

# **Galp Energia, SGPS, S.A. (GLPEF) Q1 2024 Earnings Call Transcript**

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**Body**

Galp Energia, SGPS, S.A. (GLPEF)

Q1 2024 Results Conference Call

April 30, 2024 6:00 AM ET

Company Participants

Otelo Ruivo - Head of Investor Relations

Filipe Silva - CEO & Vice Chairman of the Board of Directors

Daniel Elias - CFO

Adriano Bastos - Head of Upstram Special Projects

Conference Call Participants

Giacomo Romeo - Jefferies

Biraj Borkhataria - RBC

Matt Smith - Bank of America

Alessandro Pozzi - Mediobanca

Pedro Alves - CaixaBank

Sasikanth Chilukuru - Morgan Stanley

Lydia Rainforth - Barclays

Irene Himona - Bernstein

Matt Lofting - JPMorgan

Ignacio Domenech - JB Capital

Kate O'Sullivan - Citi

Alejandro Vigil - Santander

Paul Redman - BNP Paribas

Josh Stone - UBS

Presentation

Otelo Ruivo

Hello, and welcome to the analyst session, where we will delve into Galp's first quarter 2024 results. Earlier today, we distributed all relevant materials pertaining to these results, accompanied by a brief video in which Maria Joao highlighted the key points of the quarter.

Following the format of recent earnings calls, we will begin with a short introduction from Filipe and then promptly move to Q&A, where our executive team will be available to address your questions.

Please note that during this session, we will make forward-looking statements based on current estimates. Actual results may vary due to various factors, which are detailed in the cautionary statements included in our materials.

Filipe, over to you.

Filipe Silva

Thank you, Otelo. Good morning, everyone. Our Q1 was a good quarter for us, good momentum in the operational delivery of the teams. Our Upstream, our Industrial, Energy Management activities, they all contributed very nicely to our sound financial results. So overall, we maintained a very strong financial position to support our Upstream growth and for the gradual decarbonization of our downstream assets.

In Namibia, of course, we have made good progress in PEL83, where Galp and our partners in Namibia have significantly derisked the Mopane complex. So we have identified significant light oil columns in high-quality reservoir conditions. So the wells and the test results were quite impressive. And they have exceeded our pre-drill views on the potential of the area. So we are confident that Namibia will bring another exciting growth avenue to Galp.

We are already fast tracking the next steps. We are now launching a new four-well campaign for both exploration and appraisal to better understand the Mopane complex.

And Otelo, I'll stop here. Thank you.

Otelo Ruivo

Thank you. Operator, can you start Q&A please?

Question-and-Answer Session

Operator

[Operator Instructions] And your first question comes from the line of Giacomo Romeo from Jefferies.

Giacomo Romeo

Congratulations on the great results, both in terms of 1Q and the Namibia wells. Two questions for me, both maybe related. The first one is there have been some speculation around potential farm-down process. Can you confirm whether this has started yet and what sort of timing you have in mind for this? Sort of what are the sort of key moving parts for this process?

Second is related to the next well program you just alluded to, Filipe. These four wells, you said exploration and appraisal, can you confirm sort of what do you think is the likely timing for that? And how many wells will be -- of these four will be drilled on this Mopane discovery?

Filipe Silva

Thank you, Giacomo. As you will appreciate, we don't want to comment on potential dilution of our stake or the process, other than to say that the focus at Galp now is to derisk further what we have in our hands.

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To your second question, yes, the four wells will be in the Mopane complex. So we're not looking yet at the northern part of the block. So the next few wells, we start with four appraisal and exploration wells, and those will be keepers, will be focused on the wider Mopane complex only. So fast-tracking this asset for us is a key priority for Namibia, for NAMCOR, for Custos and for Galp, of course. So that's where we are at this stage.

Operator

And your next question comes from the line of Biraj Borkhataria from RBC.

Biraj Borkhataria

So I've just got one follow-up on Namibia and then one on Brazil. On Namibia, and again going back to the farm-down process, if I look at the rest of your portfolio, you typically have owned between 10% and 20% of assets. And the press reports suggest that you were looking to farm down half. Is it -- is there any reason why you'd want to own more of this outside of price and value at this point?

And then the second question is just talking about Brazil maintenance. I think you've guided or you've noted in the past that Brazil maintenance was very H1-heavy and, I think, in particular, it was Q1-heavy. So could you just talk about plans for the rest of the year?

