

OMV Petrom Q4 2023 Conference Call – Q&A Transcript

OMV Petrom published its results for January – December and Q4 2023 on February 1, 2024. The investor and analyst conference call were broadcast as a live audio-webcast at 3:00 pm local time. **Below is the transcript of the question-and-answer session, with edits for readability and clarifications/additions included in brackets.**

Question from Oleg Galbur (Raiffeisen Bank International): Thank you for the presentation and for the opportunity to ask questions. I have several. The first one I have is about actually last year's CAPEX. Could you please help us understand where is the difference between the initial guidance of RON 6 billion and the realised CAPEX of RON 4.7 billion coming from? Were there some projects, for example, which were moved to 2024, or there are other reasons behind it?

My second question is on the 2024 CAPEX guidance. Could you please provide a split of the RON 1.5 billion CAPEX allocated for M&A, so that we can have a better understanding and know how to book it or record it in our financial models?

And lastly, on special dividend, I was hoping you can tell us when should we expect the announcement of the special dividend, and what are the key parameters which will determine its amount?

Answer from Alina Popa (CFO): I am very happy to take your questions. I will start with the first one. Indeed, last year we were below guidance on CAPEX, I am referring to 2023, and this is because we had some delays in scheduling [mainly] on [one of] our renewable projects. We have a partnership with CE Oltenia. The financing agreements have been signed a bit later than planned and then we moved on into the tendering, also taking a bit more time. So it is, like you signalled, we are talking here about some movements from 2023 to 2024.

Now if we refer to 2024 guidance, indeed, we go now with a much higher CAPEX. If we include the inorganic part, 70% increase in CAPEX versus previous year, which has a RON 1.5 billion for M&A. At this stage, we cannot disclose more than this is primarily in connection with the announced M&A transaction. That is all we can give around the CAPEX guidance at this stage for the 2024 M&A part.

Moving to the third question on special dividend. We did our calculation, and we have decided that, yes, we can go for a third year in a row with an increase of 10% on the base dividend. This is clearly driven by the strong operational performance, but also market environment and more clarity around our CAPEX plans. Therefore, looking at our balance sheet, and considering that we know now much better [our capex], we have more than 80% of the contracts signed, for Neptun. Thus, we have much more clarity around CAPEX as well. We consider that we are in a position to announce again a special dividend for this year.

We did not decide when. That is why we are saying in 2024. We do not have a decision when exactly. With regards to the parameters, what we will do, we will look in the next months, how the market environment will be and [how is] our performance in this market environment. And also, we will look at our peers. We are committed to deliver a competitive shareholder return, a competitive dividend yield. So, we look on what is going on the market, and we hope we will be able to offer a competitive overall dividend base plus special. I hope I answered your questions.

Question from Tamas Pletser (Erste Group Research): I got three questions. First of all, the current regulatory regime - do you see any chances that the current regulation of selling natural gas and electricity

towards households may change before the original date, which is March 2025? I just ask because what I see now that your profitability of selling natural gas, for example, towards households, is significantly better than selling this natural gas on the free market. Do you see any chances that the current regulatory regime may change before this date? That would be my first question.

And my second question is, what are your target capacities in photovoltaic power generation and in wind energy, based on your plans?

And finally, I didn't catch you, Alina, what you said about this project, which CAPEX slipped from 2023 to 2024. Could you just repeat that, please?

Christina Verchere (CEO): Alina, do you want to just quickly wrap on that one? This is a CE Oltenia project.

Answer from Alina Popa: Yes. Was related to Oltenia, [it] was generally [about] photovoltaics. Renewable projects have been delayed, and the main one was Oltenia that has been delayed from 2023 to 2024.

Answer from Franck Neel (EB member G&P): So, your first question on the regulatory [regime], it is a good question, but I have to say it does not depend on us what will change. We will follow the regulation. I think what we communicate to the authorities is [that] we should start to work on [what's next] after March 2025, we should start [discussions] between the industry and the regulator and the authorities to start to think about how we could move to a liberalised market from March 2025 [onwards]. Now, yes, [regarding] the price, some article [is] mentioning a potential change before March 2025. I have to say, the market price today is not really below the capped price. So, if you think about the 150 RON per megawatt-hour, €30 per megawatt-hour, you are referring, I suppose, in your question, it is rather in line with the market price. So, we are not expecting a change of this cap, potentially [there] could be a change in the overall tariff for the households, but we do not see that at the moment. However, let's see, we have to follow the regulations, of course, we have to adapt to that.

On your second question, around the PV capacity, of course we have to close some of the M&A [deals] that we have announced at the beginning of the year. We signed, now we have to close. There are the 450 megawatts at CE Oltenia, which will be 50-50% [split] with our partner, CE Oltenia. We have the 710 megawatts in Teleorman, where we are expecting a closing also this year. And we have about 100 megawatts of other projects which are Petrom projects of PV. We expect, if everything on the closing goes well, to already produce by the end of 2024, [with around] 80 megawatts of PV already in operation. So that will be an objective, but still a lot of closing to do this year but will be an exciting year in terms of closing and passing FID on all these different projects.

Answer from Christina Verchere: Maybe just to add a little bit to that. Obviously, as Franck said, he and his team have been very busy building a strong portfolio, and we see that obviously this is acceleration, given what the market opportunities have provided us. With regards to your question on targets on capacity, we are going to provide an update on our strategy execution later in the year, and we will touch on that then, if that is all right, Tamas.

