OMV Q1 2023 Conference Call – Q&A Transcript
April 28, 2023

OMV published its results for Q1 2023 on April 28, 2023. The investor and analyst conference call was broadcast as a live audio–webcast at 11:30 am CEST. Below is the transcript of the question and answer session, by topic, edited for clarity.

OMV Group

M&A

Question by **Joshua Stone, Barclays:**
Given where your balance sheet is, can you just talk about how you're feeling about acquisitions and appetite in the current environment to do deals?

Answer by **Reinhard Florey**:
Regarding the balance sheet, you're right, an extremely strong performance. I think it is important that the strength of the balance sheet and of course also the cash held on the balance sheet are on the one hand side a protection against uncertainties in the market and on the other hand enable us to of course go for all the capital allocation priorities that we have defined, so all the organic growth, all the progressive dividend, potential inorganic growth opportunities, deleveraging and then the special dividend in the magnitude of 20%-30% of our operating cash flow.

Answer by **Alfred Stern**:
I think your specific question was also around inorganic activities that we may do. As you may remember, we said in our strategy, if we find possibilities to accelerate our growth and our transformation through inorganic acquisitions, we will consider those. However, we have shown over the last months very good discipline, and we will continue to do so in order to make sure that we meet the three key criteria for such activities. Number one, it needs to be in line with our strategy in terms of sustainability, but also in terms of growth. Number two, it needs to be value creating and cash contributing, and it needs to be additive to our ROCE of 12% target that we have. This we will continue to have as criteria. When it comes to the size of such possible acquisitions, if you look back, the 39% increase in the shareholding of Borealis was our biggest acquisition so far. And for us, this gives a little bit a room where we felt comfortable up to now.

Question by **Karen Kostanian – Bank of America**:
More of a theoretical question on potential acquisitions. The chemicals margins are at the low, the valuations are at a low. What is preventing you from pulling the trigger?

Answer by **Alfred Stern**:
We have a very good growth plan for our Chemicals & Materials business that is based on organic growth projects. If you remember the three big growth projects that we have: the Baystar project, the PDH project in Belgium Kallo, and the Borouge 4 project in Abu Dhabi. These three projects will all come online by 2025 and they will allow us to grow our Chemicals & Materials business by about 30%. So this is the big focus.

What we said, in addition to this is, that we will make the business more sustainable by increasing our circular business to about 2 mn t by 2030. Looking at circular businesses there are really no big acquisitions that you can make in that space at the moment in order to drive this business forward. Borealis has made a smaller one in the last couple of months. They bought a majority share in a company called Renasci in Belgium, which does chemical recycling or smart chain recycling, which is a mix of different recycling methods.

So these are smaller acquisitions that can be made but the big movements in the circular business are going to be organic. We are currently building a ReOil® plant in our Schwechat refinery, our own OMV technology. That ReOil® plant should come on stream later this year with 16,000 t of production capacity that we will then bring on stream.

The third thing that we said in chemicals is inorganic acquisitions to diversify our portfolio. Our balance sheet is strong enough that we can do that, but we did also make it very clear that we need to fulfill all three criteria: it needs to be moving with our strategy in terms of sustainability, in terms of growth perspectives, it needs to be value enhancing for us, and it needs to contribute to our

ROCE of 12% target. And we are of course always open and looking around for those targets but at the moment I have nothing to announce here.

Question by **Giacomo Romeo – Jefferies**:
Going back to your earlier comments around the chemical acquisitions requirement, you made a comment about referring back to the acquisition of Borealis in 2020 and saying that that gives you an idea of the maximum. So I just wanted to get a little bit more of a comment here. Obviously, the acquisition price was USD 4.68 bn, but the net cash out was quite lower, which one of the two should we see sort of the maximum size of a potential M&A here, and then related to that, would you be okay to let your leverage go above 30% or would you say 30% as the cap in terms of the size you will be happy to use for M&A opportunities.

