OMV Q3 2024 Conference Call – Q&A Transcript

OMV published its results for Q3 2024 on October 29, 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

Working capital

Question by **Matthew Smith – Bank of America**:
On the cash flow statement, noting a very strong quarter once again for cash flows, not much of a benefit from working capital this time around, only a small release. I just wanted to check your thoughts. Do you think at current commodity prices, the working capital cycle is fairly stable? Or should we expect some movements in Q4?

Answer by **Reinhard Florey:**
Now in Q3, we had a slightly positive net working capital effect on cash flow, which is a positive sign because in spite of the high commodity prices in general and the fact that we are storing gas still in Q3, we are actually taking some inventory on board traditionally and this also happened in Q3/24.

Now Q4 traditionally is a quarter where the first element of sales from our storages in the gas business kick in. This is dependent on weather influences. If there is any kind of shortages in the supply market, the gas storage is there to buffer that. So we are expecting that there is some outflow of gas and with that, also inventory, leading to positive net working capital effects. We are, of course also seeing that we want to be prepared from a traditionally weaker December to get into a stronger January, as always, keeping some of the inventories, specifically in the Fuels & Feedstock and the Chemicals business. So I'm not expecting a huge effect there. However as you indicated, we are expecting maybe the general pricing level to slightly go down and that would help also that. So in general, yes, I'm expecting positive net working capital contribution in Q4.

Cash flow

Question by **Matthew Lofting – JP Morgan:**
If you could talk a bit about your underlying expectations for Q4 cash inputs at the CFFO level, excluding obviously the working capital, which you already covered earlier. In particular, I was interested in the extent to which some of the gaps from Q3 in terms of the sort of the sales volumes around Libya, the contribution from the Burghausen refinery, etc. begin to come back. In terms of the former, how you're thinking about sales versus production?

Answer by **Reinhard Florey:**
You mentioned two important factors. One is a returning of Libya production and the second is the return of the Burghausen asset that was out of operation. Both had negative effects on the cash flow in Q3. Whereas in the Libya case, there was, of course a situation where we did not have a single lifting in Q3 and we are expecting to have liftings in Q4. It is not yet sure whether we can have a lifting in December. So therefore the lifting schedule is one that can vary. Therefore, it's too early for us to say whether this is a full quarter or whether there is maybe one lifting that is not yet ready or not yet full and would switch into January. That is something we will be able to update you then later in the year. ***[clarifying comment post conference call: During Q3/24, OMV participated in one lifting in***

July before the force majeure declaration. After that liftings resumed in October. We currently expect further liftings to take place before end of the year].

In Burghausen, certainly we have both positive effects on the Fuels & Feedstock as well as on the Chemicals side. In Burghausen on the Fuels & Feedstock side is very much of a swing capacity that we hope to fill. Q4 is traditionally not the strongest when it comes to driving season. This only starts then early winter in the second half of December around Christmas. So therefore, we are expecting that a little bit lower than Q3 in general. And let´s in regards to cash flow, not forget that, of course from the refining business as such, the in average lower refining margins year on year will also have a negative impact on the cash flow. So this is to give you a little bit of a balanced view on how cash flows might develop. So there is, some positives really with Burghausen and Libya coming back. But then we are also a little bit cautious about the basic environment and the refining margins in general.

Question by **Matthew Smith – Bank of America:**
Would you be able to call out the quantum of the Norwegian tax installment in Q3? Noting that you, of course have two installments in Q4 and perhaps that will help us to base our expectations into '25, given that will repeat across the first half of the year then.

Answer by **Reinhard Florey:**
So traditionally, we have two installments in Q4. So this always is alternating between one installment and two installments. So maybe an important thing to mention is that in the second half, we are more or less entering into the new tax year in Norway which means that this is already adjusted then for, for instance, lower gas prices or lower production levels and not carrying the, I would say, legacy of a very good end of last year. So we are expecting that while there are two tax payments, the level of the tax payments will be lower than, for instance, comparable to Q2 of this year.

Dividend

Question by **Sasikanth Chilukuru – Morgan Stanley:**
So far, in nine months, the company generated EUR 4.4 bn CFFO, only slightly below the EUR 4.6 bn generated in the nine months last year despite a big change in working capital year-on-year. Just wondering if the company were to post a CFFO that was in line with last year, can we expect a similar dividend as well which was arguably on the higher end of the 20-30% guidance payout range? Or are there any other factors that we should be considering?

Answer by **Reinhard Florey:**
It's a little too early to answer or for a comment that I will give on that. First of all, I think we are proud that the group is able to produce very stable and predictable cash flows. That also in different business environments, the integrated group is able to provide this kind of cash flows in a way that allows us to fully live up to the dividend policy that we have.

