



Q1

2025 Earnings Call Transcript

Transcript of
Luberef's Q1 2025 Earnings Call
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Participants

Saud Kamakhi - CFO, Luberef

Saleh AlGhamdi- IR Engagement Supervisor, Luberef

Presentation

Saleh AlGhamdi- IR Engagement Supervisor, Luberef

al-Salam Alikam Warhama Allah Waberkath

Hello everyone, I am Saleh AlGhamdi from the Investor Relations department at Luberef.

It is my pleasure to welcome you in today's audio webcast where we will be discussing our first quarter results for the year 2025. I'm also pleased to be joined today by our Chief Financial Officer, Mr. Saud Kamakhi.

Our session will begin with a presentation highlighting Luberef's Q1 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 to draw your attention to our cautionary statements. During today's presentation, we may make forward-looking statements that refer to estimates, plans and expectations.

Actual results and outcome may differ materially due to the factors stated in this slide. With that out of the way, I will hand over the call to Mr. Saud.

Saud Kamakhi - CFO, Luberef

Thank you, Saleh, and good day, everyone. Welcome to Luberef's first quarter 2025 earning call. Thank you for joining us.

In this quarter, we kept the pace in our growth oriented journey by tackling business transformation, focusing on growth to project and looking ahead to future opportunities as well.

We are proud to announce that our commitment to safety and reliability continues to thrive, maintaining our industry-leading safety performance, recording a total recordable incident rate of 0 and achieve a mechanical availability of 97.6%, a clear reflection of the operational disciplines embedded across our organization and reflecting our dedication to the highest standard.

And operational excellence.

To further reinforce our commitment to workplace safety, we adopted A comprehensive framework aligned with the international best practices and proudly obtained the ISO 45,000 and ONE certification for occupational health and safety management systems. This certification represents a significant milestone in our efforts to ensure a safe, resilient and high performing work environment for all our employees.

Continuing our transformational journey, we remain dedicated in our commitment to unlocking additional value from our existing operations through targeted commercials initiatives aligned with our long term strategy.

In the first quarter, we successfully introduced our bright stock and 110 Prima products into higher net back markets where demand for these grades is strong. This was made possible through our base oil alliance, enable us to tap into more lucrative channels and further reinforce our commercial resilience and evolving market dynamics.

On the external front, Luberef was honored with the first place in Sultan AlDeghaither's Award for the Best IR program in the Middle Cap categories by The Dawn.

This milestone is both an honor and motivation for us to continue our obligations by being transparent and confident in what we report.

Meanwhile, the Yanbu Growth II project is an essential and key pillar of our long term growth.

We are actively collaborating with our contractors, applying rigorous oversight and upholding the highest standard of quality and control to ensure the project is executed successfully despite the challenges we face.

Progress remains broadly in line with our previous guidance and the project is currently in the procurement phase. While we face some delays in material procurements, mainly due to technical clarifications with vendors and the need for licenses approval for new equipment, our teams are actively working to resolve this issue and keep the project on track.

Our current progress of 42 percent is slightly less than our plan for quarter one as the nature of this project is heavily weighted in procurement activities and less than an engineering and construction and the progress will pick up in the next two quarters.

As of today, we are preparing for the material receiving phase, during which we will coordinate closely with all stakeholders to ensure every project requirement is met and preparation for execution.

The turn around window remains set at 45 days during which we will complete both the scheduled five years maintenance cycle and the mechanical completion of growth II.

In terms of investment, the total CapEx spent on the project since inception stand at 135 million Saudi Riyal. Our CapEx plan for 2025 remains unchanged in the range of 250 to 350 million Saudi Riyal aligned with our project execution timeline.

Looking at the base oil crack margins, quarter one crack margins came at 1755 Saudi riyal per ton, which is 9% higher than 2024 first quarter crack margin and within few percentage points of the 10 years average of 1791 Saudi Riyal reflect the resilience in our business.

