

OCI Global Reports Q1 2023 Results

Highlights

- Q1 2023 revenues decreased 41% to \$1.4 billion, adjusted EBITDA decreased 65% to \$336 million YoY, mainly due to significantly lower selling prices and volumes, and realized gas hedging losses, partly offset by lower gas prices
- Results reflect \$98 million realized losses from natural gas hedges and an estimated \$77 million impact on adjusted EBITDA from unplanned outages in Texas
- Adjusted net loss was \$(15) million in Q1 2023, versus adjusted net profit of \$354 million in Q1 2022
- OCI generated free cash flow of \$151 million in Q1 2023
- Net debt declined by 9% to \$1.06 billion as of 31 March 2023, or consolidated net leverage of 0.3x
- OCI has recently launched a cost optimization initiative to reinforce its first quartile positioning on the global cost curve, with a target to be announced in August 2023; Fertigllobe has already identified a run-rate of at least \$50 million in savings per annum to be achieved over the next 12 - 18 months
- Board approved strategic review of all business lines, including evaluation of OCI's listing in the Netherlands

Outlook

- **Nitrogen:** prices declined as result of energy price volatility, short term buying patterns and completion of ramp-up of new supply commissioned in 2022, but markets have begun to tighten into the second quarter and prices started to improve in some regions. Decades low grain stocks and high farmer profitability continue to support a demand recovery with limited new supply from 2023 onwards
- **Methanol :** delivery of first methanol-fueled ships in coming months combined with an expected rebound in China in H2 2023 provide support for future methanol demand and pricing

Growth initiatives

- OCI has signed an agreement with NuStar that allows OCI to cost-effectively transport ammonia from the Gulf Coast to the premium US Midwest and includes a new connection to link NuStar's pipeline to OCI's facilities in Iowa, strengthening OCI's competitive Midwest position. Completion is expected in early 2024
- OCI and Petrofac have entered into a strategic partnership where Petrofac will be OCI's exclusive global engineering partner for gasification-based hydrogen fuels projects

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 first quarter 2023 revenues of \$1.4 billion and adjusted EBITDA of \$336 million, reflecting lower selling prices, a decline in own-produced volumes of 12% compared to a year ago, and realized gas hedging losses of \$98 million.

In particular, own-produced volumes in Europe were 46% lower YoY. Margins in the European nitrogen segment were also impacted by high-cost inventories produced in Q4 2022 and sold in Q1 2023 following a sharp drop in gas prices, and restart delays post Q4 2022 turnarounds. The combined impact was \$74 million during the quarter.

In the methanol segment, unplanned outages had an estimated negative impact of \$77 million on adjusted EBITDA, of which c.\$30 million due to the winter freeze in the US. Following the restart, the plants in Texas have been running well.

We reduced net debt and maintained consolidated net leverage at 0.3x as of 31 March 2023. In April, OCI returned \$800 million to shareholders and Fertigllobe distributed \$700 million of dividends, of which \$350 million to OCI, with respect to the period H2 2022. Guidance on the return of capital to shareholders with respect to H1 2023 will be provided with the Q2 2023 results.

Ahmed El-Hoshy, CEO of OCI Global commented:

"Our Q1 results were affected by challenging market conditions, but underlying fundamentals remain healthy for our existing nitrogen and methanol businesses. European gas futures over next winter and 2024 are pricing in expectations of a tighter market than current levels, implying ammonia cost support of ~\$815/t including CO₂ and \$650/t excluding CO₂. This should result in closures of European marginal production if pricing remains below cost for a sustained period.

I am also pleased about a growing diversified customer base from both existing traditional and new applications for our low carbon ammonia and methanol businesses as we started delivering low carbon fertilizers to several food & beverages customers, and expect demand for green methanol to power new methanol-powered container ships.

Our hydrogen growth initiatives are progressing well, reinforcing our role as a leader in the global energy transition. We are already the largest green methanol producer in the world and are establishing a comprehensive low carbon platform by decarbonizing our existing platform and executing new projects. We are well ahead of our peers, with the first large-scale blue ammonia project set to start production in the US in early 2025.