Question from Ioana Andrei (Alpha Bank): I was wondering if you can tell us a little bit more on the regulated gas sales expected for 2024. Do you expect them to be maintained at similar levels with 2023?

And my second question, if you could please give us a little bit more on what to expect from the low and zero operations. Basically, what I was wondering, what are your expectations in terms of EBIT over the next years from this business line?

Christina Verchere: Franck will take your first question with regards to regulated gas sales in 2024.

Answer from Franck Neel: In fact, we [will] know the numbers quite soon. I think the regulator and Transgaz should confirm in February the final number. We are waiting for two things, in fact. The allocation for the regulated market, but also the storage obligation for how we calculate the storage obligation for the different operators. So that is something important, too.

In term of forecast, I think we expect to be a bit slightly below than in the previous year. Mainly because there's still a lot of gas in storage and the demand has been a bit below than previous year. Now let us see, it depends on what the suppliers will request from the producers. However, I would say [to be] slightly below what is our forecast.

Answer from Alina Popa: When it comes to low and zero operations. This is at the beginning, they will start with a small impact because, of course, we need to build the portfolio. And also, it is a lot of knowledge that we need to gain over the years. When it comes to the second part of the decade, we indicated with our strategy somewhere around 15% of our EBIT [will be] coming from low and zero carbon [operations]. However, in the beginning, in the first years, we do not expect something significant coming from that.

Question from Iuliana Ciopraga (Wood & Company): Actually, I want a bit of clarification regarding the CAPEX and this RON 1.5 billion for this year, and actually the reason why you increased CAPEX for the following years. So, this RON 1.5 billion, I guess this is the € 350 million for Renovatio deal and the portfolio of wind capacity in the following years. And I guess that RON 1.5 billion includes also the Teleorman deal. And then going forward, can you provide some colour why CAPEX was raised as well?

And one more regarding peers. You mentioned peers, that you will be looking at what peers are doing when it comes to dividends. When you talk about peers, what are you referring to? Local peers? Oil and gas players peers?

Answer from Alina Popa: Referring to CAPEX, so the M&A CAPEX, I think was your question. We said it goes primarily to the announced M&A deals. Basically, what we have announced is the Renovatio deal. And also, we announced this Teleorman transaction that we did. Now we do not provide a split of how much, but both of them will have some impact in 2024, that would bring this 1.5 [bn RON] together. This is the main part. There are other small things, but most of it is coming from these ones.

When it comes to 2025-26 and the level of CAPEX of RON 8 billion for 2024, 2025, 2026, of course, in all these years, we have Neptun being in the most intensive investment period. If we refer to Neptun also here, a bit of an indication, we estimate the cash out for Neptun, € 500-600 million every year in these three years. To have in mind, of course, most of it will be in CAPEX. It could be some amount also in advances to be reflected from accounting perspective, but most of it will be CAPEX. Neptun is an important part. And then all the efforts we do on energy transition, but also our traditional business will continue to attract investments as well.

Question from Iuliana Ciopraga: What I was actually referring to was mainly the increase. You are guiding before towards a CAPEX of somewhere around RON 7 billion in 2024-25. Now, actually, I was more asking about 2025, why you are increasing that from RON 7 billion to RON 8 billion.

Answer from Alina Popa: 2024, we guided around RON 8 billion, and we stay with around RON 8 billion in 2025 and 2026 as well, driven by a combination of Neptun, energy transition and additional CAPEX, which we had in the past.

When it comes to the dividend, to the peers for the dividend, what we look at, we look at generally European oil and gas companies. On our slide 14 from the presentation, you have also the names if you want to know exactly which companies [we considered].

Question from Oleg Galbur: I have a follow-up question on your 2025-26 guidance and specifically about your production guidance. If I look at the numbers, I understand that in both years or in this period, 2025-26, you expect a lower decline rate in comparison to 2024 and 2023. And I was wondering, why is that?

Answer from Cristian Hubati (EB member E&P): Thank you for this question. Basically, we are looking to an increasing activity in the workovers as well. There is an increase in the activity in the drilling as a result of the 3D seismic, which was shot in the previous years, which is increasing the prospectivities in the blocks which we are operating; and is not considering any divestment.

Question from Oleg Galbur: So, the number you guide does not include any new production coming on stream, any new fields coming on stream?

Answer from Cristian Hubati: No.

Question from Oleg Galbur: Okay. Because it is interesting that in actually lower or less favourable oil price environment that you guide for this year, you plan to increase the workovers in order to achieve a lower decline rate. This is what I was trying to put, these two developments, I was trying to correlate, and that is why I asked.

Answer from Christina Verchere: I think we would say is more geology-driven, as opposed to price-driven.

Question from Iuliana Ciopraga (Wood & Company): I was wondering about e-mobility. What is the current contribution, profitability and what you expect from this segment going forward?

Answer from Radu Caprau (EB member R&M): I would underline part of Alina's answer earlier, saying that for the moment, the profitability or the contribution to the results is relatively limited because we are at the beginning of stepping into new fields and growing that portfolio of business. And as said [before] for previous year and this year, it is a relatively limited contribution to the overall results. In the second [part of the] decade, we expect seeing more relevant numbers contributing to our results.

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