Saras S.p.A.

"Full Year and Fourth Quarter 2023 Results Conference Call"

Friday, March 15, 2024, 16:00 CET

MODERATORS: FRANCO BALSAMO, DEPUTY CEO AND GENERAL MANAGER

FABIO PERETTI, CHIEF FINANCIAL OFFICER

MARCO SCHIAVETTI, CHIEF COMMERCIAL OFFICER

ILARIA CANDOTTI, HEAD OF INVESTOR RELATIONS

OPERATOR: Good afternoon. This is the Chorus Call conference operator. Welcome and thank you for joining the Sara's Full Year and Fourth Quarter 2023 Results Conference Call. As a reminder, all participants are in listen-only mode. After the presentation, there will be an opportunity to ask questions. Should anyone need assistance during the conference call, they may signal an operator by pressing "*" and "0" on their telephone.

At this time, I would like to turn the conference over to Ms. Ilaria Candotti, Head of Investor Relations. Please go ahead, madam.

ILARIA CANDOTTI: Thank you, good afternoon, everyone, and welcome to the Saras Group fourth quarter and full year 2023 results. Today, our Deputy CEO, Franco Balsamo, will start with the main headlines for the year, then our Chief Commercial Officer, Marco Schiavetti will discuss our markets and refining margins. Afterwards, our CFO, Fabio Peretti will provide more details on the fourth quarter results [indiscernible], and then the net financial position.

To conclude, Franco will give the guidance for 2024 and wrap up the presentation by discussing the outlook. At this point, we will open up to the Q&A session. As a reminder for those on the phone the slide deck as well as the press release are available as you drop on the Investor Relations section on our website. I will now turn the call over to Franco.

FRANCO BALSAMO: Thank you, Ilaria, and thank you for joining us. As we have already seen on the screen, we had in 2023, a very solid year, and we reached a comparable EBITDA of €669 million. The refining market remains strong, even if lower than last year and Saras' margin averaged at $12.2 a barrel throughout the year. However, we faced some operational disruption also due to external events, not dependent from our activity, which reduced our premium by approximately $1 per barrel. Despite the challenges, we were still able to push refining runs and maintain output at 13.5 million tons including a complementary feedstock.

Fixed costs were slightly higher than previous year, accordingly to heavier maintenance schedule, including the important 10-year turnaround of our power plant, the IGCC plant and some repair works to fix the consequences of the previously mentioned external event. We are confident that this year in 2024 the fixed costs will normalize.

On the renewable side, our development program continues focusing on market opportunities and in line with our capital allocation principle. In particular, in construction of our photovoltaic plant Helianto is on schedule both for cost and timing, and we expect then start operations by the end of June.

Net comparable profit stood at €325 million with a reduction of net financial charges and the lower tax rate. Indeed, as you will remember, 2024…2022, we added withholding tax that this year was not applicable.

In terms of financial position, our group generated very strong cash flow from operations which covered the cash out for taxes, ordinary and the extraordinary costs, dividend, CAPEX and all the other financial charges. Overall, the net financial position at the end of December 2023 remains positive at €166 million, post the application of the IFRS 16.

With this result, the Board today approved the payment of a dividend of €0.15, that represent 44% of the payout that is in line with historical dividend policies that with the dividend that represent between 40% and 60% of the comparable net income.

As far as this year is concerned, we expect 2024 to be another positive year for us. The outlook is solid for refining margins. Our power plant, we continue to operate under the essentiality regime. And in addition, our traditional activities, we shall benefit from the positive contribution of the function [ph] of the renewable [technical difficulty]. The financial structure of this sector remains strong, allowing us to comfortably navigate in this very volatile market.

Having said that, Marco will drive us also into the financials.

MARCO SCHIAVETTI: Thank you, Franco, for the introduction and good afternoon, everyone. During Q4, we had the usual high volatility with Brent floating around an average of $84 per barrel. With growing geopolitical tensions in the Middle East and the usual OPEC+ cuts able to put a floor to the Brent quotations.

