Saras

First Quarter 2020 Results

Welcome

Operator

Good afternoon. This is the Chorus conference operator. Welcome and thank you for joining the Saras first quarter 2020 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 star and zero on their telephone. At this time, I would like to turn the conference over to Mr Dario Scaffardi, CEO and General Manager. Please go ahead, sir.

Dario Scaffardi
CEO & General Manager, Saras

Good afternoon, ladies and gentlemen. Thank you very much for being here. I am making a little bit of an introduction because as you probably know, Francesca Pezzoli, our previous investor relator has changed career and so has left unfortunately the company. I wish to thank her for the very good and valid contribution that she has made over the years and her position has been taken over by Ilaria Candotti to whom I will pass the world, that has joined the company last week in rather unusual circumstances.

During the past month, the job of Investor Relator has been covered very well by Federico Vavassori who has done an outstanding job in keeping us in connection with the market and preparing all the material that we are going to present.

Thank you, Federico. And, Ilaria, welcome to Saras.

Ilaria Candotti
Head of Investor Relations, Saras

Thank you, Mr Scaffardi, for the introduction and good afternoon, everybody, and thank you for joining us for this conference call on Saras first quarter 2020 results. As Mr Scaffardi said, I've just joined Saras as IR officer after following different companies from different sectors listed on the Italian Stock Exchange.

To begin, please let me note that as usual all the documents, including the press release, the interim financial report and the analyst presentation are available on our website. Our agenda today will be the following: Mr Dario Scaffardi will start with the highlights of the quarter and an overview of the scenario and market trend followed by a review of the results of each business segment. Afterwards, Mr Franco Balsamo, Chief Financial Officer will discuss the key financial figures of the Group. To conclude, Mr Scaffardi will provide the outlook for the year. Finally, we will have our Q&A session. At this time, I would like to hand over to Dario.

Dario Scaffardi
CEO & General Manager, Saras

Highlights

Grazie, Ilaria. So, the understatement of the year is to say that the oil scenario in the first quarter is absolutely unprecedented. In many, many years in the oil market nothing has happened like this, of course. We started the year in a certain mood and the quarter in a certain mood and then everything changed during the month of March. And we have also decided to change the way we present because we believe that the macro figures of the market are so important in this moment that it was worthwhile to do a little bit more of a deep dive into certain specific dynamics that have never happened before. So, I will go through them now with you.

Just the highlights of this period, we were able to maintain more or less the same comparable EBITDA of last year, although at a reported level, things are different, mainly due to the fall in inventory prices, which Franco will give you a little bit more detail on.

Now, one of the things I would like to do is show exactly in which way this crisis has impacted the oil market. So, on the first slide here, we have just Brent dated. Brent dated is the physical benchmark for all crudes and this dropped from a range, over all of 2019, that was roughly around $65 drop in a couple of weeks' time to below $20, sometimes touching levels as low as $15. So, going back to levels of the 1990s.

But maybe the most extraordinary thing that has happened apart from the fall in price is the disconnect between the futures market and the physical market. By and large, the ICE futures market for Brent has always been more or less in line, give or take a couple of percentage points, one from the other, for physical reasons, for speculative reasons and so forth. But we have always been able to use the futures market as a very good proxy to the physical market.

This has entered a strong disconnect in March because of the difficulty of selling physical cargoes. So, while the financial market was still relatively bullish towards crude, the physical prices collapsed and this created a huge differential between the physical market and the futures market, which has never happened before since this market started in 1986. So, we touched $10 differential consistently.

And this created a lot of havoc because all the hedging and the instruments that we and others are able to use all of a sudden were disconnected from the physical market. We didn't want to bore you with too many graphs, but a very similar situation happened to the gasoline market. So, with the differential between the gas quotations of gasoil and the ICE gasoil market.

Another extraordinary event has been the move of the market from a modest backwardation into a very steep contango. And here you can see it from these curves. The top curve represents the forward Brent dated market as of December 2019. So basically, a flattish, slightly bearish, long-term outlook. And this changed abruptly as of the 20th of April. First of all, the market, of course, collapsed from above $65 to just over $20. So, a huge collapse and a huge contango.

You can see in the graph below, the month by month spread, which as of the 20th of April was $3. This incentivised operations on us storing oil products and crude oil. The situation has been totally similar for oil products, so this created a strong demand for storage and for vessels that were used for floating storage in order to take advantage of the structure of the market that paid very handsomely.

In the meantime, if you look at what's happened today, so on 30th of May, this contango is still there, but it's certainly a lot less steep, particularly if you look at the first two, three months, the contango is much more modest. We're talking 50/60cents per month, which is sort of borderline and making the operation economic to store. But also, this has created huge disruptions into the market.

