Hellenic Petroleum

Q320 results

Renewables addition as refining margins struggle

Oil & gas

Hellenic Petroleum experienced a challenging Q320 as benchmark refining margins fell to record-low levels. Demand for global crude oil and oil products remained low during the quarter that is typically strong for the company due to high tourist activity in Greece. Despite the current adversities, Hellenic maintained a strong operating performance and was capable of minimising the impacts of COVID-19. This was possible due to its storage capacity and the flexibility of its refining system. We have updated our estimates and valuation to reflect Q320 results and the impact of new lockdown measures in Europe. Our updated valuation is down 4% to €6.55/share, with an upside of 26% to the current share price.

Year-end	Revenue (€m)	Adjusted EBITDA* (€m)	Net debt (€m)	P/E (x)	Dividend yield (%)
12/18	9,769	730	1,460	8.0	14.5**
12/19	8,857	570	1,544	9.5	9.7
12/20e	6,088	330	1,851	26.8	9.7
12/21e	5,977	573	1,890	9.0	9.7

Note: *Adjusted numbers account for inventory movements and other one-off items.
**Includes special dividend from DESFA proceeds.

Record-low refining margins affect results

In Q320, refining margins reached negative all-time lows. The outlook remains weak for the near term as economic uncertainty persists and new lockdowns are imposed. Refining margins recorded a small recovery at the beginning of Q420, as inventory clears, with some refiners curtailing production or terminating activities. We expect 2021 to be a difficult year, until a vaccine is available and global economies recover to pre-pandemic levels. Hellenic has a resilient refining system and is withstanding the current headwinds the industry is facing better than some of its peers, taking advantage of its synergetic business model.

Completion of Kozani 204MW project acquisition

Despite the challenging environment, Hellenic achieved two important milestones: the Aspropyrgos refinery turnaround without incident and the Kozani photovoltaic project acquisition. The full restart of the refinery is expected in November with improved environmental performance. Completion of the Kozani project acquisition demonstrates Hellenic's commitment to renewables during these challenging times. Construction works are planned to commence in November and the project is expected to be fully operational in Q222.

Valuation: Blended valuation of €6.55/share

Our valuation is based on a blend of DCF, EV/EBITDA and P/E approaches. The company currently trades at a premium on 7.2x FY21e EV/EBITDA versus peers in Europe at 5.3x, and 9.0x FY21e P/E compared to the European sector average of 7.5x. Compared to US peers, Hellenic continues to trade at a discount on most metrics. Our blended valuation falls by 4% to €6.55/share (previously €6.81/share), reflecting expected lower demand for oil products in the coming quarters and lower realised margins as new lockdown measures are imposed in Europe.

18 November 2020

Price	**€5.18**
Market cap	**€1,583m**
	US$1.13/€
Net debt (€m) at 30 September 2020	2,126
Shares in issue	305.6m
Free float	19%
Code	ELPE
Primary exchange	ASE
Secondary exchange	LSE

Share price performance

%	1m	3m	12m
Abs	14.4	(2.3)	(40.5)
Rel (local)	2.6	(9.9)	(23.7)
52-week high/low		€8.80	€4.14

Business description

Hellenic Petroleum operates three refineries in Greece with a total capacity of 344kbod and has sizeable marketing (domestic and international) and petrochemicals divisions.

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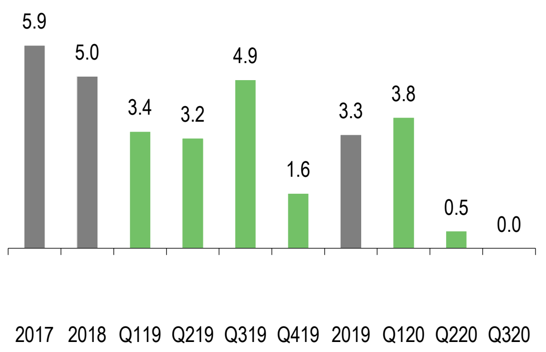
Navigating through a challenging refining environment

