Q3 & 9M 2024 Trading update

Tuesday 5th November 2024

Q3 & 9M 2024 OVERVIEW

Operator

Good day and welcome to today's Rubis Q3 and 9-month 2024 Trading Update conference call. Throughout today's recorded presentation, all participants will be in a listen-only mode. Later, we will conduct a question-and-answer session.

You may register for questions by pressing star 1 on your telephone keypad at any time and you may also submit your questions via the webcast. And now I'd like to hand the call over to Mr. Marc Jacquot, CFO. Please go ahead, sir.

Marc JACQUOT

Good evening, ladies and gentlemen. Thank you for joining us today for Rubis Q3 2024 training update. I'm hosting the call today with Clémence Mignot-Dupeyrot, Head of Investor Relations.

Before we dive into our business, let me remind you of the context of this quarter.

We faced an extremely volatile oil price due to the escalation of the conflict in the Middle East and prices fluctuated significantly throughout the quarter, especially in September and October with the general downgrade trend globally.

At Rubis level, the main elements of the quarter are the following.

On the Distribution side, we saw high volumes compared to last year, with 7% increase and 5% increase in the beginning of the year.

- This volume growth was mostly driven by Africa and to a lesser extent Europe. This demonstrates that Rubis is gaining market share in this country and demand for the products we distribute is there.
- However, on the margin, the very sudden decrease in oil prices and the subsequent volatility had a short-term negative impact on our margins with a global picture which is a bit contrasted depending on the geography.
- If you look in the Caribbean, which is less regulated, we were able to pass through the major part of the oil price fluctuations to our customers quite quickly. This area has not really suffered from this volatile context.
- On the other hand, in Africa, which is a much more regulated market with less flexibility in fixing the prices and time lags generated by pricing formulas, here, we ended up with inventories whose value had decreased between the purchase and the sale, thereby degrading our margins there.

When you look at Support and Services, the activity of our vessels continued to be dynamic in the Caribbean and the strong performance was offset by the bitumen trading activity which lagged behind.

- 2023 was a record year in a context of high shipping rates. This is why we see Support and Services margins decreasing year on year. As a reminder, to give you a bit of history here, we have been trading bitumen from the Mediterranean to North America when our vessels were vacant due to the rainy season in Africa or when we had lower in-house activity.

- These opportunities generated by market asymmetry became more limited in 2024 and more quickly than expected. This is the reason why we are shifting to a different geographic approach in the eastern part of the Atlantic and this switch needs sometimes to be fully up to speed.

When we look at Photosol, things are in line with what was presented in September with a secure portfolio now above 1 gigawatt.

Among the important events of the quarter, it is worth mentioning the sale of Rubis Terminal, which is now closed, giving way to the Premier's 75 cents exceptional dividend that will be paid this Friday.

As you have seen, the pressure on the margins combined with the delay of the adjustment of the pricing formula in Kenya has led us to revise our EBITDA guidance for 2024 to a bracket of 675,725 million euros for the year. Our net income guidance was updated with a mid-range which is in line with what was previously communicated at 340,375 million euros.

Our dividend distribution target remains unchanged. Clémence will comment on the operational highlights of the quarter.

Clémence MIGNOT-DUPEYROT

Thanks Marc and good evening, everyone.

To dig deeper into the operational highlights of the quarter, I invite you to look at slide number 3 where you can see in more detail the energy distribution retail and marketing business where volume was up 7% over the quarter and gross margin down 1%. This means that unit margins were down 7% compared to last year.

On a product-by-product basis, LPG continued to perform well with an increase in volume and margins which were stronger over the quarter in Autogas in France and Spain and a continued high level of activity in the ceramics business in Morocco. Portugal was under high competitive pressure during this quarter and had decreasing unit margins.

Now looking at the fuel business, Caribbean still performed well with, let me remind you that 2023 was an excellent year for the Caribbean in the fuel distribution business and this trend continues. Jamaica and Guyana are ahead of the ball with very strong growth both in volume and margins. In Haiti, margins remain stable, but volume are decreasing. We're still waiting for the UN Forces intervention to produce effects.

In Africa, we see a catch-up in the demand for products with an increase in volume. The margins are under pressure. This is the outcome of two reasons which Marc has already mentioned.

- First reason is the oil price decrease over the quarter in a very volatile context which has led to inventory depreciation in Africa and the fact that the prices are very regulated in this area leads us to adjust our prices based on the price of the previous month. So that's the reason why the effect was more important in this part of the globe.

- The second effect is the Kenyan pricing formula, which was defined in 2018, and which is now completely out of date and needs to be updated to reflect the increase in the different costs along the value chain. The EPRA, Energy and Petroleum Regulation Authority has ordered a report which is called COSOP Cost of Service Study in the Supply of Petroleum Products which was supposed to be issued mid-year and give way to the adjustment of the pricing formula. The issuance of this report has been slightly delayed and was submitted to the EPRA last week and the industry is waiting for the outcome and for the subsequent adjustment of the pricing formula.

