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H1 2025 Earnings Call Transcript

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Transcript of

Luberef's H1 2025 Earnings Call

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Participants

Samer Alhokail- CEO, Luberef
Saud Kamakhi - CFO, Luberef
Saleh AlGhamdi- Head of IR Engagement, Luberef

Presentation

Saleh AlGhamdi- Head of IR Engagement, Luberef

Al-Salam Alikam Warhama Allah Waberkath

Welcome to this webcast to discuss Luberef's first-half 2025 results. Please note that this podcast is available with simultaneous Arabic translation to ensure effective communication with all investors and listeners.

Hello everyone, I'm Saleh Alghamdi, from Investor Relations department at Luberef.

It is my pleasure to welcome you to today's audio webcast, where we will be discussing our performance for the first half of 2025.

I'm also pleased to be joined today by our Chief Executive Officer, Mr. Samer Al Hokail and Chief Financial Officer, Mr. Saud Kamakhi.

Our session will begin with a presentation highlighting Luberef's H1 2025 performance, followed by a Q&A session.

Please note that this webcast is being recorded for future reference.

Before we dive into the presentation, I would like draw your attention to our cautionary statement, during today's presentation we may make forward looking statements that refer to estimates, plans and expectations, actual results outcomes may differ materially due to factors stated in this slide. With that out of the way I will hand over the call to our CEO Mr. Samer Alhokail.

Samer Alhokail- CEO, Luberef

Thank you, Saleh, and Good day everyone. Welcome to Luberef's earnings call for the first half of 2025. Thank you for joining us.

This quarter, we implemented several transformation initiatives, maintained focus on the Growth II project, and strategically positioned Luberef to capitalize on future opportunities. We are proud to share that our continued commitment to safety and operational excellence has delivered outstanding results. We recorded a Total of 40.1 million safe man hours without lost time injury, zero TRIR and achieved a Mechanical Availability of 98.4% YTD.

In parallel, we continued to strengthen our internal capabilities. A key milestone this quarter was the successful implementation of Internal Control over Financial Reporting (ICFR) program. This accomplishment reflects strong cross-functional collaboration and leadership commitment. With robust monitoring controls now in place, the program enhances our governance and compliance framework

As previously guided, HVGO supply was successfully resumed in Q2 after overcoming the majority of technical challenges. As a valuable intermediate stream, HVGO contributes significantly to base oil production efficiency. Looking ahead, we plan to sustain HVGO supply while actively assessing other intermediate streams, that can further maximize refinery utilization and support overall operational performance.

As part of our broader transformation, we strengthened our place in the domestic market and continued to expand our downstream footprint. We implemented an approach to prioritize local demand and enhance sales within the Kingdom, reinforcing our commitment to long-term, sustainable growth. We are also closely monitoring positive developments in the LubeHub initiative, with growing investor interest and visible progress across the platform.

These efforts further strengthen Luberef's role in advancing the Kingdom's industrial and mobility sectors. The upcoming wave of Saudi Arabian mega-projects represents a transformative opportunity. Driving demand for advanced infrastructure and mobility solutions. Luberef is well prepared to meet this demand by providing the base oils and specialty lubricants essential to supporting the Kingdom's economic and industrial development under Vision 2030, where it plays a vital and enabling role. These strategic efforts have also allowed us to place greater focus on the domestic market, where we introduced targeted incentives to drive local sales.

Our logistics performance remained strong this quarter, supported by proactive risk management and a diversified contracting approach. Despite ongoing geopolitical challenges in the region, we maintained smooth and reliable operations. A fixed-rate shipping agreement was signed during the period, contributing to a reduction in freight costs quarter-over-quarter. This helped us normalize logistics costs and reduce exposure to market volatility. This stability not only ensured uninterrupted supply to our customers and supported market demand, but also enabled us to place greater focus on the domestic market.

Luberef's growth strategy extends beyond our current endeavors in Yanbu. While the expansion in Yanbu marks our entry into the Group III base oil market, we are also laying the groundwork for an even more advanced initiative—our prospective Group III+ facility. We are in the early stages of evaluating this idea and more information will follow in couple of months.

Growth II continued to move forward this quarter, with progress across key workstreams as we worked through earlier procurement-related delays. As typical with projects of this scale, we encountered material delivery challenges that temporarily impacted the timeline. In response, our teams are implementing recovery plans aimed at minimizing disruption and supporting alignment with upcoming milestones.

While movement during the procurement phase was slower than initially planned, progress is being made. With procurement activities now nearing completion, we expect the pace to increase as the project transitions into the more construction-intensive and engineering phase in second half of the year.

