OMV Q4/16 conference call - Q&A Transcript

OMV published its results for January – December and Q4 2016 on February 17th, 2017. The investor and analyst conference call was broadcast as a live audio- webcast at 11:30 am CET. Below is the transcript of the questions and answers session, by topic.

FINANCE:

1. Dividend policy

Question by **Mehdi Ennebati – Société Generale**

OMV has increased its dividend by 20%, whereas the net income went down. So should I consider that the free cash flow is a better tracker for the future dividend trend? Also, is OMV talking about the Group's free cash flow or the Group's organic free cash flow? Because in 2017 the Group's free cash flow will be extremely high, given all the asset disposals OMV is going to realize.

Answer by **Reinhard Florey**:

The new dividend policy should give a very clear indication that we are going away from some of the unpredictability of a direct relation to a net profit number.

So, therefore, the overall situation of a proximity to cash flow, as well as the overall strategic path that the Company is taking, should be an indication.

The EUR 1.20 dividend for 2016 should be seen in the context of a EUR 1 dividend in 2015 and a EUR 1.25 in 2014. This means, first of all, that in spite of a more difficult environment, we still have been living up to our target to deliver positive free cash flow after dividend. And we even made a quite big contribution to our firepower of the future, of which we said that there are different means of using that money; and dividend is one of them.

Therefore, this 20% increase is a tribute to also show that we are coming back to normality, rather than that the increment of 20% is a yearly increment that you should count on for the future. In terms of the general Group's free cash flow, the Group's free cash flow is certainly there to support what Rainer has indicated also; the value growth ambitions of OMV. That certainly has to be tracked during the year 2017 and 2018. And this is certainly not something that we restrict just to one year.

2. Cash flow

Question by **Marc Kofler – Jefferies**

I appreciate the upstream/downstream cash flow split that you provided for 2016. Looking forward at cash flow over 2017 and 2018, could you give some guidance how you think the 60/40 downstream/upstream split will move?

Answer by **Reinhard Florey**:

Regarding the cash flow of upstream and downstream split that we have seen in 2016: we anticipate that cash flow into downstream will stay strong on a comparable level, with the gas business maybe increasing a little bit. But this is a major cash provider that will stay also for the next years, provided that, of course, the margins are there.

In Upstream, with volumes increasing slightly and our production going up, also participating in opportunities in Middle East and North Africa, we would expect that also the cash flow basis of upstream would increase.

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In the end, there will be a sound contribution from both sides, maybe upstream increasing and downstream staying on a very strong level.

Question by **Lydia Rainforth – Barclays**

You talked about an oil price break-even USD 35 per barrel for 2016, which is an incredibly impressive number, and yet, you're talking about being free cash flow positive for 2017 at USD 55 per barrel. Can you just talk through where you actually see break-even for 2017?

Answer by **Rainer Seele**:

It's a little bit too early to give you an indication about 2017, whether it's USD 35 per barrel or not, we have to wait a little bit. But as OMV is very sporty, I assume that we don't want to see too much upraise in the break-even oil price. But it's too early to give you an indication.

3. Debt and gearing ratio

Question by **Michael Alsford – Citi**

OMV gearing level at the end of the year was 21%, based on your definition. That will fall, based on my estimates, to less than 15% in Q1/17, given the proceeds coming in from the Siccar Point transaction.
I just wanted to confirm whether you still hold that view that you want to have a gearing lower than 30%. And with that, should we think that OMV will run at a more conservative level of gearing going forwards? Or shall we think about the capacity on the balance sheet to be up to the 30% threshold?

Answer by **Reinhard Florey**:

What we have said is that we target to stay below 30% over the cycle. So we are well in that range, but, of course, with cash flows improving, balance sheet improving, in general, that keeps up some headroom where you can also think about strategic moves. And that is exactly the targeted strategy that we have in mind.

Question by **Lydia Rainforth – Barclays**

Can you talk about your thoughts on the hybrid bonds? Given the cash flow you're generating, do you consider buying back or is there a permanent feature within that?

Answer by **Reinhard Florey**:

The hybrid is not a headache for 2017. The first tranche of our hybrids has a first call date in 2018.
Until then, we, of course, will look very closely on how our cash flows, how our net debt position will develop and then we make up our minds there.
There are no ideas of calling that early or changing our strategy in that way, but, of course, we have an interest to optimize our financing costs overall for the Group.

4. Tax rate

Question by **Michael Alsford – Citi**

Could you just give us some guidance on what you would expect as clean tax rate for 2017, based on your macro assumptions?

Answer by **Reinhard Florey**:

Regarding the tax rate, we came out at a clean tax rate of about 7% in 2016. Due to the situation that unfolds, we cannot expect that this level will stay. We are rather anticipating a clean tax rate around 25% for 2017. Of course this depends very much on specifically high-tax countries where we are exposed with production. If we surpass in Libya or in Yemen (if Yemen would come back), that could drive it up. On the other hand, it could also be driven down if we are increasing in other countries where we are paying less. But take that as a first ballpark number for 2017.

