

Vivo Energy plc
Q1 Trading Update
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Transcript



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Giles Blackham: Good morning everyone and thank you for joining our call today to cover the Q1 trading update we released this morning.

Giles Blackham: With me virtually are Christian Chammas our CEO, and Doug Lafferty our CFO. As per normal, we'll run through a short slide deck that you can see on the webcast. For those dialing in it is available on the website as well, if you haven't got it already. And then we'll open up for questions from the conference line. So, if you do want to ask a question, please make sure you dial into the conference line rather than just the webcast. With that, I shall hand over to Christian.

Christian Chammas: Good morning. Thank you, Giles. Can I have my first slide? We can move directly to slide number two as we'll not go through this. Thank you very much.

Christian Chammas: As you can see, we've had a strong start to the year, and it was in line with our expectations, and it was a continuation of what we show in Q4 2020, and quite pleasing to have. There have been structural challenges, which were there already in marine and aviation. But these were low margin businesses, so obviously they did not impact dramatically our bottom line. There was a one-off contract, supply contract that ended, and that of course impacted the volumes. But without that, the volumes were 2% above the previous year, which is something good to see, and good to have. And also, we continue to see positive unit margins from half two, but of course, as we highlighted in middle of March when we announced our 2020 results, these are not structural, and we're obviously normalised as we go through the year. Next slide please.

Christian Chammas: Some backdrop to the performance. Africa continues to see limited health impact today. It's not something comparable to other countries we hear of. The governments remain cautious, and there are certain mobility restrictions in place across the continent. But these are loosened or tightened depending on the conditions at the time. It is important to highlight that.

Christian Chammas: Only Mauritius is the one that remains in tight lockdown after a very small spike of cases a couple of months ago. The lockdown is due to end in the next couple of days, so we'll see what happens in Mauritius.

Christian Chammas: This means that our markets are generally open for most domestic movement, and international travel remains limited. So, it's all in-country activities, which means that demand is still not back fully to pre COVID levels. Vaccine rollout is happening, and most countries are now starting programs, which are supported of course, by COVAX. Other than Morocco, where about 10% of the population is now vaccinated, these programs are at a very early stage. Next please.

Christian Chammas: As you can see, we have seen a version of this slide when we looked at Q2 2020, but it's really encouraging to see our retail volumes pick up and move very fast,

and of course, on an upward trend. And that move continued in the first quarter. And that confirms the robustness and the way our business is resilient and continues to grow when opportunities arise. The group is still behind the previous year, but that is, as I said earlier on, due to commercial volumes that were impacted by Aviation, Marine and the end of a supply contract. But the rest is picking up, albeit a bit slower than Retail, but that's normal. If we exclude all these factors, Commercial volume is just behind the previous year, so it's also good to have.

Christian Chammas: We can see the Retail recovery in more detail here, which continues to be really encouraging. Only seven of our markets saw Retail volumes behind Q1 2020, with 16 either flat or growing. That's a very strong sign. We also saw a return to the like-for-like growth in a number of markets, and with the balance of the growth supported by network growth, which is also another strong point.

Christian Chammas: Looking back at the pre pandemic levels, we saw solid Retail growth in March '21, versus March '19, which is the first duly comparable month, due to the timing of the Engen acquisition in March '19. So, we can do a benchmark here, and we can see and analyze it completely, and we saw good growth in March '21.

Christian Chammas: This, the Retail led volume growth, together with strong margins, has led to another strong Growth Cash Profit performance. And it is, as you can see, it is the best performance we've enjoyed in the past five years. It is a very solid performance, and it shows that we can rebound when the opportunities enable us. But of course, given seasonality, this business moves up and down, the holiday seasons, but it is important to notice the trend is on the growth and on a positive trend.

Christian Chammas: We have been enjoying strong margins for the past nine months, due to the conditions of the market, and of course the mix effect. But I remind you again, that is our structure. We do expect them to normalise in the coming month, and with the volume recovery and coming back to normality, the mix of the two should give us a continued good performance in our Gross Cash Profit.

Christian Chammas: We continue to grow, to focus on growth. And we, as you know, we had set an increased target of go to a hundred new sites to this year, and our results last month showed that we continue to do that. And we were very pleased, even at the end of April virtually, that we are on track. And we've started the year very well. And we are rolling out all these projects, be it organic or inorganic, in all domains, be it Retail, fuels food or otherwise. And that will continue. And we continue looking at opportunities in existing countries, be it the Engen countries, or even the Shell countries. All that is still an opportunity for us to do inorganic growth, and we do it day after day. And we have some opportunities in hand. And hopefully before the end of the year, we would have brought them on board and rolled them out.

Christian Chammas: It is important to look at this bottom chart again. It really highlights the strength of our growth. It is underpinning a really strong long-term growth, and these trends remain in the markets, and the trend remains on the same trend. And the next please.

Christian Chammas: I won't go through each of these points on this slide, but we're really pleased with how we started the year. We have continued the positive momentum from last year, and whilst COVID continues to create uncertainty and challenges to manage, the good start to the year has reinforced our confidence in our business model, in our business going forward, and in our people of course.