Moving to differentials on the right side of the page. We have a reduction of the discounts of the medium heavy sour crudes, represented by Basrah Medium, since OPEC cuts have consistently reduced the availability of such type of crude. On the sweet grades, represented on the graph by Azeri Light quotations, same pattern with an increase of premiums mainly due to a healthy gasoline crack and stronger tanker freight rates, due to the tensions and issues in the Middle East. Combining these 2 effects, the net result has been lower Saras premium as the benchmark, which will be discussed later on in the financial section.

Moving to cracks, next slide, a very healthy quarter. Q4 still characterized by a strong diesel crack, averaging $27 per barrel, well above historical values [indiscernible] than the historical values as you can see from the graph, highlighting a tight supply, notwithstanding a mild winter with lower demand of heating gasoil.

On the gasoline, we had a decline entering…a normal decline entering the winter season with values more in line with historical averages around $10 per barrel, which in any case, is a very healthy level also for gasoline. Gasoline market continues to be very tight with a persistent shortage of high-octane components, keeping the cracks at very healthy levels.

Few comments on energy costs, power and CO2. Cost of electricity in Italy was around €124 per megawatt hour, significantly lower than same period of 2023 when, obviously, as you can remember, transportation [ph] were under pressure, but higher than Q3 in line with the natural increase of the transportation approaching winter. C02 was instead stable, around €76 per ton with minor changes versus previous quarter and the same period last year.

Moving to the outlook. The outlook continues to be positive thanks to a resilient demand on one side and constrained refining capacity on the other side, which at the end are leading to healthy cracks. Demand continued to grow this year and also beyond 2024. We expect accordingly too all the major reporting agency in excess of 1 million barrels per day increase during 2024 with the main contributors being China, India and Brazil, more than compensating the decline in the OECD countries.

On the supply side, OPEC+ had no choice, but to confirm cuts also for 2024. The positive here is an increased availability of sour crudes, mainly from Venezuela and other non-OPEC countries that should help to reduce the pressure on premiums.

Moving to cracks, we expect light distillates to remain healthy, in particular approaching the summer with good demand. In Europe, we see a strong increase in gasoline consumption due to the switch from diesel to hybrid cars. And persistent…as I mentioned before, a persistent shortage of high-octane components due to the embargo with Russia.

On middle distillates, we continue to see cracks above historical averages with extremely low inventories in OECD, coupled with supply disruption due to the well-known problems with the Suez channel.

Finally, regarding refining capacity, the new projects coming on stream net of closures in OECD should be on par or even below the incremental demand and keeping the cracks at very healthy levels.

Let me now hand over to Fabio for the financial section.

FABIO PERETTI: Thank you, Marco, and good afternoon to everyone. Moving now to the group financial highlights. 2023 results, as Franco mentioned, were solid with reported EBITDA of about €662 million and a comparable EBITDA of about €670 million notwithstanding the heavy maintenance shared within the first half of the year and the impact of the unexpected operational outages that occurred in Q2 and in Q3 also to external fact not dependent on Saras activities.

In the fourth quarter, reported EBITDA amounted to €79.5 million and comparable EBITDA stood at about €110 million with the main differences with the reported figures, the 2 scenarios effect on changing inventories between the start and the end of the period, which are not included in the individual [ph] part of the results. Our Q4 comparable EBITDA derived from a healthy refining margin of $9.2, which compares to approximately €320 million in Q4 '22 with an exceptional margin of $17.5. The large differences between the 2 periods derives mainly from the scenario, which has both [indiscernible] saw a reduction in the crack spread of the main products and the reduction in sour crude differential.

Looking at industrial performance, Q4 results were still affected by the consequences of the blackout in Q2 and Q3 and not dependent from Saras responsibility, due to remaining maintenance activities that required to restore the full operational activity. Q4 reported net result reached €40 million and comparable net results stood at €65 million, with the main difference due to the scenario effect on inventories, which accounted for €17 million and to the impact of nonrecurring items for €7 million.

Our comparable net results compared to about €260 million in Q4 '22, with the main differences related to the less favorable market conditions as described at the EBITDA level, while our reported net results compared to about €70 million in Q4 '22, with the '22 results impacted by higher scenario effects on inventories, which were €115 million and by the higher impact of non-recurring items mainly due to the windfall tax.

Finally, our net financial position before IFRS 16 effect reached €202.7 million, up from €194.5 million back in September, thanks to the strong cash generation and to the reduction of our working capital which balanced the cash out on investment interest expense and taxes. As usual, [indiscernible] slide.

