

OCI Global Reports Q2 2023 Results

Highlights

- Q2 2023 revenues decreased 52% to \$1.4 billion, adjusted EBITDA decreased 75% to \$326 million YoY, mostly due to lower selling prices
- Adjusted net loss was \$7 million in Q2 2023, versus adjusted net profit of \$528 million in Q2 2022
- H1 2023 revenues were \$2.7 billion, adjusted EBITDA \$662 million and adjusted net loss \$22 million
- Operating Free Cash Flow was positive \$211 million and Free Cash Flow (after minority distributions) was an outflow of \$222 million in Q2 2023
- Net debt was \$2.2 billion at 30 June 2023, or consolidated net leverage of 1.0x, after cash returns to OCI's shareholders of almost \$800 million in April 2023
- OCI has launched a cost optimization initiative to reinforce its first quartile positioning on the global cost curve, with target run-rate savings of at least \$100 million per annum, of which at least \$50 million at Fertigllobe, to be achieved by the end of 2024
- Comprehensive strategic review of all our business lines has positively progressed during the quarter with support of advisors. Expect to report key takeaways and potential decisions during the course of this year
- OCI proposes a dividend of €0.85 / share (c.\$200 million) with respect to the period H1 2023, bringing total cash returns to shareholders in calendar 2023 to €4.35 per share (c.\$1 billion)

Outlook

- **Nitrogen:** prices bottomed in Q2 and have begun rebounding into Q3, with Egypt urea prices up ~60% from trough levels in June 2023, underpinned by demand recovery, record low inventories and very tight supply:
 - Decade-low grain stocks driving rising crop futures and favorable farm economics incentivize significant increases in nitrogen demand, and support nitrogen price recovery
 - New capacity that was added and ramped up during 2022 and early 2023 has been absorbed, with limited new supply additions expected in the next four years
 - Warm weather is leading to higher gas demand for residential cooling, and causing reductions in global ammonia production in some countries as a result
- **Methanol :** prices have declined amid a weak economic environment, but are expected to be supported by a recovery in the global macro environment, higher oil prices and improving MTO affordability, boosted by an accelerating delivery of methanol-fueled ships

Hydrogen growth initiatives

- OCI is fueling the first ever green methanol powered container ship on its maiden journey from Korea to Europe, in a pioneering partnership with A.P. Moller - Maersk
- OCI has signed an offtake contract starting 2024 to supply Xpress Feeder Lines with green methanol in the Port of Rotterdam for their new-build methanol dual-fueled container feeders ships
- Texas Blue Ammonia is on track to start production early 2025, with foundations and civil works well underway, and erection of steel structures has begun

OCI Global (Euronext: OCI) , a global producer and distributor of hydrogen products providing fertilizers, fuels, and feedstock to agricultural, transportation, and industrial customers around the world, today reported second quarter 2023 revenues of \$1.4 billion and adjusted EBITDA of \$326 million, reflecting lower selling prices compared to both the same quarter last year and the first quarter this year. Own-produced sales volumes are up slightly compared to the same quarter last year, but increased 35% from Q1 2023, on a healthy operational performance across our platform during the quarter.

Despite the decline in EBITDA, OCI Global generated operating free cash flow (before minority distributions) in Q2 and H1 2023 of \$211 and \$362 million respectively. Net debt increased from \$1.2 billion as of 31 December 2022 to \$2.2 billion as of 30 June 2023, following cash distributions to OCI and Fertigllobe shareholders in Q2 2023.

Ahmed El-Hoshy, CEO of OCI Global commented:

"Looking ahead, we are seeing a recovery in our markets and hydrogen growth initiatives progressing at speed, enhancing our status as a global leader in the energy transition.

Nitrogen markets bottomed during the second quarter and are tightening rapidly, with recent significant price increases for urea and a stabilization and slight recovery of ammonia despite the traditional summer lull for fertilizers.

We are also excited about the opportunity for our methanol business, despite the price declines during Q2 and a delay in demand recovery due to the continued weak macro environment. Methanol as a shipping fuel is kicking off now, with the first methanol-fueled container vessel delivered last month, which we estimate will create more than 6 million tons incremental methanol demand over the next 3-5 years. We are pleased to be partnering with some of the leading global shipping companies, including Maersk and Xpress Feeder Lines, and continue to see robust demand from many other ship owners.

Finally, the team did an outstanding job, as all plants demonstrated healthy on-stream performance during the quarter, resulting in a significant rebound in our sold volumes. We remain fully committed to our operational excellence program, to enable us to safely deliver higher organic volumes, supporting EBITDA and free cash flow over and above the effects of a market pricing recovery, and coupled with our capacity growth from our new initiatives."

