Equity Watch Transgaz: Q2 24 revenue growth offset by higher opex

Raiffeisen Research

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- Revenue increased by 32% yoy supported by higher gas tariffs and increase of transported volumes
- Operating costs increased by 28% yoy with Transgaz ending Q2 in the red
- We view company's 2024 budget as conservative, especially with the new tariffs coming into effect in Q4

Transgaz Q2 24 results

in RON mn	Q2 24	Q2 23	+/- %	RBIe	+/- %	Q1 24	+/- %
Revenue*	398.1	300.8	32.4%	430.8	-7.6%	706.6	-43.7%
Domestic transport revenue	351.4	238.4	47.4%	390.8	-10.1%	667.9	-47.4%
Transit revenue	-	29.9	n.a.	-	n.a.	-	n.a.
Other revenue	46.7	32.5	43.5%	40.0	16.7%	38.6	20.8%
EBITDA	46.5	43.8	6.2%	99.8	-53.4%	389.3	-88.1%
EBIT	-81.8	-74.7	9.6%	-42.2	93.9%	261.6	-131.3%
Net profit	-86.5	-52.8	63.8%	-20.3	325.3%	262.9	-132.9%
EPS	-0.5	-0.3		-0.1		1.4	
EBITDA margin	11.7%	14.6%		23.2%		55.1%	
EBIT margin	-20.6%	-24.8%		-9.8%		37.0%	
Net profit margin	-21.7%	-17.6%		-4.7%		37.2%	

**Revenue before balancing and construction activity*
Source: Transgaz, RBI/Raiffeisen Research estimates

Transgaz (HOLD, RON 21.6) announced its Q2 24 results on August 16 after the close of trading. In view of the typically weak seasonality of the second quarter, the net result was negative at RON -86 mn, which is primarily due to significantly higher operating costs. However, it's worth noting that revenue from the domestic transport segment recorded robust growth during this period.

Revenue increased by 32% yoy, mainly driven by: (1) higher tariffs for domestic transportation due to the increase in regulated revenues for the gas year Oct. 23-Sep. 24 and (2) higher transportation volumes. An additional contribution to revenue growth came from Transgaz's subsidiary in the Republic of Moldova, Vestmoldtransgaz, which gained RON 17 mn in Q2 24 following the takeover of operations in Moldova in September 2023.

On the cost side, opex increased by 28% yoy. This was primarily due to higher royalty expenses, which reached RON 39 mn compared to RON 1 mn in Q2 23, with royalty fees increasing to 11.5% of revenue from 0.4% in the same period last year. Moreover, there was a substantial rise in maintenance and transmission costs, surging by 362% yoy, which at first glance appear to stem mainly from Vestmoldtransgaz's operations.

Transgaz recorded a net financial result of RON -10 mn in Q2 24 vs. RON +19 mn in Q2 23, mainly due to the decrease in the financial income (-60% yoy), as a result of lower income from the adjustment of the concession agreement receivable (a nonmonetary item related to the inflation adjustment of the Regulated Asset Base). Consequently, bottom line came in red at RON -86 mn in Q2 24. Despite strong revenue growth, the increasing operating costs that have pressured profitability lead us to view the results negatively.

Outlook: At the end of May, ANRE (the Romanian regulatory authority) approved the tariffs for the transmission service for the gas year Oct. 24-Sep. 25. The approved regulated revenues increased by almost 22% yoy to RON 2.005 mn. Based on the company's budget, revenue of RON 2,058 mn and a net profit of RON 173 mn are expected in FY 24e. As the net profit for the first half of 2024 of RON 176 mn is already above the budgeted figure,

Daniela POPOV
Analyst Editor
+40 21 306-1239
daniela.popov@raiffeisen.ro

we see potential for a further increase in profit, especially in the fourth quarter when the new tariffs will come into force.

Additional potential for profitability expansion will be unlocked starting in October 2025, as the regulator has increased the regulated rate of return on invested capital from 6.39% to 6.94%. We expect Transgaz to see an increase in regulated revenues beginning in early 2025, especially with the commissioning of the Tuzla Posidor pipeline in mid-2025 and its inclusion in the Regulated Asset Base (RAB).

The conference call is scheduled for Wednesday, August 21.

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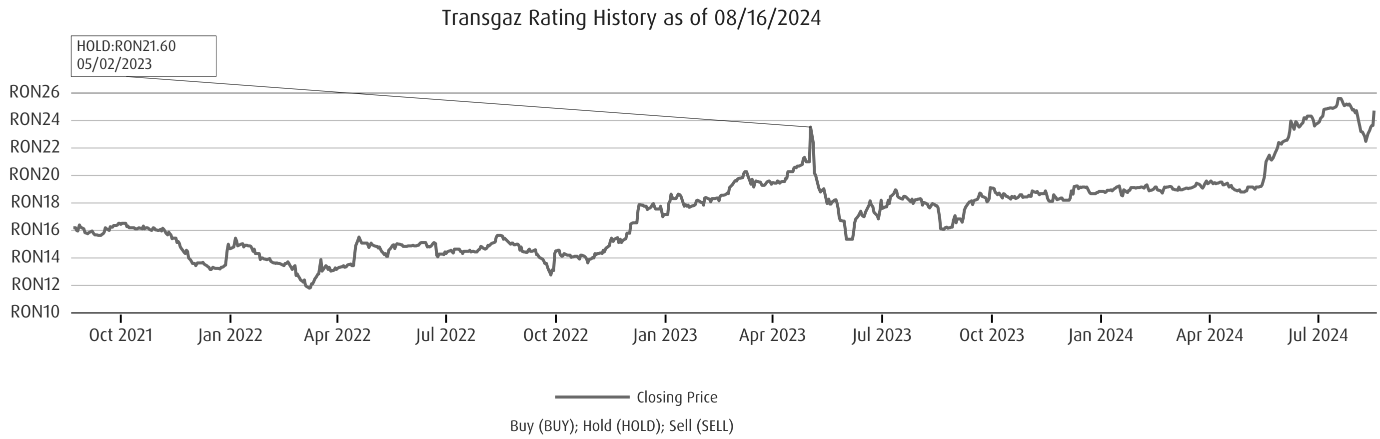

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Contacts

OLEG GALBUR
Austria ,
oleg.galbur@rbinternational.com

PHILIP HETTICH
Austria ,
philip.hettich@rbinternational.com

JAKUB KRAWCZYK
Austria ,
jakub.krawczyk@rbinternational.com

MARKUS REMIS
Austria ,
markus.remis@rbinternational.com

TERESA SCHINWALD
Austria ,
teresa.schinwald@rbinternational.com

JOVAN SIKIMIC
Austria ,
jovan.sikimic@rbinternational.com

ROK STIBRIC
Austria ,
rok.stibric@rbinternational.com

ANA LESAR
Croatia ,
ana.lesar@rba.hr

ANA TURUDIC
Croatia ,
ana.turudic@rba.hr

ANDREEA-CRISTINA CIUBOTARU
Romania ,
andreea-cristina.ciubotaru@raiffeisen.ro

DANIELA POPOV
Romania ,
daniela.popov@raiffeisen.ro

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