

OMV establishes major Downstream Oil position in Abu Dhabi – Q&A Transcript

OMV held a conference call on the purchase of 15% share in ADNOC Refining and in a to-be-established global Trading Joint Venture. The investor and analyst conference call was broadcast as a live audio- webcast at 12:30 pm CET on January 28, 2019. Below is the transcript of the question and answer session, by topic, edited for readability.

M&A

Question by **Mehdi Ennebati – Societe Generale:**

You said that you are going to make a pause regarding the acquisition program. I think that this is good because investors are probably a bit stressed about the net debt increase. Now you have already reached your upstream production target and thanks to that deal, you are going to balance upstream and downstream. I would therefore like to know why you do not abandon your EUR 10 bn acquisition program, given that you have been able to reach your target with much lower spending?

Answer by **Rainer Seele:**

Well, Mehdi, first of all, let me say it in clear words: the main job of the M&A projects we had in mind when we published our strategy in spring last year is done. There is only one project left, it is Achimov IV/V. If Achimov IV/V will be finalized, then we have executed, with 100% success rate, all projects we had in mind when we created our strategy. So, to meet our strategic targets we have published, we do not need to have further M&A transactions, as we have said. The budget we have defined, however, was a budget until the year 2025. There is, of course, much room left in the budget but what we can say today is we have used less from the budget to meet the targets we have promised to the financial markets. That is a clear point. The second message is we do not want to use, now, the rest of the budget in the short term. The strategy now, or let us say the operative content now, is that we would like to fully consolidate the assets we have acquired. Now, Mehdi, we have a chapter of harvesting in OMV's history. We would like to harvest what we have acquired and we would like to especially take a break now to enjoy the cash flow to finance the growth program we have mentioned.

Dividend policy

Question by **Jason Gammel – Jefferies:**

It appears to be a very attractive dividend stream, that you have talked about, coming from the assets. My question is, are there any tax burdens associated with that in Abu Dhabi itself and are there any issues in being able to move cash out of the country?

Answer by **Manfred Leitner:**

Jason, I will take that question. The dividend stream that we have been calculating, which gives us the conviction of a 10% dividend yield, will not be subject to any taxes. The income taxes in Abu Dhabi on the net income, or on the operating result of the refinery, are approximately comparable to the Austrian ones but the dividend will not have a special tax on it.

Question by **Jason Gammel – Jefferies:**

Excellent and any issues moving the cash into your other operations? Will you be able to have full use of the cash or are there any restrictions on movement?

Answer by **Manfred Leitner:**

Yes, of course we are in full control of our dividend stream.

Answer by **Rainer Seele:**

Jason, the money that will arrive in our pocket in Vienna.

Question by **Josh Stone - Barclays:**

To what extent does the EPS accretion you are expecting from ADNOC Refining translate into dividend per share growth for OMV? To what extent are you expecting EPS accretion from ADNOC Refining when it closes? To what extent does the increase in EPS translate to higher dividend per share reported by OMV?

Answer by **Manfred Leitner**:

I get the question as well about whether the transaction is accretive or not. I can confirm that it is accretive from the first year onwards. Depending, obviously, on different future developments you will then see, potentially, the impact. However, I just would try to come back to this figure that we have given of a 10% dividend yield. As you know, the estimated purchase price in cash is \$2.5 billion. This will give you a certain guidance how accretive that transaction might be.

Answer by **Rainer Seele**:

Only one remark, mid-term we have said it will be in excess of 10%.

Question by **Josh Stone – Barclays**:

I was thinking of the impact for OMV's own dividend that it pays to its shareholders. What measures should we be expecting? I thought in the past, perhaps, it was pay-out ratio related and therefore, if the EPS is going up, therefore we might infer that that might lead to a higher dividend per share from OMV.