Moving now into the second analysis starting from the Investment in Marketing, the focus of comparable EBITDA was about €99 million with the marketing channel accounting for €15 million. EBITDA was lower compared to the one achieved with the same period the last year, in light of the less favourable market condition compared to exceptional level of 2022. The impact of the scenario accounted for a lower EBITDA by €225 million and was mainly due to lower crack of diesel and gasoline and higher cost of our crude slate that as mentioned was due to the speed of sour discount as well as the weakening of the US dollar.

Not including the scenario as said, our gross margin in Q4 was €18 million higher than last year with the supply and trading performance that could be…it will be very positive in the realization of our production to maintenance channel but without the negative impact of the stronger position that occurred in 2022. Better commercial results compensated for the weaker domestic [ph] performance that as mentioned, that was impacted by external effects and also for [indiscernible] in the market, which reduced our opportunity to optimize the refining crude slate.

Within these results, the remuneration of the power plant under this essentiality regime accounted in the quarter for €27 million. On the other hand, variable cost was broadly in line with last year despite the well indexed of the 33 in the third quarter and thanks to the normalization of the energy prices. Fixed cost was largely higher than last year for about €4 million, mainly for higher maintenance costs and as a consequence of the [indiscernible] as I already mentioned.

If you look at the full year results, comparable EBITDA stood at €646 million compared to €1.99 billion in 2022 and also in this case the larger part of the difference is attributable to scenario for the same reason previously described. Looking at investment in marketing CAPEX, in Q4, CAPEX stood at about €22 million bringing the annual CAPEX at €178 million in line with our guidance and above the 2022 level.

The 2023 CAPEX reflects the heavier maintenance activities including the power plant turnaround and there is couple of investment in logistic and other areas needed to prove our productive performance as well as the setup of the energy transition activities such as biofuel logistic and energy transition.

Moving to the investment in marketing, as mentioned in the fourth quarters exclude $9.2 while the EMC reference margin was $6.2. Saras [indiscernible] was $3 in comparison in 2022 Saras margin of $17.5 and EMC reference margin was $13.3, our premium was $4.2. The difference in the premium of the quarter was mainly due to the combination of factors. First of all, we have a cost of crudes that penalized complex refinery like Saras, but did not have any influence of the EMC reference margin was related 100% price of our brand.

Overall, this factor did have a premium of about $1.5 per barrel. A second impact came from the increase of the heavy crude fuel cracks, which represent 7% of the EMC reference yield while Saras refinery typically does not produce it. In particular, in Q4 '23 the HSFO spread was minus 17, while in Q4'22 it was minus 32. So the average HSFO crack in the quarter led to an improvement in mainstream reference margin, which was not reflected in the Saras margin, it was $0.5 per barrel.

This negative impact were partially compensated by the higher margin generated by our supply and trading activities and marketing activities. Looking at the full year, the Saras margins stood at about $12.2 per barrel and the EMC reference margin average $8.2 with a premium of $4. As already discussed for the fourth quarter, also for the full year premium, the reduction of the scenario effect was due to the crude differential and HSFO crack.

Netting in the EMC margin from this scenario effect, the EMC adjusted stood at $7.2 and Saras premium would be higher at $5 per barrel. In the renewable segment, the fourth quarter EBITDA was €11.5 million, slightly above last year results. The quarterly results was driven by an increase in wind production that was compensated by a reduction in the average target.

The production was 106 gigawatt hour up from 68 gigawatt hour of last year, mainly for strong wind contribution while the average power tariff was €116 per megawatt hour, down from €125 per megawatt hour of last year, mainly for the reduction in the market price. It is worth to remind that in Q4 2023, the reduction is entirely sold on market price while in Q4 2022, about 50% of this reduction was sold with a price cap of €61 and above 20% of the production sold was sold with a price cap of €180. In addition, Q4 2022, 13% of production received an incentive equal to €43 per megawatt hour and overall results benefitted by about of €3.8 million for the release of approval related to price cap made in the previous quarter.