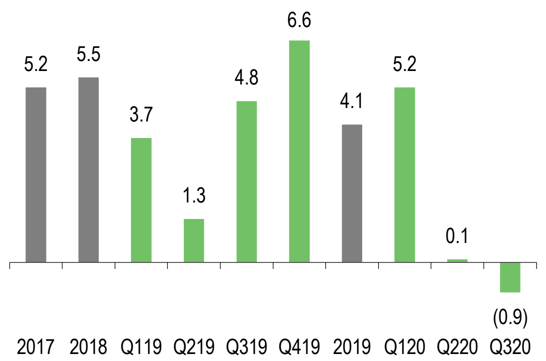
During Q320 as demand for oil products decreased, increased product inventory levels, as well as reduced output and availability of crude oil, drove benchmark refining margins to negative levels, and the lowest levels on record. Crude oil prices averaged c US$43/bbl in Q320, significantly lower than the Q319 average of c US$62/bbl. This nevertheless represents a recovery from the multi-year lows recorded in Q220, following the OPEC+ countries agreement for the control of crude oil production and exports. However, the OPEC+ agreement had a negative impact on the availability and pricing of high sulphur grades, affecting European refineries and refining margins. That said, in early Q420, refining margins recorded a small recovery as inventory started to clear, with some refiners curtailing production or terminating activities.

Exhibit 1: Benchmark margins ($/bbl) – FCC



Source: Hellenic Petroleum, Edison Investment Research

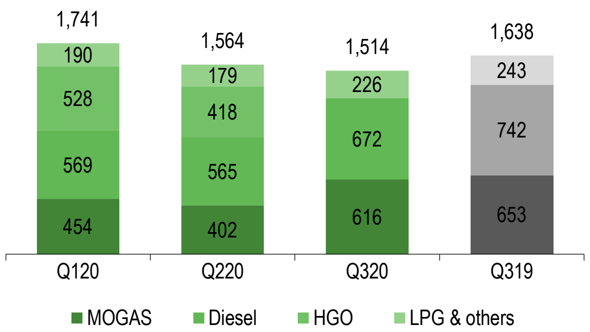
Exhibit 2: Benchmark margins ($/bbl) – hydrocracking



Source: Hellenic Petroleum, Edison Investment Research

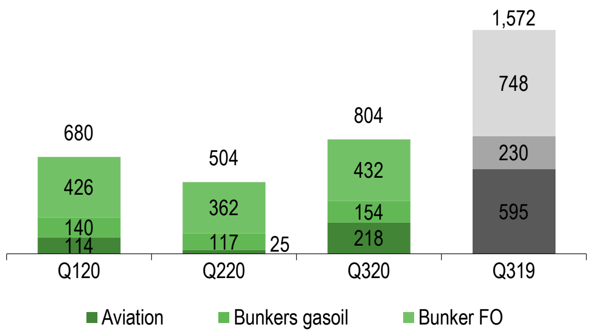
Greek domestic market demand was affected mainly by reduced economic activity in sectors like tourism, where the pandemic and measures to control it had a negative impact. Hellenic still observed a recovery compared to Q220 lows, but demand remained materially below 2019 levels, especially in the aviation and bunkering subsectors.

Exhibit 3: Domestic market fuel demand (MT 000s)



Source: Hellenic Petroleum, Edison Investment Research

Exhibit 4: Aviation and bunkers fuel demand (MT 000s)



Source: Hellenic Petroleum, Edison Investment Research

During Q320, Hellenic managed to sustain production at high levels, increasing exports, while taking advantage of international market opportunities. The Aspropyrgos refinery has successfully completed a full turnaround focused on environmental and safety upgrade projects. The full restart of the refinery is expected during November and it will resume contributing to operations with an improved environmental performance. On the renewables front, Hellenic took important steps in relation to the Kozani 204MW photovoltaic project, completing the acquisition and securing funding with the support of international capital markets and the European Bank for Reconstruction and Development (EBRD). Construction is also expected to commence in November 2020. This project is not in our model at present.