Answer by **Rainer Seele**:

Josh, let me take your question a bit differently. I know that, in the first reaction from my Investor Relations team, there are many, many questions about the dividend. I really ask your patience because next week you are going to see the dividend proposal from the board to the general meeting. We confirm, we really reconfirm, our dividend policy that we are discussing a growing dividend on our next board meeting, or at least on the previous year level. We have no reason to change our dividend policy because of the transaction we have signed. Maybe we have more reason to reconfirm that policy.

Question by **Michael Alsford – Citi**:

When you say medium term on the over 10% dividend yield and what that incorporates in terms of the growth plans that, obviously, ADNOC Refining has. Does it incorporate further investments into improving the naphtha streams? What is your view on what the contribution will be from the new trading joint venture? I just wonder if you can give some color on the timing of that 10% dividend yield?

Answer by **Manfred Leitner**:

Mid-term is a five year plan that we have discussed and agreed with ADNOC and the other shareholder, by the way. Yes, there are two or three very interesting investment projects in it, which are included in the \$1.9 billion that have been mentioned before already. The main part would be to increase the flexibility on the crude slate. That is a big investment on the one hand. On the other hand, the refinery is currently running on exclusively, more or less, Murban crude. This is a very, very high API crude. However, what we believe is that if you have the chance to go to more heavy stuff, because of the excellent configuration of the refinery, more margin, or a higher margin, can be developed by that. Another project that will definitely bring value to the table will be a waste heat recovery project. This has obviously not been invested in the past. This is, however, typical for each European refinery and so this will have a significant rate of return, a very convincing one as well. These are the main investments that are in this five year plan. If you see the impact on the results, obviously in what we are having as well as in ADNOC Refining, there is a hurdle rate which is comparable to ours. As long as investments are coming and are over and above that hurdle rate, meaning they create significant additional value, they will be taken into consideration. However, these two have already been agreed.

Question by **Yuriy Kukhtanych – Deutsche Bank**:

I think there is no doubt in the market that these offers are fantastic. The question I have is on your dividend yield guidance. When we look at the profitability of Ruwais, communicated by Wood Mackenzie, though these are very rough numbers, then your dividend yield implies the profitability of that asset should roughly double by 2020. My question is: how confident can we be in that dividend yield that you are guiding for? Is it contingent on the macro environment? If it is, then could you share with us what the indicative macro assumptions are which perhaps were agreed or not?

Answer by **Manfred Leitner**:

Taking up your question, I cannot comment whether it is doubling compared to what you have seen in Wood Mac because I have not analyzed Wood Mac numbers. However, in what we are seeing, in our planning, of course, is we have been doing our assumptions in the same way we are doing it for our European refining. We do have a certain knowledge on the different market prices, be it in Asia, be it in the Middle East or be it in Europe. We have therefore done these margin and price assessments absolutely consistent with our Western planning. What we see is that the RFCC, which Rainer has mentioned already, has not been running now for two years. Historic numbers, therefore, are distorted by this fact and this would, if you compare that, for instance, to our Western refining system, add some USD 2/bbl to the refining margin, only to start up a unit which is currently in start-up mode. If you then go to the crude flexibility project, this is a project which will bring a lot of value, as well, into the refining margin. So I am not sure whether we come, in our planning, to it doubling from 2019, or 2018; this was the first year we have been looking into. However, I can confirm there will be a significant improvement over the next three years.

Question by **Yuriy Kukhtanych – Deutsche Bank**:

Okay, so the dividend yield is not dependent on the macro in 2020 and 2021?

Answer by **Manfred Leitner**:

Each dividend has to do with a net income figure and all net income figures, in each company, have to do with how the market is performing and developing. What I said is if we used the same consistent set of figures that we use for OMV then I would believe that our planning is as solid as the planning of the OMV Group. This has, in the past, obviously, I think, been quite convincing then in terms of the actual performance.

Gearing

Question by **Robert Pulleyn – Morgan Stanley**:

About the balance sheet impact, as it stands now you guys have been very busy. You still have Achimov to close, you announced Sapura and now you have announced this deal. If all three deals were to complete this year, is it correct to assume that gearing would migrate above that 30% target that you have outlined. I notice in the slides you talk about new senior bonds? If that is the case, as a sort of follow on to that question, how long do you envisage being above that gearing target before you get back within the range? Thank you.