Moving to the full year, the EBITDA was equal to approx. €24 million compared to €38 million of last year. As described for the quarterly result, the variation was due to lower average power tariff captured this year and despite the earlier production in 2003 that was generated by most favorable condition entirely occurred in Q4. Looking at CAPEX in the quarter, we invested €50 million and this leads to an annual CAPEX of €46 million entirely allocated to the development of our pipeline.

As Franco mentioned, the projected was scheduled. The development project is roughly difficult and we expect and confirm to reach commercial operation at the end of the second quarter next year. But, what concerns our net financial position, we ended the year with a net cash of €203 million before IFRS 16 effect, substantially in line with the previous quarter where it was €195 million. Our cash flow from operation was €104 million including €24 million of FOREX deliveries, our working capital decreased freeing up about €21 million and the working capital reduction is due to the increase in trade payables mainly for increased stock purchases and to the reduction of the trade receivables both for price effect and ESO reduction.

This reduction more than compensated the cash out for excise duty to advance payment for the full reimbursement of the power and gas authority of the higher margin generated within the essentiality regime in 2023. Our CAPEX expenditures was €37 million, our interest expense were negative by €8 million, and the second and the last payment for the 2023 income taxes was €71 million. So all in all, our cash generation in the quarter was positive for €8 million.

And now, I leave that the floor to Franco for his final remarks.

FRANCO BALSAMO: Okay, thanks. Finally, I would like to share some updates regarding our activity in 2024 as Fabio described before for report on maintenance schedule that we've completed last year. We are not expecting refinery runs to reach 97, 101 million barrels per year, with our power productions between 4.1 and 4.3 kilowatt hour. And the plant will operate under the essentiality regime.

The fixed costs were anticipated at €384 million, lower than last year. And this is due to initiatives of optimizations that we began last year, and which we expect will be in place this year and this is good enough to offset the impact of, material cost inflation.

CAPEX should remain in line with 2023 levels at €170 million, €180 million, as we have opted for some technical upgrades and we have approved a few projects that should also improve our energy efficiencies. More precisely, some investments which were partially delayed from previous years will be carried out this year and in the coming…in the next couple of years.

Just to mention some examples, this year will be the turnaround of the alkylation unit, the source of recovery unit topping and vacuum as well as other smaller maintenance activity on other units.

As Marco, well explained before, we are expecting a contest in 2024 of stronger refining margins supported by healthy crack spreads for diesel and gasoline. And under these market conditions, we do believe that our premium over the EMC reference margin is expected to be in a region between $3.5, $4.5 barrel.

Indeed, while both Saras and EMC reference margin are expected to benefit from the [indiscernible] spread, and the Saras margin will be influenced by the still differential on sour crude oils and this, as Fabio explained before, is due to the continuation of that plus Russia production cuts.

Once again, we mentioned that the EMC reference margins calculated on the crude slate price at 100% Brent. Regarding our evolution and investment in the renewable business, we plan to invest around €40 million to complete Helianto plant, starting the operations by the end of June. And we have other construction, additional 30 megawatt of solar plants, so within our industrial sites, we are in a phase to start the preliminary phase for the construction of another wind farm. We will update on this in the next quarter. Having said that, and after the payment of the dividend approved by Board today, the financial structure is set to remain robust and the net financial position at the end of 2024 will be positive.

Thank you for your attention. So, we are ready now to take your questions.

Q&A

OPERATOR: This is the Chorus Call conference operator. We will now begin the question and answer session. Anyone who wishes to ask a question may press "*" and "1" on their touchtone telephone, to remove yourself from the question queue please press "*" and "2." We kindly ask you to use…we kindly ask you to pick up your phone when asking questions. Anyone who has a question may press "*" and "1" at this time.

First question is from Niccolo Storer of Kepler. Please go ahead.

NICCOLO STORER: Hi, good afternoon. Thanks for taking my questions. Three, if I may, the first one is on your premium guidance. I was wondering if the contribution to the premium from the power generation is expected to remain stable in 2024 compared to 2023 or if you are having from the renewal of the essentiality status any changes.

The second one is on Helianto. If you can share with us how much of CAPEX is still missing for the completion of the plant, just Helianto so not considering the additional 13 megawatt you mentioned. And the third question is on…you mentioned tight market for gasoline in particular for high-octane gasoline and I was wondering how the recent export ban by Russia could impact this market. If there might be worsening of the situation translating into higher cracks going forward. Thank you.

