Transport Trade Services

Transcript

Videoconference for the Presentation of Financial Results for Q3 2024

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Opening - Summary of Results from the Company

The financial report for the first nine months of the year indicates that we are recovering, which can be described as a base-effect situation. Comparing 2022 to 2023, our results were positively impacted by the crisis in Ukraine. This effect was distorting, yet it significantly impacted our results, which were exceptional and appropriately capitalized upon. The focus was not necessarily on the results themselves but rather on this base effect.

Thus, our TTS revenues in the first nine months equal the total revenues achieved in 2021, a year considerably better than 2024. In 2021, we achieved revenues of RON 396 million, while for 2024, we estimate to close the year with revenues between 479 and RON 485 million. These figures have already been included in the nine-month report.

The situation regarding the group's revenues is nearly identical. By the end of the first nine months of 2024, the group achieved revenues of RON 589 million, compared to RON 598 million for the entire year of 2021. By the end of this year, we estimate that the group's revenues will slightly exceed this threshold, reaching between RON 739 and RON 745 million.

At the TTS level, profitability is almost double compared to the period before the onset of the war in Ukraine. In 2021, profit was RON 32.6 million, while by the end of the first 9 months of 2024, we have already reached RON 52.8 million. Although the market is not as favorable now, with conditions being much more challenging than in 2021, the profitability rate for 2024 stands at 14.1%, nearly equal to that of 2022, when Ukraine generated a massive grain flow. For the year-end, we estimate an EBITDA of approximately RON 70 million.

The group’s EBITDA rate for the first nine months is 20.2%, slightly lower than in 2021, with the year-end estimate ranging between 135 and RON 137 million. It is difficult to estimate this result precisely due to various technical reasons, including the fact that not all vessels scheduled to arrive at the port of Constanța have been announced yet, introducing a margin of uncertainty we cannot eliminate.

TTS is much better equipped than in 2021, and we are in a favorable position to continue developing. Next year, growth will continue, but on a more realistic basis, without comparing results to the exceptional outcomes of 2022-2023.

Regarding the balance sheet, it is solid both for TTS and the group. After 9 months, TTS's net assets amount to RON 351 million, compared to RON 184 million at the end of 2021, representing an annual growth of 24%. At the group level, net assets stand at RON 1,044 million, compared to RON 663 million at the end of 2021, reflecting an annual growth of 16%. Additionally, we have low credit exposure and a comfortable financial position that allows us to continue growing. These are the financial results in brief.

Although we have discussed this aspect several times regarding our markets, I would like to revisit it now. Firstly, it is evident that after 2022, with massive Ukrainian harvests, these have significantly decreased. Furthermore, Romania has been affected by two compromised harvests due to drought: corn and sunflower, which are partially contaminated with aflatoxins. Moreover, low international market prices lead farmers to withhold sales, resulting in very few transactions. Grains, especially wheat, are being stored in anticipation of a market improvement.

The situation in the metallurgical sector is already chronic due to very high environmental and energy costs. Additionally, imports from Ukraine, which are very cheap and unrestricted, distort the market, making it impossible for plants to be profitable under these conditions.

As usual, we adapt to market reality. We cover more segments and implement hedging strategies that allow us to compensate for deficits. Some of these compensations are long-term, such as those in the metallurgical sector, while others address temporary deficits in agricultural products caused by low international market prices.

In this context, the role of the port of Constanța is becoming increasingly important. We collaborate with TTS to transform the port into an operations hub. In the first 9 months of 2024, port operations generated approximately RON 116 million in revenues, higher than in 2021 (RON 84 million). Regarding new flows, there are two short-term projects in Q4 of 2024 and 2025: one in operations and one in transport, with an estimated volume of approximately 500,000 tons.

We have resumed long-distance transport routes to and from Germany and Austria, covering mineral products, metals, and fertilizers. Additionally, we have expanded our range of services in Constanța, establishing an operations hub. We are collaborating with Returo for glass recycling and managing the logistics for its transport. Projects of this type are already close to completion and will have a significant medium-term impact.

