OMV Q4 2023 Conference Call – Q&A Transcript

February 1, 2024

OMV published its results for Q4 2023 on February 1, 2024. 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 clarity.

OMV Group

Dividend

Question by **Sasikanth Chilukuru – Morgan Stanley:**
Good to see a flat dividend being maintained. I was just wondering if you could provide more details on the rationale behind the split of the dividend into regular and special, especially given that the year-on-year growth in the regular dividend has been lowered. I just wanted to understand how you have fixed the regular dividend at EUR 2.95.

Answer by **Reinhard Florey**:
If you look into our dividend policy, it is very evident that on the one hand side, we give a guidance for the full dividend consisting of the regular dividend and the special dividend to be in a range of 20-30% of our operating cash flow, including net working capital effects. With this proposed EUR 5.05 per share, we are reaching close to the upper end of this range and this is a very clear signal to the market that we are willing also to use this kind of span and flexibility that we have in order to reflect both the performance as well as our trust in the stability of this company. When it comes to the split between the regular dividend and the special dividend, I think it is very clear while keeping this whole dividend on a record unchanged level, we have a progressive dividend policy on our regular dividend and we are living up to that. And we have to see that the cash performance as well as the operational performance has been quite good considering the challenges in the market. When it comes to clean CCS Operating Result, it's even the second best result in the history of OMV. And that is where we want to let our shareholders participate and you see that in our capital allocation guidance and capital allocation policy, our regular dividend ranks already second and this shows our strong commitment to give back to the shareholders.

Question by **Matthew Smith – Bank of America:**
I just wanted to come back to the dividend logic. Like you said you've used the top end of your sort of payout policy range this year to keep the DPS payment in totality flat. So I just wanted to test again really, should we read that's the intention to keep the total DPS flat if the 20-30% payout ratio allows you to do that? Or are there other factors to sort of point towards sort of giving you the confidence in declaring the dividend, which was clearly ahead of the market expectations?

Answer by **Reinhard Florey:**
Regarding the dividend logic, let me reiterate. We have two parts of this dividend, a regular dividend and a special dividend. The regular dividend is announced from our side to be in a progressive dividend policy so that we intend to increase this regular dividend year-after-year or in difficult situations keep it on the level of the prior year.

When it comes to the special dividend, there is of course flexibility and this flexibility means that on the one hand side, we need to maneuver within the 20-30% headroom that we have from operating cash flow when it comes to the both of them. So, in case of a lesser operating result, this of course limits this opportunity for the special dividend.

On the other hand, it allows us to increase also the special dividend if our operating result is higher. So, keeping it flat on the top line for this year is more of a message to the market to say, first, we are in a position where our intention to return to shareholders is a reality that we are capable to live up to. Secondly, the bandwidth of 20-30% is a real bandwidth in which we maneuver. And thirdly, it is adequate to the performance of the company with the full foresight that we have with possible developments in our strategy where we have the liquidity and the stability of the company fully in our view.

Capital allocation

Question by **Peter Low – Redburn:**
On capital allocation, on your slides, you kind of made the point that net debt is pretty low, especially once you exclude leases. You've got a lot of cash on hand and about EUR 900 mn more coming in from the Sapura disposal this year. How are you thinking about deploying that cash, as kind of it's clear it probably doesn't need to go to the balance sheet?

Answer by **Reinhard Florey:**
On the capital allocation, I think we are in the lucky position of having a very strong balance sheet specifically in the times of high interest rates. We are rather advantaged by that. But of course, with both organic and potentially inorganic investments, there is some headroom for us to maneuver and we are following our guidance that we have given in our strategy that we will execute very strongly on our transformation and our strategy and if there is a reasonable possibility, we will accelerate this execution of the strategy also by inorganic measures.

Now this is something where we have not announced anything to come up in that respect. On the other hand, Alfred mentioned we are still in open ended negotiations with ADNOC on the combination, which would potentially allow us also to inject some money to come to a good governance structure with an equal rights and equal share structure. So, in that sense, both the organic and the inorganic opportunities are available to us, but we will have a very strong discipline in our cash return expectations. And we said, be it traditional business or be it sustainable business, we expect a double-digit return rate on our investments.

Capex outlook

Question by **Irene Himona – Societe Generale:**
You referred in your prepared remarks to inflation and higher fixed costs offset in part by your energy efficiencies, cost restructuring, etc.. Can you say what overall inflation you assume in your Capex guidance for EUR 3.8 bn this year?

Answer by **Reinhard Florey**:
On the inflation, we are in general calculating with an inflation rate of 3-4% for the year 2024. However, the Capex guidance that we give is less driven by inflationary tendencies, but rather by the content that we have in there, specifically when it comes to special projects like the Neptun project, which is going into its high investment phase, and other projects like the Jerun project at Sapura, as long as it is still in our portfolio, and therefore there is a little bit of uncertainty about the total amount there.

