OMV Petrom Q1 2024 Conference Call – Q&A Transcript

OMV Petrom published its results for January – March 2024 on April 30, 2024. The investor and analyst conference call was 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 Laura Simion (BRD Groupe SG): I have a couple of questions related to this quarter results and then a more general one.

Regarding the OPEX per barrel for this quarter is about 11% higher on quarterly basis. I know the production was also a bit higher, but what else is behind this, because I was expecting a production cost in line with the last quarter of 2023?

And then about the additional tax on revenue, why it is calculated only for R&M, and where is it reflected in the P&L?

And then, if you could give us more details about this pilot project for green hydrogen at Petrobrazi, and how do we see it developing further on?

And about the investments you announced, the projects in renewables, if you have a number of how much new added production you will have from these projects once they are all in production, and if this will imply also a change in strategy on your power basis?

Answer from Christina Verchere (CEO): Laura, thank you very much for your questions. I will take your first question, OPEX, and Alina will talk to you about taxes with regard to Refining and Marketing.

You are right, we have had an 11% increase in OPEX per barrel for the first quarter. We are sitting around $15.91/[boe], and we do hold to the full year [guidance] being just above the $16 range. The main driver at this point, Laura, is personnel costs. Obviously, as you may know, the inflation in wages has been quite high in Romania overall, and then general inflation across all parts of our sectors as well. So mainly, inflationary-driven is showing up in our personnel costs. Be assured we are working hard to look at opportunities to take our cost down, but also to take our production up as well.

Answer from Alina Popa (CFO): I will continue with the second question. So, the new tax, 0.5% is applicable starting this year for two years. We calculated on a quarterly basis for the entire Petrom, the value for first quarter was approximately RON 54 million. For Petrom Group, this number covers Petrom SA and also OMV Petrom Marketing. It does not affect only R&M, it affects all the segments. The reason for the biggest amount being in Refining and Marketing is triggered by the fact that Refining and Marketing has the portion from Petrom SA allocated to refining and marketing, but also the portion related to the OMV Petrom Marketing. That is why approximately RON 35 million out of RON 54 million is going to R&M.

For the full year, we keep our initial estimation, that we announced at the beginning of the year, that the impact will be less than RON 250 million.

Answer from Christina Verchere: With regards to the green hydrogen projects that we announced the financing from the National Recovery and Resilience Plan, these are not pilot projects. These are projects to put 55 megawatts green hydrogen capacity into the refinery. It has a few key aspects. Obviously, it will help to reduce the CO2 emissions from our products, particularly in the production of HVO and SAF, will ensure compliance with the regulations that we have in place, and actually will enable a lower cost of green hydrogen that we will need, that will replace it from a third-party supplier overall. So, these are the main attributes with regard to this project.

On the investments in the renewable, yes, you are right. We have probably surpassed our target that we had put out in place for that. If I would just say one thing, Laura, we announced that on the 19th of June, we will have our Strategy

2030 update, and maybe we hope then to give more details at that point in time, and we look forward to you being able to join us at that call.

Question from Ioana Andrei (Alpha Bank): I have a couple of questions. First, if you could tell us a little bit more on the Georgia exit decision, what does it mean for Petrom? And do you have any update on Bulgaria offshore project?

Secondly, I have a follow-up question regarding the new royalties' quotas. Are the new higher quotas applicable to Petrom concessions or Neptun Deep? I know there has been a discussion on this, but I would like to know if you have any update on this.

And thirdly, I would like to know what the quotas set by ANRE are for the gas sold at the regulated price, and if they remain in place, even if the market falls below market prices, fell below the RON 120 per megawatt. And about the power market, if MACEE is no longer mandatory, does it actually mean that if prices fall below RON 400/[MWh], all volumes will be sold on the free market?

Answer from Christina Verchere: I will take your first two questions on Georgia and Bulgaria and Alina, maybe the next two questions.