During quarter one, the planned catalyst replacement shutdown has been completed safely and successfully despite the additional 8 days required to complete the replacement. However. And with that, we managed to record a sales volume of 272,000 metric ton, which is slightly higher than the same period last year.

On the pricing side, while base oil crack margins shows a modest improvement, overall revenue declined slightly year over year by 2.5% during the quarter. When comparing crack margins for byproducts to the same period last year, we observed A decline primarily due to an increase in feedstock cost. This led to a slight drop in both EBITDA and net income by 10%. And 7% respectively.

Operating cash flow and free cash flow are showing increase due to changes in working capital that we will detail later.

In terms of investment, CapEx spending remains on track in line with our plans covering both maintenance and growth related projects. Sustaining and growth to CapEx are higher than the comparative period primarily due to spending related to the new catalyst and our commitment to the project's milestone.

That said, despite the timing impact, we continue to excel in converting profits into actual cash with consistently strong cash conversion matrix.

From a balance sheet perspective, gearing remains negative, which reinforces our strong financial position and healthy capital structure. Our return on average capital employed also remains at a healthy level.

Underscoring our efficient capital utilization and value creation for shareholders.

Let me now walk you through the waterfall chart for net income.

Despite the drop in the crack margin of the byproduct mentioned earlier, however, this was offsetted by the improvement in the base oil crack margins which soften the impact during this quarter. In addition to that, our operating expenses as well as the zakat has been lower in comparative basis, which reflects our continued focus on operational efficiency and improve our processes to sustain our financial health.

Moving to cash flow analysis, we continued to demonstrate strong financial discipline and maintain healthy level of cash generation, resulting in a solid cash balance at the end of the quarter.

The significant increase in the cash flow from operations this quarter is primarily attributed to positive movement in working capital, mainly from the improved collection during the first quarter which has been lower and impacted by build up inventory and semi finished product that will be converted to base oil and timely difference in trade payables that has been settled.

As always, we remain focused on our core principles of safe and reliable operations while actively exploring value creation opportunities that enhance our financial performance and support long term value creation for our shareholders.

Our 2025 guidance remains unchanged and we are pleased to share an additional operational update regarding HVGO.

The HVGO supply from Samref is expected to resume in quarter 2 with a planned quantity of 1500 ton per month, contingent on the availability of a compatible feedstock stream for base oil production.

The incremental development further strengthens our operational outlook and enhances our flexibility in meeting market demand through the rest of the year.

In closing, quarter one, marks a meaningful step forward in laying the foundation for sustainable growth. We deliver solid operation performance, maintain industry-leading safety standards and make tangible progress across key strategic initiatives, including our commercial transformation and the continued advancement of the Yanbu growth II projects.

Our financial position remains strong, supported by healthy cash generation, disciplined capital deployment and a resilient balance sheet. These fundamentals position us well to navigate near term market dynamics while staying focused on long term value creations.

Looking ahead, we remain confident in our strategy, execution capabilities and the dedication of our people to drive Luberf forward as a leading force in the global base oil industry.

Now, I will hand over to Saleh to start off our Q&A session.

Saleh AlGhamdi- IR Engagement Supervisor, Luberef

Thank you, Mr. Saud.

For the Q&A part, kindly raise your hand and once you are admitted, you have the option to either ask the question verbally or type it in the box of the questions. Before doing so, we kindly ask you to state your name, the company you represent, and your questions. Thank you.

I see no hands up yet, Mr. Amir Badran from NBK.

Q: Hello, Can you hear me? Yes, Mr. Amir, yes, thank you so much for taking my questions. I have to. So first related to the embargo growth, growth project, could you please remind us of the total CapEx to be spent on this project and how much have been

spent already? And the second question is related to the Jeddah plant, Could you please provide an update on? Whether that the feedstock agreement will be renewed or not. Thank you so much.