In Q320, Hellenic reported EBITDA of €19m versus €76m in Q220 and net loss of €43m versus net income of €5m in the previous quarter. The drop in crude oil and product prices towards the end of the quarter resulted in inventory losses of €42m. The company improved its capital structure, drawing additional liquidity and reporting net debt of €2.1bn compared to €1.8bn in Q220. However, this is driven by contango trades that remain on the balance sheet. Hellenic also expects to conclude negotiations for the refinancing of €900m of credit facilities maturing in the next 12 months, during Q420.

The outlook for refiners remains weak in the coming quarters as uncertainty persists and new spikes in COVID-19 cases are observed across the world. However, the prospect of a vaccine being available in the near future could support a global economic recovery, as well as crude oil and oil products demand and prices. Benchmark refining margins recorded a small recovery at the beginning of Q420, as inventory clears, mainly due to lower refining production, with some refiners curtailing production or terminating activities. However, margins remain significantly lower compared to previous years, while the recovery in demand is expected to be negatively affected by the new lockdown measures imposed in Europe.

Financials and changes to estimates

Key changes to our financial estimates and market expectations include weaker global demand for oil products during the year caused by the COVID-19 pandemic. As a consequence, we have lowered our refining margin estimates for Q420 and Q121 as most countries have implemented new lockdown measures to minimise the impacts of a second coronavirus wave. We expect margins to remain under pressure for at least the next three to six months, with subsequent improvements as the global economy recovers from the coronavirus pandemic and oil prices potentially remain at relatively subdued levels. All in all, our FY20 total EBITDA estimate is 13% lower vs our previous estimate to account for ongoing weakness in the benchmark margins and our FY21 total EBITDA estimate decreases by 5%.

Exhibit 5: Changes to Edison forecasts

€m	Actual	Edison new		Edison old		Difference (%)	
	FY19	FY20e	FY21e	FY20e	FY21e	FY20e	FY21e
Adjusted EBITDA, refining	346	181	362	245	387	-26%	-6%
Adjusted EBITDA, petrochemicals	93	63	84	66	90	-5%	-6%
Adjusted EBITDA, marketing	138	93	134	78	135	19%	-1%
Other	(14)	(9)	(8)	(10)	(8)	-10%	0%
Total adjusted EBITDA	**570**	**330**	**573**	**379**	**604**	**-13%**	**-5%**
Associates	18	22	10	19	10		
Adjusted EBIT	339	88	331	136	362	-35%	-9%
Finance costs	(151)	(106)	(107)	(105)	(98)		
Adjusted net income	167	59	176	77	206	-23%	-15%

Source: Hellenic Petroleum data, Edison Investment Research

Our updated FY20 EBITDA estimate is currently 8% below consensus, while our FY21 EBITDA estimate is broadly in line with consensus.

Exhibit 6: Edison forecasts versus consensus

€m	Actual	Edison		Consensus		Difference (%)	
	FY19	FY20	FY21	FY20	FY21	FY20	FY21
Adjusted EBITDA, refining	346	181	362				
Adjusted EBITDA, petrochemicals	93	63	84				
Adjusted EBITDA, marketing	138	93	134				
Other	(14)	(9)	(8)				
Total adjusted EBITDA	**570**	**330**	**573**	**360**	**570**	**-8%**	**0%**
Associates	18	22	10				
Adjusted EBIT	339	88	331	-72	362	-222%	-9%
Finance costs	(151)	(106)	(107)				
Adjusted net income	167	59	176	13	149	349%	18%

Source: Hellenic Petroleum data, Edison Investment Research, Refinitiv consensus estimates as at 18 November 2020

