OMV Q1 2024 Conference Call – Q&A Transcript

April 30, 2024

OMV published its results for Q1 2024 on April 30, 2024. 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

Potential combination of Borealis & Borouge

Question by **Joshua Stone – UBS:**
On the Borouge Borealis transaction, there are reports that the talks are stalling with ADNOC, what's your latest expectation for an agreement to be reached? Thank you for the invite to the CMD in June. Do you think a conclusion can be reached by then? And if not, what in the strategy do you feel the market needs to be updated on in June this year?

Answer by **Alfred Stern:**
We are still in ongoing negotiations with ADNOC on such a potential combination with an open-ended outcome to those negotiations. We are negotiating in the best interest of OMV and all of the shareholders of OMV.

The industrial logic of the deal is clear to everybody, but the main conditions, the key conditions for such an agreement need to be accepted by both ADNOC and OMV. We remain that the framework for OMV for such a potential combination is that we have equal shares and an equal partnership in such a potential combination and can use this as a growth platform. As you may imagine, of course, we are also interested to conclude this as soon as possible, and we will do the best possible to come to a conclusion in due time.

Disposals

Question by **Henry Tarr – Berenberg:**
On M&A activity outside of the Borouge and Borealis. Are you planning for net disposals this year, and in which direction might they come?

Answer by **Reinhard Florey:**
The disposal that dominates at the moment is clearly the sale of our Malaysian business. This deal has been signed, and we are expecting the deal to close either late Q2 or in Q3. We have also seen that there has been a conclusion of the second part of this field. So we are expecting that to be relatively smooth and in a timely way.

We have announced the magnitude of that deal, so that will more or less have a cash consideration in the magnitude of some USD 900 mn. With this deal, we will deconsolidate about USD 100 mn of cash in the company, so that will be a net cash inflow of about USD 800 mn.

When it comes to the second deal that we have been talking about, New Zealand. Transaction is currently on hold. We are not seeing that is the right environment, right point of time to continue but this is not off, so we are expecting that to come again in the next one to two years when we are seeing a positive environment and of course, positive development of these great fields that we have in New Zealand. So far, they are still in the portfolio and positively contributing to the result.

Other than that, we are not expecting that there are any kind of major disposals in this year. You'll always find some small adjustments within the portfolio but nothing now to talk about.

Chemicals & Materials

Market outlook

Question by **Joshua Stone – UBS:**
You've highlighted polyolefin margins are being supported by supply chain disruptions. Is that still the case today? When do you think this might unwind? And on demand, you said you are quite cautious on Europe, but what about the rest of the world? Are you seeing any improvements in Asia or the U.S.? And any reason you'd be maybe a bit more positive on margins through the year?

Answer by **Alfred Stern:**
I would maybe want to comment a little bit on the polyolefin business there, because that is in the end also more the customer demand side. And I think what we could see was that basically January was more difficult still and through the quarter we have seen an improvement in the business environment. So, we ended up in March with indicator margins for both polyethylene and polypropylene that were significantly above the average of the first quarter and actually at a level that was better than what we have seen in the last 12 months.

We do think a key driver for this is the limitation of the supply chain to make imports into Europe, but we did see that this situation also continued in the beginning of April, and we will see how that evolves further. It may be a little bit a similar situation that we had during Corona also in some of those areas, but it's too early to tell what that is, but I think our increase of the guidance for the indicator margins to EUR 350-400/t is showing that we do believe that the full year will look better than what we initially expected.

Now for the demand, we have seen increased demand from European producers, which of course we are a part of, and what we also of course have seen is a bit of a mixed picture in some of the different segments. So, for example, we have seen an improved demand picture in consumer products that would be a broad range of different types of packaging applications, for example. Then we have seen a growth and positive development in the Mobility segment, which is driven mainly by the segments that we are in and increased sales of the OEMs in those segments. And we have also seen healthy demand in the Healthcare segment to drive this forward. So still a bit of a mixed picture with not a completely clear visibility towards the end of the year.

Maybe the last thing that I would want to mention here is that we have now also had confirmations, at least in the press, that some of our competitors are planning to take out capacity in Europe, namely that was ExxonMobil in France and then SABIC also in the Netherlands, in Geleen, to shut some of this lower end kind of capacity.

Question by **Peter Low – Redburn:**
On your polyolefin margin assumptions, you've increased them to that EUR 350-400/t level, but they were at the top end of that range in Q1 and you've said they continue to improve in Q2, so you're effectively assuming a decrease from here. Can you perhaps explain kind of why you're assuming that trajectory?

Answer by **Alfred Stern:**
The average indicator margins in Q1 were EUR 403/t for polyethylene and EUR 395/t for polypropylene. So that is on the upper end of that guidance that we adjusted here with EUR 350-400/t.

We have seen Q2 also starting off in April with strong margins, again on the upper end for this. And the reason why we are going to the EUR 350-400/t is because we think we don't have enough visibility at this point what Q2 will be like. We did see here in Q1 that this destocking has come to an end and people started some restocking activities. As I explained before, we have seen in some segments, good developments, and higher sales for Borealis. So, there's some mixed signs that we have, and we wanted to use that range to still wait for the second quarter to see how we will come in for the rest of the year. But like I said, Q2 started in April on a similarly high level here.