Filipe Silva

Thank you, Biraj. So on the -- so any stake dilution, clearly, the CapEx, this is going to be a multiple FPSO development. So it is beyond the means, the financial means of Galp to keep 80%. Actually, we have 100% financial exposure to this as we're carrying the local parties. So the timing of the dilution, first, it's when we really have to, when we maximize the value of derisking further what we have in our hands.

And we will prioritize, at that stage, a partner that is keen to develop quickly the prospects and that will fund the CapEx. So more than a monetization, this would be a partner that would support the development as quickly as possible. And Daniel, on Brazil, please?

Daniel Elias

Biraj, thank you for the question. On Brazil maintenance, we don't guide on a quarter-on-quarter basis. We are above our yearly guidance of 115 kboe per day. We are confident that we will successfully meet that guidance. And obviously, related to logistics, planning constraints and sometimes weather, it's normal that you will see some variability on maintenance throughout the year.

As it was mentioned before, we are also planning to grow Upstream in 2025 with the entry of Bacalhau FPSO, which will bring us another 40,000 barrels of oil per day at plateau, which is a 30% increase in our production.

Operator

And your next question comes from the line of Matt Smith, Bank of America.

Matt Smith

I have a couple, please. I guess, the first one is back to the farm-down process in Namibia. I guess, just to clarify, if I could, if you'd be willing to comment on just to understand what you would be prioritizing in respect of proceeds, it sounds like covering the CapEx commitment is really the priority here. So should I take it that Galp is looking to maximize the amount of sort of capital carry that it could achieve from the process rather than cash proceeds? I'd just be interested if you'd be willing to comment on that at all.

And then my second question, and I appreciate, fully interlinked, I suppose, just it's a broader question, whether these discoveries in Namibia might necessitate the sort of a change to the capital allocation that you've laid out previously, whether that's in relation to buybacks, whether that's in relation to investments in low carbon. Or is very much the intention to remain the status quo there?

Filipe Silva

Thank you, Matt. We -- Galp will keep a very significant stake in Namibia, both dilution. So yes, the use of proceeds will go directly into the concession, when we do have a partnership agreement. As far as the overall Galp capital allocations, Brazil free cash flow positive, clearly.

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Namibia should not consume most of dilution or as part of our dilution, CapEx going into Namibia post exploration and appraisal should be very, very limited. So this, in a way, will allow Galp to accelerate profitable low-carbon ventures, what we're doing in the refineries, be it with sustainable aviation fuel, advanced biofuels, hydrogen and lithium. So this also gives the means for Galp to accelerate its downstream transformation.

Operator

And your next question comes from the line of Alessandro Pozzi from Mediobanca.

Alessandro Pozzi

And there, on Namibia, as you might have expected. The first one is on the estimates that you've given of 10 billion barrels in place. I was wondering if you can give us a bit more color on how conservative this estimate is and whether they are -- the amount of volumes is allocated to the different targets that you've announced, AVO-1 to 3 and through the EBITDA target.

And also, this is a very large discovery, 10 billion just with 2 wells. Are you concerned about heterogeneities across the field as well? And second question is on the CapEx for the next phase and the timing of the next appraisal wells, please.

Filipe Silva

Your second question, CapEx is we want to -- we're launching the campaign now. So this is going to be a late '24, early 2025 exercise for us. On the oil in place, 10 billion or higher is our BOE any place. It's our best assessment based on the information that we have so far. So we have data collected from the two wells and the DST. And all this has reinforced our pre-drill geological model that we had, which itself was based on our very extensive analysis of the area over the last decades. So this is not a new asset for Galp.

So the data covers only some of the structure that we had initially identified in the seismic. Some of this has been derisked plus some additional hydrocarbons that we found in the deeper targets. So we have calibrated or we are calibrating the model based on what we have proven so far. And this is the estimate that we get now. Could we -- is there risk associated with the estimate? Yes, up and down. So that's why we need to do more exploration and appraisal activities to better assess the full area of the Mopane complex.

So lots of information that we're still analyzing. A lot of the cores, the fluids has been sent into the labs. So all this is going to be -- we think, is going to demonstrate what we saw in the seismic. So a lot of reservoir updating has to be done. But you know Galp by now. We are a measured, conservative company when it comes to estimates and external communications.

Alessandro Pozzi

On the 10 billion, I believe in your press release, you mentioned that AVO-1 has the same price regime in the two wells. Is it fair to assume that the majority of the volumes are in the AVO-1?