Our Capex reflects continued progress on the Growth II project, with total spending reaching SAR 113 million as of the first half of 2025. This figure is expected to rise further as we move into the more construction-intensive phase in coming quarters. Our full-year capex plan remains firmly on track, maintaining our forecasted spending range of SAR 250 to 350 million for 2025.

The upcoming turnaround is a key focus area, and preparations are underway to ensure seamless coordination with the mechanical completion of Growth II. Reinforcing our commitment to safe & high-quality execution while progressing toward project completion.

Base oil crack margins in the first half of 2025 was SAR 1,828 per ton, representing a 6% increase compared to the crack margin recorded in the first half of 2024. Notably exceeding our 10-year historical average.

Looking ahead, our growth and new future initiatives remain a priority. With a solid operational foundation, a clear roadmap and strong momentum across key markets. Luberef is well-placed to continue enabling industrial growth, both within the Kingdom and globally. We remain motivated to creating long-term value for all stakeholders through consistent execution and focused leadership. With that, I'll now hand over to our CFO, Saud Kamakhi, who will walk you through the financial results.

Saud Kamakhi - CFO, Luberef

Thank you, Samer. I extend a warm welcome to you all, and I am delighted to guide you through our H1 2025 financial results and provide insights into our guidance for the remaining financial year.

During the quarter, we upheld our commitment to safety and operational discipline, even as we navigated several operational challenges. This approach led us to take precautionary measures, resulting in two unplanned shutdowns at our Jeddah and Yanbu facilities, respectively. While these events impacted production, resulting in a slight decline in sales volumes compared to the first half of 2024, our teams responded promptly by restoring operations and minimizing further impact. Consequently, we have updated our base oil production guidance for 2025 to 1.05 million metric tons, compared to the earlier guidance of 1.2 million metric tons.

Turning to our financials: the decline in revenue during H1 2025 was mainly driven by lower Base oil and by-product sales volumes. This also impacted EBITDA and net income, as weaker by-product crack margins were the primary contributor to the drop in profitability.

It is worth highlighting that our base oil crack margin improved during the period.

This was primarily driven by an increase in base oil selling prices, and decrease in feedstock costs.

In H1 2025, free cash flow was impacted by a combination of working capital movements and a planned step-up in capital spending. Increases in inventory and prepayments, along with a reduction in payables, influenced the timing of operating cash flow. At the same time, we made strategic investments in our capital program, reflecting our commitment to long-term growth and operational resilience. While these factors affected free cash flow this period, they represent foundational moves that position us strongly for sustained value creation in the periods ahead.

As a result, our cash conversion rate moderated this period; however, with a very low gearing ratio, our balance sheet remains robust and provides ample financial.

As discussed earlier, two key factors contributed to the decline in our net income for H1 2025 compared to the same period last year: a drop-in by-product margins and a reduction in base oil volumes, leading to a 13% decrease. Looking at the other components of the waterfall chart, operating expenses were slightly higher, and zakat and tax were lower, reflecting the decline in net income.

Let me now walk you through our cash position at the end of H1 2025.We began the year with a cash balance of approximately 1.2 billion Riyals. Over the first half, our operations generated 459 million Riyals in cash.

We continued to invest in our growth journey, allocating 221 million Riyals toward capital expenditures. At the same time, we reaffirmed our commitment to shareholder returns, distributing 518 million Riyals in dividends for the period of second half, 2024.

In addition, we recorded 92 million Riyals in outflows related to loan repayments and finance costs. After accounting for all these movements, our closing cash balance for the first half of 2025 stood at 815 million Riyals, a decrease of 372 million Riyals from the start of the year — in line with our planned activities and capital allocation priorities.

Let me now share our updated guidance for the rest of 2025. Our 2025 base oil production forecast has been revised to 1.05 million MT due to an unplanned shutdown for urgent maintenance. Despite that, we remain fully committed to meeting customer demand and maintaining operational continuity. In parallel, we are committed to expand our domestic market footprint, and to continue targeting for local sales to account for approximately 30% of total volumes, supporting our strategy to enhance value capture and reduce exposure to external market volatility.

As previously guided, we have resumed HVGO supply from SAMREF at it would continue , contingent on compatible feedstock availability. This supports our base oil production reliability and enhances our operational flexibility going forward.

For H1 2025 performance, the declared cash dividends for the period return to shareholders is 168 million Riyals, with all other elements in guidance remain unchanged.