Saud Kamakhi - CFO, Luberef

Hi, thank you, Ahmed for this question. For the let's take the first one, the regarding the Yanbu growth project. As mentioned. As I just mentioned during the. Presentation our cap expense since the start of the project so far is around 135 million surgery. This is up to end of first quarter of 2025.

And also the guidance for this year is also remains the same 250 to 350 million.

The total project of the total CapEx project expected for a Yanbu project is around\$200 million, which is around 750 million Riyal so far. We are expecting it to have the same amount. And this is according to the plan so far as what happened For Jeddah. Maybe we had our last updated in the annual meeting and so far as that we are still communicating with Saudi Aramco for the agreement for the supply of the feedstock and in addition to that to all other items that we listed regarding the land lease and the continuation of Aramco's terminal.

Luberef already initiated the request with the Minister of Energy and we hopefully that soon we will update you with the news of the result of these things.

Q: OK, great. Thank you so much.

Saleh AlGhamdi- IR Engagement Supervisor, Luberef

Thank you, Amir. Thank you, Saud. I see the hand of Mr. Mohammed AlThunayan raised.

Q: Salaam Alaikum, thank you for having us on the call.

Just a question related to the turn around CapEx, I believe you mentioned the study to be around 160 and that include 110 million for the catalyst.

However, however, looking at the press release, only 5 million was spent during the first quarter and I believe you also mentioned that there was a turn around and catalyst replacement for the during the first quarter, so.

Can you clarify clarify more on that?

Saleh AlGhamdi- IR Engagement Supervisor, Luberef

So if I understand you correctly Mohammed, you're asking about the breakdown of the turn around CapEx and what was spent, am I correct?

Q: Yeah.

Saleh AlGhamdi- IR Engagement Supervisor, Luberef

OK. So anyway the quantities shared, the quantity spent in the first quarter was mainly for the catalyst replacement activity that took place in Q1 2025, but for the other spending and the turn around schedule by end of 2025 remains the same. Does this answer addresses your question?

Q: Yeah. And just to follow up, because that would be related to the integration of Yanbu Growth project your tool.

Saleh AlGhamdi- IR Engagement Supervisor, Luberef

Which which part the spending in Q 4 2025

Q: Yeah.

Saleh AlGhamdi- IR Engagement Supervisor, Luberef

Yes, it will be part of the turn around activity. In addition that would pour into the growth to completion project.

Q: Thank you, That's very helpful. Thank you.

Saleh AlGhamdi- IR Engagement Supervisor, Luberef

You're most welcome there, Mr. Ricardo. I see your hand up.

Q: Hello. Thanks for taking my question. The first one, it's just all the previous representations you mentioned about potentially getting to 1.5 or 1.6 million tonnes depending on feedstock availability. So is there any updates on that front? And then the second point is, how should we think about maintenance CapEx in 2026 after the Yanbu growth project comes alive? Thank you.

Saleh AlGhamdi- IR Engagement Supervisor, Luberef

Let me repeat your question to make sure we grasp the idea. So the first question was about the 1.6 million ton scenario and how do we foresee it. The second question is about the growth CapEx in 2026,

Q: no maintenance CapEx in 2026 when Yanbu will come alive.

Saud Kamakhi - CFO, Luberef

OK, hi Ricardo. First of all for the expected Stream and that is planning to be resumed in Q2. We are expecting that approximately of 1500 metric tonne per month. That is based on the condition of the compatibility with our base oil production, so.

For the second question in general and maintenance for our. Again, when we do that Expansion, the number of assets are the same. So the total assets we have, we are increasing the VDU and the hydrocracker and it would be we do not expect that much change in the maintenance as that would not adding more assets and more units to the refinery.

Saleh AlGhamdi- IR Engagement Supervisor, Luberef

Does the answer addresses your question, Ricardo?

Q: Yes, it does. Thank you.

Saleh AlGhamdi- IR Engagement Supervisor, Luberef

You're most welcome, Mr. Yasser Alnejaimi.