So this is the best that we can guide for the moment, but as Alfred has said, there is a very strong effort in this company on cost discipline, on Capex discipline, on all the countermeasures that we have to bring fixed costs down. And therefore, we are optimistic that inflationary tendencies will not play a significant role in our finances for 2024.

Question by **Joshua Stone – UBS:**
On the increase in Capex to EUR 3.8 bn, would you describe this as the new normal for the next several years? Or are there particular projects that will roll off, get you back to the EUR 3.5 bn long-run guide?

Answer by **Reinhard Florey:**
I think the increase in Capex is very much in the range that we have guided for. We have guided already for 2023 with a level of EUR 3.8 bn. We came out with EUR 3.7 bn, which shows the scrutiny that we have on Capex discipline. Now, we have EUR 3.8 bn again guided for 2024.

Now, of course, that is driven by large projects and on the other hand, driven by our assumption of a stable portfolio. Whether the portfolio stays stable is always a question of the execution of the strategy, and therefore, this may be a little bit of a moving part, but I would view EUR 3.8 bn as the upper range of where we see our Capex to go and this should be a sufficient level, but it's not the new normal as you would describe it. I'd rather see it breathes a little bit with the portfolio and with the organic investment projects and their trajectory of specific contracts that we have in there.

Cash flow

Question by **Joshua Stone – UBS:**
If I just look at the quarterly performance on cash flow from operations, the step down is larger than that of earnings, so are there any particular one-offs, anything tax-related or anything like that, that you can highlight to us to flag?

Answer by **Reinhard Florey:**
What you can see is compared to the clean CCS Operating Result, which has a stronger decline year-on-year, we saw a more stable and better situation in the cash flow from operations. On the one hand side, this is certainly due to net working capital. Net working capital was a very strong investment, as I call it, in 2022 with a negative effect on the cash flow. In 2023, we got EUR 1.1 bn back from that. That is by far not the level that we've invested in 2022. So, there is still some cash in that storage that is able to be brought back in the next couple of years.

And when it comes to cash from the operations, of course, there we have to see that tax payments, specifically the Norwegian tax payments, always have a certain delay that does not directly correlate with the prices and the economic situation that you have reflected in the P&L. So, we have about two to three quarters delay with what we pay in taxes to what we have earned. And therefore, you have seen that with extremely high prices from 2022, the tax payment came into 2023 with a very high level still for the first two quarters and normalized to the current situation in the second half of the year. So that has to be taken into account. Other than that, I don't see that there are any disruptions on the cash level. So, we are in a good operating environment.

Chemicals & Materials

Potential combination of Borealis & Borouge

Question by **Irene Himona – Societe Generale**:
I understand you cannot comment on your discussions regarding the Borealis-Borouge merger. Could you perhaps say something on your expectations regarding the timing to conclude such discussions, one way or another?

Answer by **Alfred Stern**:
We announced in the middle of last year that we will pursue discussions with ADNOC on a potential combination of Borouge and Borealis and to create a world leading polyolefin company where we would have equal shares, it would be stock listed, equal rights, and that we would want to use it as a growth platform in order to move that forward. So since then, we have been in ongoing negotiations and made good progress. At the same time, the negotiations are still going on and are open ended in that sense. We are, of course, hoping to conclude these discussions as soon as possible. However, our focus is really on achieving an optimal negotiation result rather than a fixed time limit.

Question by **Matthew Smith – Bank of America:**
So, I just wanted to take a step back, actually, and just coming back to the industrial logic here. Because in the past, as part of your strategy, you've discussed synergies as a very important driver of any M&A. So, it's really my question. We all know the strengths of the Borouge business. But really, the question is, what can the two businesses do together that they can't apart?

Answer by **Alfred Stern:**
On the industrial logic of a potential combination of Borouge and Borealis, this is quite straightforward to explain as both of these companies are leading players in their individual regions. Borealis is in Europe number two, Borouge is in the Middle East number two, and globally they are both in position 14 and 15. A combination will move them up to a number five or six in the polyolefin market. So, the combined entity will be a global market leader in the polyolefin segment.

So there are two drivers there that we can through such a combination use, of course, the strength of both companies in the areas of technology, application development, especially the product development, the feedstock, the market access and so on. But on the other side, of course, also use synergies. It could allow a much better service to our customers, to the markets. It could allow us to optimize across the companies the S&OP process, which could unlock synergies if it materializes.