Filipe Silva

We're not commenting on this. So we have selected the location of these exploration wells to get as much information. So we did not necessarily go for the sweet spot. It's really to look at the extensions. So the eastern part of AVO-1 was targeted because we knew we were going to cross other AVOs. Now if you look at the western part of AVO-1, it extends a lot to the east as well and AVO-3 extends very significantly to the west of where we drilled.

Operator

And your next question comes from the line of Pedro Alves from CaixaBank.

Pedro Alves

So coming back to Brazil, do you have any update regarding the development of Bacalhau, the Phase 2 in Bacalhau North? And on Namibia, the estimates of 10 billion, you said oil equivalent. Do you have any early estimates? Or can you provide a range of what do you think could be the percentage of gas in this discovery?

Filipe Silva

Thank you, Pedro. Let me take your second question and Daniel will cover Brazil. So this is not a gas discovery, guys. And this is light oil with gas condensates. So these are fluids with associated gas. We're not guiding on the EOR at this stage. And the fluids are not the same everywhere. We will drill deeper where we expect more oily fluids going forward, more importantly, associated gas. So this is not expected to be an issue for the development for many, many years. So reinjection will be prioritized during the initial years. Daniel?

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Daniel Elias

Thank you, Pedro. On Bacalhau 2, we are happy to report that we have completed the RDA well in January and the data acquisition associated with that well in March. And now we are incorporating all the data associated with that operation in order to review our models, specifically in the northern area, in order to make a decision going forward.

Of course, this is a high-quality structure that is part also of the Bacalhau and the original Carcara discovery. So what we have to do now is take into consideration this new data and look into the options that we have mapped into the Bacalhau Phase 2 opportunity.

Operator

And your next question comes from the line of Sasikanth Chilukuru from Morgan Stanley.

Sasikanth Chilukuru

I had one related to Namibia, please. I was just wondering, you confirmed the lateral extension of the Mopane-1 into Mopane-2. Just wondering if you would notice any communication between the wells as well as your [indiscernible]. I appreciate it is early days, but I was just wondering if you could comment on that.

Adriano Bastos

Thanks for your question. It's me, Adriano Bastos. I will take that. The wells are 8 kilometers apart. And any pressure response to confirm continuity between them will take time. But the pressure regimes and the logs give a good indication of a potential communication between the wells.

Sasikanth Chilukuru

If I could just one more, for the second campaign, I was just wondering what could be the potential bottlenecks for you to get back to that next phase, especially in terms of the availability of the drilling rig, if you think there would be any issue at all going back into this second phase of D&A program.

Adriano Bastos

At the moment, no bottlenecks. We have the time of long lead items. Besides that, there's no foreseeable bottlenecks for our campaign.

Operator

Your next question comes from the line of Lydia Rainforth, Barclays.

Lydia Rainforth

Two questions, if I could. I don't think you've actually given a date for first oil. And I just want to check if you were able to just talk us through the time frame on that. And secondly, I did want to come back to Matt's question earlier about what it does for the rest of the business.

You talked about earlier that interesting part of being able to accelerate other parts of the business in terms of development. Organizationally -- and I know it's only a week since you've made the scale of the announcement. But just in terms of what you're thinking about, does it change anything organizationally in terms of is there anything actually you need to accelerate those developments or expertise you need to bring in?

Otelo Ruivo

Lydia, can you please repeat your first question, please?

Lydia Rainforth

Sorry, yes, I was just thinking about the timeline for the startup, so when the first FPSO might actually start producing. That was all.

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Filipe Silva

Lydia, we have trouble hearing you. So if I understand correctly, first oil is end of the decade if there's no early production system. But too early to give guidance at this stage. Your second question?

Lydia Rainforth

Sorry, if I come back to it, it was more going back to Matt's question earlier on the organization structure and he talked about the very interesting part of being able to accelerate some of the downstream side. I was just wondering, organizationally, are you set up to be able to accelerate that? Or does there need to be organizational changes in terms of how you think about the business? And I appreciate it's only a week or so since you've made clear the scale of it. But I'd just like to think about the implications for the rest of the business.

Filipe Silva

Very clear now, Lydia. Thank you. No, we are fully equipped with talent. We're fully equipped with the balance sheet. So we don't expect any need for organizational changes. It's actually doing more of what we're already doing. We are building the first 100 megs of green hydrogen and the SAF HVO unit that's ongoing.

We're about to launch another 200 megs of green hydrogen for -- once the first megawatts are significantly advanced. So we have all the capabilities in-house to do this. And yes, we can do both at the same time. Because, as I said before, the model that we have in mind for -- the partnership model that we have in mind for Namibia, the development CapEx will be funded by our new partner.