Finally, we are implementing three multi-annual projects for 2025-2026, combining transport and operations. These are in the early stages, but they are estimated to have a volume of over 2 million tons, potentially up to 2.5 million tons. Internally, operational adjustments for transport activities resulting from reduced flows on the Danube will begin to gradually reflect in margins. Temporarily, we have minimized capital expenses for compliance, including vessel recertification, correlated with the necessary transport capacity.

Our investments from 2023 have already started showing visible effects, while those in Decirom will begin producing tangible results starting in 2025. Furthermore, the expansion of the Canopus terminal continues, and that area will become increasingly important as we progress. This is, in brief, the current situation.

Questions and Answers

1. Is Romania's early admission to Schengen, planned for January, relevant to your business?

Answer:
It is not directly relevant, but it would be helpful. It would facilitate the movement of fleet crews abroad and support the transit of maneuver vessels (pushers) operating between Romania and Bulgaria. Regarding long-distance transport, as explained earlier, these vessels need to pass through Serbia, which is not an EU member. While certain advantages exist, they are not necessarily quantifiable in significant financial terms.

2. How will you manage the level of investments in the coming period? Will you reduce them? Which projects will be selected? What will remain? What will be implemented?

Answer:
The alignment of investments with the current market situation and our financial challenges has already started in June-July. Specifically, fleet maintenance investments have been reduced to the minimum necessary, and smaller port investments have been nearly eliminated. The ongoing investments include the modernization of three cranes at Decirom. Two are underway: one will be completed by the end of this year, and the second will be completed in January-February. The third is set to begin soon. Thus, three 20-ton cranes will be installed on the quay. These cranes are urgently needed because, without efficient equipment, operations cannot be performed effectively. The process of bringing in goods and creating flows tied to Decirom's activity and its offered facilities is underway, and the effects are visible. The necessary technology must efficiently respond to these new cargo demands.

The other planned investments have been halted. We have an investment program in Hungary, but it has been stopped. Regarding Fajsz Port, we understand that the environmental authorization, which we had been waiting for a year and a half, has just been issued. However, we are not rushing to execute these investments. Perhaps next year, in collaboration with a grain trader with the most significant interest in participating, we will decide how and what to implement.

Regarding Canopus, the investment is clearly defined and will be carried out in collaboration with Cargill. This will not begin earlier than January. Currently, we are in the phase of internal approvals for Canopus. A budget for the investment has already been prepared, which is sustainable, has a good performance indicator, and is based on a solid market that supports its development. As mentioned, the investment will likely begin in mid-January with the first concrete step and will be completed somewhere in Q2 by the summer of 2026.

We still have two barges to finalize under the D8 program, which will be ready in December and January, and the remaining payments are to be made. The other six barges are completed and paid for. Canopus is a combined project, as mentioned. Internal funds cannot fully cover its financing. At least one-third of the funds will come from Canopus's sources, while the rest will be covered by bank financing. However, like previous investments, Canopus is self-sustaining and has financial potential.

3. How will you manage the working capital in the upcoming period? What elements will you focus on? Receivables, liabilities?

Answer:

We are in a very good position regarding indebtedness, both at the group and individual company levels. At the group level, we have a debt ratio of 5%, and at the company level, it stands at 11%. Additionally, we have a positive net debt at the group and individual levels.

Over 66% of current assets consist of cash, which gives us a relatively stable financial position to meet future needs. However, the allocation of resources across subsidiaries does not follow the same proportions strictly. At Canopus, resources are higher to support the investment planned for 2025. Navrom's activity is slightly lower, but Canopus has a solid financial position.

4. Is funding through non-reimbursable or partially funded resources from the European Union possible? Can you access EU funding?

Answer:

Unfortunately, funding options are pretty limited. Where we could access such funds in the past, we have already done so. For example, we benefited from EU funding for port-related projects. These amounted to several million euros, with non-reimbursable participation from the EU. After completing the project in Giurgiu, the subsidiary's port administration owns the land there, and the Ministry of Transport began modernizing the entire area, including vertical quays, using European funds.

