

Anadolu Efes Q1 2024 Earnings Call

Company Participants

- Asli Kilic Demirel, Group Investor Relations and Risk Management Director
- Gokce Yanasmayan, Group Chief Financial Officer

Presentation

Asli Kilic Demirel

Ladies and gentlemen, welcome to the Anadolu Efes' First Quarter '24 Financial Results Conference call and webcast. My name is Asli Demirel, I am the Investor Relations and Risk Management Director of Anadolu Efes.

Our presenter today is Mr.Gokce Yanasmayan, our CFO. All participants will be in a listen-only mode during the first part of this call. Following this, there will be a Q&A session where you can submit your questions using the question box on your web screen. If you have questions, we kindly ask you to write down your questions before the Q&A session.

As stipulated by the decree of the Capital Markets Board, the financial statements for the first quarter have been presented in accordance with the Turkish Accounting Standard 29. Financial reporting in hyperinflationary economies and retrospective adjustments have been made for the prior periods in alignment with the same standard.

In this presentation, certain financial items and metrics may be presented without inflation adjustment in order to ensure comparability with previous quarters to facilitate analysis for our performance relative to our '24 guidance. It's important to note that the financials presented without the impact of Turkish Accounting Standard 29 are unaudited. Unless explicitly stated otherwise, all financial information disclosed in this presentation are presented in accordance with TAS29.

Just to remind you, this conference call is being recorded. The link will be available online. Before we start, I would kindly request you to refer to our notes in our presentation regarding forward-looking statements.

Now I'm leaving the ground to Mr.Gokce Yanasmayan, Anadolu Efes' CFO. Sir?

Gokce Yanasmayan

Thank you, Asli. Good morning and good afternoon, everyone. And welcome to Anadolu Efes 2024 first quarter operational and financial results conference call. Let me start saying that at this point of time, our CEO, Onur is in Russia, he's experiencing connectivity problems, so I will cover his part for today's call.

Well, we are very pleased to report another quarter of robust growth, achieving a double-digit increase in our Beer Group. This impressive growth is complemented by a slight rise in Anadolu Efes consolidated volume as well.

Our solid top-line growth has exceeded the volume increase, demonstrating the effectiveness of our pricing strategy and revenue growth management initiatives. Through diligent management of our top-line, we have successfully expanded our gross profitability margin, growing our efficiency in cost control, including hedging initiatives and revenue management.

Although we reported a dilution in our EBITDA margin, as we stated earlier in our guidance, it's in line with our initial expectations. It mainly comes from Russian operation in Beer Group due to cycling a very high base of last two years.

Furthermore, our financial discipline is evident in our consolidated net debt to EBITDA ratio, which was recorded at a healthy level of 1x as of March 31 within our target leverage ratio range.

In the first quarter of 2024, our consolidated beer volume increased by 12.4%, driven by strong performances in Turkiye and Russia. Turkiye beer volume rose by 12%, while our international beer volume saw a strong growth of 12.5%.

Russia demonstrated particularly strong growth with volumes up in the mid-teens. CIS countries recorded a moderate decline with volumes down by mid-single-digits on the average.

Ukraine had a successful quarter, increasing by low 30s, mainly due to the last year's low base together with the business recovery strategy, particularly in commercial drivers within all channels.

In the first quarter of 2024, we experienced a growth in the Russian beer market. The market as a whole grew by high-single-digits, but our performance outpaced this, resulting in a mid-teens increase in our total volume. The growth was achieved despite the challenging and changing competitive landscape.

We have successfully capitalized on dynamic operating environment and changing consumers' preferences. Therefore, we have gained both value and volume market share. Additionally, we expanded our product offerings with new extensions in the near-beer categories launched in March 2024.

Again, in the first quarter of 2024 the CIS region experienced a decline in volume with a mid-single-digit decrease on average. Moldova and Georgia, though, registered growth, while a softer performance observed in Kazakhstan where the market itself also saw a decline. This decline can be attributed to various factors including the impact of Ramadan and negative impacts related to unfavorable weather conditions as well as floods.

In Turkiye, our company demonstrated a strong volume performance with a significant increase of 12%, surpassing the growth of the beer market. While January showed a softer volume following the price increase taking as usual, yet we have observed an acceleration in performance throughout February and March. Despite the impact of Ramadan, we managed to achieve robust growth in the first quarter, especially in our key brands, Efes Pilsen and Efes Malt.

Let's touch upon briefly on our soft drinks operation. In the first quarter of the year, CIS consolidated volumes declined by 3.2% due to lower volumes in international operations. Turkiye achieved volume growth of 5.4% driven by effective consumer marketing activations and trade promotions. This growth is particularly significant as it cycles a low base of last year due to the impact of earthquake.