Operator

Your next question comes from the line of Irene Himona from Bernstein.

Irene Himona

And again, congratulations. I had two non-Namibia questions, if I may. First, unit DD&A in the Upstream is unusually low -- surprisingly low versus guidance and versus the start of depreciating Coral now. Is there some guidance you can provide for the rest of the year, please? And then secondly, I think you paid EUR 45 million as energy sector extraordinary contribution. Again, what should we expect for the full year, please?

Filipe Silva

No, we're not expecting more extraordinary taxes in 2024 beyond what you have in Q1. On unit DD&A, these are lower provisions. So this is a revision of the unit of production metrics that we have internally that's noncash, of course.

Operator

Your next question comes from the line of Matt Lofting from JPMorgan.

Matt Lofting

And congratulations on the updates over the last couple of weeks to everybody at Galp. Two follow-ups, if I could, on Namibia. I think you said earlier, firstly, that the best estimate on the 10 billion barrels that you've provided is based on data that covers some of the structures. So could you just sort of talk a bit more about what proportion of the structures are covered by the data that you have to this point? And perhaps if you could share your view on the sort of the probability on a sort of a 1, 2, 3P-type basis or the confidence around that 10 billion that you have at this stage.

And then secondly, and perhaps linked to that to some degree, I think you indicated in the press release 10 days ago that the additional analysis of the data that was required in terms of ratifying commerciality. Are there any uncertainties that exist today in terms of that ratification and how you're sort of thinking with that in mind about sort of realistic ranges on recovery factors on the 10 billion?

Filipe Silva

Thank you, Matt. I'll ask Adriano also to jump in. But no, we're not -- clearly, it's too soon to give any guidance on recovery. So we don't have enough support at this stage to provide you with a credible estimate. And this also depends on many factors, including how much hardware we will deploy and when. So first, we need to fine-tune our development concept definition. We need to agree that with our partners and with the government of Namibia before we disclose this.

But I would say the test results were very impressive, yes, albeit in only one location so far. And when you have low viscosity, good porosity, high pressures, high permeabilities, you can suspect what the productivities are going to be very interesting. And we'll probably have a lot less CapEx for the wells than we were expecting before. It also helps that we have no CO2 and no sulfur contaminants. Adriano?

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Adriano Bastos

The 10 billion barrels of oil equivalent in place is our main case based on our knowledge of the structure of our complex, okay? We drilled part of it. Now we launched a campaign for the exploration appraisal that will further access and confirm our model.

Operator

And your next question comes from the line of Ignacio Domenech from JB Capital.

Ignacio Domenech

The first one is on Mozambique. I was wondering if you can provide an update on the latest status of Rovuma LNG. And also, if the recent discovery in Namibia has changed the way you look at Rovuma in the context of your overall portfolio. And then my second question is in refining, the cash cost in the first quarter, which was significantly below your guidance for 2024. So if you could give us your view on what you are expecting in the coming quarters.

Filipe Silva

I'm not sure. No, we -- the Rovuma follows its own course. So the -- there's an expectation that front-end engineering will start soon. We need to derisk that project as well and with a view for an FID next year, most likely. And we're also having a discussion within the consortium about Coral North, which may proceed before Rovuma LNG.

Cash costs, there's no change in guidance on cash costs in the refinery for the full year. So don't read too much into the $1.7 per barrel in Q1. $3 is still on guidance. There's inter-quarter adjustments from Q4 last year and Q1 this year. So it's artificially low. $1.7 is not the run rate.

Operator

Your next question comes from the line of Kate O'Sullivan from Citi.

Kate O'Sullivan

Congratulations on achieving what looks like a best-case outcome on the exploration in Namibia. Nice to see the company taking the risk again. As you evaluate the data have you got from Mopane wells and the DST, is there anything that has surprised you versus pre-drill? I'm wondering what this says about exploration potential in the north of the block. Presumably, you have other multibillion barrel prospects in the north to go after.

And then just secondly, following up on what's giving you confidence on the commerciality of the discovery further south of your block, one of your peers last week made remarks around gas content and handling in their block. Just think the market would be interested to hear anything you could say on the parameters related to oil and gas.

Adriano Bastos

I'll try to summarize the answers. Any surprise versus pre-drill? Yes, we found a much more prolific profile than we expected. And the DST results corroborate our findings. There's other prospects in the block. Yes, there are several areas in the north that potentially have large world-class accumulations that are on our plans for the future. What we need to do more for the commerciality, we need to continue our appraisal and exploration campaign to confirm the total volumes we have and as such, develop our concept for full development.