We have been receptive to comments made by shareholders, including Inclusive Capital, regarding the significant share price discount to OCI's intrinsic value, despite strong incumbent positions in our markets and the tangible steps we are taking in executing on our hydrogen strategy. In this regard, we have started a comprehensive review of all our business lines with the aim to unlock value, including an evaluation of our listing in the Netherlands.

We also reiterate our commitment to our operational excellence program, which is on track to deliver operational and EBITDA efficiencies. In addition, we recently launched an initiative to further optimize OCI's and Fertigllobe's cost structures and reinforce our top quartile cash cost positioning. Fertigllobe has already identified a run-rate of at least \$50 million per annum savings to be achieved over the next 12 - 18 months."

Progress on hydrogen fuels initiatives

- **Green methanol** : OCI is already the largest green methanol producer in the world, and is evaluating an innovative gasification project at our Dutch facilities:
 - Gasification units to convert municipal solid waste and wood waste to produce green syngas
 - One line at BioMCN to produce a mix of ~450 ktpa of bio-methanol, e-methanol, and RCF methanol
 - EU Innovation Fund application was submitted in March 2023 and discussions with the Dutch government through the Tailor-Made Agreement process for additional support are on-going
- **Blue / low carbon ammonia** : in addition to OCI's existing blue and low carbon ammonia business, we have several new projects to expand capacity including:
 - **Texas Blue Ammonia** : the 1.1 mtpa project is on track to start production in early 2025. Linde (NYSE: LIN) recently announced that it has signed a long-term agreement with ExxonMobil (NYSE: XOM) for the offtake and sequestration of CO₂ generated by the project. The feedstock supply agreement contains provisions for the IRA benefit to be shared between OCI and Linde
- **Renewable ammonia** : we are already producing in Egypt (green ammonia) and the US (bio-ammonia):
 - First on-spec green ammonia produced by **Egypt Green Hydrogen** during Q1, ramping up in 2023
 - Further potential to scale up, including in the US transitioning from blue to green, leveraging green hydrogen tax credits alongside the development of scalable technology
- We are expanding our **Rotterdam ammonia import terminal** to 1.2 million tons throughput capacity by Q1 2024

In addition, the business benefits from OCI's global methanol and ammonia infrastructure and logistics including storage, leased ships and railcars, and inland barges.

Market outlook

OCI believes the outlook for nitrogen markets continues to be supported by crop fundamentals and tight supply dynamics in the medium term

- **Nitrogen demand is expected to recover to support rebuilding of global grain stocks:**
 - 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 from 2015 - 2019) support farm incomes and incentivize nitrogen demand to be above historical trend levels
 - The recent decline in nitrogen pricing is supportive of improving affordability and demand
- **Nitrogen supply is expected to be tighter over 2023 - 2027 :**
 - In 2022, six million tons of new urea capacity commissioned, with some plants ramping up in 2023. Industry consultants expect no new major greenfield urea supply in 2023 and limited additions to 2027

- Chinese urea exports are expected to remain low over the medium term in the range of 3 – 4 mtpa

- **Feedstock pricing is expected to remain well above historical averages :**

- 2023 - 2025 forward European gas prices are c.\$16/mmBtu (c.3x higher than 2015-2019), with higher prices anticipated for next winter
- The gas forwards imply marginal cost support levels for ammonia of ~\$815/t including CO₂, and \$650/t excluding CO₂ for next winter and 2024, which should result in closures of European marginal production if pricing remains below cost for a sustained period

OCI believes the methanol outlook is positive on higher oil prices, rebound in China, new marine fuel demand and limited supply

- **Methanol demand** is expected to recover during the second half of 2023 on the back of China re-opening, which combined with higher oil prices and improved methanol affordability should support higher methanol-to-olefins (MTO) operating rates which have been low.
- **There is potential meaningful upside from demand for hydrogen fuels, notably as a cleaner alternative for road and marine fuel applications:**
 - The first methanol-fueled container ships are being delivered starting this year
 - Incremental demand from the maritime sector is expected to be more than 4 mtpa by the mid-2020's based on current orders from the container vessel segment alone
- There are limited new methanol greenfield supply additions in the near/medium term, and we continue to expect tighter methanol market fundamentals over the period 2023 through 2027

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Results and Trading Reports

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