Christian Chammas: So that is an exciting beginning for the year, and we will look forward to Quarter two and Quarter three and Quarter four to report on our results. Giles, I'll hand it back to you for any Q and A's.

Giles Blackham: Thanks, Christian. Thanks for that. And Operator, can we had over to see if there's any questions from the lines, please?

Operator: Certainly, sir. Thank you. Ladies and gentlemen, if you would like to ask a question over the phone at this time, please signal by pressing star one on your telephone keypad. Also, please note if using a speaker phone, just to make sure your mute function is turned off, to allow your signal to reach our equipment. So once again, that is star one to ask a question, and we'll pause for just a brief moment, to give everyone an opportunity to signal for questions.

Operator: We'll now move to our first question over the phone, which comes from a Nick Stefano from RenCap. Please go ahead, your line is now open.

Nik Stefano: Good morning, gentleman. It's Nik from RenCap. Thank you for taking my questions and congratulations on the strong quarter. I have two questions to ask, if I may. The first one might be either Christian or Doug, it's with regards to how you think of shareholders distributions. What I'm saying here is that you have a very clear dividend policy of a 50% payout ratio, but in the past, you had occasionally paid more than that.

Nik Stefano: Now, given that the shares liquidity has increased quite materially, I was just considering what your view is with regards to buy-backs, if you want to do any top ups beyond that 50% payout ratio? That's my first question.

Nik Stefano: The second question is about your, I'll say maybe ESG strategy. So, you did mention the past, and this also what some of your competitors are doing, about installing the solar panels to some of your sites. And I think you also mentioned that your carbon footprint is reduced by 10% from 2018 to 2019. And I was wondering if you have a certain strategy? That could be the installing a certain percentage of sites to some sort of solar panels to some sites or reducing the carbon footprint by a certain extent. These are my two questions. Thank you.

Giles Blackham: Thank you. Doug, do you want to take the first one?

Doug Lafferty: Sure. Yeah. Morning Nick, morning all. I think, probably Nick the answer with regards to the capital allocation is obviously we came out in the Full Year results with the revised dividend policy, and that was following a sort of review at the back end of last year on current capital allocation, and the confidence in the business going forward, and therefore a confidence in an ability to pay out a higher ratio to shareholders from a dividend perspective.

Doug Lafferty: I think what I would say is, the Board keeps under constant review the policy with regards to capital allocation, and we'll continue to look at that as we move through the year. And if we see opportunity to both meet the growth expectations that we have for the business, and potentially to return more back to shareholders, then we'll look at that at the time. But nothing currently in plan.

Giles Blackham: Thank you, Doug. On the...

Nik Stefano: No not ...

Giles Blackham: Sorry.

Nick Stefano: Yeah sorry, but my question was specifically more that if you were to allocate more, would buy-backs make sense, now that the shares are more liquid, versus paying more dividend? That is

Doug Lafferty: Yeah, I think the message is, we just need to review it on balance. I think of course buy-back is an option. Of course, it's an option in the strategy. It's not one that we're sort of activating at the moment. You know, I think our first and foremost objective remains making sure that we grow the business. And as Christian alluded to, we've got growth Capex in place this year, and we need to keep driving growth within the business.

Doug Lafferty: Beyond that, we decided to increase the payout ratio of the dividend, and beyond that we'll review capital allocation going forward. But of course, buy-back is part of that armory of consideration, should we come to that point.

Christian Chammas: Yes, and to rebound on what Doug is saying, we have to make sure that we manage our cash prudently. In the sense that if we do get an opportunity to grow faster, we have to make sure that the facilities are there. And buy-back, the facilities go, and then you're left with a situation where you have to find other solutions in order to grow faster.

Christian Chammas: So, we have opportunities to grow fastest, and we have to ... It's a right balance. And for us, the right balance was to increase the dividend payout for the time being, and we'll review that every year, no doubt.

Christian Chammas: On the second question, link to ESG, for us, ESG has been, I guess, part and parcel of the way we do business. We have a very strong culture when it comes to Safety and Security, and Health and Safety of our operations, of our people, of our Stakeholders, of our environment. And that has been in place from day one. We inherited something from Shell, and later on from Engen that was of high standard, and we continue to ramp it up, and to make sure that we remain the top of the class.

Christian Chammas: When it comes to the rollout of solar panels, we have been doing that for the past five years on all our sites. So, in most of our sites that we open, the go to 110, these sites come with solar panel on the roofing, when we can do it. There are some countries where we can't because we are not allowed to produce our own electricity. There are some countries where it's not economical yet. All right? But where we can, we do. All right? So, I would say that it is systematic where we can.

Christian Chammas: The other important point is that all our industrial sites have solar panels to produce electricity for our own use. Be it our depots, our lubricant plants, our gas plants, et cetera, all those, our offices, they are all with the solar panels.

Christian Chammas: And finally, in our Commercial business, we are now putting in place solutions for our clients in order to bring hybrid solutions that mix solar with fossil fuels, or even with tomorrow, with LNG or other sources, to produce kilowatts for our clients.