Now if you look at the Bitumen business volume is increasing by 18%. This is underpinned by South Africa which is very dynamic. Nigeria continues to suffer. Togo and Cameroon are still showing a good performance. Just to give you a bit of history in terms of margins, Nigeria is a country with very high margins and the fact that Nigeria is decreasing to the benefit of South Africa where margins are a bit lower decreases mechanically the global picture of unit margins on the bitumen side.

Now turning to Support and Services, I will not stay too long on that topic because Mark has already mentioned this before, but 2023 was very good for the Caribbean activity in the Support and Services and this continued in 2024. 2023 was also a moment where the freight rates were very high and what we see now in 2024 is that the bitumen trading activity is decreasing as demand in North America is shrinking.

Now if you look at Photosol you can see that the assets in operation and the sales have grown over the quarter. This is perfectly in line with what we have announced during the Photosol Day in September. The secured portfolio is now over 1 gigawatt and if you wonder why the sales only grew by 6% while the assets in operation grew by 22% you need to remember that Q3 2023 had the benefit of selling part of its electricity production directly to the market at merchant price.

I will now hand over to Marc, who will lead you through the updated guidance.

I. Updated Guidance and Conclusion

Marc JACQUOT

Thank you Clémence.

As a conclusion and to summarise this quarter was one of strong volume growth with undeniable pressure on margins driven by the high volatility of the oil prices combined with specific operational headwinds.

I would like to highlight the fact that the effect we are mentioning on oil prices fluctuation is short term.

Going forward, if and when the product prices will go up, we will be more profitable and offset the shortfall observed over the month of September. If the product prices remain the same the heat of the month will not be offset straight away but this could have a positive impact on consumption because when the cost of the products are cheaper people have a tendency to consume more. In the context of very volatile international prices this is very hard to predict. This is the rationale behind the revision of our guidance together with the bitumen training update and the pricing formula issue delay we had in Kenya.

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

QUESTION AND ANSWER SESSION

Operator

Thank you, sir. As a reminder to ask a question over the phone please signal by pressing star 1 and please make sure the mute function on your phone is switched off to allow your signal to reach our equipment.

You may also submit your questions via the webcast. Our first question comes from Jean-Luc Romain from CIC Market Solutions.

Jean-Luc ROMAIN, CIC Market Solutions

Good evening, a question on the turnover for renewable electricity in order to understand very well the movements here could you detail how much megawatt hours were sold and the average selling price in this quarter compared to last year to have a better vision of the impact of starting PSA.

Clémence MIGNOT-DUPEYROT

Thank you, Jean-Luc. The electricity production for Q3 2024 was 166 gigawatt hours. I'm not sure I perfectly caught the second part of your question.

Jean-Luc ROMAIN, CIC Market Solutions

The average price of electricity sold last year compared to this quarter I understand this quarter had more PPA and last year had more pre-contractual things.

Clémence MIGNOT-DUPEYROT

As you might remember corporate PPAs and also CRE contracts are 20-to-25-year contracts, so the average price is overall aligned with what was in place last year. What happened last year was that we were able to sell part of the electricity at merchant price. That was the mechanism put in place by the CRE to offset the beginning of the contract which had not had this inflation adjustment component. We were able to sell electricity for 18 months at market price.

Jean-Luc ROMAIN, CIC Market Solutions

This quarter you had 1066 MWh and last year it was…?

Clémence MIGNOT-DUPEYROT

167 MWh. It was exactly the same quantity. That's all. Thank you

Marc JACQUOT

And Jean-Luc, maybe in addition, to quantify the stock effect in 2023 which was amounting to 2.2 million euros last year.

Jean-Luc ROMAIN, CIC Market Solutions

Thank you.

Operator

Thank you. As a reminder to ask a question over the phone please signal by pressing *1. We will pause for just a moment to allow you to signal. Again, it is *1 to ask a question.

Clémence MIGNOT-DUPEYROT

We have a question online from Emmanuel Matot. I will read and then answer Emmanuel's question: *"What are the conclusions of the report you mentioned in Kenya that was submitted to the authorities. Are you confident that the pricing formula will change in the near future in that country?"*

Marc JACQUOT

Emmanuel, this is a point already elaborated on in the speech. The pricing formula has not changed since 2018, and this is something known in the industry and this is a discussion that has been ongoing for a while. Major milestones have been reached typically the cost of state was key, meaning the cost-of-service study. It is a major milestone that did not happen in the past.

Today, the Energy and Petroleum Regulatory Authority in Kenya is reviewing this study.