Otherwise, no additional funds are available to which we could gain access. We attempted to attract financing for investments within the Canopus project to secure funds for port infrastructure and equipment, aiming to support grain trade given the export requirements from Ukraine. Unfortunately, the program was so restrictive that we could not meet its terms. One significant restriction was that the project had to be completed by December 31 of next year, including final acceptance and all associated processes, and the contract has not yet been signed. Therefore, we could not comply with those conditions.

In addition, we are in contact with various institutions for transport and European funding. We have consultants who analyze and study these opportunities. However, no programs are currently available to finance initiatives such as greening or decarbonizing the Romanian naval fleet. Discussions are in their early stages, but no concrete program is yet.

5. Regarding the budget, will you revise it or present a new one?

Answer:
I think it's important to mention that as of the six-month mark, in August, the differences compared to the budget were not very significant. That's my recollection of the six-month situation. In other words, there weren't notable discrepancies that would justify convening a General Shareholders' Meeting.

At this point, however, there isn't enough time. That was precisely the reason we didn't revise. We included the estimates in the final part of the report, and I also mentioned them today. I will repeat them: the estimates are as follows — revenues for TTS: RON 479-485 million by the end of the year. Group revenues: RON 739-745 million. Regarding EBITDA: RON 70-73 million for TTS and RON 137-140 million for the group.

Once again, these figures are included in the final part of the report to provide a clear perspective on what's ahead.

6. Can you control the size of the workforce by capping salaries in the current context? What should we expect regarding personnel expenses next year?

Answer:
Just as we managed investments focusing on protecting cash flow, we conducted a similar analysis regarding personnel. We are not a company that aims to underpay its employees. The situation in Ukraine significantly distorted compensation, particularly in the fleet. Here,

we are talking about the number of employees and their remuneration for the work performed. There was a period when, in Ismail, drones were falling, and bombs were exploding, yet people were working in these hazardous conditions. In such circumstances, you must protect your employees and motivate them to continue operating in such environments.

Since then, the danger has diminished, and operations have become routine. As the market declined, a specific type of bonus became unnecessary. At Navrom, for example, the workforce was reduced, and labor costs decreased substantially. I don't recall the exact figures, but I believe the reduction was approximately 30-40% in October compared to the early months of this year. This adjustment began in April and was made in response to market conditions and the company's financial situation.

I believe we have reached an optimal workforce balance as of November. For next year, it's hard to predict. At least in the fleet, the number of employees is correlated with activity levels. Activity, which depends on the number of vessels, varies in intensity, and the geographical dispersion of cargo flows also influences this. As mentioned, we have resumed long-distance transport routes to Germany, Kelheim, northern Austria, etc. These long distances require an adequate number of vessels to transport the necessary cargo volumes.

After the significant decline in cargo volumes in Q3, maintaining a balance between activity levels, workforce size, and employee remuneration is crucial. Total labor costs have dropped significantly in recent months, especially in Q3. This decline was aligned with the reduction in revenues and transported cargo volumes. Next year, personnel expenses will depend on market developments.

Meanwhile, in the ports, similar measures were adopted with specific adjustments. In Constanța, we have a few floating cranes on standby, staffed with the minimum crew required for safety, per legal regulations. In the Danube ports, activity is significantly lower than it should be due to drought and reduced exports. Specific measures to reduce personnel were also implemented. Thus, across all sectors, measures were taken in line with the realities and requirements of the situation.

7. Can you provide information about the price per ton for agricultural, chemical, or mineral products transported and handled? Could you detail the price differences between these categories? Which category shows the most significant price variations?

Answer:
We cannot provide a fixed price per ton, but we can analyze statistics from our activity to give a general idea. For instance, we have 40 different transport relationships for grains. Since July, all grain transport activities have been conducted under spot contracts rather than long-term

agreements. In these circumstances, hundreds of rates have been applied from July until now, making it difficult to determine an average rate for the entire grain market.