Christian Chammas: And we have put in place a program around what I would call more sustainability, more responsibility in that domain. And we will be monitoring and reporting on it, and you will see it in our Annual Report for 2021, that we have done big progress, and we will be ready to comment and to report on it.

Nick Stefano: This is really helpful. Thanks so much.

Christian Chammas: Thank you.

Operator: Our next question will now come from Harry Gowers from JP Morgan. Please go ahead, your line is now open.

Harry Gowers: Yeah, morning guys. Thanks for the questions. It's Harry from JP Morgan. A few if I can, the first one just on the retail volumes, we're obviously plus 4% in Q1. I was wondering if you guys could give any colour on what the exit rate at the end of the quarter might have been?

Harry Gowers: Second question, quite strategically, I mean, now hopefully they're coming out the other side of COVID. Have you seen any changes in the competitive landscape in any of your main markets?

Harry Gowers: And then on the third one, just if we could have some kind of outlook on Marine and Aviation, you know, when should we expect it back to sort of 2019 levels? Thank you.

Christian Chammas: Okay, so I'll take it backwards. So, I'll take the Marine and Aviation and then move upwards, and then maybe Giles will have time to talk about the figures on Retail.

Christian Chammas: Aviation is stranded for now. And nobody sees Aviation normalising before 2023, from the information I read like you from IATA. In our continent we might have the expansion or the return to a certain normality of regional activity, but that is ramping up very slowly. It's still quite low, so we don't expect anything.

Christian Chammas: But it doesn't worry us too much; the margins were low. The only element which used to contribute positive is that volume used to reduce our unit costs in Depots and make us even more competitive. So, we're looking forward to having it back, but it's not going to be before two years at least.

Christian Chammas: Marine is still low, lower than it used to be. It's ramping up gently, but it's still not there. It's still about 20% below what it was. But it's still a better performance than Aviation. Do you have the information Giles, on the Retail?

Giles Blackham: I think it's quite hard to give a good comparison, given we started to see the impacts of the restrictions coming in at the very end of March last year. I think the one thing we can say is that we ended ... or March certainly '21 was ahead of '19. But I think the way we've guided the full year is that we're not expecting dramatic volume growth in the first half, as restrictions still are in place in a number of ... the majority of the countries relatively lightly compared to Europe, but they're still there. And it's going to take some time for them to ease, and then we see some better pickup in volume.

Christian Chammas: Yeah. The second question, who wants to take it? Doug, yourself?

Giles Blackham: Christian, why don't you ... It's a competitive landscape. Do you want to take that?

Christian Chammas: Okay, I can take that. Sorry. The competition, what do I say about competition is that they seem to be less reactive, and we tend to move a lot faster. We saw that recently in Kenya. I talked about it in March when we announced our results for 2020, the activity of quite a few of our countries and oil use. We even saw it in April when things were beginning, there was actually a curfew and a certain lockdown in Kenya, but our volume performed very well, and we even increased our market share.

Christian Chammas: So it just proves that reactivity of our teams because of the model that is in place, that the way we have decentralised, we have empowered local teams and recognise and reward people, and that comes in the way they do business.

The promotional tools, for example, we halted quite a lot of marketing initiatives and promotion initiatives, until we saw the markets normalise it. And that's what we do.

Christian Chammas: So, we work very hard during the day and we go to sleep at night, like everybody else. But we wake up a lot earlier probably than the competition. So, you know, we are ready, and we seize the opportunities before the others. That's ... There is a message that has to go through.

Harry Gowers: That's very helpful. Thanks guys.

Operator: Just as a reminder, ladies and gentlemen, it is star one on your telephone keypad if you wish to ask a question on today's call. Our next question now comes from George Pilakoutas from Numis. Please go ahead, your line is now open.

George Pilakoutas: Thanks. First one was just kind of any anecdotal comments on market share in the fourth quarter. You spoke to the Shell and Engen brands out-performing. Any comments on how that's trended through the first quarter?

George Pilakoutas: And then the second one, just any comments on Non-Fuel Retail, whether you're starting to see a bit more of a rebound there?

Christian Chammas: Sorry, can you repeat the last part of your second question?

George Pilakoutas: Yeah, sorry. Just on Non-Fuel Retail. Just any comments on how trades been trending.

Christian Chammas: Yeah. Okay. So, market share is a bit early for first quarter; we don't get the information yet. I gave you a bit of a highlight on Kenya, where we had the information, because we track it through other sources, legal of course. And we knew we had increased our market share in Kenya.

Christian Chammas: In other countries, the larger countries it's the same trend. We have outperformed our competition. We don't talk about it too much. And when it comes to Food and Convenience, it is back on track. The projects that were on go slow last year are now moving faster with our partners, be it X, Y, Z. And we will see a faster rollout than what we saw last year in that domain. So, it's okay. The activity is still not completely there. I would say it's still below what we enjoyed in '19.

George Pilakoutas: Great. Thank you.

Operator: It appears there are no further questions queued over the phone at this time. Mr. Blackham, I would like to turn the call back over to yourself for any additional closing remarks, sir.

Giles Blackham:

Thanks. Thanks Simon. And thanks everyone for dialing in. Good to speak to you today. And we're around if you want to ask any further questions, but that's all for us and thanks very much.