Answer by **Reinhard Florey**:
First of all, we always point to the fact that these kinds of acquisitions are opportunistic, and we are looking for best possible targets at the best possible time and we concentrate of course pursuing our strategy with organic investments.

But when it comes to the maximum size of what we are targeting at, I'm long enough in the M&A business to say you never announce a number or you never announce the target upfront. We are looking at a size that is digestible for us with the clear intention not to surpass the 30% of our leverage. So just to make sure we are not looking into a EUR 10 bn or EUR 15 bn acquisition - this is very clear. We are looking at clearly smaller sizes, if at all, at the right time, and we will let you know about successful approaches when the time is right.

Question by **Matt Lofting – J.P. Morgan**:
Bearing in mind the E&P disposal process around Malaysia and New Zealand, how committed is OMV to preserving vertical portfolio integration through Strategy 2030? And are you concerned the upstream divestments risks making group cash flows incrementally more cyclical around downstream trends as shown in many ways by the chems and refining dynamics we've seen in recent months?

Answer by **Alfred Stern**:
The strategy of OMV is a strategy where we are saying today, we have three business segments with Energy, Fuels & Feedstock, and Chemicals & Materials. And they have integration value for us that is helping us have a strong performance through the different cycles. I think the Q1 result that we just delivered does show the benefit of this. But more importantly from a strategic perspective, we see that in our transformation to become a sustainable fuels, chemicals, and materials company, we do see integration value also on an operational level in order to make that transformation over time. So let me give you two or three examples of this. We just announced for Q1, this Poseidon project together with Aker BP in Norway for carbon capture and storage. One of the CO_2 emitters that we are considering that could store into this is Borealis, where we have activities in Northwestern Europe with access to exporting the CO_2 potentially to this CCS activity.

The second one that I want to mention is our ReOil® process. We believe our ReOil® process is one that can be scaled to a very big commercial level. We are now finishing up this year our 16,000 t plant, but the full commercial scale would be 200,000 t. And this operation can be integrated into the refinery for additional efficiency and additional value creation from the production of such a ReOil® plant.

And the third example is that for our refineries, we will increase our chemicals integration. As road fuels reduce overtime, we will increase our integration into chemicals more and go up to 24%, 25% of chemical integration, and we believe those are good integration benefits that help us both to manage cyclicality but also bring us some operational synergies across the portfolio.

When it comes to Malaysia and New Zealand, this is a decision that was also driven to a degree that these are very remote assets that in our core portfolio have limited integration in that sense and this is for us therefore a driver to go into this.

And last, what I want to say if you look at the timeframe of 2019 to 2021, that is the time where we had Borealis already in after the acquisition, what you can see is we really one of the few companies that has a very balanced mix of contribution from the different business segments, about 30% coming from chemicals, 30% from refining, 40% from energy and over time, we will be able to move this in a growth direction. I really think we are one of the few companies that have such a balanced portfolio that allows this transformation.

Cash flow

Question by **Joshua Stone – Barclays:**
On the cash flow, there's a very good cash result in the quarter. You've highlighted a couple of things about the Borouge dividend and the insurance payment, but can you maybe just reconcile where you think this very strong cash performance is coming from, in particular cash taxes look a little bit lower than I thought, so am I right there and is there anything to say on that?

Answer by **Reinhard Florey**:
First of all, to reconcile a little bit of the cash flow. Indeed, there a was very good operating cash flow and also as Alfred has mentioned a positive cash flow from net working capital that we have in there. But within that, there are a couple of effects that you would not see directly in the net income, which are corrected in our other line, which more or less show the non-cash allocations that are in the net income. And as you mentioned, for instance, we have a higher cash-in from Borouge than the result shows. This is around EUR 140 mn more. We have around EUR 150 mn insurance payment also in the cash flow and we have hedging effect in there of roughly EUR 800 mn, which are non-cash-in the net income negative, so therefore they add to the actual cash that came in from the operative business.