And this is of course part of the idea. But the idea is also to use such a potential combination as a growth platform together to continue and grow further. This is based on the more than 20 years of partnership that we have in developing this and the success that we had together. So, I certainly believe that we can extend that partnership success into the future.

Question by **Matthew Smith – Bank of America:**
On the chemical strategy, and I think you sort of characterized Borouge, Borealis, the merger as a potential growth platform going forward. So, consistent with your statements before, but just to double check that, that would presumably be focused on polyolefin growth. So, I suppose my question would be, should we still expect OMV as a sort of standalone company to still pursue its own M&A led growth strategy, in the chemical space presumably? If so, that would be outside of the polyolefin market?

Answer by **Alfred Stern:**
I have three things, I want to say to this. The first one is you are correct that a potential combination of Borouge and Borealis is very clearly focused on polyolefins, a growth platform for polyolefins that we would like to do together if we can conclude on the negotiations. Secondly, we do have a significant chemical business already in OMV, which is mainly focused on base chemicals and further developing this is something where we also make significant investments into.

If you remember, last year, we added one furnace to our cracker in Burghausen, which is increasing our production capacity there and in our Fuels & Feedstock strategy, we are also saying that as road fuels reduce in our portfolio, we will increase the share of chemicals production, which is going into that direction.

But also, we are increasing the sustainability share in that chemical production, for example through our ReOil® chemical recycling project, where we will then make base chemicals, chemicals based on circular feedstocks, based on plastic waste. And this we will continue to invest and grow into.

We see significant growth opportunities into this area. And maybe you have even noticed last year, we signed a MoU with Synthos. It's a starting point but this is really an important starting point where we agreed to supply them with sustainable butadiene, which will end up in rubber and tires eventually, to also decarbonize that supply chain.

So, this we will continue to grow, and we see growth opportunities. And the third one is as you said, if there should be opportunities of an inorganic nature, we are always looking not just in chemicals but also in other areas if this can be of interest. But nothing to report at this moment. We are currently fully focused on the negotiation for a potential combination of Borouge and Borealis, which in our view would be an acceleration of our strategy.

Market outlook

Question by **Michele Della Vigna – Goldman Sachs:**
On polyolefins, we clearly are at the trough of margins, towards the end of destocking, so usually this is a really good time to start to see upside in polyolefin margins. But there are some companies that are saying that because of all of the capacity that China is building up and also the Gulf Coast and the Middle East, it could take longer for this cycle to absorb the spare capacity and it could be a more muted cycle than what we've seen in the past. You've got a tremendous experience there. I was wondering if you had a view on this topic.

Answer by **Alfred Stern:**
Let me maybe start with saying that you are correct that there is a key coincidence of a low demand situation which is driven by weak market performance because of inflation, because of shift of consumption from products more into services, and at the same time, there was capacity built in particular in China.

This will take some time, normally this type of cycles take about two to three years. This started in the middle of 2022, so we are pretty significantly through this. We have started to also see some discussions about potential closures, not just here in Europe but also in other places, but I want to focus more on our position in Borealis, how and why we think we are in a better position here.

And there I want to start with a high share of specialty products, as I showed in that chart. This is something that we continue to grow, where we see more stable margins and where, of course, this capacity build is less of a concern, because these specialty markets have to be developed over a long period with innovation capability.

Secondly, I think our integration position, where we have the olefin and polyolefin production to a large degree integrated, is providing for a better way on how to react to those market changes. And number three, our feedstock position, I think in Borouge is clear, in Baystar is also clear, but here in Europe also our feedstock flexibility and our light feedstock advantage that we have here allows us to be in a better position. And you can see all this reflected in our utilization rates always being above the industry average.

We are using this time now, however, also to be ready for the upturn because fundamentally we see a lot of growth opportunities in particular for our differentiated specialty products going forward. But this is why we have this performance improvement project in Borealis that last year has already delivered about EUR 140 mn and we will continue to push to make sure we are also using this downtrend to come out stronger on the other end.

Question by **Matt Lofting – J.P. Morgan:**
Going back to chemicals, the starting point for your 2024 outlook for polyolefins seems essentially to be one of margins on average plateauing at H2/23 levels. Within that average, what's your assumption of the profile H1/24 vs. H2/24? And what triggers are you tracking as lead indicators of industry recovery as we look forward?

Answer by **Alfred Stern:**
As I described before, our assumption for the polyethylene, polypropylene indicator margins for Europe is about EUR 320/t. This is for polyethylene more or less at the level where we were last year and for polypropylene sort of where we ended in Q4/23.

So, what that basically tells you is that on average we are not yet seeing a strong recovery in 2024 in that area, but a more sideways kind of development. Of course, the hope is that we see some improvements in that area going towards H2/24 and seeing some of the demand picking up again. Looking into Q1/24, I think we started okay for the beginning of the year, with maybe some possibilities in some of the olefin markets to improve pricing.

