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CORPORATE PARTICIPANTS

Josu Jon Imaz San Miguel *Repsol, S.A. - CEO & Executive Director*
Ramón Álvarez-Pedrosa *Repsol, S.A. - Head of IR*

CONFERENCE CALL PARTICIPANTS

Alwyn Thomas *Exane BNP Paribas, Research Division - Analyst of Oil and Gas*
Christopher Kuplent *BofA Merrill Lynch, Research Division - Head of European Energy Equity Research*
Irene Himona *Societe Generale Cross Asset Research - Equity Analyst*
Jason Kenney
Lydia Rose Emma Rainforth *Barclays Bank PLC, Research Division - Director & Equity Analyst*
Matthew Peter Charles Lofting *JP Morgan Chase & Co, Research Division - VP*
Michele Della Vigna *Goldman Sachs Group Inc., Research Division - Co-Head of European Equity Research & MD*
Oswald C. Clint *Sanford C. Bernstein & Co., LLC., Research Division - Senior Research Analyst*
Peter James Low *Redburn (Europe) Limited, Research Division - Research Analyst*
Thomas Yoichi Adolff *Crédit Suisse AG, Research Division - Head of European Oil & Gas Equity Research and Director*

PRESENTATION

Operator

Hello, and welcome to the Repsol Q3 2019 Results Presentation. Today's conference will be conducted by Mr. Josu Jon Imaz, CEO. A brief introduction will be given by Mr. Ramon Alvarez-Pedrosa, Head of Investor Relations. I'd now like turn the call over to Mr. Alvarez-Pedrosa. Sir, you may begin.

Ramón Álvarez-Pedrosa ***Repsol, S.A. - Head of IR***

Thank you, operator. Good afternoon. This is Ramon Alvarez-Pedrosa, Head of Investor Relations. Welcome to Repsol Third Quarter 2019 Results Conference Call. Today's call will be hosted by Josu Jon Imaz, Chief Executive Officer, with other members of the executive team joining us here in Madrid. Before we start, I advise you to read our disclaimer. During this presentation we may make forward-looking statements which are identified by the use of words such as will, expect, or similar phrases. Please note that actual results may differ materially depending on a number of factors as indicator -- as indicated in the disclaimer. I will now hand the call over to Josu Jon.

Josu Jon Imaz San Miguel ***Repsol, S.A. - CEO & Executive Director***

Thank you, Ramon. Thank you, everyone, for joining us today on this conference call. Today I'd like to cover the following main topics. Firstly, our review of the key messages and main operational highlights of the quarter. Secondly, a summary of the financial results. And finally, the outlook to the end of 2019.

Let me begin with the key messages of the quarter. We have delivered a set of solid quarterly and 9 months results supported by the resiliency of our integrated model. We keep progressing towards our steady targets with a clear focus on disciplined growth, the efficient development of our projects, and of course safe and reliable operations.

Looking briefly at the macro environment front, the price was 10% below the second quarter and 18% lower than in the same quarter a year ago. In the gas markets, the average Henry Hub price was 15% lower compared to the second quarter and 24% below the same period in 2018 last year. In Refining, despite a challenging month of September, the margin indicator increased quarter-on-quarter by more than 50%, going strong into the last quarter of the year. Despite a volatile macro scenario and weaker oil and gas prices, the cash flow generated by our operations amounted to EUR 1.5 billion with a roughly equal contribution from upstream and downstream. This is a 13% increase compared to the second quarter.

Up to September, the accumulated cash flow from operations reached EUR 4.1 billion, a 22% increase compared to the same period in 2018, despite a lower production figure, lower oil and gas prices and lower refining margin. In Upstream, the accumulated operating cash flow to September has been in line with the first 9 months of 2018. Aligned with our strategy, production volumes reflect how we are modulating our development activity to prioritize value over volume with a focus on profitability and returns.

As of the end of the quarter, Upstream division maintain a free cash flow breakeven below $50. The contribution of efficiency and digital initiatives is allowing us reducing our cost base. Third quarter, unit OpEx was $10 per barrel, continuing the cost reduction trend of the last few years.

In Downstream the accumulated cash flow from operations through September increased by 83% year-on-year despite an average refining margin indicator $2.10 below the same period of 2018. The group's operating cash flow in the first 9 months of the year has more than covered CapEx, interest cost and shareholder remuneration. Net debt leases amounted to EUR 3.8 billion as of the end of the quarter, around EUR 200 million higher compared to June and EUR 400 million higher compared to December 2018. The net debt increase in 2019 is driven by our investment in treasury shares during the year with an impact of EUR 1.4 billion through September.

The net debt to EBITDA CCS ratio was near 0.5 as of the end of September, well below the objective defined in our strategic plan. Liquidity represented more than 1.7x our short-term gross debt maturities. And as part of our debt management, we issued in July an 8-year bond of EUR 750 million, our first bond issuance since 2017. The coupon of 25 basis points is the lowest paid by Repsol and by an European bond issuer with a BBB rating.

Now let's take a closer look into the operational highlights of the quarter. Starting with the Upstream, third quarter production average 711,000 barrels of oil equivalent per day. Compared to the previous quarter, production volumes were positively impacted by Buckskin in the Gulf of Mexico, producing for the full quarter following startup in June; higher uptime in Peru and Trinidad and Tobago; and higher production in the Marcellus.

These effects were partially offset by lower volumes in Venezuela, Canada and Libya. In Venezuela, the quarter was impacted by lower gas demand in Cardon IV. In Canada, we are modulating activity in response to the depressed gas prices in the region. And in Libya, production average 32,000 barrels per day. Operations were affected in July by force majeure in [Sara Rafel]. Production restart in August has remained stable since then.

Turning now to development activity in our breaks in the Buckskin, as part of a broader full-field development plan, the partners are now evaluating the new data coming from the 2 producing wells of the current phase. Pending on further analysis, our third development well could be drilled next year. In Alaska, the war plan for the next winter campaign in Pikka was approved. It includes the drilling of 2 wells, also a gravel lay program that is going to allow us to work year around starting in 2021.