Yes, we have announced that following several unsuccessful attempts to actually get a partner for the exploration of the offshore Block II in Georgia, we have decided to withdraw from the licence, and we are under this process right now. Normally, it is quite common that you would have a partner in this kind of activity. It is a form of derisking, and we have been unable to secure a partner, so we have chosen to exit from that activity.

Maybe on the flip side, when we come to Bulgaria, you may have seen that we are in the process of taking operatorship of the Han Asparuh block from TotalEnergies, and we are in the process of pursuing continuing exploration activity in that licence. So, we continue to see significant potential, particularly on the western part of the Black Sea, and we are keen to pursue that.

Answer from Alina Popa (CFO): I will continue now with the next question, first was related to the royalties. And I can confirm that in our view, the new royalty rate applies for new concessions. Consequently, for both our existing concessions, onshore and offshore, but also for Neptun, we do not see this applicable. That is why we did not calculate a royalty for the Q1 with higher rate. This has been confirmed by the Minister of Finance in the public statements as well, and otherwise there is no other development here.

With regard to ANRE regulated price, what we see is that for Q1 2024, the quantities for households and district heating customers are at approximately 2.9 terawatt-hour for Q1 versus 4.2 terawatt-hour in Q1 last year, and also similarly for full-year 2024, we have an estimation of 7.9 terawatt-hour versus 10.4 terawatt-hour last year. So, these quantities are lower on the basis of lower production on one hand, but also on lower demand for households.

I think your question was: What if the quantities actually will be lower than this? If the volumes to households and the district heating companies will be actually lower, this will lead to higher volumes to be sold on GRP, on the gas release programme. If we move similarly to MACEE, I can confirm your understanding that if the price will be below MACEE price of RON 400 per megawatt [hour], then we will basically sell everything on the free market.

Question from Ioana Andrei: But this also remains in place for the gas side, if the prices are lower, actually you sell it on the free market, or?

Answer from Alina Popa: Basically, it will be up to the customers. The customer can choose to go on the free market, but then we will have the GRP obligation. So, we will be obliged to sell because in the GRP obligation, the quantities for households and district heating are being deducted. So, the regulator is trying to ensure that the market will have enough liquidity via this GRP mechanism.

But what is happening, basically, I think if we go a bit higher level, we see clear steps towards deregulation. We see regulated markets moving to market prices, going down in line with market prices. We see shortening of the deadlines to end of this year. So, the Romanian market for gas and power started to move towards a free market with these changes.

Question from Ioana Andrei: However, for the GRP obligation, right now, do you have to sell it at a 5% discount versus market price or what is [the price]?

Answer from Alina Popa: There is a price formula according to the GRP. It is a formula given by the legislation which takes into consideration the recent prices.

Question from Ioana Andrei: And GRP obligation is only for 2024, or what is the information on GRP programme, right now?

Answer from Alina Popa: To my knowledge, for 2024.

Question from Tamas Pletser (Erste Bank): I got two questions. First of all, regarding these regulatory changes, you said during the presentation on slide five, what is your estimate? How does it impact your profitability all these changes? You said that the market moves now to the free market again. Do you expect that the next round of changes after the first quarter of 2025, would result that Romania would be again a fully liberalised market for both gas and power, or can we expect some further steps to that direction? That would be my first question.

And my second question is regarding these acquisitions you announced in the renewable energy. I think during the presentation, you mentioned RON 1.5 billion is the CAPEX for M&A. Is this [amount for the] two acquisitions? Are these two acquisitions actually covering this RON 1.5 billion, or do you expect some more M&A to include into this figure?

Christina Verchere: Thanks, Tamas, and thank you for joining us. Alina will cover the regulatory changes and your questions with regard to CAPEX.

Answer from Alina Popa: With regards to the impact, it is not easy to isolate how much is the impact coming from changing in regulation. Because what regulation does, it is really decreasing the regulated prices in line with the market. Nevertheless, trying to do that, we ended up with an estimation of [the impact of] these changes being approximately mid-double-digit million euro. And the main impact is coming from non-recoverability of the CO_2 [costs] for quantities to be sold on MACEE contracts. Now, because this is no longer recoverable, the CO_2 [cost is] no longer recoverable for the new quantity sold on MACEE. That is the main impact there.

