

Vivo Energy

Q3 Trading Update

21<sup>st</sup> October 2021



Transcript

## Disclaimer

This transcript is derived from a recording of the event. Every possible effort has been made to transcribe accurately. However, neither Vivo Energy nor BRR Media Limited

Giles Blackham: Good morning everyone. And thank you for joining Vivo Energy's Q3 trading update call. With me today is Christian Chammas, our CEO, and Doug Lafferty, our CFO. You will have seen the short statement we put out this morning, and we have a short presentation to run through today covering the key points in the trading update before we open up for any questions. Please do be aware that you will have to be dialed into the conference line if you would like to ask a question. With that, I'll hand over to Christian to take you through the slides.

Christian Chammas: Thank you, Giles, and good morning to everyone. I won't talk through this slide as you will have seen it before, but we moved straight to slide two. Okay, before we talked to the good numbers on the page, I want to start with

the COVID-19 backdrop in Africa to give you some context to our operating environment. When we last spoke to the market in July, the continent was seeing elevated case numbers driven by the Delta variant. At the time we saw tightening restrictions with Uganda going down into lockdown and curfews extended in length across many markets. As we moved into August and case numbers fell, these measures started to be relaxed once again, and in September this continued, with travel restrictions being lifted and the length of overnight curfews reduced by a number of hours which has further helped mobility. As an indicator on this, there are no African countries on the UK red list, which is an example that the continent is beginning to open up again both domestically and internationally.

Christian Chammas: Moving back to the business, you can see we have delivered another strong quarter with gross cash profit ahead of both last year and quarter three, 2019. Volumes were 3% ahead of Q3, 2020 as they continue to recover, and excluding the supply contract was 6% above Q3 last year and broadly in line with Q3 2019. Retail volumes provided the biggest impact and were 6% higher than Q3 20, supported by increasing mobility and excellent site rollout progress. Commercial volumes were still behind due to the supply contract, but benefited from improving aviation and Marine dynamics as international travel began to resume across several markets. While lubricants aren't a major swing factor for group volumes, it delivered another excellent performance with volumes 9% higher than last year. Margins have remained strong at \$76 per cube as the pricing and supply environment over the past 12 months has continues to support us, together with further benefits from the mix effect

and the impact of our lubricants price increases we put through in the first half, continuing during the quarter, all in all a very pleasing set of numbers

Christian Chammas Looking in more detail at the retail business, you can see that the majority of our markets are over 5% higher than they were in quarter three, 2020, and several of our large markets, such as Uganda, Tunisia, and Kenya were impacted by COVID restrictions in July. And so, there is strong group performance even with these headwinds which is encouraging and demonstrates the benefit that our diversification brings. The easing of mobility restrictions in August and September supported the following recovery together with the excellent progress we have made on the network growth. It is worth highlighting that average group has remained fairly steady but are still behind 2019 levels due to the restrictions during the period. In addition to core fuels, our premium fuels business continues to do well with penetration increasing, leading to a growing contribution to both volumes and margins. Non-fuel retail has also made good progress, and we continue to look to new opportunities to accelerate growth in the segment.

Christian Chammas: Moving on to our retail network expansion, this slide shows how we have grasped the opportunity to grow over the past 10 years. We have consistently grown our footprint and with the addition of the under-penetrated Engen markets in 2019, we now have a greater opportunity for growth. We have opened a net of 114 new sites this year ahead of our previous full-year plans. Over 50 of these sites were in the Engen markets and having taken the time to get the right teams in place, we're now accelerating our growth in these markets, as well as in the Shell markets. The larger market opportunity is a

key driver behind why we have increased our site rollout guidance for both this year and 2022. We're not changing our investment criteria and still expect to achieve more than 20% IRR for any new projects. But our confidence in the opportunity and our team's ability to execute means that we can now allocate more capital to go faster than we had done before.