In our international soft drink operations, volume decreased by 7.2%. In Pakistan, we faced significant macroeconomic and political headwinds, together with a high base from last year, leading to a decline in volume. Kazakhstan registered a 10.98% decline with foreign consumers moving back to their countries then high base of first quarter of 2023. On the positive side, Uzbekistan saw a remarkable 22.5% increase in volume driven by improved market penetration.

We delivered solid results in our top line figures as well as bottom line in the first quarter. Anadolu Efes revenues marked a 5.1% year-on-year increase, thanks to successful revenue growth management initiatives, price adjustments, as well as favorable mixed addressing value generation.

Despite the fluctuating and challenging cost escalation environment, the gross margins expanded in the period, yet EBITDA margin diluted due to operational expenses increasing ahead of revenues, which was already anticipated.

Our consolidated net income was recorded at TRY3.1 billion, despite higher financial expenses. Increased bottom line was also supported by deferred tax income and monetary gains recorded, resulting from Turkish Accounting Standard 29.

As anticipated, the seasonality of our business led to a negative free cash flow in the first quarter of 2024. However, we expect this trend to normalize throughout the rest of the year. Consequently, our consolidated net debt-to-EBITDA ratio stands at a healthy 1x, reflecting our strong indebtedness.

Now, looking at the financials of Efes Beer Group, let me elaborate in more detail Efes Beer Group financials. Beer Group's consolidated revenue at the end of the first quarter of 2024 was TRY16.2 billion, a rise of 8.1% from the year before.

International beer operations saw a 6.1% increase in revenue to TRY13 billion, while sales revenue from Türkiye beer operations saw an impressive 18.3% growth to TRY3.1 billion. The Beer Group's margin improved by 92 basis point to 40.7%, while its gross profit climbed by 10.6% to TRY6 billion.

Due to pricing and strong growth volume in Türkiye, beer showed impressive gross profitability. Nevertheless, the gross margin of international beer declined slightly, and this was primarily driven by Russia as in line with our expectation for the year.

In the next slide, I will show you the EBITDA bridge of the Beer Group and free cash flow. Beer Group's EBITDA decreased by 31.7% to TRY1 billion, and its margin contracted by 393 basis points to 6.8%. Overall, Beer Group margin declined as a result of declining gross profit margin and increased spending, primarily due to transportation costs in international beer operations, specifically in Russia.

Beer operations usually have negative free cash flow in the first quarter, as I said, mostly as a result of higher working capital requirements. The impact of increased borrowing costs in Türkiye as well resulted in greater interest expense. On the other hand, in the first quarter, capital expenditures significantly decreased compared to the prior year.

In the next slide, I want to also give a flavor about financials without the impact of TAS29. But again, let me repeat the disclaimer here. All our financial statements are prepared in accordance with Turkish Accounting Standard 29, which is a standard for financial reporting in high inflationary economies.

So as a result, all information disclosed on this call and in our earnings release are in full conformity with Turkish Accounting Standard 29. However, financial information presented on this slide excludes the impact of Turkish Accounting Standard 29, and is presented solely for analysis purposes. Please note that these figures won't be aligned with Anadolu Efes financials and have not undergone an independent audit.

So having said so, excluding the impact of Turkish Accounting Standard 29, Beer Group revenues was TRY16.4 billion with a growth of 82% at the end of first quarter. Again, excluding the impact of Turkish Accounting Standard 29, EBITDA would increase by 49% to TRY1.9 billion. And excluding the impact of Turkish Accounting Standard 29, Beer Group net income was reported as TRY693 million.

About cash and debt management, at the end of, again, quarter, we had 64% of our cash in hard currency denominated in Beer Group and 67% in consolidated Anadolu Efes in line with our practices. And our net debt ratio is quite low. It's 1x for Anadolu Efes and 0.6x for the Beer Group. As I stated, this is within the ratio, the leverage ratio of our company.

And following slide on the risk management, just to present key hedge figures, we have around 74% coverage in aluminum exposure of Turkiye and CIS countries for this year. And FX exposure, actually, pretty much covered here, 100% in Russia and 94% for Turkiye.

So that ends our presentation for today. So if there are any questions, we are ready to take them.

Questions And Answers

A - Asli Kilic Demirel

There are a couple of questions already. Let me start with the first one. Please provide more color on the competitive environment in Russia.

A - Gokce Yanasmayan

Okay. As we discussed, competitive environment, obviously, in Russia is changing at the moment. We are seeing that ex-Heineken and ex-Carlsberg have new managements and new shareholders there, new owners there. So there is a change in the market. And we are seeing that competition is redesigning their product portfolios for the time being. And we are yet to observe how their portfolios will be looking like in the future and trying to understand their behaviors.