Answer by **Manfred Leitner**:

If all the transactions that you have mentioned will be coming in 2019, you are right. We will be in excess of the 30% gearing ratio, depending on the closing of the transactions, whichever quarter this will be coming. We assume, for instance, that the Abu Dhabi transaction will be closing in Q3. This would, in our planning, then result in a year end gearing which is close to 30% again.

Answer by **Rainer Seele**:

Rob, first of all, we do not know how much we have to pay for Achimov IV/V, so that is an open issue. Therefore, it is a little bit difficult now to answer your question. However, for sure Sapura will be closed, in our expectation, in the first quarter this year. Then we will have, of course, the acquisition in Abu Dhabi. Given the timing for Achimov, we do not know what that agreement will be. If Achimov also will come we might see that, in the gearing, we are testing the 30% in one or the other quarter. However, it will not stay for long because we are expecting that we are continuing to have a very strong operational cash flow also in 2019, of course depending on the prices we are going to see.

Question by **James Sparrow – BNP Paribas**:

Just quickly, I wondered if you have actually discussed this transaction with Moody's? Do you foresee any rating impact?

Answer by **Florian Greger**:

I think it is too early to comment on how the rating agencies will react to this. They are obviously also aware of this and I think they will come with their opinions in the next days or so.

Answer by **Manfred Leitner**:

But obviously what we have done is an internal analysis, of course, without having checked again with Moody's themselves. In our internal analysis we do not see any problems in terms of the rating.

Answer by **Rainer Seele**:

James, we just received, a few months ago, an upgrade.

Question by **James Sparrow – BNP Paribas**:

Okay, that is fair enough. I guess the fact that you are funding with senior, rather than any sort of equity-type funding, suggests you are comfortable about the rating side.

Answer by **Rainer Seele**:

James, we just want to send you a message that we are pretty relaxed.

Management rights

Question by **Tamas Pletser - Erste Bank**:

Looking at the last page of your presentation, you have plenty of minority assets in Abu Dhabi now. What are the management rights you have in that country and how do you see the protection of these minority rights? Can you just relax us a little bit about this? Thank you.

Answer by **Manfred Leitner**:

I can give you certain information on the Downstream part. If you look into a 15% minority stake then I think the minority rights that we are having in that joint venture are pretty solid. There is another partner in with 20% and we do have, more or less, equal rights there. That is great because, at the same time, we have, if you want, a European-aligned approach on how to actually get into that refinery more. The minority rights are, as I said, pretty solid. However, more importantly for us at the moment in what we see is that ADNOC Refining is really looking for input from OMV and ENI as well because they see that we bring a lot of value to the table. You have to understand that we are not discussing that transaction with them now for three weeks; we have been working for 1.5 years on that transaction. We therefore know each other, to a certain extent, already. We also know exactly the way the refinery is operated. Therefore I think we have a pretty good understanding how we are going to have an impact into this minority share in ADNOC Refining.

Question by **Tamas Pletser - Erste Bank**:

Will you be a part in the decision-making? Will you be on the table when they decide the strategy, for instance?

Answer by **Manfred Leitner**:

There will always be a decision on a five-year plan, on an operating plan and we will be on the table there. If there are projects, potentially, that are not covered in a five-year plan, of a certain significance, then obviously there will be a discussion and a decision as well.

Answer by **Rainer Seele**:

Tamas, I do see the same picture also when we talk about the Upstream projects we do have. Maybe our rights with the gas field, Gasha, where we have a 5%, are not as dominant as in SARB and Umm Lulu. However, our experience with SARB and Umm Lulu is a very positive one. The cargos are flowing into the market, we get a reasonable price for our high-quality crude and what is very important is we have one asset lead in SARB and Umm Lulu. That means that we are, more or less, having a very high impact in operating the asset. And especially as we speak about very virgin assets, it is very important that we are going to train ourselves with the asset leads. That is why we have a substantial impact in the two Upstream assets there. On the other hand, from my point of view, from a risk analysis point of view, I have to say we are talking about one of our main shareholders as a partner in such a project. That gives me more of the necessary comfort in case we really are running into conflict that we can find not only single-way solutions.