Against that is a negative delta of cash paid versus cash booked of around EUR 170 mn. So in total, we paid some EUR 950 mn of tax, whereas the tax line in the P&L that is the booked tax shows about EUR 780 mn so this delta of course is also an increase when you come just from the bridge net income versus operative cash flow. But indeed, all the three segments contributed with the operative business positively to the cash flow and also the net working capital was positive in all three segments. I hope that clarifies a little bit the situation around the cash flow.

Question by **Matt Lofting – J.P. Morgan**:
From a cash flow perspective, can you talk about where you see the trajectory on Q2/23 operating cash flow factoring macro trends including lower refining and E&P volumes that you highlighted, Borouge and Schwechat inflow phasing from Q1, and high Norwegian cash taxes?

Answer by **Reinhard Florey**:
First of all we are expecting again a good operative cash generation. We have three strong segments there. However, we have to take into account of course that currently we have lower indicators for both gas prices as well as refining margins.

We expect a slightly improved chemicals environment in the second quarter and then of course we have also to look into the net working capital because, as Alfred has stated, we are starting already with storing gas again. So, this is something where certainly there will be a negative net working capital effect to be expected in Q2.

On the positive side, we are expecting cash-in from our divestments, Nitro and possibly also the Slovenian retail business. But then of course, we see a stronger cash outflow on the tax side in Norway. The second quarter will be the highest quarter in terms of tax payments, and of course a good message to our investors, we will have the cash outflow from dividends and special dividends in Q2 and the dividends from Petrom. So, this is a little bit the overall picture where you can see what influencing factors will deviate between Q1 and Q2 as special situation, but in general cash generation really came in strong from operative results.

Dividends

Question by **Peter Low – Redburn**:
You committed to return 20-30% of cash flow to shareholders. Some of your peers have ended up moving above their guided ranges. And if you don't strike a deal this year you would certainly be in a position to do so. Is the 30% ceiling kind of a hard ceiling or could you move above that if the circumstances allowed?

Answer by **Reinhard Florey**:
We feel very confident with the strength of our balance sheet and also the way how we are proceeding with our strategic plans that we are also for next year in the position to stay within a range, below 30% of leverage level. Therefore, the range of 20-30% is absolutely within our comfort zone. So, I would really encourage you to have a very positive view on that and we feel absolutely comfortable with that. You can imagine that from a financial point of view, the strength of the balance sheet in troubled times is always a good cushion, but we will not just let the cash pile up and therefore are more than happy to also let our shareholders directly participate via the progressive dividend as well as the special dividend.

Norwegian taxes

Question by **Bertrand Hodee – Kepler Cheuvreux**:
Coming back on the Norwegian tax liabilities, you had EUR 2 bn of outstanding tax liabilities in Norway at the end of Q4. Now it has been reduced to EUR 1.7 bn. But can you quantify the cash tax payments you expect in Norway in Q2? I wanted to understand how that compares with your cash tax payments in Norway in Q1, just to make sure we properly model that cash tax lag in Norway.

Answer by **Reinhard Florey**:
Tax payments overall, in Q1, have been around EUR 950 mn. That of course is not only the Norwegian tax but let's say two-thirds go in that direction. We have from the Norwegian tax regime, a situation where the tax relating to the past year is always three major tranches in the first half year, one in the first quarter, two in the second quarter. And as you can see from our balance sheet, tax liabilities are in the magnitude of slightly above EUR 1.3 bn in there. So you can imagine that this is about the tax payments that we are expecting from Norway as they are the liabilities that we carry from last year here.

I hope this gives you some guidance. So that's why I said the highest burden on tax payments from Norway will be in the second quarter.

Chemicals & Materials

Joint Ventures

Question by **Sasikanth Chilukuru – Morgan Stanley**:
I just wanted to check whether there were any capital equity injections into the JVs in 1Q especially into Borouge, also any expectations of equity injections for the rest of the quarters for the year as well?