In Indonesia in the Sakakemang block we are working on the location of the appraisal of the Kaliberau-Dalam discovery expected in 2020. The partners we are working on the early development of the resources in Sakakemang and for that we are going to use the existing facilities in corridor.

Malaysia, second phase of the Kinabalu redevelopment was sanctioned in July. The drilling campaign will be complete between the remainder of 2019 and in 2020. Our opportunity for (inaudible) is mainly focused especially in these 2 countries.

In exploration, we continue taking steps to build a robust opportunity portfolio based on our core strengths. In the Gulf of Mexico, the appraisal of Leon operated by LLOG was completed during the quarter with a total drilling cost 13% below budget. The preliminary results of the well confirm the potential for a joint development of Leon and Moccasin. The operator is working on their conceptual engineering to visualize a joint development of both areas. And let me underline that the Gulf of Mexico constitutes a niche opportunity for us and in that sense the recent agreement with LLOG is an important step to consolidate our position.

In Brazil, the appraisal of Sagitario was initiated in September and drilling continues to this date. In the recent October bid round Repsol was awarded 4 new offshore exploratory licenses reinforcing our position in the Brazilian pre-salt. Our exploratory program includes also the start of 6 wells in the fourth quarter. In Guyana, the drilling of the Repsol-operated Carapa well in the Kanuku block started some days ago in October. This well will test the upper Cretaceous and the lowermost tertiary play, targeting the same formation as in successful neighboring prospects.

Now let me move to the operational performance of the Downstream. Starting with refining, third quarter refining margin indicator was $5.50. After the challenging environment of the previous quarter, margins were positively impacted by stronger middle distillate spreads. The average indicator for July and August was above $6. September was negatively impacted by an increase in the price of heavy oil Maya, but this temporary effect has already been redressed in October.

The current unique CCS margin generated a premium of $0.80 over an indicator in line with the previous quarter. Plant maintenance included a completion of the turnaround in Bilbao and it starts by mid-September of the turnaround of one of the crude units and the hydrocracker in Cartagena already in full production since last week.

The Chemical business compared to the previous quarter was affected by lower volume sales due to seasonality, building stocks to face our Tarragona plant turnaround and the unscheduled interruptions in Sines in August. International margins were slightly below the second quarter due to a lower demand in Europe. In Peru, our business extended this positive momentum with another strong quarter of refining margins and results. Additional improvements made in our Pampilla refinery have led us to increase gasoline gill and reduce naphtha production among other benefits.

The commercial businesses contributed with a robust performance. In particular, Mobility benefit from a high seasonal demand in Spain. The all energy customer-centric plus digital strategy is proving results with increased throughput and non-oil contribution.

We also reached, let me underline, a significant milestone with the opening of the most powerful electric vehicle charging station in Europe. Today, Repsol owns the only 2 ultra-fast charging points in the Iberian Peninsula. Lubricants post a pretty solid quarter as well. In addition, we took another step in the internationalization of this business with the acquisition of a 40% stake in Singapore-based United Oil. This joint venture will allow us to produce and commercialize our brand products in Southeast Asia with the help of this local partner. And we also expect to close this transaction before year-end.

The expansion in Mexico has reached 225 service station under operation, out of 310 contracts signed. And finally in Low Carbon, our hydros performed below regular average due to the low rainfall. However, this effect was more compensated by Our CCGT power plants that reached record levels of utilization last quarter. Our combined (inaudible) benefit from the lower gas prices in Europe and also of course in Spain, and a favorable gas to coal spread that anticipates the planned closures in the near future of most of the coal-fired power plants.

And in the retail side of the business, we have reached 965,000 clients. On the 1st of July, we incorporated 3 new renewable energy bridge to our portfolio, 2 wind farms and a photovoltaic power plant in Spain. And these projects will add 800 megawatts of capacity when developed. And lastly in WindFloat Atlantic, we have just started the offshore installation of what will be the first floating wind farm in continental Europe.

Turning now to the financial results. I will summarize the main figures for the third quarter of the year and how they compare with the same period in 2018. Third quarter 2019, this year's adjusted net income was EUR 522 million, an 11% decrease from the same quarter in 2018. Upstream adjusted net income was EUR 218 million which compares to EUR 368 million in the third quarter of 2018. Downstream adjusted net income was EUR 372 million, 11% higher than in the same period a year ago. In Corporate & others, the adjusted net income was EUR 608 million negative, up EUR 48 million -- EUR 68 million negative, sorry, a EUR 48 million improvement over the same period in 2018. For further detail on Repsol's results, I encourage you to refer to the financial statements and our company documents that were released this morning.

At this point, I want to update you on outlook to the end of the year. Firstly, following our strong performance to September, we remain on track to meet our breaking cash flow increase objective for 2019. The levers and initiatives contemplated in our strategic update are expected to deliver EUR 1 billion of additional cash flow compared to the 2017 baseline homogenized into the basis of our plan.

We expect to end 2019 with a total organic CapEx below EUR 3.0 billion of which EUR 2.3 billion will be deployed in the Upstream, and the EBITDA as this year's estimate for the year is now EUR 7.5 billion, of which Upstream will contribute EUR 4.5 billion and Downstream EUR 3.1 billion.

Production has averaged around 730,000 barrels per day in October, and subject to fluctuations in Venezuela and Libya, we expect full year average production to end at around 710,000 barrels per day as average. Development activity remains focused mainly on prioritizing value over volume, adjusting our capital investment to the commodity scenario. This is what we are already doing in North America in the face of low gas prices.

In Downstream, the refining margin weakness of the first half of the year was followed by a partial recovery in the third quarter. Aligned with our assumptions, we expect this outperformance to continue in the fourth quarter, led by the upcoming implementation of the IMO next January. The margin indicator has been particularly strong in October, averaging $8. Operators have already started to adjust their inventories ahead of IMO, resulting in a collapse of high sulfur fuel oil spreads. The spread between diesel and high sulfur fuel oil has opened to more than $40 in October, driving the trend for IMO, boosting the margins of deep conversion refiners like Repsol.

In Chemicals, last quarter of the year will be impacted by -- negatively impacted I mean by the planned turnaround of the cracker in Tarragona that started from the 1st of October and will last until the end of November. We foresee international petrochemical margins still healthy, a midcycle range into the fourth quarter.