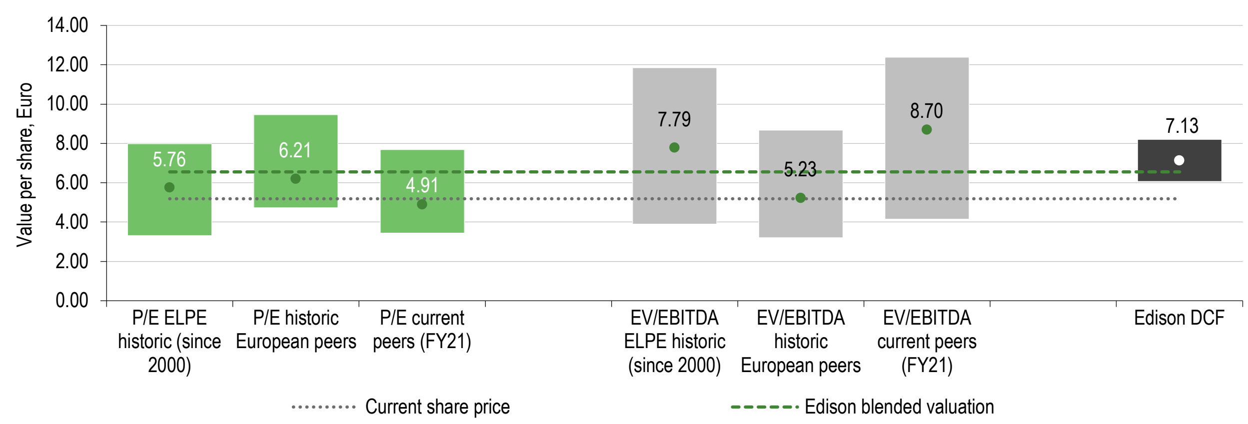
Valuation

We value Hellenic using a blend of discounted cash flow (DCF), leveraged and unleveraged FY21e EV/EBITDA and FY21e P/E multiples, arriving at a valuation of €6.55/share, 4% lower than our last published estimate of €6.81/share, driven by lower earnings estimates for Q420 and FY20. Changes to our forecasts are shown in Exhibit 5 above.

Hellenic trades on FY21e multiples of 9.0x P/E and 7.2x EV/EBITDA compared to the European group averages of 7.5x and 5.3x, respectively. Its free cash flow (FCF) yield is also slightly higher than the peer group average at 13.8% in FY21e and its EV per complexity adjusted barrel is higher than European peers at $1,471/bod. At the same time, the company trades at a discount to US peers on the majority of valuation metrics.

Our DCF valuation is based on discounted cash flows to 2025, using an unchanged 7% cost of capital. We incorporate a terminal value, which assumes the unwinding of working capital and a -1% terminal growth. This results in a DCF valuation of €7.13/share versus our previous estimate of €7.73/share. The reduction in DCF reflects lower refining margins in the second half of 2020 and Q121.

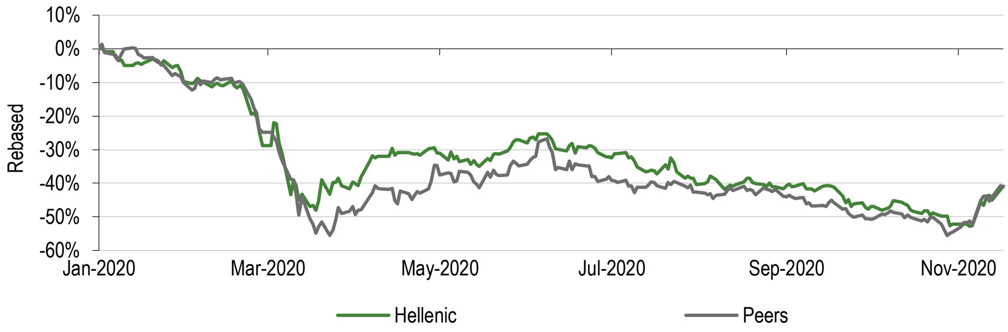
Exhibit 7: Hellenic valuation



Source: Edison Investment Research. Note: Price as at 18 November 2020.

