OMV Q2 2024 Conference Call – Q&A Transcript

OMV published its results for Q2 2024 on July 31, 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

Dividend

Question by **Bertrand Hodee – Kepler Cheuvreux:**
I was a bit surprised to see your comments, even if I obviously noted the very strong cash flow performance in H1, plus 3%, or even plus 50% if we exclude the working capital effect, so I was a bit, not surprised, but very reassured by your underlying comment about potential shareholder distributions. And should we assume that if the macro develops, I would say, similar to your underlying assumption for H2, that total shareholder distribution dividend plus special dividend could be at least the same as of last year, meaning EUR 5.05 per share?

Answer by **Reinhard Florey:**
On the overall level of expectation for shareholder return, let me be very frank. We are not giving you guidance on the distributions that we will give for the year 2024. If you take the overall cash flow generation that we have in operating cash flow, including net working capital, and that's the basis, specifically, for the total amount, we are on a good way. Circumstances in 2024 certainly are more challenging than they have been in 2023. But you have seen in our capital allocation priorities that we have a very high priority to shareholder returns and whatever is possible to distribute in the context of our strategy, into the context of the results we can perform in 2H/2024. This will be a strong priority for us also to return this money to the shareholders.

When it comes to the operating cash flow, maybe just to mention, there have been some special effects in Q2 that need to be taken into account because they will not recur in Q3. So, for instance, we had some payments for the solidarity taxation in Romania as well as in Austria, 250 mn in Romania, this has been for the year 2023. This will not recur later on in this year, but also not in the next years because the solidarity taxation has been terminated. In Austria, we paid some EUR 20 mn for 2023, and we are not expecting in 2024 that this will be a significant amount either.

When it comes to other areas where we are not expecting that kind of negative effects, specifically cash tax payments in Norway, where we traditionally have in Q2 and in Q4, two installments to pay. So therefore, Q3 will be probably by some EUR 200 mn stronger in cash generation because that does not have to be paid in Norway. And then there are some other smaller one-offs. For instance, in Romania, traditionally, you pay your income tax only for the first time in Q2, for the full first half. And that means that this amount that we had there in the amount of EUR 80 mn will only be half in Q3 and in Q4.

M&A

Question by **Joshua Stone – UBS:**
On M&A, and I won't ask about ADNOC, but at your recent CMD, you did highlight you're looking at other opportunities in chemicals in Asia and in North America. You've recently announced a feasibility study in China for a

new facility. So, should we consider that's the opportunity you're referencing to in Asia, or are you looking at other countries in Asia as well, and maybe just talk about what the opportunity set is looking like in North America or anywhere else you're looking?

Answer by **Alfred Stern:**
What we reconfirmed during the Capital Markets Day is that in chemicals in particular, we are looking to geographically expand. And of course, the Baystar project that is in ramp up is one key part of this. The Borouge 4 project is another part. Now, we have announced a feasibility study. And I want to emphasize it's a feasibility study that we are doing. Lots of work needed to be done before we can decide anything there. The feasibility study in China was taken, with the consortium on our side, Borouge, ADNOC, Borealis, and Wanhua on the other side, to look at establishing something.

In general, I can say that we will look at M&A to accelerate our transformation, to move forward faster than we have in our organic growth plans in the strategy. But of course, these inorganic opportunities need to serve the purpose and deliver the right profitability criteria. We stay committed to this. We continue to look out at other pieces. I mentioned for example Renovatio in Romania, which was one piece where we accelerated, basically the entrance into electric charging. There are other M&A activities going on there in terms of photovoltaic and wind that we have published. Beyond this, there's currently nothing that we can specifically announce. But of course, we are always having open eyes for any potential opportunities.

Question by **Matthew Smith – Bank of America:**
On the topic of M&A again, but actually in regard to the energy business, the upstream business. I know this isn't an area where you're targeting growth per se, but with the disposal to close later in the year, natural declines, I suppose production will step down as we look into 2025. So I just wanted to ask around that, whether acquisitions on the E&P side, on the Energy segment, is something that you are considering to sort of moderate the production profile at all.