In Low Carbon, the results during the first 9 months of 2019 have been in line with our expectations. We are growing in all business lines. And as important, we are finishing the integration of the assets we acquired 11 months ago.

The strength of Repsol's brand lever on our client-base in Spain and our existing distribution channels is allowing us to expand our retail gas and power business where we are approaching 1 million clients with our multi-energy approach.

In power generation, we have 3 gigawatts of low-emission capacity already in production, and another gigawatt under development. Our project portfolio will allow us to achieve and exceed our 2025 low emissions capacity target. It is also important to highlight that now we have a highly competitive and experienced renewables team to face new challenges and goals.

Let me now update you on our preparations ahead of IMO 2020. Repsol's refining team is perfectly positioned to capture the higher margins resulting from the new IMO regulation. We own 25% of the total coking capacity in European Union, while only 6% of the total distillation capacity. Our refining system is fully invested for IMO and our accelerated maintenance schedule in 2019 will allow us to maximize the availability of our system during the period of maximum impact of the new regulation.

The planned turnaround of Puertollano will start in next month, will finish our maintenance program for the year. We will end 2019 with more than double turnaround days in refineries than the average of the previous 4 years, without a material impact in utilization terms. This will allow us to reduce the turnaround days in 2020 to 2022 to around half of our normal year. At the moment, all our refineries in Spain can operate without producing any high sulfur fuel oil at all, due to a high conversion and the flexibility of our system.

We are prepared to produce very low sulfur fuel oil if margins are there. If not, of course, we are prepared to fully get rid of any fuel oil production. We have tested the properties of different blends of these products, especially its stability.

And at this point, I'd like to conclude with some final remarks. The strategic update that we presented last year revolves around our commitment to deliver value growth through the 2018 to 2025. Now we approach the last year of our plan, moving forward with our value proposition, on track to deliver on the 3 pillars of our strategy to 2020.

Firstly, we have improved shareholder remuneration removing the dilution associated with scrip option and increasing our dividend in 2018 and 2019. And we will reach EUR 1 per share dividend in 2020 as committed in our plan. On top of that, a higher cash flow generation in a higher commodity prices scenario will allow us to propose in a very firm way to the 2020 annual general meeting an additional 5% share capital reduction as we announced in July.

Secondly, we are growing the profitability of our portfolio with a clear path to increase the cash flow generated by our operations and we maintain our disciplined approach to every dollar that we spend. What we don't spend, it depends. We are accelerating the high grading of our portfolio; maintaining our core CapEx; and progressing in the development of the third pillar of our strategy, which is building a profitable low carbon business.

We have the conviction that the energy transition is an opportunity to create value for our shareholders. We want to lead the evolution into a less carbon-intensive world, reducing in a firm way our carbon footprint and becoming a global multi-energy customer-centric company.

And finally, the resilience of our self-funded strategic plan enables us to deliver all of these while maintaining the necessary financial flexibility. The efficiency and digitalization measures maturing next year together with a impact of IMO will further contribute to our operating cash flow increase in 2020.

With that, I now hand the call back to you, Ramon. Ramon is going to lead us through our question-and-answer session. Thank you.

Ramón Álvarez-Pedrosa ***Repsol, S.A. - Head of IR***

Thank you very much, Josu Jon. In case you run into technical problems, please contact us through our e-mail address investorrelation@repsol.com and we will contact you immediately to try to solve it. Before moving on to the Q&A session, I will like the operator to remind us of the process to ask a question. Please operator, go ahead.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Ramón Álvarez-Pedrosa ***Repsol, S.A. - Head of IR***

Thank you, operator. Let me move now to the Q&A session. Our first question comes from Oswald Clint at Bernstein.

Oswald C. Clint ***Sanford C. Bernstein & Co., LLC., Research Division - Senior Research Analyst***

Josu Jon, I just wanted to just touch on that $8 per barrel refining margin you're witnessing in October. Is that also the same number you're assuming in November and December for your EBITDA number there of the EUR 3.1 billion that you kind of indicated towards please? That's the first question. And secondly, just on the volumes primarily in the Upstream and I'm just curious about I think some of the commentary around lower gas demand in Bolivia and places like Malaysia, is that counted in those numbers? Or could you talk about what is happening with the lower gas demand in Bolivia and Malaysia? In Bolivia was it just around the elections and you expect that to pick up again in the fourth quarter? Perhaps just talk around those particular assets please.

Josu Jon Imaz San Miguel ***Repsol, S.A. - CEO & Executive Director***

Thank you, Oswald. As I said before the average in October has been $8 per barrel in margin index terms of course. You know that on top of that we used to have some additional value thanks to the flexibility of our operation refining system. This week and today we are $9 per barrel, so I don't know what is going to happen in November and December. I mean, it seems to be -- to me that the fundamentals to on the pillars to prepare the market for the IMO scenario is going to be there. It's fully clear in the case of major distillates.

In the case of heavy oil you know that we have experienced some volatility in prices and so on in September. I mean, I don't think that we are going to have a larger offer of heavy oil in coming months, but the good news for our refining system is that due to a higher discount in the bottom of the barrel and fuel lower high sulfur fuel oil and so on, that could be a fixed stock for our refining system in case of having an opportunity in terms of programming. I mean, we have some kind let me say of fill in in operational terms to the price of the heavy oils. I mean, if we are -- we don't have, let me say, a full competitiveness processing heavy oils.

We are going to process the bottom of the barrel and we are going to process a high sulfur fuel oil. So it seems to me that we could -- that is a very challenging figure because we'll need an average of the third quarter of $9 per barrel. I don't know if we are going to be there, that having an average of $9 per barrel in the last quarter, we could have a year average of $6 per barrel. It seems to me that we are going to be slightly below this figure in the whole year, but I think that November and December we are going to have a good news in margin terms in our refining system.

Going to the second part of your question related to the gas in Bolivia, let me say that the contract today with Bolivia, with mainly Argentina and Brazil are very solid. They are -- they have flexibility, you have to take into account that again winter, summer is playing in this part of the world, but the demand is quite robust from our point of view.