What I mean with that is that from the levels that we see is that we clearly think that there will be an ordinary dividend and there will be a special dividend as our dividend policy foresees. That is as much as I can say today. The levels of our operating cash flow including net working capital will be ultimately communicated by end of January. ***[clarifying comment post conference call: We publish our full Q4/24 results on Feb 4, 2025].*** We are still seeing that the business environment for Q4 is not the easiest.

On the other hand, I have commented a little bit on net working capital. So therefore, we should see that coming ahead. But the importance of distributing dividends is very high for OMV. Therefore, we will come up with a proper and adequate proposal. There are no other hidden agendas regarding other means of cash utilization. So therefore, of course we will take into account what's the economic environment, what's the strategic development, the pace of the transformation. But all that was also taken into account in 2023. So we believe a special dividend should be given and that we see an adequate level there.

M&A

Question by **Joshua Stone - UBS:**
On M&A can you just maybe talk about your appetite to do deals in the current environment? Clearly, debt remains low. You've got some disposal proceeds on the way. I appreciate there's quite a lot of uncertainty in the energy

markets, but are you looking at that uncertainty as an opportunity or a reason to wait? And maybe as part of that answer, if you could comment on where we are on a potential merger of petrochemical assets with ADNOC. News has clearly been quite quiet of late. And maybe update on when you think negotiations might restart, assuming you still want to press forward.

Answer by **Alfred Stern:**
So on M&A, let me just start with the potential combination of Borouge and Borealis. I can confirm to you that we are still in ongoing and open-ended negotiations with ADNOC, where we are making some progress. But as you will understand, I cannot comment on ongoing negotiations that we continue to pursue.

On the general appetite for deals in this current environment, I think I've reported that we just closed two renewable power deals, for example, in Romania in order to make progress with our strategy. And we will maintain our position here that inorganic CAPEX can be part of our strategy if it is suitable to accelerate our strategy execution and satisfies our financial criteria in terms of delivering the right returns. So this may be an opportunity in this phase. We always continue to be open-minded and monitor the market, but I don't have anything further specific to report at this moment.

Question by **Sasikanth Chilukuru – Morgan Stanley:**
On the proceeds from the divestment of the Malaysian business: The closure of the sale has been delayed from the end of 1H/24 to now end of 2024. The company has also included the production and I suppose the cash flows from this business. But the overall cash consideration of around USD 900 mn that has remained unchanged. I was just wondering why that was and you mentioned closing adjustments. Is that a negative in that context?

Answer by **Reinhard Florey:**
We indeed have seen a little bit of a delay of the closure of Malaysia. But we are having this business then in our area. We are working here from a locked box system. So we earn the money. That will be adjusted in the way how the proceeds are at the end of the period until closing. So therefore, this is a wash and changes nothing on the expected cash in from that transaction in total. So you always have to take what we earn plus what we get from the transaction and that is unchanged.

Chemicals

Margins

Question by **Matthew Smith – Bank of America:**
On the Chemicals business, noting the comments you made in your prepared remarks that the sort of market fundamentals haven't changed all that much despite small improvements to the margin sequentially this quarter. I was just wondering if you could talk about how those margins have evolved since the quarter end. That might be useful and just to, sort of frame our expectations into 2025.

Answer by **Alfred Stern**:
So on the chemicals market, I think one should highlight that if you look at the total market environment, some of the basics have moved a little bit, but no fundamental change in the basics. But I would like to point to our specific business situation, which I think is showing some significant improvements here.

If you take Borouge, due to the Middle East/Asia markets, they had record Q3 sales volumes. And they also were able to improve their price premium versus the market benchmarks. So that is showing for the product slate that we find customer demand and that they can move that at prices that were slightly improved versus the market benchmarks.

For the Borealis business with a focus on Europe, what we have actually seen about a 12% volume increase in Q3. And at the same time, we have also found that the indicator margins and consequently, our clean sales margins moved directionally in the same way and were improved in Q3 versus Q2. And I think important to point out that the growth came not just from the productivity products, but was across all segments. So also in the specialty segments, we saw some growth there, which is, of course a positive sign.

Then you asked how has it moved since Q3. Now in October, we have seen for polyethylene and polypropylene a slight strengthening of the indicator margins versus the Q3 average. I just want to remind you there, that indicator margins are reflective of the productivity part of our business, whereas the specialty part is less volatile, less following this market dynamic. So from that perspective, I think a good movement in the first three quarters, some good volume developments, some good margin developments. Now we'll see how we will move this further. Good start of Q4 in October.

Question by **Lydia Rainforth - Barclays:**
Then if I could just come back to the Chemicals side, actually, everything you outlined in terms of the contribution to cash flow is now sort of 1/3 of it and the improvement in sales volumes, the improvement in the premiums as well. It's probably just around that idea of the premium side of it. Are you finding that is because of the change in products? Or is this down to actually just improving underlying demand for it? So I'm just trying to get a sense of, is it something that you've changed within Borealis and the products you're offering? Or is this actually just an underlying demand improvement?