Answer by **Reinhard Florey**:
If we look at Baystar, we are not expecting any kind of capital injections there as we are already entering the stage of startup both of the cracker and hopefully soon also on the Bay-3 polyethylene plant. We are also not expecting any kind of equity injections into the Borouge 4 project. We are currently expecting that the Capex needed will be covered by external loans, so by leveraging the company. So, we do not foresee major equity stress or anything like that for OMV or for Borealis, coming from there.

Question by **Raphael Dubois – Societe Generale**:
On the Baystar JV, it's already two quarters where you seem to be having some technical issues there. Would you mind reminding us what those issues are and maybe even quantify the opportunity cost in terms of lost EBIT for this first quarter of the year?

Answer by **Alfred Stern**:
On the Baystar joint venture, I just want to go back and remind you of what the project there is. First of all, it's a 50-50 joint venture between Borealis and TotalEnergies. And the joint venture currently operates about 400,000 t of polyethylene production. And the projects that we executed there over the last few years, is 1) a 1 mn t ethane cracker, and 2) a Borstar polyethylene plant with 625,000 t of production. So at the end of this, this should be a 1 mn t ethane based fully integrated ethane to ethylene to polyethylene complex with state-of-the-art Borstar technology there.

The cracker was mechanically completed in the middle of the second half of last year. We started it up. We had some good progress there and then unfortunately in the fourth quarter, this Texas winter freeze created a situation where the cracker tripped, and we had some damages that needed to be repaired. So, a few months ago, we started to ramp up the cracker again and still have some teething issues in getting that fully to run. But we see that we are making some progress towards that and would anticipate that we are coming to a resolution of those issues. Like I said, it's a 1-million-ton cracker, and it is not completely unusual that there are start-up issues that have to be eliminated one by one and we'll have to work through that. What I can also report, because that's the important part, is that we can actually start the integrated operation in that joint venture.

And in the meantime, the polyethylene plant is mechanically complete, and we are now working toward starting up the polyethylene plant. And with this, we would then be in the situation to have that integrated setup there. On the EBIT impact, we do not report that kind of detail, but what I could maybe say is that with the startup, we have started the depreciation of course of the plant. And if the plant is not running, this is not favorable to the result of course.

Chemical margins

Question by **Henri Patricot – UBS**:
On chemicals where you didn't change the margin guidance for the year. I was wondering if you can give us a sense of, to what extent you've seen improvements already in the quarter or whether we need to see further improvements for the margins to get to the level that you expect, especially for olefins in Europe?

Answer by **Alfred Stern**:
In the first quarter, we have actually seen a bit of a mixed picture. On the ethylene indicator margins we have actually seen through the quarter, some improvements both in ethylene but also in propylene. We have seen also that going into the second quarter. And we believe that this may be caused by some pickup of activities and therefore we have maintained our guidance of EUR 530/t ethylene and EUR 480/t for propylene. On the polyolefin side, polyethylene and polypropylene, we have seen in the first quarter, a stabilization and basically a performance right around the guidance that we gave for the year. So, EUR 350/t for polyethylene and EUR 400/t for polypropylene. In particular in Asia, we have seen for the first quarter an average price in polyethylene and polypropylene that was about a USD 50 above the Q4 average, and we are also seeing that in Q2, we have started in a similar range. So hopefully these are some good indications of a movement that we see in those areas. We do believe that in Q2 we will see a bit of a brighter picture in olefins. On polyolefins, we still see some pressures, and hopefully then as we go through the year in the second half, we will see some light improvements.

Kallo plant

Question by **Sasikanth Chilukuru – Morgan Stanley**:
You highlighted that the updated plan for the Kallo PDH project now provides for the substantial increase in costs. I was just wondering if you could quantify what those additional costs are and particularly what that impact to 2024-2025 Capex would be?