Yes, Mr. Yasser.

Q: Hello everyone. Thank you management for the presentation. I have a couple of question. So my first question regarding the global outlook for the lubricant, do you see any shortage in supply or the market is oversupply? My second question is why the volume drop comparing to Q4?

Saleh AlGhamdi- IR Engagement Supervisor, Luberef

I will kindly ask you to repeat the second question. Yasir. The message was not very clear.

Q: The second question, second question is regarding the sales volume. What is the main reason for dropping sales volume comparing to Q4?

Saud Kamakhi - CFO, Luberef

Yasser, I think as we shared the presentation, the quantity for the base oil for this quarter is almost the same as. Same and last first quarter in 2024 and comparable basis we had

Q: no, I mentioned Q4 not Q.

Saud Kamakhi - CFO, Luberef

For Q4 now we had in this quarter we had the shutdown as we mentioned for catalyst replacement. So that affected the quantity of our the quantity in this quarter.

Saleh AlGhamdi- IR Engagement Supervisor, Luberef

And As for your first question, the answer if are if we are talking in relevant and relevance to the situation between the US China trade wars, the base oil as a virgin oil product is exempted from tariffs from the new tariffs. I mean, however we did observe or we are evaluating the situation in the finished product, the finished product blenders are a bit concerned about their.

About the finished product cycle, so there is a slowdown in automobile, automotive services, for example, marine application, metal working fluid. It's we can, we can conclude the following that there is no direct impact yet.

On the sales of the base oil generally, globally speaking, however, the tide or the wave that is coming from the finished product market might put some pressure on the base oil, on the base oil business. In the same context, this is on the demand side. On the supply side, we are expecting according to not expecting according to the outlook reports and the analysis for the year 2025.

The supply is expected to drop in the Q2 2025 due to scheduled maintenance round in the Asia Pacific region, specifically in Group I and Group III based oil products.

Q: Clear. Thank you. Thank you, a lot.

Saleh AlGhamdi- IR Engagement Supervisor, Luberef

Next, Mr. Qadri.

Yes. Mr. Qadri,

Q: This is Fawad Khan from Alinma Capital. I have just two questions. Number one, there was a group III project that company has mentioned.

So if there's any update on that group III project in this quarter or when should I expect some clarity on the potential FID on the group III project?

Saud Kamakhi - CFO, Luberef

Are you referring to the Group III+ projects?

Q: Group III+ Group III+? Yes.

Saud Kamakhi - CFO, Luberef

Again, our goal in this project is to complete our pre feed. As we mentioned earlier this the target for that is end of this year Michelle. And if this project is deemed visible after the pre feed stage for the company, it will be presented again to our Board of directors for approval to proceed to the next Stage which is the feed stage. So far we are progressing different aspects in that project.

And with the same target that we had shared with you earlier at the end of the year.

Hopefully the pre feed will be completed.

Q: OK, sure. So let's just buy some time. 2026, we should expect a decision on this FID, sorry, feed and then FID.

Saud Kamakhi - CFO, Luberef

There are several stages when it comes to certain projects. First, after we finish the pre feed, then we'll move to the feed. After the feed, if things are visible and board director approval, then we'll get FID of that.

Q: So is there any timeline that we should expect, let's say if everything goes pre feed, feed and FID. So when should expect the final decision sometime in mid second quarter or end of 2026.

Saud Kamakhi - CFO, Luberef

So usually it takes few months after this. So as we said that pre feed will end of this before end of this year or end of this year, we'll have it hopefully that it will be completed. So the feed will be in 2026, so probably during 2026.

Hopefully, if everything is visible and all the studies shows that benefits of this project, then we will have FID on that. So far as of now, I cannot give you a certain time frame, but we can get back to you on that. With more clarity once we have it.