Going to Malaysia, demand is okay. But we have had a plant turnaround in Kinabalu that has impacted the production in Malaysia, and on top of that, we have an small reduction of demand in corridor in Indonesia. So facts are there, but we are quite comfortable regarding the gas demand in Asia. We have, let me say, a better view about gas prices in North America and for that reason because we are flexible in our operation, we are reducing in a important way the capital expenditure program [AIDER], integrated (inaudible) in Canada and in the Marcellus in the United States. Thank you, Oswald.

Ramón Álvarez-Pedrosa ***Repsol, S.A. - Head of IR***

Thank you, Oswald. Our next question comes from Michele Della Vigna of Goldman Sachs.

Michele Della Vigna ***Goldman Sachs Group Inc., Research Division - Co-Head of European Equity Research & MD***

Just to join in, Ramon. Two questions if I may. The first one is in terms of your E&P business. In the last few years you made a tremendous effort to replace the business from a cost perspective, but I was wondering if you think whether you had the right geographical and hydrocarbon balance, particularly in view of what the press referred to as your interest in the Exxon Gulf of Mexico assets? And then secondly, going back for one moment to the strong refining margin that you're seeing at the moment, I was wondering whether that includes the increase in tanker rates that we've seen recently? Or whether we need to make an adjustment for that when we apply your sensitivity to refining margins?

Josu Jon Imaz San Miguel ***Repsol, S.A. - CEO & Executive Director***

So Michele, thank you for your questions. I mean, I agree with your first point. I mean, our geographical scope is not the right one. We have tried over the last year, 1.5 year exiting Romania, Angola, Mid-Continent, gas production in Russia, the Kurdistan and so on to redress a bit this picture, but be sure, Michele, that we are going to try to improve and to highlight our Upstream portfolio in coming months, being more active in terms of M&A. And when I say more active in terms of M&A, I'm talking about investing and divesting. Of course, I'm not going to put names to our facets on the table. You know that that is not -- is not what I have to do, but be sure, Michele, that I take your point, I agree with your point and we are going to be more active in this portfolio management in terms of the E&P.

And of course, we know what is happening with the gas prices and we are going to act in this line you are expressing. Going to the margin -- refining margin and the tankerage cost, I mean, we don't understand, are you talking about the fleet cost that are below margin?

Michele Della Vigna ***Goldman Sachs Group Inc., Research Division - Co-Head of European Equity Research & MD***

And what I'm talking about is we've seen a huge increase following the recent sanctions in the cost of transporting crude and product across the world. And I was wondering if that would make an impact on your realized refining margins?

Josu Jon Imaz San Miguel ***Repsol, S.A. - CEO & Executive Director***

No, I mean, all this effect is included today, we have experience in this. I mean, it's included in our variable margins cost and today when we are talking that we are at $9 per barrel, all that is included in the margin we are reporting, Michele. Thank you. I'm sorry for not understanding at the first glance your second question. Thank you.

Michele Della Vigna ***Goldman Sachs Group Inc., Research Division - Co-Head of European Equity Research & MD***

No, very clear.

Ramón Álvarez-Pedrosa ***Repsol, S.A. - Head of IR***

Thank you, Michele. Next question comes from Thomas Adolff at Credit Suisse.

Thomas Yoichi Adolff ***Crédit Suisse AG, Research Division - Head of European Oil & Gas Equity Research and Director***

Hi, Thomas Adolff from Credit Suisse. And 3 questions if I may. Just coming back to Michele's first question on high grading et cetera, perhaps you can more specifically comment on what portfolio shaping moves are truly necessary to hit in your view the sweet spot of value creation and risk for the company.

Then secondly, you talk in your presentation about value of a volume and that's your priority. But certainly, if you're ramping up the Marcellus so hard and that explains some of the increases we've seen in the third quarter, most likely also in the fourth quarter, would you consider that value of a volume given weak gas prices in the U.S.? And I'm not sure how much free cash flow you generate in your Marcellus business. And then maybe just a question on guidance. You've slightly tweaked your EBITDA guidance for the Upstream and was that more a function of the macro or was it a function of your lower production guidance? And lower production guidance, is that also translating into a lower CapEx since you're now guiding to a CapEx less than EUR 3.5 billion?

Josu Jon Imaz San Miguel ***Repsol, S.A. - CEO & Executive Director***

Thank you, Thomas. I mean, going to your first question, I mean, I understand your question, you'll understand that I can't surnames and names in the assets, but I'm going to give you some color about what you are asking for. I think that we have to reduce the scope of the countries where we operate. We have exit from 1, 2, 3 countries over the last year and we are going to try to go on that in terms of efficiency. That is a driver.

Second driver, we are going to grow and to invest in places where we have synergies, where we have our positions, where we are -- we have, let me say, more competitive advantages than others. And third driver. We are going to capture the tax [polls] we have in some of these countries. In terms of increasing the cash flow from our operations in the short mid-term in 2, 3, 4 years in a positive and dramatic way and in our today's M&A view either for divesting or for reinvesting.

In the E&P, these are going to be the main drivers. And also with a more, let me say, flexible and dynamic approach to the money, I mean, we are ready to in some places where we have the knowledge and we have the capacities to improve some assets to enter with a strategy of acquire, improve and of course, after creating value, I mean why not in some places divest. So that is going to be, let me say, the main driver in this M&A strategy. I mean, value over volume, that is going to be also the strategy in the Marcellus and with the flexibility that the Marcellus give us now and over the last months, we are reducing our CapEx and we are going to adapt our production to this price scenario. You know that we have a very low breakeven in the Marcellus, but we are not ready in any case to drill our well if we are not making a positive net present value with the gas prices we have in the area. So we are going to prioritize absolutely value over volume also in the Marcellus. And I'm not going to have any problem to explain to you in coming months why in case of not being in targets of production to say you we are doing that because we prefer to prioritize in any case volume over -- sorry, value over volume or production.

So sorry, in terms of guidance, the EBITDA of the Upstream has been lower mainly because prices, you know that the gas price in all the regions are quite depressed, not only North America. You know that in our gas structure, more or less roughly speaking, Thomas, 22% of our production could be related to Henry Hub; 8% is [ICO] Canada; more or less 20% -- 30% better said are fixed prices, so less impacted for this environment, 20% could be related to brand or some products related to brand.