In summary, Luberef remains focused on delivering operational excellence, disciplined execution, and long-term value creation.

The first half of the year brought some operational and financial challenges. However, we responded with agility and maintained progress across our key initiatives.

Entering the second half of 2025, we are confident in our strategy and the dedication of our team. To advance Luberef as a leading player in the global base oil and specialty lubricants market.

With that, we'll now open the floor for your questions and hand it over to Saleh to lead the Q&A session.

Saleh AlGhamdi- Head of IR Engagement, Luberef

Thank you, Saud.

As it is the usual with receiving the questions, please state your name, your question and your working address.

But prior to that, we would like to read a couple of questions that are written for the CFO to answer.

Question number one, why is the Capex range so wide?

It is currently 250 to 350 million Saudi Riyal.

Wouldn't you have more clarity on it given the proximity to completion at halfway?

Saud Kamakhi - CFO, Luberef

Thank you, Saleh for this question I think the range is around 100 million, approximately less than $30 million on a project like $200 million is an acceptable range as we are in halfway that we so far spent around 113 million Riyal in our growth project.

We are in these kind of project as we are accelerating also our work and progress in that project. Some payment we are expecting maybe to come at the end of this year, otherwise maybe it will come at the early 2026 for later we can give more closer range, but this is what we are reaffirming and reiterating our what we mentioned in our Guidance at the beginning of the year.

Saleh AlGhamdi- Head of IR Engagement, Luberef

Thank you, Saud.

The second written question is what was the working capital outflow in the second quarter of 2025? Would you expect the rest of the year to have similar working capital outflow?

I see that you have distributed 70% of your free cash flow as dividends. Wouldn't it be more sensible to pay close to the top branch which is 80% given the net cash balance sheet?

Saud Kamakhi - CFO, Luberef

OK. This is a good question.

Luberef continue to have its own dividend policy that is performance link. And we are committed so far to that policy and just going again with our previous distribution, it also was around at 70%.

So we are continuing our current distribution with the same and in the growth phase that where we are right now, where we are seeing that it's reflected clearly in our capital programmes, we could have also going 60 so that the target in our policy between 60 to 80. However, we return back to our shareholder at this time 70%.

Saleh AlGhamdi- Head of IR Engagement, Luberef

Now we have answered the two written question moving to Mr. Jonathan Chung from Morgan Stanley.

Q: Hi, thank you for taking my question.

I've got 2 please. First one on your by-product business, why were volumes and margins weaker and could you give us a bit more colours on what the trading momentum going into second, second-half?

And my and my second question is around your production cost for the quarter, it seems a bit higher on a per ton basis.

Could you give a bit more comment please?

Saud Kamakhi - CFO, Luberef

OK, for your first questions, you are talking about the by-product?

We have encountered positive impact in our by-product from the feedstock area. But despite that we have lower prices of by-products which had a higher impact on the by-product mix. So therefore, we are having negative by-product crack margin during this period that is impacted our by-product of this period.

For your second question.

Cost of production.

Q: Yes.

Saud Kamakhi - CFO, Luberef

Can you repeat that again? Sorry.

Q: Yeah.

So it looks like your cost of production per ton, it's a bit higher in the second quarter.

Could you give us a bit more comment?

Saud Kamakhi - CFO, Luberef

I'm not sure how much you have the cost.

I'm not sure we shared the cost of production so far.

So we have the cost of production usually comes with and our cost of sales.

But we see it at the normal stage right now.

We don't see any fluctuation in that regard.

OK.

Samer Alhokail- CEO, Luberef

Quick, , just follow up, Jonathan.

This is the CEO.

On the by-products, there's tremendous pressure on some of the by-products we have at a global stage.

So they're at actually negative Crack Margins.

Roughly $28.00 per ton, which is equivalent to 105 riyals per ton.

So that kind of tamped down that's by Q2 tamp down the overall Net of the company itself.

But Needless to say, of course the Crack Margins of the base oil is on the upside, which is more important.

Understood. Thank you.

Saleh AlGhamdi- Head of IR Engagement, Luberef

Thank you, Jonathan.

OK, we have Ildar.

Q: Yes, hi.

Thank you so much.

Any chance you could give us a call or in terms on the difference between Crack Margins based on VGO and HVGO? that's my first question.

And secondly, could you please elaborate on the nature of the shutdowns Jeddah?

Should we expect this to continue or this has been resolved already?

Thank you.

Saud Kamakhi - CFO, Luberef

So thank you, Ildar.

Just to repeat your question, the first one was about the difference between the HVGO.

Could you repeat the first one please?