Q: Sure. And the presentation is mentioned that the netback margin during the quarter has jumped on 9% if I follow the prices available on the company's website and the feedstock prices. So apparently the margin should drop the primary margin. So if there are some dynamics that I am missing here?

if you can kindly explain the what led to the increase in the Net margin during the quarter, quarter and quarter?

Saleh AlGhamdi- IR Engagement Supervisor, Luberef

Mr. Qadri, could you kindly repeat the question again? We did not get the full idea.

Q: The net back margin during the quarter apparently has have increased I think around 7 to 8%, if I understand correctly. So if you can please provide some clarity what led to the increase in the netback margin during the quarter versus the last quarter?

Saud Kamakhi - CFO, Luberef

So, For our base oil prices, we noticed and during this quarter an increase in that comparing to quarter 1 2024. So with the increase even of in the feedstock, we have a higher increase in the prices in the base oil.

Q: Was there any change in the local versus domestic versus export ratio which is then assumed to be 30 to 70?

I mean, because importation was done during the quarter, so was there any change towards more local domestic versus export

Saud Kamakhi - CFO, Luberef

Usually in our placement of those product, we are preferring to find the highest net back that brings us the highest margin general and I believe yes, during this quarter if we compare it to 2024, we have higher local sales comparing to quarter one and last year. So that is one of one of the reasons that why we are having higher margin.

Q: Alright, OK, sure. And lastly, if I can, may I ask the third question on the working capital. Even the fourth quarter and 2024, there was a drop in all working capital financing and during the first quarter also we observed that the account receivables have dropped.

So is there any new terms of credit terms that company has rollout or what are the basic basically the dynamics on this issue by the working capital has dropped both in 2024 and in first quarter 2025.

Saud Kamakhi - CFO, Luberef

So as we shared in our slides, as you can see that one of the items is the collection that we have done during this quarter that impacted positive general market capital and then during this period at the end of the quarter, it was a Ramadan period and Eid so that is.

Things happen with the inventory that we have a huge increase in the inventory also that impacted also the working capital, So that both. These items affected the working capital and with no new terms.

Q: How sustainable this drop in working capital is for the rest of the year because the our ultimately the dividend payout obviously is also kind of hinge upon the sustainability of drop in the working capital. So if you can guide us if this working drop in working capital is sustainable through throughout 2025 or we should expect some kind of increase in the working capital financing over the next 3 quarters or so?

Saud Kamakhi - CFO, Luberef

We believe that we will have a sustainable working capital in the following quarters and with the no expectation of a huge fluctuation on it.

Q: Sure. Thank you. Thank you. Thanks a lot.

Saleh AlGhamdi- IR Engagement Supervisor, Luberef

Thank you, Mr Qadri, our next, I say Mr. Mohammed Al-Thunayan and your hand is still raised. Mr. Mohammed, do you have another question?

Q: Yes, just another question on OpEx. So you know stocks coming at 61.2, down 9.6% year in year and 48% Sequential. So I'm just wondering if there is a one off During this quarter, I mean.

Saud Kamakhi - CFO, Luberef

Sorry, the voice was not clear. Your question about the OpEx of this quarter is lower?

Q: Yes. Was it one off?

Saud Kamakhi - CFO, Luberef

No, it's not one off. It's this is based on the current practices that we as our management, we are trying to ensure that we are having optimized OpEx. This will be based on that processes and practices that we are having in order to have.

Better performance with the current with a better cost spending and forecast.

Q: That's very clear. Thank you.

Saleh AlGhamdi- IR Engagement Supervisor, Luberef

Thank you, Mohammed.

There are no types, typed questions and I don't see an additional hands raised.

Mr. Qadri, I see your hands still up. Do you have another question or?

Q: Sorry, I have. Sorry I have already asked the questions.

Saleh AlGhamdi- IR Engagement Supervisor, Luberef

Any additional questions?

OK. Since there are no additional questions, we thank you ladies and gentlemen for attending today and this recording will be shared soon on the website for future reference. Thank you.