At this point, I would want to remind also that when we quote those margins, we are talking about industry indicator margins. And you will remember that a very significant part of our sales margin generation is from specialty products that are less affected from those indicator margins and that continue to perform at very high and good margin levels.

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Fuels & Feedstock

Refining margins

Question by **Ramchandra Kamath – Barclays:**
On refining, as you have maintained the outlook for refining indicator margins in Europe at USD 8/bbl, what is your perception on why middle distillate cracks have come down? Is this simply a seasonal factor, or you see a decline in demand over the rest of the year?

Answer by **Alfred Stern:**
In Q1/24, we had a refining indicator margin of close to USD 11/bbl. We have seen that coming together in a bit of a mixed picture. We saw stronger gasoline demand. We saw good jet demand. We saw weaker demand in some of the middle distillate segments beyond that. In particular, heating oil, because of the higher than usual temperatures, we believe that the demand was weaker there. And we have also seen some variability in the diesel demand. In April, we have seen a slightly weaker start for the refining indicator margins and we'll see how that will continue. That's why we maintained our guidance for the full year of around USD 8/bbl.

Energy

Gas Marketing & Power

Question by **Peter Low – Redburn:**
On the Gas Marketing & Power result. It was strong, but it's quite a volatile segment. So can you perhaps talk to the expected seasonality in that business, whether the Q1 result was a level you would expect to repeat in future years?

Answer by **Reinhard Florey:**
First of all, this is indeed a seasonal business where Q1 traditionally is by far the strongest quarter. We had in Q1/24 a result of almost EUR 300 mn from our Gas Marketing Western Europe (Gas West) and Gas & Power Eastern Europe (Gas East) business together.

Now in Gas West, the seasonality is very clear that most of the contracts that have been sold forward from storage come in Q1. Only a part of that is rolled over to Q2. We had a little bit of a lower storage outflow in Q1/24 compared to Q1/23 because the winter was relatively mild. Now we have seen April partly being a little bit colder again, so a certain outflow we are expecting also still in April, but now it turns warm in Central Europe, and we are not expecting that to have then a major positive impact anymore.

So therefore expect, of course, for the quarters to come from Gas West a clearly lower result. On Gas & Power Eastern Europe, first of all, Q1 still has been a little bit favored by the regulatory environment in Romania. This has been adjusted now as of Q2. In fact, we are making steps towards deregulation also throughout 2024 and we are seeing prices converging to the market prices also in Romania. But of course, this will come at lesser results in second, third, and fourth quarter.

On the power side, of course, it depends very much on the power demand that we see currently. This is a profitable business that we see in Romania, and that will, for that reason, also remain for the quarters to come.

Production guidance

Question by **Henry Tarr – Berenberg:**
On upstream production, could you comment maybe on how you're looking into Q2 and the rest of the year with Libya and some of the other moving parts?

Answer by **Alfred Stern:**
Our guidance for this full year is 330-350 kboe/d. We maintain this as we have also announced it at the beginning of this year. For the Q2, I want to just highlight again that we have some maintenance planned in Norway that will do and that also we still had significant under liftings in Libya. In January the situation with the protests forced us to shut down production partially for about 20 days. This is finished now, and we are back in production and the situation is normalized and we are also planning to lift those cargoes then through the next quarters and actually sell them so that the sales levels will catch up.

Other than that, there's no special remarks that I have on the upstream production that we had. Maybe just one you could see with USD 9.6/boe that we had a good performance in terms of the production cost and we will continue to push of course on that further.

Neptun Deep

Question by **Henry Tarr – Berenberg:**
On Neptun Deep, a quick update please and what is the outlook there?

Answer by **Alfred Stern:**
On Neptun Deep, a very important project here, we are making very good progress in terms of assigning all the different contracts of which the majority has now been assigned and there is actually the production - the first cutting of steel - starting in different places in order to produce the equipment. We are also in parallel making all the necessary preparations to move forward and are going through the environmental permitting that so far is still on track to meet our targets. Currently the project is very slightly ahead of the project plan and making the intended progress.

Libya

Question by **Bertrand Hodee – Kepler Cheuvreux:**
On your comments regarding your underlifting position in Libya at the end of Q1/24, can you quantify it in terms of mn bbl? I have an estimate of around 2-3 mn bbl, but if you can confirm that?

Answer by **Alfred Stern:**
We had approximately for Q1/24 a 20 kbbl/d production impact for 20 days. So, if you take that, you'll get to the approximate number there.
[clarifying comments post conference call: Mainly because of the Libyan lifting schedule sales volumes decreased by around 20 kboe/d vs Q4/23. However we expect a catch-up effect in Libyan liftings to take place over the coming quarters until year end.]

Tax payments in Norway

Question by **Bertrand Hodee – Kepler Cheuvreux:**
On the tax payment in Norway, you mentioned you had one instalment in Q1 and the usual two instalments in Q2 expected. Can you quantify the instalments?

Answer by **Reinhard Florey:**
You're right with the conclusion about the tax installments. So, we normally have six installments per year, and the respective tax year starts with the third quarter, so one in Q3, two in Q4, then again one in Q1, and two in Q2. And why I'm saying this is because this refers then to the gas prices that have been relevant for the respective year, which means that we are still paying in Q1/Q2 2024 on the basis of the 2023 gas prices. And the magnitude that we are paying is, say, roughly around EUR 500 mn in one installment. So, you can see that as a cash difference between Q1 and Q2 when it comes to 2024.

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