Operator

And your next question comes from the line of Alejandro Vigil from Santander.

Alejandro Vigil

Congratulations for this amazing discovery in Namibia. My question is more in terms of strategy, in terms of capital allocation. The reality is that with this discovery with Mozambique, with Bacalhau project, the scale of the company is going to increase significantly in the coming years. Is there any thoughts about a change in your strategy in terms of capital allocation, more focus on growth CapEx than share buybacks, for example? Just your thoughts about the capital allocation in general.

Filipe Silva

Thank you, Alejandro. No real change. Again, Namibia, this is -- for now, it's CapEx-light. This is exploration/appraisal. It's relatively CapEx-light. And when tens of billions of dollars are needed for the -- each of the developments that are coming, this is not expected to be funded by Galp. So that's the price of going from 80% to a lower percentage. So it is critical to understand, when you start with 80%, you have a lot of leeway to go down and be diluted over time and bring somebody else to fund the project for you. So it does not change CapEx allocations for Galp.

Also, do bear in mind that, as we knew all along, 2024 was going to be a year of very high CapEx intensity for Galp. We have, at the same time, the SAF HVO project in Sines. We have the lithium projects that we're working on in Portugal. We have the hydrogen projects going on. We have Namibia exploration and appraisal. And last but not least, we have big CapEx in Bacalhau. Next year in Brazil, this changes very quickly. Not only we have production coming from Bacalhau, so EBITDA goes way up, but CapEx goes way down. So the profile post 2024 of Galp changes.

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We're also particularly pleased that the market starts to appreciate that this is a real high-growth company and distribution should not be the driver of valuations. So this also gives us the ability to allocate capital and be remunerated in the market for the real value creation that we'll have for many, many, many decades ahead of us. So this is not a short-term business.

Operator

Your next question comes from the line of Paul Redman from BNP Paribas.

Paul Redman

I just have one question. And it's just to delve down a little bit deeper in how you're getting the confidence on the 10 billion of resource. Essentially, when we think about the seismic you took at the beginning of the project, how did the recent wells calibrate that original seismic? And what level of confidence does that give you about the estimate about the total filter? How are you getting that confidence on the 10 billion?

Adriano Bastos

Thanks for your questions. The seismic that we shut early in the project, we're still processing it. We have the quick look at it and is quite promising and will help us on our future development with the project. The confidence that we have come from the past 14 years studying and also looking at the analogs of our neighboring, which help to calibrate our model. During our exploration campaign, we confirmed and increased the confidence that we have. Therefore, we're quite confident on our main case that, that 10 billion of oil equivalent in place.

Operator

And your final question comes from the line of Josh Stone at UBS.

Josh Stone

Yes, I'd echo all the praise on Namibia, congratulations. One final question on Namibia though, given the size and quality of the reservoir, the importance of the country as a whole, I just wanted to see how are the conversations going with the government in terms of fiscal regimes, local content requirements. Have those conversations started?

And secondly, on CapEx, Filipe, you highlighted some of the big projects you're spending on this year. But your guidance is on this net basis over a multiyear period. So just given the moving parts, can you maybe provide us with an outlook for this year and what the 2024 gross organic CapEx is going to be?

Filipe Silva

And I think I've covered this before, we don't guide on a gross CapEx nor on divestments. We play with both legs. We guide on net CapEx. If we have more CapEx than planned, then we need more than divestments. I have to say in Iberia, we continue to face incredible challenges with permitting in renewables. So CapEx, unfortunately, going into CapEx -- going into renewables this year is going to be much less than what we had in the plan, not because we are deemphasizing renewables.

Renewables, we need as many electrons, green electrons that we need to feed our client base, B2B, B2C clients, and our own industrial units, including the electrolyzers. But we just cannot build enough of those. So that is a concern. But it makes our CapEx plan for 2024 much lighter than expected.

On Namibia, an incredible -- incredibly stable country, aboveground risks, arguably one of the very best, stable, very collaborative authorities, different ministries, prime minister, our partners, Mr. Knowledge Katti, the guys at NAMCOR are exceptional professionals. So we're very, very pleased with the country as a whole.

Otelo Ruivo

So I think this concludes our call today. Thank you all for your questions and for listening. As always, our IR team will be available for any questions that may remain. Looking forward to speaking with you.

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