And the rest of the 20% is JKM or NBP I mean, and what is happening in the gas market is not only affecting negatively to the Henry Hub, also to the NBP in Europe and to the JKM in Asia. That means that half of our gas production more or less has been impacted by these negative prices impacting in our lower Upstream EBITDA. That is the main explanation for that and lower productions I mean has been compensated by higher production in some other places over mainly price. Thank you, Thomas.

Ramón Álvarez-Pedrosa ***Repsol, S.A. - Head of IR***

Thank you, Thomas. Next question comes from Matt Lofting at JP Morgan.

Matthew Peter Charles Lofting ***JP Morgan Chase & Co, Research Division - VP***

Two questions if I could please. First is coming back to the Downstream and within the sort of the comments you made, Josu Jon, around IMO, could you talk about the extent to which you're already seeing pre-stocking or middle distillates playing out in the market? And then secondly, thinking about light heavy spreads, how the recent change in Mexico on the Maya price formula affects your view on light, heavy spreads and the crude diet going into 2020.

And then secondly, just sort of coming back on production, we've obviously seen modest negative revisions to the production guidance for 2019 this quarter and the previous quarter, but the 2020 targets have remained unchanged, except they're sort of linked to value over volume. But can you talk about the conviction that you have still around being able to take production higher in 2020, and the main building blocks that get you to somewhere in the region of 750,000 barrels a day?

Josu Jon Imaz San Miguel ***Repsol, S.A. - CEO & Executive Director***

Thank you, Matt. I mean, I agree with your point. I mean, the inventory building process is impacted in a positive way, but it seems to me that in terms of middle distillates, that is going to go on happening also in 2020 and 2021, 2022 because the defect of the IMO is going to be my perception a structure. Going to the supply side, I mean I get your point, I think that you are right that the Maya pricing formula is affecting and September has been the best example.

But let me elaborate a bit more, I think that that could affect to some volatility in the short term to some contracts and so on. But in the structural terms, I mean, every producer has to adapt the price to the fundamentals of the market. And in terms of heavy oil, it's true that a higher offer probably is not going to be (inaudible) in the short term there because, I mean, today there is a shortage of restriction of producers in the world. But we have to take into account 2 effects. First, the appetite for lighter oils is going to grow and is growing and is going to grow in coming weeks, months because people with low conversion systems are going to need more or lighter oils to be in their specification to produce this very low sulfur fuel oils and so on. So that is going to affect to the appetite for a heavy oil. And heavy oil is going to have a competitor in the market in terms of feedstock.

I mean, we have our system fully prepared and we do all that when the prices and the margins are there to substitute heavy oils by what I call the bottom of the barrel, that is finally the high sulfur fuel oil. That is then we say the bottom of the barrel after a vacuum distillation process. So that means that if prices in terms of heavy oils are not there, we are going to choose, we are going to select this kind of feedstock. That -- it seems to me that is going to be oversupplied in the market in coming months because you are seeing the discounts in the high sulfur fuel oils in the market.

People is going to try to get rid of this kind of products. Perhaps we are going to see some kind of demand in Asia and so on for some other applications. But -- and users, but I think that we are going to see in structural terms higher discounts for this kind of heavy feedstock. So it seems to me that in structural terms Maya producers and heavy oil producers, they will adapt their view to these prices in the market because otherwise they are going to be out of competitiveness in the market.

So I'm -- let me say, slightly, you know that I'm quite prudent, but I'm slightly optimistic related to the IMO impact and positive impact for refining system like Repsol's refining system that is a system with a high conversion and fully prepared to capture the advantages of these changes. And let me say, I mean, people is saying I'm able to produce very low sulfur fuel oil and so on and it's okay, we are also prepared, but the best thing is not going to be prepared to produce very sulfur -- very low sulfur fuel oil. It's going to be -- being prepared for getting rid of any kind of fuel oil production and we are there on top of that.

I mean, of course, depending on prices, margins and so on, we will be able, and in Tarragona we are doing that. We are prepared for doing that. We are able to produce very low sulfur fuel oil that we have the optionality. And let me say, I mean, I never know what is going to happen in the future in prices terms because you know the things change and things sometimes are different from what we expect. The most important thing in this life is being flexible because if you are flexible, you could take opportunities depending on what could happen in the market.

And the main advantage of our refining system is that it's a very, very, very flexible system. We could produce, we could process heavy oils, we could process fuel oil, we could process, why not, a medium API oil depending on the margins and so on. But it seems to me that in coming months, we are going to have a great opportunity having a feedstock heavier.

The crude diet is going to depend of course of prices, but you know that we could achieve a figure close to 50% more or less of heavy oil in our feedstock; 50 could be heavy oil, 30 crude -- I mean, average API, like, Urals and so on, 20-25 lighter oils. But let me say that if we could instead of distillate or distillating heavy oils to process directly to in our conversion units fuel oil, we are going to do that. And if margins in heavy oils are not there, we could reduce the feedstock of heavy oil, increasing the pending of the optimization of our programming work. You know that we are applying all kind of digital techniques to optimize in a better way. This programming, we could change our feedstock.

Going to your second question, Matt, guidance for production in 2020, also flexibility. I mean, I'm going to -- I'm going to do one thing that perhaps a CEO has not to do that, that is to take a wide range. I mean, we are going to be something in between 720,000 barrels per day in 2020 and 750,000 barrels per day, is going to depend on prices and margins. And is going to depend of course of the speed of this portfolio rotation in the E&P.

I'm going to do, of course, my best to be in 750,000 barrels per day. But let me underlie again, if we don't see value on that, the figure could be closer to 720,000 barrels per day in 2020 because we are going to prioritize value over volume. Thank you, Matt.

Ramón Álvarez-Pedrosa ***Repsol, S.A. - Head of IR***

Thank you, [Martin]. Yes. Next question comes from Chris Kuplent at Bank of America.