Answer by **Alfred Stern:**
You're correct, we stay committed to our production goal of 350 kboe/d by 2030. Our guidance for this year is 330-350 kboe/d. Based on our current portfolio we have Malaysia as a divestment. As I said, we expect closing of this transaction in 2H/2024. So then we have Neptun Deep as a development project, which will make a significant contribution. But there is still a gap that we need to close in order to make sure that we deliver on this 350 kboe/d target that we have. Unfortunately, like I said before, we always look around and try and make sure to drive our implementation forward as quickly as possible. At this stage, nothing that I can report to you, but inorganic is a possibility also in the energy sector. Not just in the renewable power, as I described before, but also to make sure we can meet our 350 kboe/d target by 2030.

Working capital

Question by **Paul Redman – BNP Paribas Exane:**
It looks like you've had positive working capital movements in 1H24. I just wanted to see if you have a view on how that will play out through 2H24, because it's important for your distribution program next year.

Answer by **Reinhard Florey:**
I think we have to differentiate in 2H/2024 on how the net working capital movements will develop. Q3 traditionally is a quarter where we store gas, which means that we will increase net working capital, whereas in Q4, we are starting to extract gas from the storage, and that will lead to a cash outflow or a cash inflow in that sense from net working capital.

The other element is, of course, our general inventories, and that is very much also linked to the development of the market prices. So when we are seeing, for instance, inventory effects, as we have seen in chemicals as a negative in Q2, the flip side of that is, of course, the net working capital effect that goes the other way around. So you have a positive net working capital effect.

So therefore, if prices continue to increase, we will have then a negative net working capital. If they are continuing to come down, we will have a positive one. That is very much depending on the market development in the sense of what we are guiding for it is rather neutral and we are not expecting a major cash in from net working capital here.

Whereas we are still working on some inventories and we are seeing that the inventory levels still can be brought down as we do not have any turnarounds. So therefore, I'm expecting, in general, a slight positive number in net working capital for the second half.

Chemicals

Margins

Question by **Sasikanth Chilukuru – Morgan Stanley:**
On petrochemical margins we've seen another upgrade of polyolefin margins. I was just wondering if you could let us know how much of this latest upgrade was related to stronger than expected Q2 margins and how much is it looking forward as well. What margin levels are you currently seeing? And if you could also highlight where you're seeing improved demand in Europe and how sustainable this pickup is.

Answer by **Alfred Stern:**
On the pet chem margins, where we did actually see both in Q1, but then also in Q2, healthy polyolefin margins. It's a little bit different between olefin and polyolefin margins. We have seen that the polyolefin margins have actually developed quite positively in widening also in Q2. We believe that there is a mix of different kind of causes here. One is, of course, slightly improved demand. We have actually seen that our sales volumes of polyolefins are about 10% higher in Q2 compared to last year. That is a positive sign. But not all of it is market growth. Some of it is market share gain. And some of it is also a benefit of limited supply chain capability to import into Europe. So that is helping here. But in any case, widening polyolefin margins are a result of this.

In July, we have seen that margins continued to be steady compared to June. More or less also on the Q2 average. The olefin prices, they also rolled over in July, which resulted a little bit in a margin squeeze because the naphtha prices went up. In our upgraded outlook we now expect over EUR 400/t now for polyethylene, so the upper end of the previous range, and around EUR 400/t for polypropylene, which clearly indicates that we see this situation to persist for some longer time. So we have a more optimistic outlook, if you want, then for the rest of the year. Also, as you probably picked up, Borouge was able to increase its sales volumes and hence also had a significantly stronger result compared to last year.

Circular economy

Question by **Michele Della Vigna – Goldman Sachs:**
On recycling and the circular economy in chemicals. You are clearly one of the leaders in the industry. I was wondering if you could help us a little bit to assess the materiality of this business, if you could tell us, for instance, how much you expect it could contribute to your EBITDA on a near term basis, so, let's say, 2025 and longer term to 2030.