If we try to look at the physical market of crude oils, we report here some market examples. The first two are common sweet crudes of the Mediterranean. And if you look in the second part of 2019, if we look at Azeri, which is a very good quality crude: low on sulphur, high on middle distillate yield, it became very, very expensive, very strong towards the latter part of 2019 and to the beginning of 2020. And this is one of the reasons that affected negatively our margin because it was very much in demand, because it was the ideal crude to produce middle distillates at the same time to be able to produce very low sulphur fuel oil for the bunkering market and for the IMO, which was a big topic at the end of last year and the first two months of this year and now the coronavirus has made it fall off the radar screen.

Something similar has happened to CPC. There's been a sharp drop in premiums after the disruption of the OPEC talks and the overproduction. And this has come back, although not to the levels of before. So, with the market, which is a little bit more healthy from a refining point of view. Dalia is a crude from West Africa. There's also been big suffering because of ships oil; we'll talk about that later.

If we look at the sour crudes, again, a sharp drop in the price of Urals, which is the benchmark of the Mediterranean sours, which has come back up, unfortunately from our point of view, because of all the cuts that OPEC+ has put in place, the Mediterraneans – so the exports from the Black Seas – have been the ones most affected from Russia; they are the least profitable from the Russian point of view. So, they are privileged, the exports from Primorsk and from the Far East.

So, the Ural Med quotation is sort of a notional quotation because there's very little crude around. This has pushed up the value in an unreasonable manner. It negatively affects also other crudes, which tend to base their price on Urals for the Med. So, it will negatively affect the official selling prices of Iraq and of Saudi Arabia that look at the Urals quote, although at the moment it's sort of a fake quote, because it's up because there is no supply.

Freight has been, again, an extraordinary example of volatility. This is a focus on crude, which is the top graph for the Med and the clean products for the Med. Again, the bottom graph, which saw an incredible spike in April because of the huge demand for ships to use as storage. This has pushed freight levels to unprecedented levels, levels never touched before, which were also unsustainable. So, they quickly came off when buyers and users like us did not charter vessels.

On the clean side, we have been relatively unaffected because we have a fleet of ships on time charter based on other numbers. But of course, it negatively impacted crudes in a way. This has luckily come off and you can see it also in this graph that represent the West African market and the Persian Gulf and the Arabian Gulf market, which again, have been extremely volatile over the months of March and April. And at the moment, would seem to have stabilised back to stronger than historical levels, but relatively normal levels.

Just have to say as an explanation, the spike that you see in October of 2019 is again an artificial spike. It happened when Trump put an embargo on COSCO a Chinese shipment that had a lot of VLCCs. That created havoc on the freight market which subsequently renormalised after the sanctions were taken away or resolved in a matter of weeks. So that is just an abnormality. Otherwise over 2019, the freight market has been extremely low.

Coming to the oil products, if you look at here, unfortunately we've a lot of graphs in order to explain. First of all, if we look at the left graph, there is the absolute prices for gasoline and for diesel, which, of course, have come down from the levels of the beginning of the year in a very marked way. Of course, we need to look at these in a relative manner and there are two metrics that are both important to look at. One is the crack. But of course, the value of the crack is heavily dependent on the underlying value of the main commodity. So, it is not indifferent to the absolute price of the commodity. So clearly, having a $15 crack when Brent is at $60 is one thing, and having a $7 crack when Brent is at $20 is another thing, not necessarily worse.

So, you can see that the cracks have moved widely. We've had a very good moment in March, April when these rise significantly. Then they sort of have renormalised. But if we look at the bottom left graph, right graph, which is the ratio of the value of the commodity to Brent again, we had a huge spike, but both gasoline and diesel – diesel is at the higher end of the ratio historically. In a good market, it should be about 30 per cent above, which is the case more or less now. And gasoline has been more variable. But again, it is in the range of being about 20 per cent above. Of course, with extreme volatility.

On the fuel oil side, again, a very, very volatile scenario. We started the year with a huge differential between low sulphur, the fuel oil for the new IMO bunker, which was to trade again at an extraordinary premium, an unsustainable premium, basically higher than diesel and has since come down to more normalised levels, and high sulphur fuel oil that was extremely low.

In the meantime, what has happened is that the value of high sulphur has gone up and low sulphur has gone down. High sulphur has gone up mainly because of very low production. There has been shut downs of many simple refineries, so there has been less production of high sulphur fuel oil and this has pushed up the price. There's been a relatively stable production of low sulphur and that has pushed down its price.

Just to close the comments on the remaining products, which is Naphtha and Jet. Here the pictures is again, one of extreme events. Naphtha turns almost to zero at a certain day. And that was on the 26th or 27th of April. Naphtha in the Med was worth $10, sold a tonne. So that was equivalent to three bottles of coke, or less. Since then, it has rebounded because, of course, it was a ridiculously low price. Today, I would say that the situation has relatively normalised compared to the other products; still very low is jet, of course, which is the product which has been worse affected by the crisis and which as of today has still a negative crack compared to Brent.

From our point of view, we are able to blend our jet into our diesel tools, so we are not affected by this directly, but still, it's an overhang on middle distillates in the market.