Just to make sure I grasp your idea correctly.

Q: Yes, correct.

So I wanted to understand better the difference between VGO and HVGO margins.

Are they very different or not?

Saud Kamakhi - CFO, Luberef

So yes, Ildar, that is something that I think we we're working on in order to find different mechanism to have that different crack margins for different VGO stream and to be shared later with you and with all other analysts.

So we want to continue that. Currently we have very positively continued the HVGO that are coming from Samref. And that is starting come back again in Q2, which is now we are looking at, and we will ensure that we have that segregation in the future.

Samer Alhokail- CEO, Luberef

So just a little bit of clarity on the HVGO ildar.

That is a stream that is embedded directly to the hydrocracker.

So it means that bypasses some of the pots and pans, hence making it.

Less it's actually that tames down the operational cost of the whole facility because you're not going through different equipment, you're going directly to the hydrocracker which we have envisaged to do that and we continue to do that. It's quite beneficial to the company itself.

Now on the shutdown, I think you're referring to the Q1 shutdown and that took place because of catalyst change out on that.

And then also an exchanger we had some of the equipment, but that's the that's the that's what I understood from your question.

Q: Thank you.

I maybe I'm confused a bit, but I think on this call today you've downgraded your full year Guidance from I think 1.2 to 1.05.

Could you explain again why it happened was driving this?

Thank you.

Saleh AlGhamdi- Head of IR Engagement, Luberef

Yes, Ildar apologies for not understanding your question properly the first time.

Basically two, each seven days shutdown encounter we encountered in the second quarter.

One Jeddah refinery, the second Yanbu refinery, both were to address the matters related to our integrity and safety.

As a result of the Yanbu, let's begin with Jeddah.

So the Jeddah shutdown was fully successful and we addressed the matter that we close and we went into shutdown for. But for Yanbu while we mitigated this issue, it will still continue until November and because of that, because of those two shutdowns combined and as other production related matters, the Guidance has been revised to 1.05 million metric ton rather than 1.2 which was originally accounted for.

Q: Thank you

Saud Kamakhi - CFO, Luberef

If I may, this is may impact us in a very short term, but this is very important from our team effort to assist any potential risk and that is very important to recognize this to ensure the safety and integrity of our assets.

Saleh AlGhamdi- Head of IR Engagement, Luberef

And to finalize from my side Ildar while we successfully addressed our shutdown in Jeddah.

From an operational perspective, when an emergency happens, it happens, but we are confident today when we say we addressed those issues and the refineries back on track.

Yanbu but is still facing minor difficulties.

Due to which we have revised our Guidance for the rest of the year.

Q: Thank you.

Saleh AlGhamdi- Head of IR Engagement, Luberef

Any more question, gentlemen?

Ildar again.

Q: Thank you again.

Yes, maybe just to make sure I understand the timeline correctly for the growth II.

Has there been any changes to your understanding of when approximately you expect this facility to start operating and producing actually Group III and any chance maybe you could give us some Guidance in terms of what kind of Capex we should expect for 2026 as well?

Thank you so much.

Samer Alhokail- CEO, Luberef

So Ildar, good question.

So the project is scheduled to be part of the turnaround. The turnaround is the last month and half.

And a half of the year which is about 45 days, whereby the schedule turnaround takes place,there are other activities in addition to the project hook up.

Which currently as we mentioned there was some procurement delays that we are gearing up. We have geared up to put them back on time. And now once that and all and done production will start in January of that facility and that facility itself has the ability to produce group II fully or also part of it Group III.

So that mix will come later on on the Guidance.

How much of A mix we want to do in terms of three or two, if we would produce more three, that means going to be on the expense of Group II and the expense of the catalyst severity whereby it will require more change.

So there is an optimum operation model that we will give Guidance window to the analysts and that's going to come soon.

Saleh AlGhamdi- Head of IR Engagement, Luberef

There's another question about the Capex for 2026, Mr. Saud.

Saud Kamakhi - CFO, Luberef

So the question I recall, how much is the growth expected?
So far within our Guidance and where we are seeing it, we are expecting for the growth Capex for next year will be around between $100 to $120 million at that range in order to have remaining around 10% to 15% in 2027 and that is usually related with insurance and guarantees of the facilities once it's run.

So these will be the expected for next year.

Saleh AlGhamdi- Head of IR Engagement, Luberef

OK. moving on to one written question by Mr. Ajay Singh.

Yanbu Well, I'm sorry, can you go to the?

Yanbu will face an issue implying Group II is much higher in Crack margin.