Answer by **Alfred Stern**:
On Kallo, like I said in my speech, we expect a significant cost increase of the project, primarily due to the necessary re-tendering of the project work that followed the termination of the contract with this main contractor, IREM Group. And compared to our previous plan, we now expect about EUR 50-70 mn additional until the end of this year, but there will most likely also be higher Capex for the next two years due to the delay of the project. Borealis is currently working quite intensively on mitigating the cost increases of the project and is claiming compensation from the IREM companies to recover part of the additional costs incurred.

Fuels & Feedstock

Refining indicator margins

Question by **Sasikanth Chilukuru – Morgan Stanley**:
You've lowered your guidance for the refining indicator margin now towards the lower end of the USD 10-15/bbl range. I was just wondering what levels you are seeing right now?

Answer by **Alfred Stern**:
Concerning the refining indicator margins, it's correct that for the first quarter, we have actually seen refining indicator margins that were more up on the higher level of the range that we have given and due to the changes that we anticipate in the market, we see that we will for the full year be more in an average towards the lower end of the range that we have given here.
I think three things that I would like to offer for consideration here. Number one, the indicator margins of course do not include any kind of utility cost, or electricity cost and soon, and we see a lower environment in this, so that the impact on the realized margins should be buffered by that. And secondly, we see a strong development of retail and commercial margins, where we have seen the elimination of price caps that have capped or reduced our retail and commercial margins in the last quarters.

Petrobrazi maintenance

Question by **Karen Kostanian – Bank of America**:
About your six weeks maintenance on the refineries, could you just remind me if this is the first time you are announcing it and whether that's going to also have a material impact on your expected refining margins in the second quarter?

Answer by **Reinhard Florey**:
Regarding the maintenance in Petrobrazi in Romania this is a six weeks' maintenance window. It has been previously announced. It is also a planned maintenance. You may have followed that we did not have major shutdowns in Petrobrazi over the last years so for the first time this refinery has been running on a five years' period and that also makes this maintenance period a little bit longer than the normal four weeks and is now six weeks, but this has been announced and was planned.

We are estimating the total impact of that six-week period at around EUR 40 mn. This includes both OPEX as well as estimated margin loss. But the specific margin loss that you see of course you can quite easily calculate if you take the indicator margin and the missing volumes during that period. With indicator margins now going down, maybe it's not the worst moment for that kind of a shutdown.

Energy

Gas Marketing & Power

Question by **Henri Patricot – UBS**:
Very good performance in the Gas Marketing & Power business this quarter. Thinking about next winter, to what extent was this performance in the first quarter exceptional or is that something that we could expect to see in, let's say, standard first quarter going forward for this business?

Answer by **Alfred Stern**:
I think the improved results are there coming from different areas, definitely one area that I would think should be sustainable is around our long-term capacity bookings that we have on our LNG terminal in Rotterdam. There we had a very bad situation over the last years and that changed dramatically last year, and I would anticipate that Europe will continue to depend on LNG imports so that we can now use those LNG capacities in a much more commercial way and we are also putting quite some effort in order to do that. I think that should be possible and of course, we also anticipate that again for next winter, filling gas storages will be essential in order to provide security of supply. So I would anticipate that also there we can have some good business. Currently at OMV, our storages are already about 70% full, and we have started storing gas now in the last few weeks and we will continue to do so.

Question by **Raphael Dubois – Societe Generale**:
On Gas Marketing & Power, there are many moving parts, not least this LNG business that you started booking results for last quarter. Looking at the sequential improvement, 4Q to 1Q, would it be possible to have more granularity on what's coming from this LNG business, and what is coming from the fact you receive more gas from Russia than what you were expecting, and what is coming from the gas that you are selling from storage?