A - Asli Kilic Demirel

Any updates on Russian JV deal?

A - Gokce Yanasmayan

Well, it's in the progress, actually. We had announced in December that we have applied for legal clearances. And this process is continuing. If any developments, we will obviously publicly announce them.

A - Asli Kilic Demirel

And why there is a large discrepancy between EBITDA margin decline in beer and much better EBIT and net income performance?

A - Gokce Yanasmayan

Net income performance is changing in inflationary accounting because of monetary items, monetary and non-monetary item adjustments actually. That's the reason of the discrepancy between without inflation and with inflation, majorly.

A - Asli Kilic Demirel

And what is the reason for higher transportation costs in Russia? Do you expect normalization in this year?

A - Gokce Yanasmayan

Well, I mean, I won't go into the details, but very briefly, I can say that shortage in railways, what we faced, that changes the mix of the transportation to trucks mainly, which is at a higher cost level.

A - Asli Kilic Demirel

We already answered the Russian beer market and the competitive market there. What is the reason behind pricing ability challenges? Are competitors following destructive competition strategy?

The deal question already answered. Can you quantify the reason behind the decline in beer operations EBITDA margin in terms of normalization and hedging? Any adverse impact from difficulties in Kazakhstan?

A - Gokce Yanasmayan

Well, pricing challenges in Russian market, I would say this is actually market as usual that, this year around the issue is that we have high cost base increases. We are having certain price increases, but they may not be enough to cover the cost of inflation that we face in a single year time. That's, I think, the main challenge that we are having.

And the Kazakhstan, actually, I don't think that we are expecting by the year end any adverse impact on our financials. The market volumes are under pressure, but financially, we expect to have an okay year.

A - Asli Kilic Demirel

Could you clarify how much cash of Beer Group is in Russia?

A - Gokce Yanasmayan

Well, as of end of first quarter, I think around 70% of our cash is in Russia. I think it wasn't asked, but let me say it myself. So around 70% of this cash in Russia is also in hard currency denominators.

A - Asli Kilic Demirel

Is your guidance for '24 unchanged?

A - Gokce Yanasmayan

Well, we had previously provided the guidance with no impact of Turkish Accounting Standards 29. Currently there is no change to that. We have to see the results of second quarter.

A - Asli Kilic Demirel

If you have questions you can submit your questions using the question box on your web screen. Currently there are no more, but let's wait a few seconds.

A - Gokce Yanasmayan

Sure.

A - Asli Kilic Demirel

Could you please elaborate the factors that have impacted Beer EBITDA margins this quarter?

A - Gokce Yanasmayan

Well, I mean, as we have been trying to emphasize this year, the main factor why we see the decline is Russian EBITDA margin. And except Russia, actually, I can say that all our other operations are either flat or increasing their EBITDA margin. But in Russia, we knew that the cost escalation was too much for this year, and we would have certain dilutions in our EBITDA. So this is perfectly in line with our previous expectations.

A - Asli Kilic Demirel

Please give some color on capital expenditure plans for '24.

A - Gokce Yanasmayan

Well, I see nothing changes here. Actually, we have actually normally sticking to high single-digit CapEx spending on the average. So this is where we should be looking at.

A - Asli Kilic Demirel

The cash repatriation from Russia.

A - Gokce Yanasmayan

Regarding the cash repatriation, our first priority is to be able to finalize the deal approval in Russia, and then once this deal will be approved, cash repatriation will be on our focus list.

A - Asli Kilic Demirel

And what was your FX neutral sales growth in first quarter? Maybe to skip this and then we'll come back to it. Cash things outside Russia, how has that evolved. Do you see any risk of that servicing at Beer Group level due to cash balance reducing outside Russia?

A - Gokce Yanasmayan

Well, looking at our leverage ratio, we are still at very comfortable leverage ratios actually, therefore we don't see any risk of that services at Beer Group levels.

A - Asli Kilic Demirel

The recent statements about Turkiye's actions against Russia sanctions, will that complicate Russian deal?

A - Gokce Yanasmayan

Well, those are very early recent developments, I cannot, for the time being, comment on that. Currently, what we know is that we are not getting any issues when it come to sanctions.

A - Asli Kilic Demirel

Regarding the previous questions about the fixed neutral sales growth.

A - Gokce Yanasmayan

Well, it's around I think 42%.

A - Asli Kilic Demirel

It seems that we came to the end of the questions, so we would like to thank everyone who participated and see you in the next quarter.

A - Gokce Yanasmayan

Thank you.

A - Asli Kilic Demirel

Thank you.