If we come to our – moving away from the broader market – if we look at our results, we've had an EMC margin in the first quarter equal to $1.3 per barrel. It started very weak in January and ended stronger in March. We have been able to post a relatively small premium to the EMC due to the fact that at the beginning of March we have started our maintenance in the refinery; the largest turnaround in our history and shutting down and substituting almost completely our FCC unit which is a unit which is one of the main gasoline producers of the refinery together with other products. One of which we shut completely, one of our topping units because it was old and needed revamping.

So, this negatively affected the margin, but at the same time, I would say that it was the best possible moment to have a turnaround because it coincided with the collapse in demand of the market. So, we were already running at reduced capacity. We were producing very little gasoline, which was the product which has been most affected by Covid.

Segment Reviews

1. Refining

So, if we move into the various segments. If we look at refinery, here, again, as I mentioned before, the premium was affected by a variety of factors. One is the maintenance. The guidance that we give is based on the full year, while we had a two-month maintenance started in March. This maintenance has been able to be maintained notwithstanding the sanitary emergency. So, it started right together with the emergency and we were able to keep operations running with no influence on the refinery. And the refinery was able to maintain its maintenance and its investment programme, albeit by being enabled to enact sanitary protocols. At the time there was no guidance, so we invented our own and they've been extremely successful because we had no cases, of course, there's been an increase in cost because one of the things have been to maintain social distancing. The workers limit the amount of people that can enter in a given moment into the refinery. So there has been also an increase in time. This increase in time is not necessarily a negative effect because the initial plan was to have our units back on screen by the beginning of May. And this has been postponed to the end of May. And of course, we'll decide if they will be really restarted only based on the actual demand of gasoline, which is giving signs of improvement.

If we look at the crude slate, runs have been higher compared to the same quarter as last year because during the first quarter of 2019, there was more maintenance concentrated in the first quarter. I would say that we've been able to obtain in the first quarter a higher ratio of heavy crudes that had become more easily available on the market. So, our API has gone down a little bit but this is purely a mercantile approach.

We have reduced the quota of light extra sweet and this reflects the expensive price of certain crudes, as I mentioned before, trying to increase instead the light and medium sweets that were more reasonably priced. In terms of production, gasoline of course has gone down because of the maintenance started in March. The other products are broadly in line with a little bit of higher fuel oil yield due to the fact of the maintenance at FCC. So, we've been selling a little bit more fuel oil.

If we look at the fixed and variable cost, there is not much impact. A little bit of improvement on the fixed cost in Q1/2020 and the impact of variable cost slightly different because of the volumes on the forex effect.

2. Marketing

Marketing of course has been challenging. Italy and Spain have shown a brisk collapse. And we'll show you some graphs later on of demand starting in March and which worsened in April. Margins have been good. So, this has overall given a good first quarter, which traditionally is a quarter which is not very good in our business because it's linked to the winter, mainly to the winter months. So, a good result for Q1 compared to the same period of last year, albeit with lesser volumes, clearly.

3. Power Generation

If we look at power generation, power generation also has suffered. First of all, we started the year off with a price, which was the standard. The national price of electricity in Italy was something like €48/MW. And today we are at 25. So, the price has almost halved due to the simple fact it is linked to the gas prices. So, the CIP6 tariff has an effect which is material. Nonetheless, we have managed to have €30 million of EBITDA compared to €37 million of the same quarter of last year.

Fixed and variable costs is lower. The fixed cost because of the impact of maintenance in Q1 and in Q1 of 2020, we have a lower cost for power.

4. Wind Power

For wind, our results are strongly impacted by the price of electricity, which moved from 48 to about 25. Although we have increased production, we have increased production by 8 GW, which is 12 per cent compared to the same period of last year. And if we did not have this expansion in our windfarm, we would have produced 12 GW less. So, we have been able to add 20 GW due to the expansion in our wind farm due both to the new towers and to the start of the reblading process.

This is the detail on our net financial position. I will ask Franco who's more qualified than me to explain.

Franco Balsamo
Chief Financial Officer, Saras

Financial Overview

Thank you, Dario. As you've seen in the chart, we have an impact in the net financial position, negative for €300 million. In Q1, the operating cash flows were impacted by a combination of factors.

First of all, the company suffered from the low EBITDA margins, but even more from impairment in the inventory. This is driven by the ongoing down trend in commodity prices. In fact, inventory changes has a negative impact in the economics for about €160 million.

And this amount is reverted in the EBITDA comparable as a positive income. Due to the evolution of the commodity prices it is likely this negative trend is expected to continue also in Q2 and with more effect in the first part of the second quarter. The net working capital has a negative effect for €90 million and these changes were driven by a decrease in payables in excess of changes in receivable and inventory.

Receivable and inventory are currently lower than 2019 year-end and current inventory stand at a neutral stock level of 1.5 million tonnes. That is the neutral stock that is also the reduction of inventories related to the beginning of the maintenance programme at the beginning of March.