During Corona, we saw a different situation but a similar outcome. There were also some issues on the Suez Canal. There were some logistics issues. There was also this winter freeze in the U.S., with less supply coming from there and we see a little bit of a similar situation now. I can't tell you yet what the impact of that will be. Two years ago, during Corona, it reduced supply inflows into Europe and with this, it strengthened the market pricing situation. I don't know if we will see the same or not.

Baystar JV

Question by **Sasikanth Chilukuru – Morgan Stanley:**
On Baystar, you've highlighted the Bay 3 polyethylene plant in the U.S. will reach commercial production in Q1/24. There have been operational issues here before and the commissioning costs have been high. So I was just wondering if you could just confirm whether these issues have been sorted and should we expect any inorganic payments into Baystar in Q1/24 as well. Also, do you expect any dividends to come from Baystar in 2024?

Answer by **Reinhard Florey:**
Regarding Baystar, I don't think that we are in the situation where in 2024 dividends can be distributed. We have ahead of us hopefully a very successful ramp-up phase where both the cracker can be back in operation after the cold spell and the Bay 3 polyethylene plant will ramp up and reach stable levels. So, we are expecting that this is still a year full of work and full of hopefully positive experiences but no dividend to be expected.

Question by **Sasikanth Chilukuru – Morgan Stanley:**
Any inorganic spend going into Baystar in 2024?

Answer by **Reinhard Florey:**
We have not announced any capital injection so far. We will look into the development here and we also have a loan still outstanding from Borealis to Baystar where we are also looking into potentially refinancing. So, all of that will show the course of the business in that year.

Inventory effects

Question by **Peter Low – Redburn:**
Just a clarification on the chemicals result, I think that you said the inventory effect for the full year 2023 was EUR -130 mn. Can you confirm that was the right kind of absolute contribution for the year, and then perhaps what that was in Q4/23 specifically.

Answer by **Reinhard Florey:**
When it comes to inventory effects in the chemical industry, in the fourth quarter actually the inventory effects were slightly positive and that came specifically from the situation that we had a more or less flattish development of the prices with some smaller developments and the inventories that we had on stock gave us a little bit of an advantage in that respect.

Energy

Gas Marketing & Power

Question by **Matt Lofting – J.P. Morgan:**
I wanted to ask you about gas. Specifically, I think the majority of the contracted volumes OMV takes into Austria from Russia is delivered via the Ukrainian transit, the contract for which expires end of 2024. Can you share your latest understanding of the situation there? And if you believe you have sufficient alternatives now, looking to 2025 plus, were those volumes to be closed off?

Answer by **Alfred Stern:**
On Russian gas, we have two supply contracts with Gazprom, one in Germany, one in Austria. The German supply contract has not been supplied since the middle of 2022. So, the whole of last year we were not supplied, and we are not anticipating any supply against that German supply contract.

In Austria, after very high volatility in 2022, this normalized again in 2023 and Gazprom supplied contractually agreed quantities, which we also took based on our contracts. Our contract is such that the delivery location, is on the Slovakian-Austrian border and in that sense, this Ukrainian transit is not something that is affecting OMV in such a way. But we saw the volatility in 2022, we saw significantly reduced reliability of supply and of course, we saw that risk of the supply through Ukraine. So, we used 2022 and 2023 really well to fully diversify our supply sources and get also the necessary pipeline capacities, so that also if the Russian supply in Austria stops completely, we can supply all our customer obligations with non-Russian gas.

So, we have worked through this. Maybe you have seen just in December, we have signed another long-term LNG contract with Cheniere, but that's just one of the many things that we have done to fully diversify our supply.

Gas price sensitivity

Question by **Michele Della Vigna – Goldman Sachs:**
I was wondering if you could give us a sensitivity for your earnings or cash flow from TTF. We've seen quite a lot of moves in the European gas price and I was wondering if you could help us quantify it.

Answer by **Reinhard Florey:**
We are always giving you information, not only about hub prices and hub price developments, but also about the realized gas prices that actually influence in reality our profitability. And there, if you take a realized gas price differential of EUR 1/MWh, this would have roughly an impact of EUR 75 mn of clean CCS Operating Result and according to the different tax rates, we have an operating cash flow of around EUR 40 mn. So, this is the level that we have.

Please take into account when you look into the regions that part of the gas prices are capped or regulated, specifically when it comes to regulation in markets like Romania or New Zealand, even in Tunisia we would have regulated gas prices. And the hub prices that we see are mainly in Norway, that we see in Germany and Austria and then in other parts of Europe if we are then talking about the imports of LNG.

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