Since the beginning of the year, the market caps of Hellenic and its peers have decreased by an average of c 40%. Concerns about lower global demand for oil and petrochemicals have had a negative impact on global refining systems. Nonetheless, compared to its European peers, Hellenic benefits from a flexible refining system with large storage capacity and proximity to Middle East oil suppliers, taking advantage of crude spreads, especially on increasing freight rates.

Exhibit 8: Share price performance of Hellenic and its peers since January 2020



Source: Edison Investment Research. Note: Prices as at 18 November 2020.

Exhibit 9: Peer group valuation table

	Market cap ($m)	EV ($m)	P/E FY20e (x)	P/E FY21e (x)	EV/EBITDA FY20e (x)	EV/EBITDA FY21e (x)	FCF yield FY20e (%)	FCF yield FY21e (%)	P/CF FY20e (x)	P/CF FY21e (x)	Net debt/ EBITDA FY20e (x)	Net debt/ EBITDA FY21e (x)	Div yield FY20e (%)	Refining capacity (kbod)	EV/bod of complexity adjusted capacity ($/kbod)
Edison estimate – Hellenic	**1,795***	**4,657***	**26.8**	**9.0**	**12.5**	**7.2**	**-3.2%**	**13.8%**	**12.1**	**3.6**	**6.4**	**3.7**	**9.7%**	**344**	**1,471**
Europe average	**2,340**	**4,163**	**4.0**	**7.5**	**8.6**	**5.3**	**-16.4%**	**13.7%**	**0.4**	**3.6**	**2.3**	**1.2**	**2.1%**	**385**	**1,065**
Grupa Lotos	1,676	2,315	7.3	5.1	4.1	3.9	11.4%	16.0%	3.0	3.4	1.3	1.3	1.1%	211	1,098
Hellenic Petroleum (consensus)	1,877	4,706	6.1	6.9	10.4	6.9	-6.9%	18.8%	4.0	2.9	4.3	2.9	5.3%	344	1,471
Motor Oil Hellas Corinth Refineries	1,379	2,382	7.8	5.5	5.8	5.1	-18.2%	7.9%	7.8	3.5	1.0	0.9	5.2%	185	1,120
Polski Koncern Naftowy Orlen	5,713	9,256	7.0	5.2	4.5	3.9	-5.0%	3.7%	3.3	2.9	0.3	0.3	0.7%	707	1,424
Saras	611	975	(14.3)	16.5	3.3	4.0	-66.2%	20.0%	(8.0)	1.7	(0.4)	(0.4)	0.0%	300	278
Turkiye Petrol Rafinerileri	2,786	5,345	10.2	6.0	23.3	7.9	-13.3%	15.8%	(7.4)	6.8	7.4	2.5	0.0%	564	997
Americas average	**16,381**	**30,452**	**362.1**	**13.0**	**20.7**	**9.4**	**-4.2%**	**1.1%**	**19.0**	**7.5**	**5.2**	**2.5**	**6.5%**	**1,789**	**1,403**
CVR Energy	1,472	2,708	(27.4)	16.9	22.0	7.5	-6.4%	5.6%	39.6	7.6	4.4	1.5	8.2%	185	1,126
HollyFrontier	3,825	6,017	71.9	8.5	11.1	8.0	0.8%	-10.0%	7.3	7.1	2.9	2.1	5.9%	457	1,053
Marathon Petroleum	26,423	65,743	(37.1)	16.7	17.7	11.0	-6.0%	3.5%	16.0	6.1	7.4	4.6	5.7%	3,021	2,053
Phillips 66	28,104	43,751	18.9	9.8	19.0	9.9	-3.9%	4.0%	14.5	8.4	4.4	2.3	5.6%	2,184	1,821
Valero Energy	22,082	34,041	1,784.2	13.4	33.7	10.8	-5.4%	2.3%	17.7	8.4	7.0	2.3	7.2%	3,100	963
Average	**8,145**	**15,158**	**155.1**	**10.0**	**13.9**	**7.2**	**-10.2%**	**8.4%**	**9.2**	**5.2**	**3.9**	**2.0**	**4.5%**	**967**	**1,240**

Source: Edison Investment Research, Refinitiv. Note: Prices as at 18 November 2020. FX = US$1.13/€.