Christian Chammas: As I have already said, our margins remained strong during Q3, even with the oil price averaging in the seventies, but we would still expect H2 margin to be slightly lower than H1. As we have demonstrated, our cost plus model limits our exposure to the oil price, but at these levels, it reduces our flexibility in the deregulated markets. We also have to maintain extra vigilance across the group as current oil prices put pressure on the cost of living and our estimates. We have seen governments taking action to support consumers in certain markets, but this hasn't had a meaningful impact on our business so far. Currently, COVID restrictions remain a much bigger impact to volumes than demand that is substitute to the oil price.

Christian Chammas: To sum up, I'm very pleased with how the recovery is continuing, and by the excellent work of our teams on the ground to drive the business forward. The segments most impacted by COVID-19 are beginning to improve, on our site rollout is moving forward rapidly. We're excited by the significant long-term potential in our markets, and we'll continue to invest to grow our fuel and non-fuel offerings to meet this demand whilst broadening our product mix to provide long-term benefits to our customers and our broader stakeholders. I will now stop here and hand back to Giles for the Q and A.

Giles Blackham: Thanks Christian for that. Operator, could we go to the lines for any questions, please?

Operator : We will take our first question from Sam Bland from JP Morgan. Please go ahead.

Sam Bland: Hi, good morning. Thanks for taking my questions. I've got two, please. First one is good to see the high number of site rollout target. Can you just talk a little bit about where the new sites are coming from particularly? Are they more weighted to the Engen countries maybe, and just anything around sort of mix of Greenfield versus to rebrand in that site growth? And the second question is the supply contract. Am I right in thinking that it will come out of comps in Q4? Can you just talk about how sort of unusual that contract was, is there another big contract in the business somewhere that could leave as well, or is that contract quite unusual? Thanks.

Christian Chammas: Okay. Thank you, Sam. On the sites, your question is pertinent, the Engen countries where we have decided to accelerate growth because our low market share represents a big chunk of that. Those 114 sites, it represents about 50 as at September. So a big part of it. There are grassroots, some of them, and some of them are also sites which we have taken over from local operators on a long-term lease agreement or an outright purchase. So it's a mixture of quite a few possibilities and formats. And that's very exciting because they are operational, the following morning, we signed the deal. So the volumes are immediately at hand. The remaining sites are across the Shell branded portfolio countries. And they are mainly grassroots that have been

built across our different countries. And that, and that is the model, and we continue doing that. We have quite a few sites in the pipeline of course, for quarter four and a quarter one, 2022. And that is how we plan our business. And that is why we're feeling comfortable to indicate that we should have higher deliveries for 2022 than what was initially planned.

Christian Chammas: On the, on the second element, which is a supply contract. It is a tender, which comes every three years on a big island. And we won that tender a year ago now. We supplied it, was two years ago? We supplied it and therefore it comes off our comparison chart, as you said, from this quarter, quarter four, 2021. And then if it happens again, it will happen again in two years time. So you won't see it happening again. It's quite unique, and it's the way it's formatted. I hope I've answered your question.

Sam Bland: Yeah, thanks. I think that's fair. Thank you.

Operator : Thank you. We'll go to our next question now from Nikolas Stefanou, from Renaissance Capital. Please go ahead.

Nikolas Stefano...: Hi guys, good morning. It's Nik from Ren Cap. Congratulations on a strong set of numbers. Christian, I've got three questions. All of them are on this kind of a new site guidance you put out there. Just to kind of get an idea of your kind of longer term plus. My understanding is that, these kind of site layout, which is based on a five-year plan. But you make mention of how number of sites for 21 and 22. Should I kind of look at that as kind of like a more opportunistic approach now, just because you found these opportunities, but they're kind of like 20, 30 plus target will be within the 80 to a hundred site

kind of mark as before. That's the first question. The second one is one of Cape.

Nikolas Stefano...: Could you give a steer, what's the increment of Capex for these new sites? And then thirdly, if we kind of like circle back to the first question, which gives you this pattern for new sites, I presume the majority of them will be kind of like geared toward DoDO. So, could we then see perhaps their total mix within your site mix, to increase and potentially, maybe your retail margin kind of normalising from the 75 region to maybe below, but just because you've got multiple sites than currently in the mix. Thank you.

