

Vivo Energy

Q3 Trading Update

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Transcript



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## KEY

- Giles Blackham: Good morning everybody. Thank you for dialling into our call. With me, is Christian Chammas and Johan Depraetere, our CEO and CFO. What we will do is we will run through a few slides that we've sent out this morning and are on the website on the investor relations page, and just talk through the key points from the results or the trading update this morning, and then we will open up to Q&A. With that I shall hand over to Christian.
- Christian C: Good morning. Thank you for joining us. I will run through the slides you now have online, and quickly comment them so that you have ample time to ask any questions you want. So yes, we are very pleased to have delivered, what we call a record quarter, with a gross cash profit increase of 13% to 189 million. That's good to have.
- Christian C: This was mainly a result of the stability now of our Shell margins, the margins in the Shell markets more precisely, and a very strong growth, a volume growth of 15% year on year, primarily driven by the Engen branded countries. So the two of them bring, of course, that growth of our year on year gross cash profit.
- Christian C: The increase of our unit margins compared to our first half is linked to the stability of the margins in the Shell branded countries. That is now, has, stabilised and is good to have for the remaining periods of the year. We'll see what happens. The volumes in the Shell countries grew by 1% compared to the Engen. The reason was that we made sure that we had good volumes. Now when I say good volumes is that volume, we went after volumes that brought good margins and we decided to let go of some activities that were bringing in bad margins in order to make sure that our overall margins are stabilised.
- Christian C: Across the group we can say that the Engen integration, it has gone well and is progressing well. The teams are transitioning to the VE culture. Work is ongoing, we're opening, we've opened 12 new sites. We have refreshed we call Engen shining about 30 sites and that is ramping up now month on month and we will be in a strong position at the end of the year when it comes to the Engen country.
- Christian C: Finally on that front or in the Shell countries, the 15 countries now are in a new ERP and everything works. It is successful and we're very pleased with what we have rolled out.
- Christian C: The following slide, which is called the strong growth and profitability. You can see how we have ramped up as I said, because of gross margins, margins improving and volumes growing. You can see period on period that big shift. It is therefore as I say, is a function of growth in volume and unit margins that are also growing.

Christian C: It is in line with our forecast. When I say the gross cash profit, it is therefore something that is good to have because our cost plus model dictates that we have that stability. We have obviously revenues that will fluctuate up and down depending on oil price, but that has no incidents, as we know, on our profitability. We have seen therefore when you look at the graph, steady growth of cash profits between, through 2017, although it's stalled a bit in the quarter three of '18 and early '19. We see it now back on the right track.

Christian C: Finally, as I said, our margins have stabilised and the engine business is delivering the volume we expected.

Christian C: Following slide as I mentioned, and you can see it is quite clear, the gross cash profit is a function of the volume growth you see on the top part of the slide and the margin stability over the last two quarters between 72 and 71, which is obviously something that is now, what I would call, in our pocket and good to have.

Christian C: The volumes have accelerated in the last two quarters, of course, due to the Engen acquisition and that is nothing new, but the margins have seen a step up. When you look at the previous periods, which was a steady decline, well we have now shown a nice rise. We will continue growing, working on that in order to ensure that our margins are protected and that we have good margins through good volumes.

Christian C: If I look now at the last slide, which is the outlook, what can we see? We can see that we're firmly on track to meet our guidance for the year and this is obviously something we did promise we would deliver. Our growth of 10% today has stepped up, quarter on quarter, due to the impact of the Engen business. And finally our margins are also on track and just beyond what we had promised, so that is also good to have.

Christian C: In terms of Capex where although in the first half we were lagging, we're now catching up at a very high rhythm and we'll be on track to spend 150 million we promised, well we guided, on spending. And as we have said, we're opening up our three sites, three sites every three days and therefore we should be on track to deliver the 80 to 100 sites this year.

Christian C: All in all, we feel quite bullish that we would deliver our promises when we meet again to talk about the full year results.

Christian C: I think I have now gone through the slides and we're open to questions so please fire away. Giles.

Giles Blackham: Thanks Christian. Operator, can we just go to the line? If there are any questions, please.

Moderator: Thank you. If you would like to ask a question, please signal by pressing star one on your telephone keypad. If you're using a speaker phone, please make sure your mute function is turned off to allow your signal to reach our equipment. Once again, that is star one to ask a question and we'll take our first question now from Alexander Mees from JP Morgan, please go ahead. Your line is open.