Christopher Kuplent ***BofA Merrill Lynch, Research Division - Head of European Energy Equity Research***

Just 2 quick questions from me. Perhaps firstly on your 2020 guidance. I appreciate you're telling us that this is on track. But perhaps you can tell us a little bit more about how you feel about the underlying assumptions. After all, your 2019 EBITDA guidance has come down quite a bit from the start of the year to now EUR 7.5 billion. So just checking, $50 Brent and $8 indicator margins get you to your 2020 guidance? Just wondered how you feel about both those in light of recent macro moves. And then the second question, you obviously announced your intentions for a new buyback already with last quarter's results.

And again wanted to ask you how you're feeling about the progress regarding the buyback that's underway to offset the scrip; and your willingness to, given that you are seeing, as you're highlighting today, impacts from the IMO, positive impacts on the IMO -- from the IMO, your willingness to employ that new buyback program early or any sort of time frame you could give us?

Josu Jon Imaz San Miguel ***Repsol, S.A. - CEO & Executive Director***

Thank you, Chris. I mean, first of all, related to 2019, in my first speech I talk about EUR 7.5 billion of EBITDA, taking into account the current commodity prices and so on in 2019. Related to 2020, let me say that I'm quite comfortable today with the assumptions of our strategic update of 2018. Of course, I'm very comfortable related to the $8.3 as margin index dollars per barrel guidance for 2020. On top of that, of course, we are flexible, we are very efficient, we could have an additional gain or premium coming from the operation on that.

I don't know what will happen with the oil price, of course, because I don't have a crystal ball. But I mean, under the assumption of $50 per barrel as a hypothesis, it seems to me that in terms of guidance of 2020, we are going to be fully aligned with our expectations of the strategic update we presented in 2018, and the assumptions for the year 2020. I mean, it seems to me that today [the sound] in the market could be that perhaps the oil price could be a bit higher than $50 per barrel in 2020. But of course, that is not in my hands and I prefer not to speculate about that.

Going to the progress of the buyback, I mean, first of all, let me underline, Chris, that until the end of 2020, I mean, we are going to need more than 215 million shares in our hands. That's more or less a 15% of the total amount of shares of Repsol. That is the commitments related to the 2019 buyback linked to the scrip. The additional 5% we are going to approve, we are going to present in a firm way, and it seems to me that our AGM is going to approve in May. And the 2020 buyback linked to the next scrip, so that means that there is plenty of room in coming months for new buybacks program launch under the current regulation.

Our first step was to launch at the end of August a program to buy the shares we needed to redeem the new shares coming from the 2019 scrip. We will complete this program the following days. And after the completion, we will amortize the 71 million shares that we need to avoid the dilution coming from 2019 scrip. And on top of that, of course, our aim is to build before the AGM a position equivalent to the shares needed to execute the AGM decision of this additional 5% buyback.

But in the meantime on this basis as you may understand we will be open taking into account as we see value at the current stock price to keep growing a significant number of treasury stock in the balance sheet of the company, of course always under the limit defined by law.

But you were further, I think in your question, Chris, in case, I mean, you know that when I expressed in July my firm conviction of using the additional cash flows to use in this capital allocation process, these additional flows to support the -- our firm proposal to the AGM in May, I said that in case of having I mean more cash, having a lower debt, we are going to prioritize of course organic growth projects creating value for the company as much as we can.

But as I said in July, Chris, if we see room after boosting growth through additional buybacks, we'll do it. I mean, I have repeat this message many times. I was very comfortable in July proposing this additional buyback and I keep going this view. If we have a similar cash situation next year, I can't of course commit the decision of the Board of the AGM, but if we have a similar cash situation next year, then I'll propose an additional buyback to our Board in the shape and terms because I have a concern because the dilution of our shareholders experienced from 2012, 2016, and I will going to do my best to offset partially this dilution redeeming a part of those issued of these, let me say, dilution, amortizing new shares in the future. Thank you, Chris.

Ramón Álvarez-Pedrosa *Repsol, S.A. - Head of IR*

Thank you, Chris. Next question comes from Irene Himona of Societe Generale.

Irene Himona *Societe Generale Cross Asset Research - Equity Analyst*

I had 3 Downstream questions please. Firstly, can you tell us what Mexico's contribution was to the 9 months and 3 months downstream EBIT please? Secondly, you spoke about the low carbon businesses. Have they made some financial contribution in the year-to-date? And then finally looking at the 9 month Downstream EBIT, it appears that trading has contributed more than LPG. So trading seems to be doing very well. Can you talk a little bit about whether this was opportunistic? Or have you perhaps made some changes to that business and what you expect going forwards?

Josu Jon Imaz San Miguel *Repsol, S.A. - CEO & Executive Director*

Okay. Going to Mexico -- Irene, thank you. I think that this year we are going to be in this development phase close to EBIT breakeven in the Mexico service station business. That is going to be so, that means that in EBIT terms that is not a contribution to leave behind. We are building the position. We have today 215 service stations in operation. We have signed contracts I think for 310 service station. And that is the contribution to EBIT is today breakeven in neutral.

In terms of a low carbon business, we are going to be in EUR 85 million of EBITDA it seems to me at the end of the year. So you could calculate more or less we are -- the third quarter has been a good quarter. I mean, let me underline that this September we have produced in our plant the 3.7% of the total Spaniard power production, 3.7%. I mean, that is an important figure taking into account that we start 11 months ago building our assets. And we have to take into account, Irene, that all the renewable projects are on track. That means that they are not giving any cash or any EBITDA today. They are consuming cash because we are in the development process. But even though taking into account that we have produced 3.7% of the total Spanish gas production in September.

Trading, as you said, seems to be very well. Our performance is growing. I think that the main drivers are of course I can say that's true that we are improving our fundamentals. We are increasing our performance. All that is true, but the most important thing are that we are growing in 2 new businesses. The first one is that the growing production in our Upstream and the higher linkage that is growing again and again among our Upstream on our Trading is increasing the asset base of our Trading business. So let me say that this growth of our Trading business is structural.