This negative trend in working capital is expected to continue also in the second quarter with an impact that is strictly related to the evolution of the commodity prices.

Finally, the capital expenditure is perfectly in line with the planning, because most is concentrated to the announced turnaround plans of the total capital expenditure as we see in the total evolution of the investment programme is particularly concentrated in the first half of the year.

Recent Development & Outlook

Thank you, Franco. Here on the Outlook, also, we have changed things a little bit because given the really exceptional moment we believe that it's necessary to try to give a little bit of guidance on where we see the market going.

We have used here a presentation by Unione Petrolifera which is the association of Italian oil companies. It is a presentation which they released a couple of days ago, and they made a detailed study of consumption and demand in Italy. I think that we can use this as a proxy for at least a trend in other European countries.

So, the first observation, of course, that there is a huge impact on jet fuel demand, which they expect over the year to have a drop in 64 per cent in Italy. I would imagine that in other European countries that have stronger airline hubs, maybe this number may be slightly less, but still a very, very significant impact. So, this is the area which is most affected and which is projected to be most affected in the forthcoming months.

Now, if you look at the other products, this is bunker fuel. Bunker fuel is 80/85 per cent used by commercial traffic. And other, at least in Italy, seven/eight per cent is used by ferries going to and from the island. And then there is another about seven or eight per cent or nine used by cruise ships. Now, the cruise ships are projected basically to be nil over the remainder of the year, while the drop in demand should be negligible from the commercial fleet. So, on a yearly basis, not a huge drop in demand on bunker fuel, which is something that also we are experiencing since after the stop in March and April; we are seeing some demand coming back in from our bunkroom business. In as much as although we have decided to charter vessels in order to be able to expand the business. This might be delayed by some months because of obvious reasons, but we still see this as being on track.

If we look instead at the automotive fuels. So, on the left we see gasoline and on the right, diesel. There has been a huge drop through March, April and basically also in May. Recovery, due to the easing of lockdown is coming back in. We have seen this in our marketing activity where demand has started to come back. And Unione Petrolifera expects during the summer, demand to be lower than that of last year, but in a more reasonable range. So here on a yearly basis, they project a 28 per cent drop in gasoline use, mainly concentrated, of course, in the first half of the year and an 80 per cent drop in diesel. Again, I believe that these numbers should show a similar trend in other European and North African nations. If anything, maybe lower than, I mean, less dramatic than these numbers.

So, going into our outlook. Well, first of all, I would like to make a comment on our business. We believe that the fundamentals of our business operating model are sound. We are privileged to have a great staff which is competent and committed and has been able overnight to switch from working in the office to so-called smart working without a glitch. We have had no interruption of business, and in particular, all our people in the refinery have done an outstanding job in being able, as I told you before, not to stop operations for one minute and to be able to carry out brilliantly one of the biggest turnarounds ever, actually the biggest turnaround ever in our history; have had extraordinary sanitary protocols put in place. We have had no cases reported and our model of distancing has been used and copied by other industrial companies and the authorities. We have done this when there were no protocols and no guidance from the government or from other bodies. So, our people invented things along the way.

I think that we are well-positioned to take advantage of a return to more normal market conditions, when this will occur. It's sort of difficult to make a prediction on when this is going to happen, but demand will come back. And the fundamental mechanics of our business will return. And with it, the margins. The company, we are no stranger to difficult trading conditions. In the past, we have faced them in various circumstances. Emerging stronger. We have learnt to live without very important suppliers of crude oil, which are still off the market. We have been able to improve our operational performance during past crisis and we have been able to assert efforts to increase efficiency, reduce costs and reduce the cost of investment, which is something that we are implementing right now in a very forceful manner. So, there is further possibility that in times of a turbulent market, conditions that we have now, these turbulent market conditions offer opportunities which are unpredictable and we are very well-placed to be able to catch them.

We remain committed to energy transition, to expanding our renewable business, to reduce the environmental impact of our operations and making it increasingly sustainable. So, to summarise, we are not running a sprint. We're probably running something which is less than a marathon and looks maybe more like got a middle distance.

So, thank you. We are here available to answer your questions.

Questions and Answers

Operator

Excuse me, 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 star and one on their touch tone telephone. To remove yourself from the question queue, please press star and two. We kindly ask that you use handsets when asking questions. Anyone who has a question may press star and one at this time.

The first question is from Alessandro Pozzi from Mediobanca

Alessandro Pozzi – Mediobanca

Hi there. Thanks for taking my questions. The first one is around the year guidance for volumes for 2020. When I look at Q2, it looks like you're running potentially at 70 per cent of the total capacity of the plan and maintenance is still ongoing. I was wondering whether that is a reflection of the demand loss that you see in Italy as well in Q2. And also, as a follow on, I was wondering, can you remind us what was your geographical exposure to sales in Italy and I'm wondering if you're trying to diversify in a way and if so, do you see maybe pockets of demand outside Italy? Thank you.