Progress on hydrogen fuels initiatives

- **Green methanol** : OCI is the largest green methanol producer in the world and recently announced it is fueling the first ever green methanol-powered container vessel with OCI HyFuels ISCC certified green methanol along its maiden voyage in a new partnership with A.P. Moller-Maersk (Maersk):
 - In July, OCI successfully bunkered the ship at the start of the voyage in Ulsan in Korea, and refueled at its first bunkering stop in the Port of Singapore
 - OCI will continue to fuel the ship at each of the bunkering stops on its voyage to Northern Europe including in Egypt and the Port of Rotterdam, working closely with port authorities and partners throughout, establishing a framework for future green methanol ship routes
 - This demonstrates OCI's global leadership in supplying and trading renewable and low carbon fuels to decarbonize energy-intensive industries
 - It provides proof-of-concept for green methanol as a safe, efficient, commercially-ready fuel for global shipping, establishing it as the low-carbon fuel catalyzing the decarbonization of the shipping industry
 - This also paves the way for ammonia, with engines by manufacturers such as MAN, WinGD, Wärtsilä expected to be commercially available by 2025/26, and providing upside for bunkering. OCI is gaining important learnings from methanol as a marine fuel
- OCI continues to build out its marine fuel offering and has signed an offtake contract to supply Xpress Feeder Lines (XPF) with green methanol for their new-build methanol dual-fueled container feeders ships, starting in 2024 in the Port of Rotterdam:
 - XPF is the world's largest container feeder operator and will be the first common feeder operator with methanol-fueled vessels on the water in Europe
 - This new partnership will complete another link in the chain for the decarbonization of shipping, building on the commitments of container companies such as Maersk and creating end-to-end green fuel solutions in European ports
- **Texas Blue Ammonia** : the 1.1 mtpa project remains on track to start production in early 2025. Piling for OCI's ammonia plant is complete, foundations and civil works are well underway, and erection of steel structures has commenced
- Our Texas Blue Ammonia project and the logistic expansion program in Iowa have been selected as one of the projects eligible for funding under the USDA's \$900 million Fertilizer Production Expansion Program. The total potential grant amount is up to \$100 million, with the final funding decision subject to environmental review and other regulatory requirements
- Expansion of our **Rotterdam ammonia import terminal** to 1.2 million tons throughput capacity by Q1 2024
- We are on track to start production of DEF / AdBlue® in the Netherlands in Q1 2024
- Fertiglabe is making progress with its sustainability-focused projects and is expected to start the Front End Engineering Design (FEED) process for its green hydrogen to ammonia projects in the UAE and Egypt during H2 2023
- In addition, the Final Investment Decision (FID) on the Ta'ziz 1 mtpa low carbon ammonia project in Abu Dhabi is expected in the coming months

Cost savings

We recently launched an initiative to further optimize OCI's and Fertigllobe's cost structures and reinforce our top quartile cash cost positioning.

In May 2023, Fertigllobe announced cost optimization initiatives targeting \$50 million in recurring annualized savings to be achieved by the end of 2024, with 25-30% of these savings planned to be realized this year. Key focus areas include operating model enhancements and improvements in logistical capabilities (together contributing ~60% of the run rate savings) as well as operational cost and spending efficiencies.

OCI has identified further run-rate savings in the rest of the Group targeting at least \$50 million to be achieved by the end of 2024, bringing the total for the group to at least \$100 million.

In addition, OCI's and Fertigllobe's manufacturing improvement plans are on-going and on track to deliver operational and cost efficiencies by 2025.

Market outlook

OCI believes the outlook for nitrogen markets continues to be supported by crop fundamentals, elevated European gas pricing and tightening supply dynamics in the medium-term