Answer by **Alfred Stern:**
I think what we have actually seen there is that the indicator margins in the market have improved in Q3 slightly versus Q2 in Europe. So there's a general improvement in the margin scenario in the markets. But you are, of course correct that in our product mix, there's always a bit of a variation. And as you know our specialty product sales, they are responsible for about 60% of our margin generation. But the main improvement really in this Q3 mainly came from the better market environment that we have seen. In Asia, the situation was very similar to this. The differentiated product portfolio that Borouge has, always shows a price premium versus the market benchmarks and in average, they were able to improve both in polyethylene and polypropylene above these benchmark premiums that they had previously. So main driver improved market conditions.

Question by **Sadnan Ali – HSBC:**
Just going back to pet-chem margins. You said earlier that you're seeing a slight strengthening in the indicator margin in polyethylene and polypropylene margins versus the Q3 indicator. I don't think you touched on just the ethylene and propylene margins. Based on your unchanged guidance for the year, it would therefore imply that Q4 ethylene and propylene indicator margins would have to drop quite materially to be in line with your annual guidance. So if you could just share some comments on that, please.

Answer by **Alfred Stern**:
On the chemical margins, you're correct. I talked about the polyethylene and polypropylene indicator margins in Europe, where we saw a good start in October versus the Q3 performance. At the same time, we did see a slight softening of the ethylene and propylene margins in October. That was driven by some of the pricing changes between ethylene, propylene prices and naphtha prices that we observed. And hence, we also kept our outlook for the year with EUR 490/t for ethylene and EUR 370/t for propylene in the range that we previously indicated.

Sales volumes

Question by **Michele Della Vigna – Goldman Sachs:**
The first one is on the China stimulus. I was wondering if you're starting to see some early signs of it impacting the polyolefin market or if maybe you expect to see it more coming through in 2025 with a bit of a recovery in the construction sector?

Answer by **Alfred Stern**:
On the China stimulus, of course this is, let's say a welcome incentive that is raising the hope for increased economic activity in China. I did report that Borouge had record sales in Q3. To be honest, I'm not sure I would attribute this to this stimulus from there. I don't think there was enough time to actually create this forward movement. I think in the real estate sector, there's quite some overhang in China that needs to be worked through in my opinion. Nevertheless, I do think with Borouge and with the specialty products from Borealis we are in a good position to fuel exactly into some of those segments, right? So the energy transition with significant investments into renewable energy in Asia, but also in China that will require more networks. So wire and cable insulation will be of demand there. We'll see some movement from these kinds of initiatives. I also think when you look at the differentiated materials around plastic pressure pipes and gas pipes and things like this. This can also potentially benefit from such initiatives.

Question by **Peter Low – Redburn**:
On Chemicals and the guidance for polyethylene sales volumes of 1.9 mn t this year. That implies quite a big step-up versus the current run rate in Q4. Can you just perhaps talk a bit about kind of perhaps where that's coming from?

Answer by **Alfred Stern:**
Let me maybe start with the accumulated polyolefin piece. We said that we will sell about 3.9 mn t for the full year. Now if you look at the Q3 year-to-date, we are about 2.85 mn t and then we need another 1.05 mn t in order to get to that full year guidance. We have actually seen a pretty strong performance also in Q3 with a 12% increase versus last year. We think this will also be reflected in Q4/24 that we will show a slightly stronger performance than versus Q3.

Inventory effects

Question by **Matthew Lofting – JP Morgan:**
Just coming back on Chemicals. We've obviously seen some of the underlying improvements that you've talked about earlier and encouraging to hear that you're continuing to see that come through. I just wondered in terms of the P&L numbers, negative inventory effects have been sort of something that have continued to sort of weigh on the numbers through the last two or three quarters. Under the market conditions that you outlined earlier, would you expect to see that inventory effect stabilize from Q4 and beyond?

Answer by **Reinhard Florey**:
When you are talking about the inventory effects in Chemicals, we have observed this kind of negative inventory effects but still on a moderate level, I would say in Q2 as well as in Q3. So that was not really something that moved the needle a lot. So therefore, I think in Q4, we'll rather see a neutral effect from that. This depends very much whether we see any higher swings. Alfred has indicated that going into October, we are seeing a little bit of a lower pricing environment here. But if that is more or less then kept stable for the three months, we are thinking that there might be some inventory effect that would swing into the positive or at least neutral area.

Baystar

Question by **Joshua Stone - UBS:**
If I can start on Baystar, the good news it`s back to EBIT-breakeven and I appreciate the losses at the net income level have lessened. But it's still quite a material drag to the earnings in that division. So can you just talk about the path to profitability from here on Baystar? And when do you think it's reasonable to expect this business to be breakeven at the net income level?