Answer by **Alfred Stern:**
You are correct, with the activities that we have in Borealis on mechanical recycling and with our proprietary ReOil® technology that we are also now globally licensing, we are one of the front runners in this area. And what our objective here is that by 2030, we have about 1.4 mn t of circular chemicals in our portfolio. And I should describe a little bit what we mean with these circular chemicals, because it's mainly three big pieces. One is mechanically recycled plastics. This is where we are the furthest progressed. The technological maturity is the best. And Borealis has about 180 kt of mechanical recycling capacity today and is already also selling these mechanical recyclates in the market today. They have also now made some acquisitions in Bulgaria of Integra Plastics AD, for example, to grow this further. They have made before that an acquisition in Italy, Rialti S.p.A., that makes recyclates for the automotive industry and moving this forward. So mechanical recycling is one part of this 1.4 mn t of circular chemicals.

The second piece is really the chemical recycled piece where we are deploying the ReOil® technology and that part is converting really the plastic waste that would otherwise be incinerated to bring it back into virgin chemical qualities. And we have today a pilot plant running in our refinery, Schwechat, that produces about 1 kt of this ReOil® chemical recyclate product. And we have completed the construction now of our 16 kt ReOil® plant also in the refinery in Schwechat that will ramp up in 2H/2024. We have lots of discussions with companies and making contracts to make sure we can sell those quantities also, but they are ramping up. Now we are in the planning stage of building a 200 kt plant which would be the full scale then.

And last but not least, part of these 1.4 mn t of circular chemicals is also biobased chemicals, so basically ethylene or propylene or benzene where we are using bio-based feedstocks, where we crack instead of fossil naphtha, we crack HVO, for example. We are also doing all this. Today already we have contracts where we supply Covestro, for example, with such chemicals. Or we have just this morning also announced that with Clariant together we are exploring to decarbonize the ethylene supply chain in order to get there. So we have not given specific EBITDA targets for our circular chemical business. But what we did clearly really specify is that the returns that we expect from these circular chemical investments, just like all our other sustainable investments, is at least a double-digit return with IRRs that are in line with our classic investments also.

Baystar

Question by **Sasikanth Chilukuru – Morgan Stanley:**
Regarding Baystar. We've seen rising sales volumes and the ramp-up of the Borstar PE plant.
When should we start seeing dividends come from this JV and when they come, what levels should we expect as well?

Answer by **Alfred Stern:**
For Baystar, I can say the following good news that the cracker is now, and has been running for a while at a high utilization rate and we expect to keep this up for 2H/2024. The new Borstar polyethylene plant, on the other hand, is in the ramp-up phase as well and has reached a utilization rate now of about 50% in Q2, which is then resulting in those increased PE sales volumes that you saw. We expect that we continue to ramp up the polyethylene plant, that the production will become more and more stable and more and more volumes that are produced will be on spec, which means that we will also be able to improve the commercial performance compared to the ramp up activities that we have here now. So in terms of contribution, I believe, 2025 will be a more meaningful year for Baystar with both the cracker and the new plant running then at high utilization rates.

Answer by **Reinhard Florey:**
And maybe to add to that, Sasi, you asked whether we are expecting dividends soon. Actually, as Alfred said, we have clearly made progress. For the first time, we have not only seen positive EBITDAs, we have seen positive EBIT in Baystar and we are making progress. Nevertheless, we will probably in 2025 still dedicate the good results we are expecting to deleverage the company before we then start paying dividends somewhat later on.

Fuels & Feedstock

Refining margins

Question by **Matthew Smith – Bank of America**
On refining, I would love to get your perspective on whether you're able to comment on where refining margins have exited the quarter and what your sort of prognosis is for some of the weakness that we've seen. I think middle distillate demand, diesel demand has been much talked about in terms of being pretty weak in Europe. But now gasoline cracks seem to be sort of disappointing versus seasonal expectations. And perhaps that has something to do with the supply side of things. But I'm just interested on your perspectives there, if you could.

Answer by **Alfred Stern:**
On refining indicator margins, I just want to make a little excursion here before I dive into this, because I think we are sometimes not explaining enough our Fuels & Feedstock business. Because when you look at that business, it's really more than refining. In particular, our retail and commercial business continues to perform strongly also in Q2/2024. But looking at 1H/2024 about half of our result in the Fuels & Feedstock business came from retail and commercial. And we expect this to continue also in 2H/2024, where Q3 is typically the strongest quarter for this particular business. So there's multiple aspects to this, because in the retail business we don't only have fuel

business, but also non-fuel business that is showing good growth. We are also seeing the electric charging on our EV stations ramping up and so on. So this is a business that we expect to continue also in 2H/2024.