Basically, some milestones have happened. It took more time than expected, but we are confident that it will happen by the end of the year or even next year. We cannot, of course, commit on that and we have already been disappointed, but we see some good movement there.

Clémence MIGNOT-DUPEYROT

The second question from Emmanuel was: *"Why did you produce less electricity in Q3 despite more production capacities?"*

The reason behind, Emmanuel, is that there are several effects.

The first one is, if you look at the increase in operational capacities as such, they have increased compared to last year. Q3 2023 was not as sunny as a normal Q3 I would say. As we mentioned during the Photosol day and our H1 results call we have suffered some damage on some underperforming panels in some older solar plants which are under recourse with different providers. This is the main reason why the electricity production did not grow exactly in line with the capacity

Marc JACQUOT

Also important to mention small impacts. When you look at a single partner or the capacity with an installation with 500 MW, it is very sensitive to those kind of elements. When the business grows, we will absorb those problems more easily.

Clémence MIGNOT-DUPEYROT

Maybe we can take the question from Auguste, who is on the line. On the phone.

Auguste

Hello, do you hear me?

Marc JACQUOT

Yes, we can hear you.

Auguste

My question is, this year your net income will be artificially high thanks to the effect of the divestment of Rubis Terminal for a bit more than 80 million euros. Given that this effect will not be present next year, should we expect a drop in net income for 2025?

Marc JACQUOT

Thank you for your question. First of all, it is a bit early to talk about 2025. Maybe what we can say about 2024 is that the year has been impaired by a few elements like what we mentioned in H1 about the compensations related items, IFRS 2, which were way higher than historically.

Also, what you saw the margin pressure in Kenya is not how we see the business going forward.

And the inventory effect following the volatility and the old price is not something we expect to see again. This is what I can tell you about 2025.

In addition, keep in mind that Rubis is looking for M&A targets and wants to be active on this side. It doesn’t mean we have something in the bag, but it is something you have to consider. This is what I can tell you about 2025 at this stage. Based on the account of 2024, we will provide you with a more detailed guidance.

Auguste

If I may have a second question: do you expect the net income for next year to be mainly driven by M&A or easier comps rather than the growth of your existing activities?

Marc JACQUOT

No. What I am telling here is that we see both. First, 2024 had a lot of negative effects that we mentioned My point was to say that we were looking for M&A opportunities. It could be an upside in the future.

Clémence MIGNOT-DUPEYROT

We have a question from Nicolas Rouault who is asking, *“Can you quantify the various effects of the decline in the unit margin in particular the inventory effect?”*

The second question was about the pricing formula in Kenya, but I think we already covered this point with Emmanuel’s question.

Marc JACQUOT

What we can say is that the decrease in our price is not the only reason of course the volatility of the swings is a key factor and quantifying the impact on our inventory for today and the rest of the year is complicated.

However, let’s be clear we are not talking about major hits but big enough to make us less comfortable to reach the guidance.

Clémence MIGNOT-DUPEYROT

We have another question from Thomas, *who is asking about the drivers of the strong performance of bitumen in South Africa.*

South Africa is a market where we have penetrated with bitumen two years ago. At the time we did not have any specific storage facilities. We needed to rent storage facilities to feed the market. We were only using our vessels. It was more difficult to address this market.

Since 2023 and 2024, we have acquired a few tanks in different harbours along the coast of South Africa. We are now ready to address the market which is a growing market where they have an important need for infrastructure. The road contractors who are mainly multinational companies are very confident in doing business with us.

This is the strength of Rubis in the whole Bitumen Distribution business because we are able to guarantee the sourcing of the bitumen which is a strong guarantee for potential European or other listed companies, and we are also able to deliver the product hot, which is not necessarily the case of our competitors who are delivering barrels of bitumen which need to be heated to be able to use them.

These are key competitive advantages in the bitumen business and that's why the South African market which is a recent one for us is growing quite significantly.

Marc JACQUOT

I take the opportunity to come back on Auguste's point about net income. I was referring to compensating the one-off of 2024 to improve the performance of 2025. I was referring to M&A.

But also, when I talk about M&A, I include also some geographic diversification in the Bitumen business because this is something we know how to do and Clémence just mentioned it.

We may have other opportunities in other countries, and of course this is something that we look at. But it's too early to talk about it or to commit about anything but for sure this is part of the course driver.

Operator

It appears there are currently no further questions on the phone and no further questions on the webcast. I'd like to hand the call back over to our host for any additional questions.

Marc JACQUOT

Thank you for your time and we are very happy to have a discussion with you. Please feel free to call us should you have any follow-up questions or if you need any clarification. We'd be more than happy to answer your questions, and we wish you a very good evening.

Clémence MIGNOT-DUPEYROT

Thank you.

Operator

Thank you. This concludes today's conference call. Thank you for your participation. You may now disconnect.

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