In general terms, minerals are the most stable category, as annual contracts are still being signed and honored. On the other hand, even if contracts were signed in June, they could not be executed for grains because the market conditions did not support them. Consequently, we had to transition to short-term (spot) contracts, creating a more volatile environment.

Thus, the grain market is the most volatile category, while minerals remain the most stable. Compared to last year, grain transport routes have experienced a significant decline, with current rates approximately three times lower than in 2023.

8. Could you provide an overview, by segment (agriculture, metals, chemicals), of the medium-term outlook for tariffs and volumes in river transport and port operations?

Answer:
We have identified several factors influencing our short-term and possibly medium-term outlook. We have been working on a few projects related to raw materials for months. Some are more advanced than others. If successful, these projects could bring in several million tons of cargo annually for many years. However, it is uncertain if they will be fully implemented.

At the moment, we are focused on consolidating our position in the current market under prevailing conditions. Q3 was particularly challenging and characterized by intense competition, especially in the fleet sector. The full effects are not yet visible. No one in the river transport sector is in a strong position. All operators are facing more severe challenges, depending on their financial situation before Q2 this year. Some are in insolvency, others face financial difficulties, and others, like us, have experienced significant revenue and efficiency losses. Thus, for now, we are operating in an unclear market.

We have active contracts for grains, fertilizers, and minerals. Contracts for minerals and fertilizers are being honored to some extent, but grain contracts operate on a spot basis, as mentioned earlier. It isn't easy to project for next year, considering the market has stocks of 5-6 million tons of grains, according to our partners in the grain trading sector. However, these grains remain in silos due to a weak market, with farmers in Romania, Serbia, and Bulgaria refusing to sell at the offered prices, which is understandable. The situation is exacerbated by Russian products sold at discounts that no one else can match.

This creates a market that, with changes, could function better than it currently does. If not, it will remain at today’s level, where everyone competes for limited spot opportunities. We have a market presence and will continue to build on it as we have so far. We focus on minerals and fertilizers while expanding cooperation with our grain sector clients to maintain our position.

There is also the potential for a "black swan" event. Just as Ukraine completely disrupted everything related to Constanța and the Danube in 2022 — initially negatively, then positively — the positive impact has now disappeared, leaving adverse effects that persist. Economic activity on the Danube has almost no resemblance to its pre-war state.

Looking ahead, Ukraine could change the entire situation again next year. Peace talks are ongoing, and we must assess what peace might mean. Peace primarily entails the cessation of war and the start of Ukraine's reconstruction process. We are considering whether we will participate in transporting materials for Ukraine's reconstruction. Most of this will likely pass through Odesa.

We also foresee a demand for steel for reconstruction, which Ukraine can produce and export duty-free and without adhering to EU environmental standards, as is currently the case. This steel will be used for the country's reconstruction. This could leave a need for steel that will either be imported from South Korea, as is happening today, or European industry will restart its metallurgical operations, beginning with Galați and other plants along the Danube.

The cessation of war may also eliminate the current distortions caused by Russian transport and pricing. For instance, recent Egyptian wheat tenders involved millions of tons, with over half awarded to Russian companies offering significant discounts that European exporters cannot match.

Such political and economic distortions could disappear, potentially leading to significant changes in Danube trade flows and the region's economy following a peace agreement.

As highlighted in our report, only one small vessel reached Constanța in Q3 in the mineral sector. By Q4, we already have three Panamax vessels and one Capesize. While this is less than desired and below previous years' levels, the trend appears to continue. We have secured contracts for the first part of next year and extended the agreement with the Smederevo steel plant. Despite challenges, the plant continues operations.

Thus, we estimate that minerals will perform better next year than this year. Until next summer's harvest, current stocks might or might not enter the grain sector market. This year's harvest appears strong, thanks to favorable rainfall and planting conditions. However, earlier this year, in May or June, we believed, along with significant grain traders, that we wouldn't be able to transport all the available grain for export starting in July-August. The reality was different: the harvest was good, but activities were quickly exhausted once marketed.