Dario Scaffardi

Thank you, Alessandro. Well, first of all, yes, we have been running at about 30 per cent less in these months and that's basically in March and April and that was expected because of the planned turnaround. Of course, for obvious reasons, this has extended into May and it still needs to be seen if it will extend also into June. This is at the moment for two reasons: First of all, the maintenance has lasted longer. But even if it did not last longer, still, it would have been challenging to produce gasoline in May and try to find somebody to buy it. The market that has been most affected has been the gasoline market. It has been very challenging to sell gasoline.

Luckily our production was limited. We have been producing high quality components which have been sold all over the world. Some have gone to China, some have gone to Northern Europe as blend stocks with interesting results. The diesel market has been more buoyant. We are not so much linked, as we mentioned before, to one market, being on an island where we have a very strong trading position where we have many shorts all over the Mediterranean and we have been exporting diesel into Northern Europe – that has been an interesting market – into South America. We are still moving gasoline into the Caribbean.

So this is not something that we are particularly worried about. When demand will start to pick up again, we're well-equipped to pick the market. We are not that exposed to Italy, of course. The drop in demand in Italy has been the same as other countries. So, this is a global phenomenon and certain countries might have slightly more, slightly less. Our power production has not been affected. We are continuing. We are an essential supplier to the island of Sardinia, so we have kept up and running our power plant, providing electricity to Sardinia. I hope I answered more or less your questions. The line was not that good, so maybe I missed something.

Alessandro Pozzi – Mediobanca

A second one on the EMC. We've seen in the last few weeks in EMC a weakness going back to negative levels. I was wondering whether you think that maybe the EMC is a bit unfair and touched by the Urals. And all the grades that you showed and displayed in the presentation. And you buy Urals, I believe. So, I was wondering if you think that is impacted by the movements in this case between Urals and the Brent?

Dario Scaffardi

No. Yes, I think I caught the essential of your question. The EMC is strongly impacted, because 50 per cent of the crude slate is Urals. Urals at the moment has for us would have, if we ever used it, a very negative margin, clearly. So that reflects on the EMC margin. I must say, to be honest, that sour margins are under pressure. They are under pressure because clearly in a world which has reduced production by roughly 30 per cent – at least in March and April, the International Energy Agency has said that there's been a drop of 29 million barrels per day in demand production. So, I mean, production has to follow that.

The one that is most immediately affected is the heavy sour. So, the least valuable barrels are the first to get off of the market. Refineries tend to have demand for this type of quality and this pushes up the relative prices. We would not buy Urals at these prices, of course. We buy alternative grades that are much more reasonably priced. But also. they are negatively affected by this Urals situation; which I believe we'll have to resolve.

But again, we are experiencing extraordinary market conditions and I have no idea when we will be able to get into a more normal environment, if ever. Because certain benchmarks are flawed in a way. And I think that what is happening in the market, the extreme movements of the market are showing all the deficiencies of certain type of pricing mechanisms. Just to make an example, which is not pertinent to our market, but if you think of what happened to WTI. All the headlines were on negative WTI values, giving the impression that you could buy WTI, and somebody was selling WTI at -30 or whatever. And effectively, somebody did sell it at that level. But that's a deficiency of the system.

As a matter of fact, today, a couple of weeks later, all of a sudden, WTI is at $25. So, it's difficult to imagine that the same commodity in a localised market was able to move by $65 in seven weeks, in three weeks, without really anything significant changing.

Alessandro Pozzi – Mediobanca

All right. Thank you very much.

Operator

The next question is from Joshua Stone with Barclays. Please go ahead.

Joshua Stone – Barclays

Thank you. Good afternoon. I've got two questions, please. Firstly, on refining. Looking at the additional refining margin, actually I thought was pretty good in the first quarter, despite the maintenance you had and despite what's happening in the market. Maybe you could talk a little bit about what was supporting that? Was it just the wide crude discounts? Or was there other stuff as well? And then secondly, if you think about the medium term now in refining, how do you think the Covid crisis impacts the refining market over the medium term? Do you see structural changes to demand or any thoughts on the rates of new refining capacity being added? Any thoughts there would be great. Thank you.

Dario Scaffardi

Thank you, Joshua. Well, no, I would say that the margin on the EMC has been pretty good due to the fact of the optimisation of the type of crudes that we were able to purchase during the quarter and by a decent refinery performance. I think that your question on the medium-term refining is a very dense question and very appropriate. The most immediate answer would be that maybe this type of crisis would push marginal producers out of the market.