With regards to the general comment, we see first steps towards deregulation. So, it is not yet a free market, but we see clear steps in that direction.

With regards to the CAPEX for acquisitions, indeed, we have an estimation of RON 1.5 billion CAPEX for M&A. But what is important is to understand [that this is] especially [for] the one announced [at the] beginning of January, it is a 50-50% partnership, which means it is a non-consolidated subsidiary. And also, we mentioned at that time that this will take also external financing. So, the CAPEX overall for the project is significantly higher [than] announced at that time. However, the impact on our CAPEX is just a 50% share of the equity portion of that company. So that is the value. And that [what] mainly the RON 1.5 billion is related to, what we announced already. There is a little bit of contingency for other potential things, but most of it is for what we have announced.

Question from Tamas Pletser: Sorry, what is this JV exactly, of the two you mentioned?

Answer from Alina Popa: We have announced at the beginning of January a partnership with Renovatio. This was on the 3rd of January, the press release. You can search for it.

Question from Tamas Pletser: This is the one which takes most of the CAPEX, although you said that 50% of the equity is covered from your CAPEX?

Answer from Alina Popa: Yes.

Question from Oleg Galbur (Raiffeisen Centrobank): Two questions, if I may. The first one refers to your guidance for the oil and gas production. Looking at the first quarter development, the 6% decline this year seems rather cautious and also implies sharp decreases in the coming quarters. Could you help us understand what is the driver behind this 6% decline that you guide for the full year? Is it related to some maintenance works, and if yes, when do you expect them to implement, etc.? Also, a split on the expected decline by oil and gas would be very helpful.

Secondly, could you explain why the windfall tax paid in first quarter increased in comparison to the fourth quarter? I was having difficulties in reconciling the number, especially when taking into consideration the lower gas prices in the first quarter of this year. And also, according to my calculation, the volume sold to non-regulated consumers went down. A bit of more colour would be very helpful here as well.

Answer from Christina Verchere: I will take your first question on production. So yes, in the first quarter we had good production performance, actually better than expected, with just a 4% decline year-on-year. I think it was pretty even between oil and gas in the first quarter. And yes, at this point in time, absolutely, we hold to our expectation to be above 106,000 barrels of oil equivalent a day for the full year. The thing I would just point out that you are absolutely right, Oleg. It is in the second half of the year [when] we have the maintenance activity occurring. And you saw that actually, the same as last year as well. So, in the second half of the year, we have planned maintenance. So, we would expect a higher decline rate in the second half of the year. However, yes, it was a good, strong start to the year.

Answer from Alina Popa: Oleg, I go to the second question. Indeed, the windfall tax is lower than last year and not higher than last year. So, I do not know where you saw that, but it is lower as we had the Brazi power plant working full capacity, and we had regulated quantities. Also influenced by the prices as well, we have lower windfall tax for gas.

Oleg Galbur: I was comparing to the fourth quarter, to the last quarter of 2023, not year-over-year comparison.

Answer from Alina Popa: By comparison with last quarter, it was yes, indeed, that was slightly increased. A slight increase. Not a significant increase. I will have to look up what was the main reason for that.

Question from Oleg Galbur: Okay. However, basically, there was no change in the regulation?

Answer from Alina Popa: There was no change in the regulation.

Question from Oleg Galbur: Probably it was driven by quantities sold to non-regulated consumers. That would be my assumption.

Answer from Alina Popa: Yes, you are right. That can be the only [reason].

Question from Oleg Galbur: And Christina, just to come back to the first question, would you be able to provide a split by oil and gas of the expected decline for the full year?

Answer from Christina Verchere: We expect gas to be a bit more than oil, but let us come back to you on that one.

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