Now the second piece I want to mention is that in 1H/2024 we were also bringing on that co-processing unit in our refinery in Schwechat that has reduced the utilization rate. And this is now fully operational. So not only do we expect sales coming from this, but also we expect now our utilization rate across the network to be significantly above 90%.

Now, with these things said, looking at the refining indicator margins, we see significant volatility. In April, they dropped to USD 6/bbl. In May, then they went back up to USD 8/bbl, only to finish then with an average of USD 7/bbl for Q2. So, I would expect that maybe we continue to see some of the volatility here. In beginning of July, we saw the margins drop down a bit below USD 6/bbl. And we'll see then for the rest of the quarter and for the rest of the year how this will pan out exactly. In any case, we do uphold our full year guidance of about USD 8/bbl indicator margin for the refineries.

Maybe just as a final remark, right, to put this a bit into perspective, in our sensitivity guidance, we are saying that a drop of about USD 1/bbl in indicator refining margin causes about EUR 90 mn in reduced cash flows in a full year, which means half a year, it's about EUR 45 mn. And if you look at the total cash flow delivery 1H/2024, about EUR 3 bn, so that you can just put that into a bit of perspective.

SAF/HVO outlook

Question by **Henry Tarr – Berenberg:**
And then the second question is just a little bit on the SAF and HVO outlook. You mentioned in the remarks there that you see that the market being sort of tight after 2027. There's obviously a lot of moving parts in there, but there also seems to be a lot of capacity being built in Europe. I just wonder sort of again what confidence you have around the outlook for biofuels as you look towards 2030.

Answer by **Alfred Stern:**
So the SAF/HVO mandates that are in place now in the EU, starting with next year with a 2% SAF mandate, and then by 2030, [6%] mandate, that will, of course, drive the demand dynamics because also the way these mandates are legally structured, there's both fines, but also a catch up obligation if in one year you don't meet the mandated volumetric mix. And all our simulations are indicating that both for HVO but also for SAF, after 2027, the market will be rather short, despite all the capacity that is being built. And we have, as you can see, the SAF/HVO plant in Romania that will come on stream 2028, so beyond this period, in order to make sure that the necessary demand is there, in order to do that. There will be a premium to the SAF. That will have to be significant, but that is also significantly covered by the fines and by these catch-up obligations that are legally mandated.

Question by **Michele Della Vigna – Goldman Sachs:**
Going back to renewable diesel and SAF, I was wondering how you're thinking about feedstock, because some of your competitors are going more and more for vertical integration into waste sourcing, or even into rotation and arid agriculture. I was wondering what you're thinking on that front and what your strategy is.

Answer by **Alfred Stern:**
Around feedstock for renewable fuels, we have put a lot of activity in to make sure we have the sourcing complete, not just for the co-processing plant that is now running where we are sourcing 160 kt of bio-oils to co-process in our refinery in Schwechat, but we also have about 80 plus percent of the feedstocks for the Petrobrazi plant secured where we just made the FID in this quarter.

How do we do this? It's normally a mixture of three different things. One is long term offtake contracts that we have in this area to secure the feedstock. But we also have JVs, partnerships where we are working together with other companies and also acquisitions into these kinds of areas. One such example would be the acquisition of a share in Respiră Verde in Romania where we are sourcing some amount of these bio-oils then for our activities in the biofuels area, but also into some trading companies there we have also opened a trading desk now in Asia, in Singapore, in order to make sure that we are having capability for securing the feedstocks not just in Europe but also globally. So really good progress in securing that feedstock because we do think that will be one of the bottlenecks and the differentiation to others.

Feedstock

Question by **Paul Redman – BNP Paribas Exane:**
Just to go back to the questions you've had on feedstock, you talked about this trading desk in Asia, in Singapore, and you've also talked about tight feedstock markets being one of the key drivers later in the decade. Are those desks able to trade, i.e. essentially become a profit center? Or is it just to acquire feedstock for OMV?

Answer by **Alfred Stern:**
This trading desk is in a startup mode, Paul. So the task for these people was really to secure feedstock for our plants, right, to make sure that we can competitively source feedstock for the sustainable fuel plants. That was the main purpose of this activity.