From a very egoistic, from a very selfish point of view, I would probably hope for that. I'm not sure if that is going to be so likely. There's a lot of talk of refinery closures in Europe of the incremental plants, which might happen. I don't see many additions. I see a lot of reduction of investments in the refinery space. And I would say we probably see a replay of the cyclic environment that involves both oil and refining. And one of the aphorisms that is used for oil is that the best cure for low prices is low prices and the best cure for high prices is high prices. So, a challenging refining environment means that there will be an immediate slash of investment, a cancellation of projects. Low prices tend to increase demand. And all of a sudden you have the conditions for the next cycle of positive returns, which creates investment and so forth, and creates the conditions for a new negative cycle. This has been the case with the oil markets for the years.

I think it's more of a question of imagining the length of these between trough and trough and crest and crest in a cyclic environment. This current crisis is really very, very exceptional, so it's difficult to imagine what the outcome might be.

I think that an important piece will certainly be air travel. Is this going to come back in a strong way soon or not? And by soon, I mean 2021. I'm under no illusion that this can happen in 2020. But if there's going to be a recovery or not. Aviation demand accounts for four/five per cent of overall demand. So, if this should drop by two or three percentage points, that would have an impact on middle distillate margins, of course.

Joshua Stone – Barclays

Thank you.

Operator

The next question is from Massimo Bonisoli with Equita. Please go ahead, sir.

Massimo Bonisoli – Equita

Good afternoon, Dario, Franco, and welcome Ilaria. Thank you for the presentation. Two questions. The first on your storage facilities. If you can tell us the level of storage spare capacity and the flexibility on logistic and what are the implications for your runs over the next few months. You were telling us before that the level of inventories were more or less normal at the end of March. And the second question on refining performance in April, considering all the moving parts like the volatility margins, the freight cost, the crude discounts. Just to understand, if you consider April a good or a bad quarter for your refining division?

Dario Scaffardi

Well, Massimo, thank you. It's a tough question. In terms of storage, we have almost 4 million cubes of storage capacity overall, including certain deposits that we have in Italy and in Spain. And that is roughly in the range of almost 30 million barrels. But we tend to use mainly our refinery storage for operational reasons. We have a model which is based on using many different crude oils and trying to mix them and blend them in the most appropriate manner and also take advantage of any stranded crude that might come. So, this needs storage capacity. So, if your question is aimed to see, are we able to take advantage of the contango plays? Yes. In a way, we have. We have made some contango plays, but relatively modest compared to the volume of our storage.

Our storage is, yes, flexible. We have many different tanks. Of course, at any given time, a certain number of tanks are off line because tanks need to be maintained every 20/25 years. So, we have something like 80 tanks – 200 tanks, correct me, excuse me. So, at any given time, there is a certain number of tanks which is undergoing maintenance since the lifecycle of a tank is 20/25 years. So not all the tankage space is always available at a certain given time.

Refinery margins in April: April has been an absolutely extraordinary month. So, everything that could happen has happened, including something that left a mark on me, to be honest. I repeat it continuously, I know I'm a bit – I'm probably getting old, but to see virgin naphtha at $10 on April 22 is something that truly shocked me. That meant that I could go and buy – not a cargo, but at least a truck full of naphtha with what I had in my wallet in that moment in cash. So that was really extraordinary.

So, I think that it's difficult to judge April. From a technical point of view, and our people have done an extraordinary job in being able to sell what we produced in April. So there has been no product that has remained in the tank that was not programmed to sell. We were able to supply the refinery and maintain the production of power and so forth and our people have been able to work in very unwelcome circumstances. So, all in all, I would say that has been an exceptional achievement.

Massimo Bonisoli – Equita

Yes. Just curiosity, back to the first question. In the sense that your current level of storage does not put much risk to stop your operations because you have quite a good flexibility, if I got you correctly?

Dario Scaffardi

Yes.

Massimo Bonisoli – Equita

Thank you. Very clear.

Operator

The next question is from Henri Patricot with UBS. Please go ahead, sir.

Henri Patricot – UBS

Thank you for the presentation. Two questions from me, please. The first one is around the outlook. You mentioned that you started a cost saving programme in the review of your investment plan. I was wondering if you can give us some details at this stage as to what the magnitude of these savings could be and what sort of projects could be delayed potentially. And secondly, I also wanted to check if the situation has changed in your immediate plans for the power generation business post CIP6. Thank you.

Dario Scaffardi

Thank you. Well, our cost saving programme, we are currently reviewing since the bulk of the maintenance is now over. We had two big maintenances and many other smaller ones, which are accessory equipment. One was the FCC and the other is one of the topping units. The topping units has been completed successfully and has restarted, it has been tested and it's working perfectly. Unfortunately, we will probably be forced to stop it for the time being, waiting for the market to improve in terms of demand. And the FCC is due for completion in a couple of weeks' time and things are looking good.

So, our refinery and technical staff have been overloaded with managing all the stuff going on in the refinery and the coronavirus emergency, which has had a big impact, you cannot imagine the amount of sanitary things going on, checking, testing. People were not able to eat in the canteen any more, meetings that are held outside. Luckily, the weather has been very good. So now it's almost summer. So that's not an issue. But having these big meetings outside with amplifiers talking to 20 or 30 people would be something that is unbelievable if it didn't really happen.