Christian Chammas: Okay. On the first question, which is about the site's projection, yes, we do have a five-year plan, but the five-year plan gives us an indication of the opportunities. The market opportunities in the different countries. Where the roads are going, where the infrastructure is going, where the urbanisation is going. So that gives you an idea of what you should look for when it comes to positioning of your future sites. So that's the first one, that the market work. The second one is more short-term, let's say a two-year plan, where we organise ourselves in order to be in a position to roll out promises. What we had indicated earlier, 90 to a hundred, which we have now raised a bit to 130, 140, because we have a better visibility of what is happening this year, and when it's definitely happening next year.

Christian Chamm...: Why? Because what is going to happen next year, we've already started working on it from the beginning of this year. We don't start working in January, 22 for 22, we start working in January, 21 for 22. So, we already have

a pretty good visibility. The only element that is a variable element is what I would call deals that are not grass-root, that are taking over sites from third parties, who we knock at their door, they knock at our door and that accelerates the rollout. And this is what happened in 2021 and probably would happen in 22. So that is why we increased our estimates for 2022 to 130, 140, because we have a better visibility. I'm pretty sure sometime next year we will then say, we confirm the figures for 23 or we increase them. At this stage it's early days. You want to talk about capex a bit, Doug?

Doug Lafferty: Yeah, sure. Morning all. So, on the Capex, we're, we're continuing to invest obviously in the future growth of the business, so you'd expect the cap to sort of follow the trends. So, I think we've previously guided for this year to be similarly in line with the Capex spend from last year. Given the accelerated site rollout plan, I think we can probably say that that will be increased by between 10 and \$15 million by the time we get to the end of this year. One thing to add is, we're not adjusting our return hurdle rates through this accelerated rollout plan. We're still making sure that every project we do has that 20% of return that Christian referenced, and we continue to do the PIR exercise to make sure that we stay in that position.

Christian Chamm...: Yeah. Your third question element was around the DoDos and the CoCos and the CoDos, the company looks, the return is the same. And I would say that in the case of the Dodo, is higher because the Capex is lower. But of course, the gross margin is lower as well. But anyway, it's a weighted average, and we have no plan to change that equilibrium, which we have, which is quite acceptable, and we're balanced today. And we continue pushing that by

having more CoDos down the line than the DoDos. Because CoDos are more consolidated, and we like to have that consolidation in our portfolio.

Nikolas Stefano...: Okay. I was thinking about this, these are kind of efficient kind of sites. In order for you to be able to bring them in so quickly, they must be mostly geared towards DoDo, so that's kind of why I asked that question. Sorry, just to clarify what you said, so effectively, what is it like 30, maybe 30 sites on top would have an incremental 10 to \$15 million CapEx. Did I hear that correctly?

Christian Chamm...: Yes. 15. Yeah.

Nikolas Stefano...: Okay. All right, thank you so much.

Christian Chamm...: Who's next.

Operator : Thank you. Our next question today comes from Georgios Pilakoutas from Numis. Please go ahead.

Georgios Pilako...: Hi, morning. One, if you could provide a bit more colour on how trends are going in some of your bigger markets, Tunisia, Morocco, Kenya, wherever they are in terms of restrictions, vaccinations. Second one, which is kind of an observation that commercial once you strike out the contract is kind of not doing to dissimilar to the other divisions, and that's despite aviation and Marine, which we know kind of still be materially below. So that implies the kind of the rest of commercial is actually being relatively strong and then kind of outperforming the division. So, I was just hoping you could just talk a little bit more around what's delivering that strength.

Christian Chamm...: Okay. Maybe I'll talk a bit. Yes. The upside in the commercial business is that as you rightly put it, the other business other than aviation and marine is doing well. Energy, of course, you have mining, you have construction, you have industry, and transport. And all that and LPG, of course. All that is doing very well compared to a previous period, and we're very pleased with that. So that is the upside and that compensates more than largely the fact that aviation is not there.