5. Oil price sensitivity

Question by **Marc Kofler – Jefferies**

It looks as if your oil price sensitivity is reducing in 2017. Can you just add any color on that?

Answer by **Reinhard Florey**:

Sensitivities for 2017: What we say is that if the Brent oil price will decrease by USD 1 per barrel, this has an impact on profitability on the EBIT side of about EUR 35 million. And if we take it on the cash flow side, this will be about EUR 30 million in average.
If we take the refining margin: If that increases by USD 1 per barrel, which is, of course, a comparatively higher change, this would have an EBIT effect of slightly above EUR 100 million. The cash flow effect would be about EUR 80 million.

6. Realized gas prices

Question by **Mehdi Ennebati – Société Generale**

Since the beginning 2016 and the collapse of the European spot gas price, your realized gas price has been roughly stable. Now the spot gas price started increasing in Europe and your realized gas price is collapsing. I wanted to know if this is essentially due to Romania and if you can provide us some information there. Or if there is also some time-lag effect that means that you will not benefit in the following quarters from this spike in European spot gas price?

Answer by **Reinhard Florey**:

The impact on the realized gas prices before 2016 actually was less of an impact from Romanian gas prices and differences there. Rather than that, in fact, have been time-lag effects, hedging effects that have been calculated into this.

7. Cost reduction

Question by **Lydia Rainforth – Barclays**

On the cost-savings plan you have achieved some impressive results. Can you just talk through whether this is now a stretch target for you and where you're seeing those benefits coming from?

Answer by **Reinhard Florey**:

The EUR 250 million target: It's important to be understood as compared to the cost basis of 2015. So that's more or less an additional EUR 50 million on the level that we have reached by the end of 2016.

However, take into account that, of course, in every year where you have cost savings, there are some one-time cost savings in there as well. So the threshold that we have set ourselves is, of course, much higher than EUR 50 million. But we are more than confident that this is a target reachable for us.

Our teams have shown in 2016 a very good performance in delivering on the target. So we are confident that also the real bottom line improvement targets of EUR 250 million will hold in 2017.

BUSINESS DEVELOPMENT:

8. Disposals and acquisitions

Question by **Haythem Rashed – Morgan Stanley**

Rainer talked about entering a phase of value-added growth. Given that CAPEX is not rising from here, excluding the Achimov asset swap, should we think about a number of acquisitions of producing assets over the next 12 to 18 months to support that? Or is it something else that you have in mind?

Answer by **Rainer Seele**:

The 2017 CAPEX level of EUR 2 billion is more or less the level we are looking for the next years, which is sufficient to keep our production level and to go for an increase of production. Especially in 2018, when two projects are planned to come on stream, Aasta Hansteen and Nawara. Thus, you might see an effect next year on our production level.

On the other hand, there is an upside potential. As we have said, we have restarted the production in Libya, where we are at 10,000 barrels per day out of a capacity which could go now up to 40,000 barrels per day, given the recent acquisition in the four blocks.

So there is an upside potential of 30,000 barrels per day, and we don't need any additional investment to go for a 30,000 barrels per day upside. If we go for further investments in Libya for the Nafoora field, the production can go up to 50,000 barrels per day.

On the other hand, I think if we want to go for further additional growth, you're absolutely right; OMV prepares itself for acquisitions.

9. Downstream Oil - Value added growth

Question by **Henri Patricot – UBS**

In your slide on the vision to 2020, you mentioned extending the refining value chain towards higher-value products. I was wondering if you can share some details with us on the projects that you have for this part of the business.

Answer by **Rainer Seele**:

If you look on Borealis' performance in 2016, they showed up one record year after the other. 2015 was a record, 2016 is a record. We cannot continue, but what we can say is that we do see a growth dynamic in petrochemicals, which is interesting for OMV.

We are going to support Borealis on their strategy to further grow in their markets. Borealis has a very nice set of good ideas. Borealis will explain to the public what their ideas are, but in our strategy, there is a strong support for Borealis to go for further growth.

On the other hand, petrochemicals in OMV, especially ethylene and propylene but also butadiene has developed not too badly. We have a clear view that we would like to support the business unit in petrochemicals to look for opportunities along the value chain.
You know that I'm a chemist. You can do a lot with these molecules and you don't have to polymerize it only. There is more chemistry waiting for OMV.

10. Reserves Replacement Rate

Question by **Hamish Clegg – Bank of America Merrill Lynch**

You talk about the 100% reserve replacement ratio. Looking at the number you gave us on the call, 118 million barrels of oil equivalent, for the contribution of new assets, am I right to think that the organic reserve replacement rate at 90%? Is this target of 100% RRR an organic target you aim to achieve?