So they haven't had much time to take a look, which is something that we are going to start immediately as of – we have actually a kick off meeting tomorrow to give a hard look at all our costs and our investment and to see if we can make some very meaningful cuts to the programme, both the current programmes and the programmes looking forward, whatever we can scrap entirely or postpone. The majority of things are necessary for the maintenance of the business. But of course, due to exceptional circumstances, we have to be very perseverant in making the necessary cost cutting things which are one of the few levers that we have and we can act upon.

We expect to be able to obtain some good results also in terms of increasing efficiency, in leaner workforce, more insourcing rather than outsourcing. So, there are a variety of things that we are considering and as always, never waste a good crisis. So, a crisis always spurs invention and resolve. So, I am optimistic that we're able to obtain some good results.

Operator

The next question is from Christopher Kuplent with Bank of America. Please go ahead.

Christopher Kuplent – Bank of America

Thank you. Hi, Dario. Just a quick question and I appreciate conversations about the dividend are always more than a CEO decision, but what do you think we should expect in terms of your recommendations? What do you think the Board should be looking at to reinstate the dividend payment later on in the year? Any colour, broad comments would be very helpful. And then secondly, just following up on Josh's earlier question about the more medium-term outlook. You gave some very detailed 2023 plans earlier in the year. Is it too soon to ask you to revise those? Just looking for any direction in terms of that medium-term business plan and outlook? Thank you.

Dario Scaffardi

No, we are definitely looking to revise those plans going forward. So, it's something that we're working on at the moment. Also, remember that Henri before asked something about our power business and I forgot to answer. We are starting also on that, the negotiations with the power Board. We are considered absolutely essential for power stability and power production on the island of Sardinia. So, also on that, I am confident that we should be able to have a positive outcome.

Regarding our dividend policy, we appreciate that the majority of shareholders decided to hold on the dividend. It was a unanimous decision by the Board. Because, of course, in this type of situation, as you saw the numbers shown by Franco, debt goes up and we have to be able to maintain the company as lean as possible. And also, I will let Franco explain in more detail.

Franco Balsamo

In relation to what Dario was saying before, I would like to note that in any case the net financial position is worsening. The impact we had in the first quarter could be replaced with the same money to also in the second quarter because we had a reduction in cash flows due to increase in payables, because we had to pay all our oil, oil payables, and we did it at past oil prices that were higher than the current and past months' levels. And at the same time and we have a reduction in revenues because the spot oil prices are lower. And so, these phenomena is also reducing the level of inventories and this is contributing in reduction on the cash flow. What is positive in this situation that the low level, the absolute low level of oil prices in a certain way is beneficial to inventory because we are allowed to re-establish inventory to keep it at our neutral stock level and at an attractive price.

Once the recovery of oil prices will come that will allow us to progress and generate positive cash flows and from the increased value of inventories and also to recreate stable payables levels. Once the oil prices and both levels of volumes within the refinery come back and we expect it may happen at the beginning of the third quarter, we could stabilise our payables levels and reducing the bank debt. So, the level of indebtedness in this year will be higher than the net financial position at the end of March. But in the second part of the year, we are expected good cash flow generations from the operations and also from the recovery of part of the working capital lost in the first part of the year.

The absolute return in terms of the original level of the working capital, of course, would take place once the oil prices will return to the pre-Covid levels. Having said that, the opportunity to return to pay the dividend will be also related to the time frame which we will be able to recreate a positive cash flow mainly from the return of the working capital.

Christopher Kuplent – Bank of America

Okay, thank you. So, if I may just follow up. That, to me, sounds like you're going to have to wait at least until seeing some of the Q3 financials in terms of making that decision? Would that be fair?

Franco Balsamo

Yeah, Q3 or year-end, because nobody knows what will be the sensitivity of oil prices to the demand. So more quicker is the return in the working capital, quicker will be the generation of cash flow into the company.

Christopher Kuplent – Bank of America

Understood. Okay. Thank you very much.

Operator

The next question is from Igor Kuzmin with Morgan Stanley. Please go ahead.

Igor Kuzmin – Morgan Stanley

Good afternoon. I have two questions, please. I hope I didn't miss it, but on CapEx outlook for 2020, is it possible to indicate what level of foreign investment expenditures you might achieve on a full year basis and if possible, if you can just comment whether it will include the capitalised charge that you reflected in first quarter? And second question is, if you can reiterate the guidance for the power segment for the full year basis. Thank you.

Franco Balsamo

Thanks. In terms of CapEx, in our business plan we have projected a total amount very close to €230 million and we don't have evidence that this amount will be exceeded. We had some extra cost in the turnaround related to the cost due to the Covid and we'll do our best in order to find a way in order to recover past extra cost into the operating cost. There are also opportunities to finance this as the costs through other instruments. But in terms of CapEx, we do confirm the amount in the business plan for the year 2020.