Answer by **Reinhard Florey**:
In Q1, we had a combined result of some EUR 360 mn from Gas East and Gas West. And of course, in Gas East and Gas West, you have different parts of profitability in there. Gas East is mainly the gas sales and trading, as well as the power business in Romania. And please be aware that in the first quarter we had one month of shutdown of the powerplant for maintenance reasons in there, so in this quarter, the contribution may have been a little bit less, but that was more than compensated by a very good sales and trading business in the country.

In Gas West, we have three parts that are contributing. The one is the normal sales and trading business. The second is the LNG business and the third is the storage business. And in this quarter of course, the storage business had by far the biggest contribution because we had a very good storage loading from last year and you've seen that we've used quite some working capital to allow for that. Also, with rolling some of the contracts from Q4 to Q1, as end of Q4 we had very low prices, and they had recovered in the beginning of Q1, we had a good opportunity for margins.

The LNG business is now a stable business, a profitable business that will not fluctuate so much. And the sales and trading business is of course one that is more strongly contributing in Q4 and Q1. So this is a seasonal business where we will see that in the months where we will store-in instead of taking gas from storage we will have less contributions clearly from that business and that of course is also the case for the storage business.

You mentioned also that we will get more gas from Russia than expected. No, that's not the case. We are getting what we expect in Austria. So, from our two contracts that we have with Gazprom, the contract flowing into Austria is now, I would say, adequately delivered, whereas the contract in Germany is still at zero and we are not receiving any kind of gas from Gazprom in Germany. I hope this clarifies a little bit the situation.

Question by **Bertrand Hodee – Kepler Cheuvreux**:
You refer in your Gas Marketing business this quarter to some hedging losses in January 2023 because of erratic natural gas supply from Gazprom. Can you quantify that hedging loss impact in January?

Answer by **Reinhard Florey**:
When you were referring to the impact of hedging losses in January, we have given you last year an average number per month of around EUR 50 mn of the hedging losses if there is volatility. In January, the volatility has been a little bit higher, but there is nothing specifically to quantify here. All the kind of losses that we've made with these hedges have been more than compensated with our good gas management, with sales, with the storage business. So, I'm very happy to report that we are more than overcompensating this kind of negative impacts, and this is really the good news about Q1.

Gas storage

Question by **Giacomo Romeo – Jefferies**:
Around gas storage, you said you are at 70%, which is well ahead of the EUs intermediate target levels.
How do you see your progress towards the end of injection season target of 95%? Are you looking to sort of get there as soon as reasonably possible in order to de-risk the filling of your gas storages or are you happy to sort of slow it down and fill them hand and hand with the EU's intermediate target? Just trying to get a little bit better understanding of what's your thinking there.

Answer by **Alfred Stern**:
Of course, we will again make sure that we reach a high storage level as we had in the last year. As you could see from Q1/23 it also creates a possibility to earn some money. We are going to look to commercially optimize our storage activities as we move towards the winter season again and make sure that we can use the opportunity also to lock in positive margins towards the winter heating season.

E&P OPEX

Question by **Peter Low – Redburn**:
On the rising OPEX in Upstream, could you kind of split out the two effects there, so underlying cost pressure, and then I guess the change in mix as Russia has dropped out?

Answer by **Reinhard Florey**:
Regarding rising OPEX in Upstream, I think we have to see that of course, this is fluctuating. In some areas, we see some inflationary effects on the OPEX. We are fighting that with programs that are both cost savings programs, as well as efficiency programs in

terms of procurement, in terms of administration and all of that. The main effect is how efficient we can be in the portfolio management. We have announced that we will have some portfolio measures in Asia, and we are also looking into the portfolio management when it comes to all the investments into new capacities, specifically when you look into the Neptun project in Romania, this certainly will also from the OPEX point of view be a favorable one, given the right boundary conditions that we are always looking for. And with the decline in the overall rate of production we will certainly also make choices when wells are too small and also take them out, so that specific increase of the operating cost in Upstream can be curbed there.

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