Could you elaborate on how much of your new assets, from Achimov particularly, have found their way into your 2P reserves?

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Answer by **Rainer Seele**:

Well, first of all, we just wanted to concentrate on the 1P reserves as a statement. Because when I say I would like to replenish my production, it's important that I fill up the 1P reserves.
That's the reason why that we are targeting a 100% reserve replenishment, which means that we are replenishing the production, which means 100% 1P reserves.

The second question is on new assets in Achimov. We have not booked any reserves from Achimov, because we first have to close the deal. And we have not finalized our deal with Gazprom, therefore, we have not taken into account Achimov and you don't find it in our 2P, neither in our 3P reserves.

11. Libya

Question by **Tamas Pletser – Erste Bank**

Can you elaborate a little bit about the situation in Libya? What is the major obstacle for you to boost the production and the activities over there? So can you just tell us what's going on there?
Also, can you say any guess what can be the production end of the year? Or is it too early to say anything?

Answer by **Rainer Seele**:

During my visit to Tripoli, I discussed with the NOC on what can we do together to improve production. They are doing quite a good job. Our major obstacle in Libya, as we speak about OMV's production, is availability of transport capacities.

The ports are more or less free to load our crude oil and to send it to the international markets. But the availability of transportation capacity is one point.

The second is the availability of natural gas for gas injection, especially in the Sirte Basin as we speak about C103. If other neighboring fields would come back on stream, producing more associated gas which we can inject into our fields, we can further upgrade our production.

We do see some progress, especially with NOC, freeing up transportation capacity, so that I really see as an upside potential for OMV.

But right now, it's too early to say what the upside is going to be because we have to see whether or not the agreements the National Oil Company has closed with the tribes, which are blocking the transportation routes, are sustainable agreements or not.

Regarding the production, it's early February, it's a bit too early to give an outlook for the end of the year. I think if you calculate with the 10,000 barrels per day we have mentioned, you are on the safe side.

Question by **Haythem Rashed – Morgan Stanley**

Would you be able to tell us where production is today in Libya, because you talked about 3,000 barrels a day as being an average for Q4 although I know that this only started at the back end of the quarter. And you're expecting an average of around 10,000 for 2017. But just in terms of getting an idea of where we are today, could you just tell us where production is, as of the last week or two?

Answer by **Rainer Seele**:

All we can say is we have seen the 10,000 barrels per day in average. We are well on track for the 10,000 barrels per day.

12. Production outlook

Question by **Mehdi Ennebati – Société Generale**

I have read an alert on Bloomberg, saying that Rainer Seele announced production might reach 350 kboe/d by the end of 2018. So I just wanted to have some precision here, because this is not what I have in my model. And what is the contribution of Libya and Yemen that you put on this 350 kboe/d number that apparently you've announced, which is in Bloomberg at least?
And to make it clear we are talking about end 2018, if I remove Libya, (350 kboe/d minus 40 kboe/d from Libya), that means you expect to remain in 2017 and 2018 at 310 kboe/d, including the positive impact from Aasta Hansteen and Nawara?

Answer by **Rainer Seele**:

When we are talking about the 350,000 barrels per day production, this is the potential we can see nowadays for 2018 if we are both very, very positive. For example, I have said we are 320,000 with the 10,000 barrels per day production in Libya. So if Libya would come theoretically next year to the full capacity, you are up to 350,000, so this is the capacity.

But there is a second upside potential with the two projects I have mentioned already, with Aasta Hansteen and with Nawara. They also have substantial impact on our production. So that's why we are talking about a potential we can see as a daily production, next year.

My colleague Johann Pleininger, made the statement of the 350 kboe/d. He was very optimistic, but he said following his development timetable for the two projects I have mentioned, Aasta Hansteen and Nawara, we have to look at the end of 2018 and not beginning of 2018. That's the first point.

The second point, up to your math, I only can help you what we have said also in our previous conference call. Given our current portfolio with the current CAPEX planned, we can keep the level of 310,000 barrels per day.

13. Exploration and appraisal

Question by **Michael Alsford – Citi**

Your activity in exploration has come down quite a lot or is expected to come down quite a lot in 2017. Could you give some sense as to where the money is going? Is it focused mainly on Romania and replacing reserves there or are you planning other wells within your portfolio?

Answer by **Rainer Seele**:

Well, first of all, we will have some E&A focus on Abu Dhabi in the sour gas fields we have mentioned. It's Shuwaihat as well as the Ghasha field, so we will go for an appraisal program in Abu Dhabi.

Then we participate also in licensing rounds in Norway where we are going to continue in exploration, especially in the Barents Sea, in the neighborhood of our Wisting field. We would like to further explore it.

And of course, Romania is going to be a major focus, continues with about one-third of our exploration spending.

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