For the coming years, of course, we are trying to find a way in order to reduce the total amount of the four-year business plan.

Dario Scaffardi

The government announced that they would provide lump sum payments to companies who faced extra cost and production, because of Covid, but we have to see the details of this. It was announced, but the Italian government is the Italian government.

Franco Balsamo

In terms of your second question related to update our guidance for the power. Of course, the power business has suffered from the reduction of the energy price, in the region of at least €10 due to the fact that we produce 4.4TW in area, the impact would be about €40 million. So, the expected EBITDA is very close to €100 million.

Igor Kuzmin – Morgan Stanley

Thank you. Sorry, just to be clear, so the 30 to 20 CapEx €4 million euros for 2020, just to be clear, this includes the 40 million plus capitalised interest expense in the first quarter or it doesn't?

Franco Balsamo

Yes. All in all.

Igor Kuzmin – Morgan Stanley

Ok. Thank you.

Operator

The next question is from Thomas Adolff with Credit Suisse. Please go ahead.

Thomas Adolff – Credit Suisse

Good afternoon. I've got two questions, please. Firstly, on your refining business, obviously having three topping units gives you a lot of operational flexibility, but Sardinia obviously is not a very big captive market, so you're essentially an export refiner. Can you just remind me where your most important export markets are and perhaps also provide a better understanding of the counterparties you're dealing with? Any historical receivable write-offs you can comment on, or do you factor your receivables mostly? And then secondly, just on the earlier question on storage, and you've talked about 4 million cubic metres of storage capacity, can you just perhaps split it into crude versus clean products? How much of it is crude and how much of it is actually products? And on the product side, how much of it is actually unoccupied capacity? Thank you.

Dario Scaffardi

Thank you, Thomas. Well, yes, our refinery has a lot of flexibility. Where do our products go? Well our products tend to go where it's more convenient. We have developed a strong trading position through our affiliate Saras trading in Geneva and actually we are moving – before the crisis, we were moving about three times the quantity of gasoil in the market than we were producing. So, we have many, many homes for our products. We are dealing in Northern Europe where we have a position, we are active in the Balkans. We are active in Turkey; we are active in North Africa. We are also active in South America and in the Caribbean. So, we tend to move around in all markets.

Many of these positions were trading positions, so we were buying products from other producers and putting them into these shorts. And of course, we have tried to take advantage of the fact that it was a more difficult market and we've been putting our own products into these shorts. Traditionally, clearly, there was a geographical advantage in order to supply Southern France and Italy. So, these tend to be amongst our most important direct markets but this can be changed around quite easily. So, in terms of flexibility, something that we are very strong on, both technically and commercially.

Our receivables, it is standard practise in the oil market to operate with full financial security. So, there is no issue with receivables. We provide financial securities to the crude producers that supply us and vice versa for the people who buy products from us. So that answers the question.

On crude versus product, I would say from the top of my head, the total is 1.8 million tonnes. So about four or five hundred thousand tonnes of crude and 1,300 tonnes of product and feedstocks. So, let's say, basically clean products.

Thomas Adolff – Credit Suisse

Can I just follow up on the first question? And you said you moved three times the volumes you produced and obviously traded volumes tend to be lower margin than this volumes, in theory. But the fact that you've now extended your maintenance, topping unit one, suggests to me that's then an economic decision on your behalf.

Dario Scaffardi

Yes, it's an economic decision based on the fact that in order to keep all the topping units in place, we also need our FCC units. The FCC unit is a big producer of gasoline and producing gasoline in this moment is not a great idea. So, the stoppage of the FCC implies necessarily stopping one of the topping units, otherwise we would be selling a lot of fuel oil, which again, would operate that unit. There's almost a hydroskimming unit which is not economical. If it was economical, we would do it, of course. But it's not economical to do so at the moment.

Thomas Adolff – Credit Suisse

But the FCC unit is pretty much ready now to go? Because you said March, April, it's maintenance. We're now in May.

Dario Scaffardi

The maintenance of the FCC unit is going to last one month more due to the delays due to the sanitary restrictions. Of course, we did not push on accelerating it, getting back on stream because we felt that certainly it was not necessary in May, and this was a correct decision. Will things change in June? At the moment, to be honest, we are seeing a decent pick up in the demand in diesel, some pick up on gasoline. But I think these are the early signs and we need to be a little bit more confident before we start resuming operations also, because it's not a good thing for these types of units to go stop and go.

So, once we start it up again, we would prefer not to have to shut it down. So, it's a delicate decision. We need a little bit more clarity on where the market is going.

Thomas Adolff – Credit Suisse

Very clear. Thank you.

Operator

As a reminder, if you wish to register for a question, please press star and one on your telephone. Gentlemen, there are no more questions registered at this time.

Ilaria Candotti

Okay, if there are no more questions, thanks to everybody for joining the conference call. As usual, we are available for any follow up questions you might have. Thank you and have a nice afternoon.