Additionally, EU environmental regulations could impact the market, especially the steel industry. From 2026, a carbon taxation system will take effect, taxing CO_2 emissions per ton of steel. This will align non-EU countries with EU producers' standards. While the impact on transportation is uncertain, the market is bound to change. It may encourage production within the EU. Implementation begins in 2026, and we will see how it unfolds.

9. Could you provide details about your current fleet, including its composition and the number of vessels?

Answer:
Our fleet consists of 24 line vessels, which form convoys and operate with them. Additionally, we have 14-15 auxiliary vessels used for port maneuvers, especially in Constanța, and for short-distance transportation (short courier). For instance, one or two barges are employed for short distances, such as between Ismail and Canopus. These auxiliary vessels also serve specific segments of the Danube, such as transporting grains between Giurgiu and Bechet.

The auxiliary vessels are equipped with varying power engines ranging from 800 HP to over 2,000-3,500 HP. In total, we have 24 line vessels plus the 14 auxiliary ones.

Regarding barges, we have 435 of all types: more extensive, smaller, and a few flatboats. Over half of them are covered, approximately 225-230, making them suitable for transporting various types of cargo. The rest are uncovered and of different types. Some are smaller and were initially designed for hauling stone, which can also be used in quarries. Others were built to transport ores, coal, and similar goods.

10. Regarding the investment performance indicators you mentioned, what are they?

Answer:
If you're referring to Canopus, which we are closely monitoring due to necessity, the IRR is in double digits. This result is based on a 50-60% volume increase compared to the previous best performance.

11. you previously stated that you do not honor contracts that don't ensure a profit margin. Considering the Q3 results, have you changed your approach? Could you comment on this?

Answer:
Let's revisit our previous discussions, including those from peak periods in 2023. We have typically been cautious about forecasting the future. In the summer, up until late July or August, we anticipated a classic Q3 — a quarter representing an annual peak, primarily due to the new grain harvest.

However, this year’s Q3 showed a weaker grain harvest in volume. There was wheat, but it wasn’t sold. This is where the issue lies with river transport.

With Ukraine almost absent from the market by summer — leaving only small batches sold at prices that didn’t cover costs — all operators had to choose between P&L and cash flow.

If we maintained our previous policy—which was correct—of working only on contracts with a forecasted profit margin, we would have realized by mid-summer that we would be out of the market entirely.

It became a matter of supply and demand dynamics, pushing prices to levels that allowed goods to move. We wouldn't have transported anything if we insisted on rates ensuring at least a rational profit margin in the forecast.

Making the choice between P&L and cash flow was a tough decision. We had to adapt to the market dynamics and competition model. I must say, I am genuinely satisfied with this decision because the market is now filtering out weaker players.

We did not initiate this approach — it arose from necessity, not negligence or ill intent. Necessity drives various decisions.

We are among those still standing strong. Similarly, our clients — particularly in the grain sector — also hold strong positions today. Those who aggressively pushed prices in the summer are gradually becoming less active.

The major players, both in trading and execution, transport, and operations, are the ones remaining active. At some point, we had to accept taking on certain lots and routes and performing specific activities, even with a forecasted loss.

Even in past years, such as 2022 and 2023, we did not abandon long-term contracts with strategic clients and partners we’ve worked with since the company’s inception.

We continued serving these routes, even when Ukrainian goods seemed more lucrative. Our traditional business model ensures flexibility and does not rely on price competition. TTS has been built on something entirely different.

However, in crisis situations, you cannot ignore market realities. This is, in fact, a new aspect for us. Structurally, we would prefer not to engage in such practices. We aim to offer value differently. However, in conditions of overcapacity and limited demand, the market forces you to compete on price.

Market fragmentation contributes to this issue and poses a challenge for us. In the long run, however, fragmentation is not a solution because it is inefficient.

12. Strategically, looking at a five-year perspective, where do you aim to position yourself? What development bets are you prepared to make? What are the significant drivers you intend to leverage?

Answer:

Looking at developments in recent years, it's evident that, strategically, we are moving toward strengthening our presence in the port. The port is genuinely becoming a hub for us. If you observe the flow of activities, everything revolves around the port. When a ship arrives at the dock, whether for unloading or loading, it generates all associated activities: transport, forwarding, and other connected services.