And the second reason is the biofuel business. Today, I mean, is perhaps a hidden value that is there. We are not perhaps, let me say, publicizing too much all that, but today we are producing refineries where 1.4 million-1.45 million tons of biofuels per year, mainly biodiesel, we are one of the main European biodiesel producers today. And we are producing 1.4 million-1.45 million tons of biofuels in our refineries. And our Trading business is taking advantage of the opportunities to trade with these buyers. So this biofuel production is increasing the result of our refining business. In some cases, we are not only using vegetable oils to produce this biofuel. We are also using products wastes coming from the [circular] economy and so on. Waste is coming from plastics to feed our refineries. And the third factor is the shipping unit of the Trading business that someone of you, I think that it was Michele's -- it was Oswald in his questions about the freight and so on, all that is impacting in a positive way in our Trading business. Thank you very much, Irene.

Ramón Álvarez-Pedrosa ***Repsol, S.A. - Head of IR***

Thank you, Irene. Next question comes from Alwyn Thomas, Exane BNP.

Alwyn Thomas ***Exane BNP Paribas, Research Division - Analyst of Oil and Gas***

Just a couple of questions from me to clarify in the refining business. What premium do you expect in the fourth quarter given some of the movements to the benchmark and possibly into next quarter? I'll just follow that up actually with try and get your thoughts on the Chemicals business outlook and whether you're still sticking with the guidance you provided the Downstream day. And I guess I'll just touch on the Low Carbon business. Are you on track given where you expect it to be on the number of customers? And are you experiencing any increased competition in that area?

Josu Jon Imaz San Miguel ***Repsol, S.A. - CEO & Executive Director***

Thank you, Alwyn. First of all, I mean, the average of premium over the 9 months, I think that has been at around $0.8, $0.9 per barrel. So I don't know exactly what is going to be this premium in this quarter, but I mean I only want to remind you that we have captured this $0.8 having the turnaround process of Cartagena in September. In October for 3 weeks Cartagena has been also in the planned turnaround process. So I mean, we could be something in between, I don't know, $0.6, $0.5, $0.6, I don't know exactly the figure, but taking into account the turnaround process of October and the average of the year, I think that we are going to be there.

Let me say in case that I think that unfortunately that is not going to happen, but in case of seeing lower margins because the fundamentals of market are changing, all that is going to give us more flexibility in this case perhaps this premium will be higher than $0.4, $0.5, $0.6. But I think that we are going to be there, but I mean, I can't anticipate in an accurate way something that still has to happen in operational terms.

Going to the Chemical business, I like to remind you first of all that we have an unscheduled 40 days low production period in Sines, in the cracker of Sines in the third quarter. That was, of course, overcome. And that has impacted in a negative way the result of the third quarter, as you saw in our financial statements and in our accounts. So due to this unexpected plant operational penalty because the Chemical business is the most, in some way, exposed to the economic slowdown in the world and what is happening over the last weeks is impacting in margins in the Chemical business, and because we are going to be fully stopped in October and November in the Tarragona's cracker, because that is the planned turnaround that in our annual turnaround process, it seems to me that the EBIT in '19 is going to be closer to EUR 300 million in the Chemical business to the previous expectation we could have some months ago.

For 2020, taking into account that the margins, they are going to be a bit lower and that we are not going to have, let me say, the big turnaround process in Tarragona, it seems to me that we could have something close to EUR 320 million-EUR 325 million as EBIT in our budget for coming year. But, I mean, we have to see of course. Excuse me, we are experiencing, of course, higher competition. As you said, your point is okay. But let me say that we are performing in our growth of our customer-base better than the plan we have. And we are happy because all that is happening in a very competitive environment. I think the figure I have in mind is that we are adding 4,500 new clients every week. So I think that's one of the strong points for Repsol to do that, is that we have 10 million clients in Spain.

So we are offering, in some way, a multi-energy approach in our customer-centric business that we are building [time shift] that is going to give us a strong competitive advantage also in this business. Thank you, Alwyn.

Ramón Álvarez-Pedrosa ***Repsol, S.A. - Head of IR***

Thank you, Alwyn. Next question comes from Lydia Rainforth of Barclays.

Lydia Rose Emma Rainforth ***Barclays Bank PLC, Research Division - Director & Equity Analyst***

Two questions if I could. The first one, could you just talk about what you're thinking around CapEx for the renewables and Low Carbon business and just the update within the CapEx budget at the moment. And then secondly, just to go back to the digitization and efficiency program, where are you seeing the progress ahead of schedule and the other areas that are still you think there's more improvements coming from that?

Josu Jon Imaz San Miguel ***Repsol, S.A. - CEO & Executive Director***

Thank you, Lydia. I mean, going to the CapEx side, when I express my guideline or my guidance for the full CapEx figure for 2019 and I said that we are going to be slightly below EUR 3.5 billion, I'm including there the renewable CapEx, that you know that, I mean, this year is not going to be very high because we are restarting our launch in the engineering part of these new wind farms and photovoltaic solar plants. My best approach today for 2020 is that the renewable CapEx is going to be at around EUR 500 million in 2020, EUR 400 million probably in projects already approved and EUR 100 million in other developments, building pipeline and so on.

I mean, you know that we are open always to small inorganic operation in terms of, I mean, having catalyst to booster or to boost or to foster the growth in this business. That's -- the growth is going to be mainly organic. So EUR 500 million CapEx for 2020 in this Low Carbon business is a figure I'm comfortable with.

Going to the second one. I mean, the improvements are going to be -- in cash flow for operation terms, the figure I have in mind is EUR 215 million this year in 2019. They are going to come in 40%-45% from our industrial businesses, industrial businesses in areas that are linked in some cases to everything related to a safe environment with [several] failures in, I mean, autonomous connected plants, in our refineries, a more dynamic planning process as I expressed before when I was talking about the optimization of the programming of refineries and so on. A part more or less, 12%-13% is in the commercial businesses. And in the commercial businesses, when I was talking about what -- how we are growing in the power and gas business and the customer-centric strategy, I mean, the digital is playing a crucial factor -- is a crucial factor in this growth and in this opportunity. I mean, improving the decision making across the whole value chain and optimizing the pricing, the offers to our customers and so on.

And our 40% more or less comes from the E&P. And the E&P, I mean, the optimizing asset development reaching excellence in aspiration, developing the -- one of the projects we have is very interesting, is the global drilling unit where we put all the knowledge we have in terms of drilling wells and so on. Putting together the experts to that and using the digital and communication tools we have to put all this knowledge together, we are increasing the -- or reducing the turnaround time. We are increasing the efficiency of our plants.