Answer by **Reinhard Florey:**
Yes, we think we have made significant progress in Baystar and having a positive EBIT and an improved loss situation on the net profit is a path in the right direction.

Now what we are expecting actually is that it takes still a couple of months to test the different qualities that specifically the polyethylene plant - the P3 plant - will produce, in order to make sure that a stable production in that sense can be achieved. So it's not about being able to run the plant. I think the plant in itself is stable enough to run, but we don't want to run it on commodities. We want to run it on a proper portfolio and that requires still some testing. This is with the size of this P3 plant, quite a complex topic. So therefore, we are not expecting that there is massive hikes in utilization in the next couple of months. But if I look into 2025, I would expect that certainly by the second half of next year, we are closing into a breakeven. Then, of course with an improved performance, we're expecting also a positive net profit going forward.

Fuels & Feedstock

Refining margins

Question by **Peter Low – Redburn**:
You've lowered your refining margin assumption for the year, which implies no recovery really in Q4. Can you talk a bit about what you're seeing in refining markets and what you expect for next year?

Answer by **Alfred Stern:**
So what we actually saw during Q3 on the refining indicator margins in Europe is that actually in August, we had the trough of what we saw. In the entire Q3, we had about an average of USD 5/bbl. And like I said, August was the low. In September, we saw it move up and in October, it moved further up to just below USD 6/bbl. I think this is a rather volatile situation that we have seen. But with Q3 what it was, we decided to bring down the full year forecast from USD 8/bbl to USD 7/bbl in order to recognize also what happened in Q3. Q4, as I said, started a little bit below USD 6/bbl, so stronger than Q3/24. And we'll see how the remainder here happens. I do want to point out that if you look at the first couple of months in our Fuels & Feedstock business, about half of our result is coming from the retail business. We have continued to see also in Q3 a strong performance of the retail business with expanded retail margins actually and good volumes. So that is helping us to balance out some of the refinery impact here.

Renewable fuels

Question by **Michele Della Vigna – Goldman Sachs**:
I wanted to go back to your biofuel strategy. We're starting to see some implementation of the RED-III directive in some countries in Europe. I'm wondering if perhaps you can give us a bit more visibility of when you expect the main implementation in Central Eastern Europe. Specifically in Germany, we're starting to see some tightening of the renewable diesel rules for 2025. I was just wondering if you had any comment on how that could impact your biofuel business in the region.

Answer by **Alfred Stern**:
As you know we have, as a target, set for ourselves that by 2030, we will have about 1.5 mn t of renewable fuels and feedstocks for chemicals. And our biggest focus, half of that quantity should go to sustainable aviation fuels. There, of course we see now the implementation of the mandates starting next year at a lower percentage of 2% and then ramping up to 2030 with the 6%. We have timed our investments in such a way that our first big dedicated plant in Romania, the SAF HVO plant, will come on stream about 2028. We predict that the regulations will be implemented at this point and there will be a market shortage that will be a good timing for bringing our plant online.

We have also now started up our co-processing plant which is fully running in the refinery in Schwechat, where we are processing about 160,000 tons of feedstock from bio sources into the fuel mix that we have. That is helping us to meet the bio quota that is in place and that will be further ramped up.

Retail & Commercial

Question by **Sadnan Ali - HSBC**:
On your Fuels & Feedstock division: You've mentioned today and in prior quarters how important retail and commercial is to the division overall and that is not just refining. Would you consider giving us more color on the division to help us better forecast and model the retail and commercial segments? You mentioned today how there's expanded retail margins. So any thoughts on providing more color to us to help us have a more informed view on those subdivisions there.

Answer by **Alfred Stern**:
If you look on our online Capital Market Story, we did actually start to try and provide a bit more understanding and insights into this where we have indicated what our portfolio in the retail area looks like and what the clean operating result contribution is approximately over a time period. But as we move forward, we will take, of course your interest into consideration and see how we can improve our reporting.

Energy

Libya

Question by **Lydia Rainforth – Barclays**:
Can I just ask you to comment on Libya and sort of where we are in terms of the production levels and kind of what your expectations are for that going into the end of this year and next year?

Answer by **Alfred Stern**:
Maybe let me just go back and talk about what actually happened. So at the beginning of August, due to political

unrest, there was a shutdown. The biggest for us was actually on the Murzuq field, which is the majority of our production there and there was a force majeure that was declared on this, which had an impact during the shutdown of about 23,000 bbl/d.

Now you take this and the forced majeure then was lifted on the 3rd of October. We are now back, into the full production again. So if you take that impact during the shutdown of 23,000 bbl/d and average that over the year, it has an impact of 4,600 bbl/d for the full year that it's reducing our average annual production. We are expecting now for the rest of the year as I said, we are back into production. And of course the expectation is that this continues until the end of the year to deliver the production as we are used to it.