FRANCO BALSAMO: Marco, you want to with the last question.

MARCO SCHIAVETTI: I'll go with the last one. Yes, your assumptions are correct. The ban in Russia is helping to keep the market tight. There are some components…naphtha and semi-finished components coming from Russia are not available anymore and this obviously is helping to keep the market, in particular the high octane components very tight and this should be really supportive for the gasoline cracks at least during 2024.

FRANCO BALSAMO: Nicola, for what concerns the impact of the power generation on the premium guidance; it is stable compared to the one of this year.

FABIO PERETTI: And this Helianto CAPEX to complete the plant above €40 million. Yes, €25 million to complete Helianto, and the other €15 million to complete the other additional 15 megawatt of new plant. So, Helianto 25, the remaining….

NICCOLO STORER: Perfect, thank you.

OPERATOR: The next question is from Paolo Citi of Intermonte. Please go ahead.

PAOLO CITI: Hello, hi. Good afternoon. I have another question again on Sarroch and in particular on the CO2 emissions and in particular on provision for CO2 allowances. Last year, there were around €221 million out of a total €268 million total provisions for instant charges. So, this year this figure increased a little bit to €277 million. So, I'd like to know the figure for CO2, if possible. And then a second question on this in particular. I'd like to understand if this amount is still…could be partly endorsed by Terna as referred to Sarroch's plan or it's a full liability for Saras? Thanks.

FRANCO BALSAMO: For what concern…I am not sure I got all your questions, but for what concern. Yes, for what concerns the allowances for the CO2 emission, they will be stable in 2024 at 2.1 million ton and this year compared to the original projection, we had a little bit more of exposure to CO2, but maybe it was related before the transition in the production, you know, one year when we had the lockout and also the next year maintenance activities during the transition, you emit a little bit more of CO2 while in this situation. So, this was not entirely well-planned in our model.

FABIO PERETTI: I think you're referring to the allowances for the refinery that should have been around 1.7 in 2023. So, we'd say that's slightly higher this year, 2024.

FRANCO BALSAMO: So, in 2024, that will be 2.1.

PAOLO CITI: Okay. While in reality, my question was a little different. So, I was referring to the provisions for CO2, you have in your balance sheet. In 2022, it was €221 million. I think this figure should have been almost stable in 2023 and I'd like to understand if part of this figure will be reimbursed by Terna or not?

FABIO PERETTI: No, not this figure, but we will pay for this CO2 and the accrual is €233 million at the end of the year.

PAOLO CITI: So, 232?

FABIO PERETTI: Yes.

PAOLO CITI: Okay. Thank you very much.

OPERATOR: The next question is from Massimo Bonisoli of Equita. Please go ahead.

MASSIMO BONISOLI: Good afternoon and thank you for the presentation. We'd like to understand better the project you mentioned in your press release regarding the energy transition and the low-carbon project in general, such as the carbon capture, biofuel or green hydrogen. And considering the ongoing deal with Vitol, what will be the committed CAPEX for those projects and if those CAPEX are, let's say, frontend loaded or maybe more in the next few years? Thank you.

FRANCO BALSAMO: Thank you, Massimo. Thank you. I have tried to answer to this question. First of all, the company now is operating its activity without any other involvement than our capability to manage the company within the existing perimeter of ownership of course. The investment in energy transition are not material, are few million euro. In order to…the investment are €5 million, €6 million a year in projects in order to set the feed…potential feed for investment in biofuel…say yes or a pilot plant in order to produce a minimum amount of fuel at the end of 2026.

The other investments we have in our transition activity is the green hydrogen. We have already received the first grant for €70 million. We are expecting the second contribution for the additional €35 million at the end of this second authorization. We will give conditions to start the construction of the plant. So, the time being, our investment, we are doing for the future, but are still not absorbing cash in a material softness [ph].

MASSIMO BONISOLI: Very clear. Thank you.

FRANCO BALSAMO: Thank you.

OPERATOR: Gentlemen, there are no more questions registered at this time.

FRANCO BALSAMO: Okay. Thank you very much for your participations. Have a good evening.