The concept of IOC around some assets where we are applying the same work has been developed mainly in the North Sea over this last year. EUR 80 million in the E&P are coming from this approach. EUR 10 million more or less are going to be in the corporate side. And you said, is there more room for improvement? I mean, my expectation is that a lot of these projects, they have room for being scaled up in coming months. We have on track new initiatives and the target we have, and you know, Lydia, that we do all our best to fulfill our targets, is to have EUR 3 million -- EUR 300 million, sorry, in 2020 coming from the cash flow of our operations from the digital and EUR 900 million by 2020, or in 2020. We are -- we have the projects to be there in 2020. But by 2022, we are scaling up. We have still a gap, but we are going to do our best to be there. Thank you, Lydia.

Ramón Álvarez-Pedrosa ***Repsol, S.A. - Head of IR***

Thank you, Lydia. Next question comes from Jason Kenney at Santander.

Jason Kenney

Just wanted to look at the cumulative CapEx number, if I may, over the 2018 to 2020 period. And I'm wondering where you think the EUR 11 billion base might end up? And then the EUR 4 billion growth in expansion, if that might be significantly below because of some of the backloading of that growth and expansion or the lower spend that we're seeing coming through? And then if I may, just a quick one; tax, I think 40%, I was looking for 39% in the third quarter, is that kind of a stable position for the fourth quarter and going into 2020 as well?

Josu Jon Imaz San Miguel ***Repsol, S.A. - CEO & Executive Director***

So thank you, Jason. I mean, if we go to the CapEx expectation for 2018, 2020, remember, as you said in a right way, that EUR 11 billion, they are going to come from current businesses; EUR 8 billion Upstream, EUR 3 billion Downstream, and EUR 4 billion for the Downstream expansion. I mean, it seems to me today that depending of the activity in upgrading the portfolio of the (inaudible) and so on, but we are going to be something in between, including all kind of organic and inorganic activity in the E&P, something in between EUR 7 billion and EUR 8 billion in the whole period 2018-2020 for the Upstream.

So something in between EUR 7 billion and EUR 8 billion. In the Downstream case, we are going to be in the figure of EUR 3 billion, and Low Carbon and Downstream expansion business, it seems to me that we are going to be EUR 1.5 billion-EUR 1.7 billion below what we said in our strategic update. All the -- but I have to -- I mean, you have to take into account that these projects we are launching now they are going to consume some CapEx in 2021 and so on EUR 400 million-EUR 500 million, that is not going to be committed and expended in 2020. So that means that in overall the figure could be something in between below the commitment in 2018 EUR 1.5 billion-EUR 2.5 billion below that figure. The whole EUR 15 billion, that is my best approach today to this figure. Thank you, Jason.

And related to the tax, yes, I mean the average is you know depending on the mix of our profits. You have 25% in the Downstream more or less. And you have something close to 45%-48%, close to 50% in the E&P and depending on the mix you are going to be, I mean, close to 38%-40% in the fourth quarter. Thank you.

Ramón Álvarez-Pedrosa ***Repsol, S.A. - Head of IR***

Thank you, Jason. Next question comes from Peter Low at Redburn.

Peter James Low ***Redburn (Europe) Limited, Research Division - Research Analyst***

Just a couple of quick follow-ups. The first was just on the guidance for EUR 4.5 billion of EBITDA from the Upstream division this year. That implies quite a step up in the fourth quarter. Is that simply reflective of a more positive commodity price outlook? Or are there some other factors that should support the 4Q result? And the second was just a follow up on your onshore gas assets in the U.S. Can you talk about their profitability at current Henry Hub prices? And what you're doing to respond to the lower pricing environment there?

Josu Jon Imaz San Miguel ***Repsol, S.A. - CEO & Executive Director***

Thank you, Peter. Related to your first question, I mean, we have not seen any kind of change in terms of commodity prices and so on. The main driver behind the EBITDA increase in the fourth quarter is mainly production. Production, that I don't have in mind exactly. The average of October has been at around 330,000 -- Ramon, 330,000-335,000 barrels per day in October. So it seems to me that being at 701,000 in the 9 first months and having the expectation of 710,000 for the whole year, it seems to me that we are going to be close to 730,000 barrels per day more or less in the fourth quarter in the E&P. So the main driver is this one.

Going to the offshore U.S.A. profitability at current prices. What happen if the prices goes lower? I mean, as I said before, we are not going to drill new wells in the Marcellus below, I mean $2.3-$2.4 Permian BTU's price. That means that we are adapting our capital expenditure program in the unconventional in North America to these expectations. So we have this flexibility, and you can see, of course, in that case, let me say, lower productions in the oil case and in the Eagle Ford case where we have the advantage of focusing more in the liquid part of the Eagle Ford. I mean, we are not going to suffer in this dramatic way this potential downside coming from commodities. But my point is we are prepared for all that. The cash flow from operations in Marcellus could be at around $300 million in 2019 in the whole year. So I mean, in case of seeing, let me say, lower gas prices, this figure is going to be slightly below.

But I mean, I'm coming -- the current prices for these guidances and I also I have in mind that I mean, theoretically winter in seasonal terms could be perhaps a bit better than summer. But we are not taking, let me say, this upside in our guidances. Thank you, Peter.

Ramón Álvarez-Pedrosa ***Repsol, S.A. - Head of IR***

Thank you, Peter. That was our last question. We have received a question by e-mail from Fidentiis regarding the frac spreads between the spreads, differentials between heavy, light crude oil, but I think that has been already extensively covered regarding the questions around IMO.

Before we finish, I'd like to highlight that next Monday, the 4th, we are hosting our sixth edition of the Sustainability Day in London with the assistance of Josu Jon, our CEO. So for those who are attending, hope to see you there.

Josu Jon Imaz San Miguel ***Repsol, S.A. - CEO & Executive Director***

So for you, see you Monday.

Ramón Álvarez-Pedrosa ***Repsol, S.A. - Head of IR***

On Monday, yes. So at this point, I'll bring our third quarter conference to an end. Thank you very much for your attendance.

Operator

Thank you. That does conclude our conference for today. Thank you for participating. You may all disconnect.