Since 2023, when the opportunity with Decirom arose, we've been significantly reinforcing our position in the port to broaden the range of flows we can serve. Land transport also plays a role here. Some clients require land transport. Although we don't directly offer land transportation, including it in the services we present to clients enables us to cover the entire logistics chain. This evolution is already evident and will continue to be a priority.

Additionally, we are exploring ways to make this niche of waterway transport more accessible for goods that traditionally wouldn't use it. For instance, what we began this year in Constanța resembles a logistics warehouse in some respects. A ship arrives, is unloaded, and the cargo is distributed via three modes of transport: by water, road, and rail, including to distant destinations not only in Romania but also in neighboring countries. We aim to expand this model to accommodate more categories of goods.

We are also working on optimizing the network of Danube ports. For example, the organization of transportation for recycled glass from the RetuRO program involves multimodal logistics. While the glass can travel directly by truck to factories or recycling centers, we've made this multimodal route at least equally efficient. The car covers a shorter distance to a port, where the cargo is transferred onto a river vessel, transported to Constanța, and then loaded onto a sea vessel. Water transport is the most efficient in terms of cost and environmental impact.

13. Could you comment on the surplus of barges on the Danube and how you see this issue resolving in the coming months or years? Are smaller operators waiting for a worsening situation in Ukraine to stimulate volume growth?

Answer:

Unfortunately, there are no statistics available to provide a data-driven analysis. If we consider the fleet size from 2021-2022, just before the war, it appears that the fleet was two to three times larger by this past summer. I haven't heard anyone suggest it was only 1.5 times larger — estimates range between two and three times. This includes various types of vessels but not new constructions. These vessels were primarily second-hand purchases from different locations, and since they weren't initially operating on the Danube, they were transferred between operators.

Much of this fleet came from the Rhine, while some came from the Mykolaiv area, comprising vessels that managed to escape Russian bombings.

This fleet was primarily active in Ukraine, particularly until this spring. Some of these vessels are attempting to compete on Danube routes, while others remain idle, waiting for batches of cargo from Ukraine. However, the majority of this fleet is inactive.

Some of these vessels increased the assets of existing operators. Others were purchased by grain traders or companies involved in farming and trading. Companies that weren't shipowners became shipowners due to the opportunity to profit from Ukraine-related activities.

A portion of these vessels has returned to their origins—not Ukraine but the Netherlands or Germany. Some remain inactive, while others have reportedly been scrapped for metal. We cannot control this process; we can only observe it from a distance.

What's certain is that in recent months, there has been a noticeable decline in the active fleet on the Danube. The fleet operating between Ukraine and Constanța is shrinking. How long this situation will last is unclear. We don't foresee a restart of cargo flow through Ismail. If something were to happen, it should have happened by now, but it hasn't. That said, a peace process could bring surprises.

14. How do you see the evolution of tariffs shortly?

Answer:
Here, we are mainly talking about grains. As mentioned earlier, tariffs for minerals are relatively stable. Based on the information we have, contract renewals for next year in the mineral sector will remain at the same rates. This is a stable area. In the case of fertilizers, fluctuations have always been present, but the declines have not been as dramatic.

We have recently observed a stabilization of tariffs for grains. The rates are low, very low, but there do not seem to be additional pressures for further reductions in the coming period. Tariffs, of course, are closely tied to costs, which can vary in the short term. We can see that the market is still unstable enough to make accurate projections.

15. To what extent could a potential increase in cargo flows through the Port of Piraeus affect traffic in the area and on the Danube?

Answer:

The Port of Piraeus serves southern Europe, and the connection between Greece and the Danube region is not necessarily direct. While connecting via road or rail is possible, it is rather complicated and certainly not via water.

Piraeus handles different cargo flows and clients compared to Constanța. It is a Chinese investment focused on container logistics. At one point, it impacted the market when more transport started shifting to rail and road. However, this occurred years ago.