Exhibit 10: Financial summary

IFRS, year-end: 31 December	€m	2017	2018	2019	2020e	2021e
INCOME STATEMENT						
Total revenues		7,995	9,769	8,857	6,088	5,977
Cost of sales		(6,907)	(8,770)	(8,052)	(6,138)	(5,210)
Gross profit		1,087	999	805	(50)	767
SG&A (expenses)		(410)	(475)	(470)	(448)	(448)
Other income/(expense)		(16)	(10)	6	13	11
Exceptionals and adjustments		18	(19)	2	(556)	0
Reported EBIT		662	514	341	(490)	331
Finance income/(expense)		(165)	(146)	(151)	(106)	(107)
Profit (loss) from JVs / associates (post tax)		31	(2)	18	22	10
Other income (includes exceptionals)		(8)	2	(1)	11	0
Reported PBT		520	369	207	(563)	234
Income tax expense (includes exceptionals)		(136)	(154)	(43)	184	(59)
Reported net income		384	215	164	(380)	176
Basic average number of shares, m		306	306	306	306	306
Basic EPS (€)		1.3	0.7	0.5	(1.2)	0.6
Adjusted EBITDA						
Adjusted EBIT		833	730	570	330	573
Adjusted PBT		644	533	339	88	331
Adjusted net income		502	388	205	15	234
Adjusted EPS (€)		371	291	167	59	176
DPS (€)		1.21	0.95	0.55	0.19	0.57
BALANCE SHEET		0.40	0.75	0.50	0.50	0.50
Property, plant and equipment						
Intangible assets						
Other non-current assets		3,312	3,269	3,298	3,263	3,241
Total non-current assets		106	106	104	105	105
Cash and equivalents		864	529	744	737	745
Inventories		4,282	3,903	4,146	4,104	4,090
Trade and other receivables		1,019	1,276	1,088	1,003	514
Other current assets		1,056	993	1,013	727	828
Total current assets		791	822	840	696	743
Non-current loans and borrowings		12	3	6	7	7
Other non-current liabilities		2,878	3,094	2,947	2,434	2,093
Total non-current liabilities		920	1,627	1,610	1,133	683
Trade and other payables		300	420	617	440	440
Current loans and borrowings		1,220	2,047	2,227	1,572	1,122
Other current liabilities		1,661	1,349	1,402	1,357	1,429
Total current liabilities		1,900	1,109	1,022	1,721	1,721
Equity attributable to company		7	97	115	32	32
Non-controlling interest		3,568	2,555	2,539	3,110	3,182
CASH FLOW STATEMENT		2,309	2,331	2,262	1,790	1,813
Profit before tax		63	64	65	65	65
Depreciation and amortisation						
Other adjustments						
Movements in working capital		520	369	207	(571)	234
Income taxes paid		189	197	231	242	242
Cash from operations (CFO)		207	237	172	116	97
Capex		(463)	(296)	26	371	(75)
Acquisitions & disposals net		(10)	(5)	(149)	(27)	(59)
Other investing activities		443	503	486	131	439
Cash used in investing activities (CFIA)		(209)	(157)	(241)	(181)	(220)
Net proceeds from issue of shares		0	(16)	(5)	0	0
Dividends paid in period		24	311	29	15	7
Movements in debt		(185)	138	(218)	(166)	(213)
Other financing activities		0	(1)	0	0	0
Cash from financing activities (CFF)		(107)	(151)	(155)	(154)	(153)
Increase/(decrease) in cash and equivalents		(35)	(97)	(111)	227	(450)
Currency translation differences and other		(149)	4	(160)	(124)	(111)
Cash and equivalents at end of period		(300)	(244)	(458)	(51)	(714)
Net (debt)/cash		(42)	397	(189)	(86)	(488)

Source: Hellenic Petroleum, Edison Investment Research

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