Retail & Commercial

Question by **Matthew Lofting – J.P. Morgan:**
And then secondly, I noticed that you mentioned several times the strong performance of retail and commercial. It struck me that some industry peers with similarly strong positions disclose or split out the financial results. Just wonder why OMV doesn't do that in order to better show the consistency and returns of that business.

Answer by **Alfred Stern:**
I'm not sure it's a question or a feedback and I want to just indicate, yes, you're correct. It is a good contribution. As you could see, we also made two smaller acquisitions to round out that portfolio to make sure that we are well integrated into the retail business to ensure high utilization of our refineries also in the midterm. So we will reflect on your comment concerning this.

Petrobrazi

Question by **Sasikanth Chilukuru – Morgan Stanley:**
Just a clarification. The Petrobrazi plant, which has been in turnaround in Q2. Just wondering if that is completed. And now it's fully available at 100% in Q3?

Answer by **Alfred Stern:**
The Petrobrazi refinery turnaround, that was in 2023. So the higher utilization in Q2/2024 benefited from that difference. So there was no turnaround this year. It's fully available for production with a high utilization rate actually.

Energy

Gas Marketing & Power

Question by **Joshua Stone – UBS:**
On gas trading, just wanted to pick up on the outlook there, because it seems like there's a number of moving parts. You've got the legislative changes in Romania, but also this quarter you took a provision related to transport in the western segment. So just walk us through the outlook for 2H/2024. What are the key moving parts? And in particular, how should we think about transport provisions as you continue to shift supply sources away from Russia?

Answer by **Reinhard Florey:**
I think two factors need to be taken into account. The first is if we are taking the levels of the Gas East business in Romania, we have to see that there has been a temporary regulation until end of 2024 that came into effect with 1st April, so with the beginning of Q2, that lowered the possibility, for instance, to recover CO_2 costs, and therefore the overall results will be on a lower level.

And that is not only from the gas trading, but that's also from the power business that we have in there, where we have also some limitations there. This is an area where we expect levels of Q3 and Q4, more or less being on the same level in Gas East than Q2. However, when it comes to transport provisions, you know, transport provisions have been taken at a mark to market valuation perspective, and if they are seasonally out of the money, then we have to take this provision. But we are very confident that this will come back. And this is not something that will first of all continue. On the contrary, we think that this will actually come back and contribute to our results.

Question by **Henry Tarr – Berenberg:**
On the Russian gas and the pipelines, could you remind us what the current Russia gas deliveries are? And then on the pipeline rights that you've now sort of tied up, I guess you're moving to a point where you don't need Russia gas, but are they flexible on the supply side here? I guess, if you switch from Russia pipeline to LNG, what happens on the other side? Can you reflect that through or higher prices to your customers?

Answer by **Alfred Stern:**
I can confirm, we are now in a position where we have diversified our supply sources in such a way that we can supply all our contract customers with non-Russian supplies if the supply from Gazprom stops. So we have also the pipeline capacities to make that possible, not just in Austria but also internationally. So from this perspective, we are no longer dependent on the Russian supplies to be able to fulfill our supply obligations, which is an excellent position to be in.

Now, as regards to the flexibility, the Gazprom contract that we have is a take or pay contract. So as long as Gazprom is able to supply to the contractually agreed supply location, which is the Slovakian-Austrian border, we are obliged to at least pay if we don't take the gas. Since also the 14th sanction package in the EU does not have any sanctions against pipeline gas from Russia, we take a business decision, and we continue to offtake that gas. But at the same time, we do also have a sophisticated legal strategy. We have launched multiple arbitrations against Gazprom starting in the beginning of 2023 that are running and therefore I cannot report any details of it. But hopefully in 2H/2024, we will be able to report on the progress.

On the prices, the prices are really developed on the regional hubs. So in Austria that would be the CEGH hub, in Germany the THE, in Holland the TTF hub, and depending on supply/demand and also some expectations what markets do, we have seen some nervous reactions to supply outages in Norway or a little bit longer ago strikes in Australia and things like this. There might be additional reactions that are not just factual but also driven by estimates of people. So, from this perspective, I do think that these prices will continue to react if Russian supplies come out. The Russian supplies of OMV to Austria in the European picture are a very small percentage of the total quantity. So simply volumetrically, that would be a very small driver for the supply/demand balance.