Refinery product yield

Question by **Henri Patricot – UBS**:

I have a question on the products yield at the refinery. You mentioned 95% white products but can you give us a sense of the split between light and middle distillates in particular and how you would expect that to change in the next few years as these new projects come on stream?

Answer by **Manfred Leitner**:

The yield, which is an average over two years so this is something which should be pretty representative, is that the refinery is producing significantly more than 50% in gas oil. It is approximately, even 55%. If you take jet kero and the gas oil part, so the middle distillates, it will be approximately 55%. There is 4% propylene produced currently. In addition, more than 20% is naphtha production but this is a field which is currently analyzed to go more from the naphtha to the gasoline, increasing the refining margin as well. You also have 6% others but you have to understand that there are the refinery fuels and losses in as well, which is a pretty low number compared to European refineries. This means that there is nearly no heavy stuff in the whole yield and this is giving a very, very attractive refining margin overall.

Question by **Henri Patricot - UBS**:

Okay. Could you give us a sense of how this could change in the next two or three years, with more crude flexibility, heavy crude and some of the other projects.

Answer by **Manfred Leitner**:

The topic is not that we will change the crude, or that we will change the product slate by having a different feedstock but we will have, let me put it this way, a more optimal feedstock, meaning a lower price to produce the same product slate. This is the logic behind the crude flexibility project.

Refinery cash margin

Question by **Mehdi Ennebati – Societe Generale:**

Because it is very difficult to get some figures regarding ADNOC Refining profitability, can you just tell us if you expect Ruwais to have a higher net cash margin than your current refineries in Central and Eastern Europe?

Answer by **Rainer Seele:**

As we speak about the margins, we do not give you a detail now, Mehdi. One of the reasons why we moved to the site is that we think that we can generate better prices in a stable, healthy market in Asia Pacific. Then it is a question: what is the conversion concept of the refinery in the future, as well as speaking about the cost position of the refinery, defining the margin. From my point of view, if we take altogether the business, the value, OMV would bring into the core operation, that we are going to manage costs down, that we are going to manage the additional flexibility and higher efficiency of the refinery, I only can recommend to you not to use the KPIs you have seen in the past for the refinery. The outlook we have seen in the business plan for the next years is convincing me with higher margins. This is because, in the short term, the RFCC is going to run next month. Also, the projects Manfred has mentioned for further investment, especially the crude flexibility program and our marketing expertise will run into that project. It will upgrade the performance and therefore the margins in the refinery.

Answer by **Manfred Leitner:**

Without giving you a figure, Mehdi, if the projects are coming on stream as planned, due to the superior product slate that is produced and actually as well due to the excellent condition of the refining assets, being the new stuff that we are having there, you will see a significantly better net cash margin than in Europe.

Operational

Question by **Peter Low – Redburn:**

Hi, just one quick one: when you look at the ADNOC Refining business, how do you see it operationally versus your own? What scope do you think there is to improve its performance further using your own expertise?

Answer by **Manfred Leitner:**

As I said, I think the team is okay; the team is good. The assets are very good. There are certain areas where we believe we can really transfer know-how, how you are running a refinery. This is going, first of all, to operating cost. This is a topic that we see. There is another area which has not been mentioned so far. This is this trading joint venture. The way the refinery currently is operated is, more or less, to run it at full capacity without actually having a feedback from the market. We are running our refineries more in a pull mode than in a push mode and this is exactly where we would like to get the ADNOC Refining as well. This will take some time because this is a change in the mindset, actually, of running and operating a refinery together with a trading joint venture. However, I believe there is a lot of value in that area.

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