Alexander Mees: Thank you. Good morning everyone.

Alexander Mees: I was wondering, Christian, could you touch on please some of the levers that you've been able to pull to drive the step up in margins over the last quarter or two. Does that have any offsetting effect on the volume growth as well, please. And then secondly I wonder if you could give us a sense of the underlying trends and demand for fuel in your various end markets to the extent you can generalise. Thank you.

Christian C: Okay, thank you. On the margins, as I said, we decided to make sure that we sold and obtained good margins, be it on retail or commercial. A lot of the activities that we had in certain countries through resellers, we had Kenya, Uganda, Ghana and other countries where obviously opportunistic activities, and when the barrel started moving downwards, we decided to pull out because what goes down sees margins that are compressed or depressed. So by doing that, we made sure that the volume that goes through our retail business is a volume that brings good margins. So that is on the Shell front, in the countries that are impacted by such activities that enabled us to ramp up the margins and to bring them to what I would call the level you see today.

Christian C: On the volume front we therefore pushed as much as we could and we would continue doing it all the Engen countries, right, to maximise their potential of output, be it on retail or commercial.

Christian C: So on retail, by doing the refresh operations, the shining operations of the Engen retail sites, we increased the volume. The margins were quite good there so we benefited from the multiple of the two.

Christian C: We also won some contracts, commercial contracts, through tender operations in the Engen countries. That brings also a volume that is not recurrent, these are one year contracts, but that brings volume and smaller margins.

Christian C: But that, all in all, that this couple of improved gross margin and higher volumes in the Engen countries have brought what you see today.

Christian C: And finally the volumes are obviously, especially in the Engen country, sorry, in the Vivo countries, Shell countries, I would confuse that, in the Shell countries are impacted but what has happened, or is happening, in Tunisia. Tunisia a country that is going through a difficult period. It is a big volume seller and therefore that impacts us, okay, and that is still there. It will correct itself, but it

will correct itself over probably over a period of two years. But the volume is that, luckily for us, the margins are not that important and therefore we're protected on that front. So Tunisia, Cote d'Ivoire is another one where also there was sluggish sales but that should correct itself in the next 12 months. Voila on the volume front for the Shell countries.

Alexander Mees: Thank you very much.

Moderator: Our next question comes from Martin Boeris from Exane.

Martin Boeris: Yes, good morning, I have three questions.

Martin Boeris: The first, what accounts for the steep increase in Engen volumes quarter on quarter. It is just due to a strong commercial wins there. My second question is, why have we not seen an improvement in Shell branded volumes in Q3 this year? Whereas you had more favourable comparison based, from that, which one would they be in retail? And third, can you give us an update on the antitrust inquiry in Morocco? Thank you.

Christian C: Okay, first one, the Engen, the volume push is through retail because we have over 200 sites, 230 or 240 sites, I can't remember exactly. So they are being ramped up like we did with Shell a couple of years ago, seven years ago. So we're doing that. So we are seeing the volume coming our way. The commercial business, we're obviously opportunistic. So when we talk about tenders that are for one year, well that is a welcome volume that comes. We're also going as much as we possible as we can towards commercial businesses, fuel businesses, here and there. So there is going to be a ramp up of the Engen volume because we expect it to ramp up. There is potential in all these countries. Now when it comes to the, to the Shell business, the Shell business I mentioned: there are three or four countries that are big volume countries. To start with, which is Tunisia. Tunisia is impacted heavily by the economic environment. So we feel the impact.

Christian C: Cote d'Ivoire is also impacted in our business because there's some structural issues around our retail but that is being fixed. So it's just temporary. Kenya and Uganda, again, because of barrel prices, the reseller issue, which I mentioned earlier on from which we pulled out, has had an indirect impact on our volumes, but that is not retail, that is commercial.

Christian C: So that is why the Shell volume is, I would say, a bit sluggish. All right. The price leadership was also a policy of Vivo Energy and we went for price, and therefore margins, in order to make sure that our gross margin is protected and grows. And that was the policy we took in Uganda and Ghana. And of course, when you have good margins and therefore a good gross margin result, there is an impact on volume. But we did it voluntarily. It was not by accident. Okay, so that explains what happened in the Shell.