Question by **Matthew Lofting – J.P. Morgan:**
First, I wanted to come back to Gas Marketing & Power. You referenced the adverse logistic effects earlier. I wondered if the degree to which the trading contribution in Q2 was also weaker, and if so, whether the key factor behind that was broader market dynamics or any knock on from the Brazi power plant downtime on the east side of the business. Just trying to understand how that piece may perform comparably into Q3 in the second half of the year.

Answer by **Alfred Stern:**
Then, Gas Marketing & Power, maybe I could say the following to this and then see if maybe Reinhard has some additional comments. Yes, we had a scheduled downtime for maintenance reasons in Q2. This went well and is finished, and we are back in operation. So there was a contribution to this. Then the second question around this gas business, I do think, from a seasonality point of view, historically, we always see Q1, of course, being a strong quarter because of the storage result that we have, right. So, basically, this is just part of the nature of the business that we see in Q1.

Answer by **Reinhard Florey:**
Maybe only a few things to add. You asked for the trading part of the business, and obviously in Gas East, the trading part, as such, is traditionally small. However, we also have there a business that is around storage. And it is true that also within this regulation, the level of storage required has been upped. This means that we had to put more gas into the storage, which is a temporary effect in Q2, which ultimately, probably, in Q4, comes back as a positive when there is more gas that we can take out and trade from the storages. So traditionally, in Gas West, the trading part is a little bit higher than in Gas East. There we had a successful business, and we are seeing that this is also something

that is quite continuous over the quarters, whereas the storage business ultimately leads to cash out in Q2 and Q3, whereas we have a cash in beginning late Q4, and then specifically with a stronghold in Q1.

Question by **Bertrand Hodee – Kepler Cheuvreux:**
On Gas Marketing & Power. In June, at your Capital Markets Day, you issued a guidance for recurring operating profit of around EUR 300 mn. Does a change in Romanian legislation change your medium-term guidance for this business in East and West?

Answer by **Reinhard Florey:**
Actually, the change in legislation in Romania happened prior to our Capital Markets Day. So whatever we said on the Capital Markets Day was already taking into account the effects of the change in legislation. However, please take into account that this is a temporary legislation and we are not expecting these levels of, I would say, additional curbing of profitability lasting in Romania, so that we can also come back to normal levels there again.

Question by **Bertrand Hodee – Kepler Cheuvreux:**
A follow-up question on your Gas Marketing & Power. So you are hinting that this change in legislation is temporary. How long will it last, and can you quantify, if it was extended, what could be the annual impact in terms of operating income missing?

Answer by **Reinhard Florey:**
Well, first of all, yes, it has been put up with only a temporary period, which is until end of this year, and we have not specified exactly what the amount is. But as you have seen, traditionally, a small triple-digit million contribution from Gas East. And this will be only a double-digit part. You can imagine that it's about this kind of difference that we have here. So between some EUR 50 mn and EUR 70 mn as a rough estimate.

DISCLAIMER

This presentation contains forward looking statements. Forward looking statements usually may be identified by the use of terms such as “outlook”, “believe”, “expect”, “anticipate”, “intend”, “plan”, “target”, “objective”, “estimate”, “goal”, “may”, “will” and similar terms, or by their context. These forward looking statements are based on beliefs, estimates and assumptions currently held by and information currently available to OMV. By their nature, forward looking statements are subject to risks and uncertainties, both known and unknown, because they relate to events and depend on circumstances that will or may occur in the future and are outside the control of OMV. Consequently, the actual results may differ materially from those expressed or implied by the forward looking statements. Therefore, recipients of this report are cautioned not to place undue reliance on these forward looking statements. Neither OMV nor any other person assumes responsibility for the accuracy and completeness of any of the forward looking statements contained in this presentation. OMV disclaims any obligation and does not intend to update these forward looking statements to reflect actual results, revised assumptions and expectations and future developments and events. This presentation does not contain any recommendation or invitation to buy or sell securities in OMV.