Doug Lafferty: Yeah. And then just on the larger market. So, I think, look, we're trading broadly in line with our expectations. So, I think we referenced Morocco, Kenya, ecetera. We're pretty happy with how things are going specifically around restrictions and vaccination rates. I think Morocco still sort of leads across all of our markets. I think we've now got 50% of the population fully vaccinated, I think, in Morocco, and that rollout continues to go well. I was actually down there a couple of weeks ago, and that booster jabs are going out now as well to those over the age of 50. So, I think the Moroccan vaccination program is going well and restrictions of actually start to be eased a little bit there. The curfew has been reduced.

Doug Lafferty: So, it's much tighter in terms of hours. Similarly, in Kenya, I think, good news just yesterday, all the restrictions in Kenya have now been lifted. So, that's very positive indicator that hopefully things sort of progressed to going more back to normal in Kenya. So, yeah. Look, I think business is trading as we anticipated and we're optimistic, hopefully those restrictions continue to ease. Of course, we have to be watchful, as we all are here in the UK as well, what

could happen with the pandemic going forward. But for now, we seems to be in pretty good shape.

Georgios Pilako...: Thank you.

Operator : Thank you. Our next question comes from Victoria Petrova from Credit Suisse. Please go ahead.

Victoria Petrov...: Thank you very much, and congratulations on strong results. I have sort of remaining questions on the oil price. I completely understand that you basically just put a margin on it, but it is also input cost for some of your operations. Is there a certain level where your customer could react on the oil price increases in terms of volumes? And is there a certain oil price where it starts to hit your margins as a cost input? That's my first question. And my second question, we're obviously in the high inflationary environment overall, especially in developed markets, are you seeing anything outside of commodity price inflation in terms of your cost structure, which could also contribute to lower margin on the second half of 2022 and 2021 and beyond. Thank you very much.

Christian Chamm...: Okay. Thank you. On the first question on the oil price, I think we have through our different presentations showing a, a graph that a slide that shows the barrel movement over years and what happens to the GDP across our portfolio of countries. And you will see that when you see these sudden surges in the barrel price, yes, there is slight hits when it comes to consumption, but it is over a very short period of time, and there is an immediate correction within a couple of months. Now, why is that? There is a

real strong demand for fuels in the sense that it is still and remain still the only alternative and the only solution for transport and mobility across the continent. And therefore, yes, you will have a slight reaction for a couple of weeks, but then the business is back to normal.

Christian Chamm...: And we've seen it three years ago, four years ago, we had that scenario and we saw it happening. And then we saw the immediate correction a couple of months ago. So, I'm not saying it's not going to go without any collateral, temporary issues, but people adapt, and they have to, they have no alternative. And we, we also are very prudent in the way we manage all that in order to make sure to avoid shocks and we accompanied the governments in every possible way, in order to dampen these shocks, I know that a lot of governments are looking at reducing duties and taxes in order to absolve that. There's a country that announced it a couple of days ago. So that's one way of absorbing these shots. But we don't intend to do it ourselves, it's not our role. We are not a tax policy people. The second point is the high inflation. Do you want to comment on that, Doug?

Doug Lafferty: Yeah. I mean, so I guess the short answer is no. We're not really seeing any other pressures across the cost space. I think part of that is, these markets tend to run a little bit hotter inflation anyway. So obviously we're seeing inflationary pressures in the UK, Europe, and the US, but we deal with sort of higher inflation year by year in the markets in which we operate. That said, we have to be vigilant, and to what Christian just mentioned on the oil price, we have a watching brief, we're making sure that we're on top of it and we'll

continue to monitor it. But for the time being there's nothing which is coming through.

Christian Chamm...: Thank you.

Operator : Thank you.

Doug Lafferty: Thanks, speaker.

Operator : Thank you. As we have no further questions, I'd like to turn the conference back to your speakers today for any additional or closing remarks.

Giles Blackham: Thanks very much everyone for joining and for the questions and we're available to answer any future questions if you like, just please do get in touch and if not, have a good day. Thank you very much.

Christian Chamm...: Thank you.

Doug Lafferty: Thank you.