construction has stopped just after the sanctions. You could see it implemented unilateral by the U.S. You could see that in the press. We don't see now short term that the company will continue the pipe laying activities. When it will be, honestly speaking, I haven't received an invitation from Nord Stream 2 Company that they would like to present the plan B to us. So that's the reason why I tell you that the pipe lay activities will not restart shortly.

Downstream hedges

Question by **Joshua Stona – Barclays**:

You do highlight some hedges in your presentation. Just wanted to see if you're able to disclose how long those hedges are locked in for.

Answer by **Rainer Seele**:

I am delighted to give you an answer on the hedges. It's covering the full year 2020. So it's a Downstream hedge on the margins, on the refining margins. So what we have safeguarded is roughly \$1 per barrel in 2020 on our refining margin, and that's the reason why we are also saying it's above \$5 per barrel. And we're expecting a high refining margin this year in 2020.

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