- **Nitrogen prices bottomed in Q2 and have begun rebounding into Q3, underpinned by several factors including:**
 - **Demand recovery** : the recent decline in nitrogen pricing has improved affordability for farmers by ~20% since January 2023 and more than 30% since Q2 2022, and is accelerating demand growth for nitrogen
 - **Record low inventory levels:** the 2022-2023 fertilizer application season concluded with the lowest inventory levels in the past five years particularly in North America
 - **Tightening supply** : new capacity that was added and ramped up during 2022 and early 2023 has been absorbed, with limited new supply additions in the next four years
 - **El Niño impact** : the rapid emergence of El Niño has raised concerns about crop yields in the southern hemisphere, which could lead to higher crop prices, supporting the use of nitrogen fertilizers in the medium-term; it is also reducing gas availability for the production of ammonia
 - **Normalization of trade flows:** following the EU's removal of duty suspension on ammonia and urea in June 2023, with North African product exempt, Fertigllobe and OCI's European operations are expected to benefit from a normalization of trade flows
 - **India imports to step up** : it is expected that import demand from India will increase from 2.5 Mt in H1 to ~4 Mt urea in H2 2023, with potential further upside in H2 due to recent rains and flooding, an earlier-than-expected new tender, and recent reduced domestic production run-rates
- **Medium to long term nitrogen fundamentals also remain healthy, with anticipated demand recovery supporting the rebuilding of global grain stocks and a return of industrial demand:**
 - Global grain stock-to-use ratios remain at the lowest levels in 20 years, and it will likely take at least until 2025 to replenish stocks
 - Forward grain prices (US corn futures >\$5/bushel to the end of 2025 compared to \$3.7/bushel during 2015 - 2019, and US wheat futures >\$7/bushel, compared to \$4.8/bushel during 2015 - 2019) support farm incomes and incentivize nitrogen demand to be above historical trend levels
 - Ammonia markets appear to have stabilized, with higher cost economics, particularly in the East of Suez region, setting a firm floor. The increased fertilizer demand due to improved affordability is currently offsetting the lag in industrial demand recovery
 - Industry consultants expect a recovery in global ammonia trade from trough levels of ~17 million tons in 2022 and 2023 back towards historical levels of ~19+ million tons per annum
- **Nitrogen supply is expected to be tighter over 2023 - 2027:**
 - In 2022, 6 million tons of new urea capacity were commissioned, with some plants ramping up in 2023, but now largely absorbed
 - Industry consultants do not anticipate any major greenfield urea supply additions in 2023 and limited additions from 2024 to 2027, located mostly in Russia, generating a global supply/demand gap of ~4 million tons
 - Chinese urea exports are expected to remain low over the medium term in the range of 3 mtpa
- **Feedstock pricing is expected to remain well above historical averages :**
 - Despite a recent drop in gas prices, 2023 - 2025 forward European gas prices are c.\$15/mmBtu (or c.3x higher than 2015-2019), with higher prices anticipated for next winter
 - It is expected that El Niño could increase the demand for natural gas for summer cooling, which could result in upward pressure on natural gas prices and increased marginal cost of nitrogen production
 - Current ammonia and nitrate prices are below the marginal cash cost producer in Europe:

- The gas forwards imply marginal cost support levels for ammonia of c.\$750/t (including full impact CO₂) and ~\$590/t (excluding CO₂) for next winter and 2024, which could result in temporary or permanent closures of European marginal production if pricing remains below cost for an extended period

OCI believes methanol fundamentals remain positive on a tentative recovery in the global macro environment, support from oil prices, new marine fuel demand and limited new supply

- Key methanol end markets have been weaker than expected this year, especially the recovery in China which had been anticipated to start during the first half of 2023:
 - Despite the lack of an immediate recovery amid on-going macro-economic challenges, methanol prices are supported by the marginal cost producer in China and higher oil prices
 - In addition, improved methanol affordability should support higher methanol-to-olefins (MTO) utilization rates which have remained at low levels YTD
- There is potential meaningful upside from demand for hydrogen fuels, notably as a cleaner alternative for road and marine fuel applications:
 - Methanol as a marine fuel continues to gain significant traction with over 200 vessels expected to be on the water over the next 5 years, including existing vessels, newbuilds on order as well as retrofits
 - Incremental demand from the maritime sector is expected to be more than 6 mtpa from the mid-to-late 2020's based on current orders for new vessels
 - Other than new-build orders, we are seeing methanol dual-fuel retrofit projects being announced which will lead to further incremental demand
- There are limited new methanol greenfield supply additions in the medium term, which should result in tightening methanol markets when end markets recover and demand from the maritime sector accelerates

Dividends

In April 2023, OCI returned \$797 million to shareholders and Fertigllobe distributed \$700 million of dividends (of which \$350 million to OCI) with respect to the period H2 2022. OCI expects to pay an interim dividend of €0.85 per share (or c.\$200 million) in October 2023, in line with OCI's capital allocation policy, with a balanced focus on capital allocation priorities including management of our Investment Grade credit rating, growth opportunities and shareholder returns. The ex-dividend date, record date and payment date for the distribution will be confirmed in due course.

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