Christian C: Finally, the third point, which was the investigation by the anti-competition, the Conseil de la Concurrence, we announced a couple of months ago that that was in progress, it is still in progress. There has been no, nothing new, formally between ourselves and the competition board and therefore nothing new to report.

Martin Boeris: Okay. Thank you.

Moderator: As a reminder, if you wish to ask a question, you may do so by pressing star one. Our next question comes from Nicholas Stephanou from Renaissance Capital.

Nicholas S: Good morning gentlemen. Thank you for taking my questions. I have three if I may. The first one is skin on bones and circling back to that subject. Engen volumes were surprisingly strong and I was wondering how much sustainability it is up to that, or, is it just or lumpy results from the commercial business. Then secondly, on a working capital, you had 100 million build up in the first half. I was wondering if you could guide how much you'd be able to revert for the second half, and by now you should pretty much have a good idea around that.

Nicholas S: And finally on IMO 2020 it's going to be implemented in a couple of months. Just for my own interest would you be able to say what you're seeing on the ground, and how, how the Marine sector is responding to that. Maybe as a percentage of how many clients are going for bunker fuel, diesel, and maybe LNG.

Christian C: Okay. So I'll answer the first question and then I'll ask Johan to answer the second one and then come back to the third one.

Christian C: On the Engen front, it's not by accident. We have taken over these assets on the 1st of March. As I said earlier on, we have a lot of sites there. So we are therefore, what I would call refreshing them, and spending money to make sure that they have all the necessary offerings in order to sell better and to attract more. And that is happening. We already have done that on 30 of them. There is another 80 planned if I'm not mistaken, or thereabouts, out of the 240. So that's something that shows the result because when you do that work, you see a serious uplift in your sales. People like to come in good environments. So that's number one.

Christian C: Number two, we've opened 12 new sites in the retail business, in the Engen countries. So that obviously brings volume. Then, finally, without mentioning countries, there was a country that was going through serious issues when you talk about currency and dollars and all that. Well we have managed to ramp up the volume significantly since taking over. So we haven't remained dormant. We have corrected quite a few structural issues and the business is delivering a hell of a lot more than what we inherited. So these show the impact on the retail business of Engen.

Christian C: And finally, yes, we have won a few commercial tenders, which are 12 months tenders. They appear in the books, but you know, you always have that up and down. But now it's on the up front when it comes to the commercial front.

Christian C: Johan do you want to comment on the 100 million dollars?

Johan D: Yes. So in short if go back, it was two drivers for the working capital. One was a late collection of a receivable, which was significant of a big customer. So that's clearly behind us now. And then there was also some timing around tenders, especially in East Africa. So we're comfortable to say that we expect and foresee that our working capital will normalise towards, actually already, as we speak so that we go back to what is our structurally negative working capital. So that is the answer to that question.

Nicholas S: Okay. So to make sure we cover pretty much all of it.

Johan D: Exactly.

Christian C: Exactly.

Christian C: And finally, IMO 22 you know, the rule is very simple. We will deliver to a boat on full spec products from March. Is it March 22 if I'm not mistaken? March 20?

Johan D: 20.

Christian C: March 20. And if they do not want that full spec for reason another, they have to show that they are capable of cleaning scrubbers, you know the scrubber system on a boat? They have to show, otherwise we will not sell, we cannot sell it. So that is in place in Mauritius, in Namibia, in...wherever we do Marine job bunkering that is in place for us. The obligation is really between the port and the brokers and the ships, to make sure that either/or they comply with the international specification.

Nicholas S: I can presume you have by now orders for fuel for 2020 so just, on that, would you be able to give me an indication of what percentage of marine clients stayed with bunker fuel and are going to take scrubbers, or went for LNG...

Christian C: No we don't. We don't go into that.

Johan D: Yeah. And it's mostly spot business.

Christian C: You know, this bunkering is spot business. You know, they come, if they don't want the new spec, they have to prove to the port that they have scrubbers. Otherwise we don't sell, full stop. There's no more discussion. Simple.

Nicholas S: Okay. Thank you.

Moderator: There appear to be no further questions at this time.

Christian C: Okay, ladies and gentlemen, Giles, the floor is yours.

Giles Blackham: Thank you Christian, thank you Johan, thank you everyone for dialling in. Thanks so much and we shall speak again in the near future. Thank you. Bye.

Johan D: Thank you. Bye bye.