Will this impact the crack margin for second-half of 2025?

To answer you in a couple of points.

The first one, we don't usually provide an outlook statement regarding the finances.

However, let me answer you in terms of what the outlook says about the prices of each side of the equation.

So for the base oil prices, they're expecting to remain the same for the year 2025 for the second-half of the year.

While on the other hand, due to the current geopolitical situations and the pressure generated by the OPEC +decision to increase the production are expected to put pressure on the prices of the high sulfur fuel oil.

We look at this positively and working to capture the opportunity of gaining from the highest spread between the two prices.

Next question by Mr. Hisham Kabbani.

What's the update on the Jeddah facility closure in 2026?

Any chance it will get extended?

Samer Alhokail- CEO, Luberef

Hi, Hisham, good question.

This is a very important facility for us.

But also it has challenges as it's a very old facility as well, so therefore a lot of assessments., and not only assessment for operation, but environmental assessments, permit assessments and discussions , online discussions and dialogues, face to face dialogues with the owners and the land.

Will take its own tall on that and then soon we'll be coming back with an official statement on the fate of Jeddah facility.

Samer Alhokail- CEO, Luberef

But, again, let me just actually remind you

You said is there any chance it will be extended?

regardless whether it does or not, I think the message here is the company is at a growth stage.

And what's coming from Growth II and beyond that, as we mentioned in the statement, will actually trump Jeddah facility in the next 5 or four or five years, meaning that it will overcome and some of these projects are actually at multiple to Jeddah's Income .

So that's the idea on whether the Jeddah is there or not, but definitely we are.

In the meantime, we are working to come to an agreement if that will be extended or not.

Saleh AlGhamdi- Head of IR Engagement, Luberef

Thank you, Mr. Samer for the extended detail.

Couple of questions for Mr. Fawad Khan.

First one, what aspect of plants operation in Yanbu has led to lower production and sales Guidance?

As answered previously, it was a matter of integrity and safety. We don't compromise safety when it comes to our operations. Hence our teams took immediate action to address this issue. Which we were able to address alhamdulillah, but with that in mind we had to revise our calculations for the rest of the year.

Another question from Mr. Fawad Khan, what are the reasons for the increase in working capital in the second quarter?

Saud Kamakhi - CFO, Luberef

Actually the working capital is, if we look at the period, we have decreased during this period comparing to before, but for us, we have faced some inventory evaluation, we have a prepayment that have been done during this period and settling off some of our payables.

So we are facing a decrease in that area.

Saleh AlGhamdi- Head of IR Engagement, Luberef

For growth II project has a secured UCO stream to fully optimize production.

If I understand your question correctly, Mr. Fawad Khan, you are referring to whether or not we have secured the UCO?

UCO is currently under technical evaluations. We are evaluating different options from variety of facilities both within the Kingdom and outside the Kingdom. But it did not go to commercial yet.

On behalf of our asset optimizer department and technical engineering, we are in technical evaluation stage.

Samer Alhokail- CEO, Luberef

For that, Fawad what I think we've demonstrated in the past to source UCOs globally. That was, I think, two years ago or a year and a half ago. And that whereby to continue Jeddah. So that's the capability of importing and processing UCO is well in hand.

Saleh AlGhamdi- Head of IR Engagement, Luberef

To highlight, in addition to what our CEO mentioned, we do have a lot of experience when it comes to sourcing and manipulating different streams in, different stages of our process.

So a couple of years back, it was the alternative feed for Jeddah refinery.

We have a successful example of the high heavy vacuum gas oil HVGO.

UCO is another attempt that we have experience with.

Another written question why was the market not informed about the shutdown?

We do our own internal assessment to check the materiality of the impact and measure it against the financial statements of the previous year.

We assure that we have looked into all these angles and did our own internal assessment to make sure that this is worth highlighting or not the materiality was not reached.

The decision was not made to go live with such information in that case.

Samer Alhokail- CEO, Luberef

Pretty much it's a slow down on the volume that took place.

Because of a duty in the exchanger that has been currently mitigated and hopefully we are approaching to the target volumes.

If yes, that's going to be good. If not, then we will sustain the same target that we have mentioned.

Saleh AlGhamdi- Head of IR Engagement, Luberef

With that, we answered all the written questions for now.

Any further questions, both verbal or written?

Gentlemen, ladies.

If no further questions are here, thank you for attending and thank you for your valuable participation.

For any backup questions, feel free to reach Investor Relations at Luberef and this recording will be uploaded as usual for your future consideration.

Thank you.