Vivo Energy plc

2019 Full Year Results

4 March 2020

Transcript

Giles Blackham:

Thanks Christian. Good morning everybody. Thank you to those who've braved the queues to get in the building and apologies for those who are on the line. We've had some issues getting people into the building so we've had to delay for a few minutes. So, thank you very much for your patience. So, very pleased to announce our full-year results for 2019. Presenting them will be Christian Chammas, our CEO and Johan Depraetere, our CFO. Johan's struggling with a pretty bad back at the moment so he's actually going to sit down to present. There's nothing else untoward going on there, but please bear with us. We got a slightly different presenting style to normal, but what we will do is run through the slides and then we will take questions from the room and after that, move into questions from the call. So with that Christian I shall hand over to you.

Christian Chammas:

Thank you. So anyway, welcome everybody. Thank you, Giles. I see there is actual physical shareholders here as well. I counted three at least three, which is very good. All the rest are strong partners who support us in our endeavours to make sure that this company is nice and square and what you see is what you read and what is there, and that is how we built it and we intend to keep it that way.

Christian Chammas:

The format is same as last years. I'll do a short introduction if I can. Then our pass on to Johan who is sitting down because he has hurt his back. It's nothing to do with me or the results but he will do it sitting down. I thank him very much for coming because, believe me, yesterday, he was seriously bent and we had magicians working on his back yesterday afternoon.

Christian Chammas:

So let me now proceed. Johan will do the presentation when it comes to the financial review. I will come back and conclude or talk about 2020 in the future and then I'll open it to floor questions and answer, online question and answers for everybody to shoot away.

Christian Chammas:

Well, from the results you can see that we've demonstrated strength, resilience of the business and we have delivered another strong year. It is our second year. We are very proud to be on that trend and you will see further along in my presentation that the trend is not only two years old and we've been doing that for quite a few years.

Christian Chammas:

We continue to move forward and build the platform that is necessary for future growth, that is now what I would say an asset. It is there for tomorrow and we have proved also that we can deliver very strong, big projects successfully. I'll talk about this and at the same time we did not lose focus on the important HSSE issue. It is fundamental in our business.

Christian Chammas:

It is fundamental that HSSE is at the top of our mind in our hearts and in our DNA and it is the case and we work very hard at it.

Christian Chammas:

Finally, and Johan will talk at length about this, we delivered a strong cashflow and have increased what I would call our recommendation for dividends for our shareholders to show that we're confident in the future.

Christian Chammas:

Last year or the beginning of last year, we set out commitments and we say we're going to do this, we're going to do this and we're going to do that. Yes, I'm proud to say that we have delivered what we promised. So commitments equal to delivery and that is what we have done. And again, we delivered against all of them, not only one or selectively. The whole series of commitments were delivered and we will continue to demonstrate that. That the track record, as a public company, is a continuation of our track record as a private company. We were doing that year-on-year and we will now continue doing that year-on-year as a public company. And that is what we promise and what we have to deliver.

Christian Chammas:

And when you look at all this and you can see, all the segments have shown growth. From the top to the bottom, they're all growing. It is good to have, be it in the Engen or the Shell markets. The business now, has more than absorbed the impact of the margins in Morocco in 2018. That has been absorbed and we moved on. The Morocco business is, and I'll talk about it later on, is not the heavyweight it used to be. And that is good for us.

Christian Chammas:

Finally, we have shown that the growth is continuing and when you look at the difference between 2015 and 2019 we've increased the adjusted EBITA by 80%. I mean, this is a strong, strong performance and we're continuing doing this, even though we had hits along the road and we will, it's normal. The world is not linear. It goes up and down.

Christian Chammas:

Finally, I think that 2019 was a transition year, where through Engen, ERP and a whole series of impacts and effects that came along the way, well, that has enabled us to have now a strong platform to build onto for 2020.

Christian Chammas:

It is important to highlight the diversification of our business. You know we report on three segments but we operate over a whole series of different businesses across the continent. Each one has different dynamics and drivers, but we believe that together they offer that strength, that resilience to external effects even internal effects. I mean, that is the way the businesses is managed. And when you see on that pie, 75% of the business is around stable margins. So you have, not uncertainty, we have 25% that is subject to variability or volatility and well, we can live with that. We know how to manage it and we manage it.

Christian Chammas:

You have de-regulated fuel at 20% and then through aviation and marine, that's the 25% I was referring to. All the rest is fairly stable So that is pretty good to have and we manage it in an efficient way.

Christian Chammas:

You can see from these two pies, as well, that we have a lot of different businesses, but the largest one is now down to 13% and that is Morocco. It was a high of 29%. I'm talking Morocco retail here. It was at a high of 29% in 2017. So it went down to 18% and it's now to 13%. So divided by two. How did this happen? Not by magic. It happened by the growth of other businesses within the existing perimeter i.e. the 15 Shell countries.

Christian Chammas:

It happened by the acquisition of the Engen countries, so that further diluted that weight and basically the whole cocktail, which you saw earlier on has enabled us to reduce that, what I would call that big, white elephant in the house of Vivo Energy and, therefore, we can live with it now at 13%. There are other businesses that represent 5% or under. Well, fine, but it's not as critical as it used to be and we can live with that.

Christian Chammas:

Finally, what do you have to realise is that the Forex element to our business, when you see the 65%, is directly hedged the euro or the dollar. Well that's a good hedge to have and we can manage it. The remaining, well, the rest is in the market. The margins are adjusted annually or biannually or every two years and that allows you to have a US dollar margin that remains fairly stable over a period of time and we've shown it before a couple of times.

Christian Chammas:

Well to sum up, and before I hand up to Johan who will carry on, on the finance presentation, it's a good performance for 2019. A lot of challenges in '19 but we still delivered what we promised and we're very proud of it and we are building a platform for future growth in 2020 and the years ahead through the Engen business and through what was the existing Shell business, because we know there's opportunities. There is obviously a lot more opportunity in the Engen countries because we've done our homework very well in the Shell countries but we will work furthermore to bring that value to Vivo Energy and continue to do it day-after-day. Johan, please.

Johan Depraetere:

Thank you. Thank you Christian and good morning everyone. As you can see, the numbers speak for themselves this morning. A very strong set of results. The free cash flow number is probably the standout number, especially if you remember back in August we actually had a negative number in the first half, and I'll talk about it more in detail given that there's some timing impacts around working capital. But even the underlying number, if you exclude these tiny numbers, is very strong. Christian mentioned the dividend. We have declared a total dividend of 3.8 cents per share, which is up 15% on a full proforma year-on-year accounting for 12 months of 18, with the final dividend doubling compared to last year, which again shows the confidence that we have in the business going forward.

Johan Depraetere:

This is a slide, we show it again in August as well, as it really highlights the momentum we've gathered in 2019. You can see basically two drivers. One is the Shell margin which has now recovered and stabilised. Just to remind people, especially on the retail margin and the effect of Morocco, if you go back to the first half of 2018, the retail margin was still at $78 per metric cube. Then we saw the decrease to $73 and then hit the lowest in $71, in the first half of '19 and in the second half we're now at

$72, so you can see that now really has normalised. And then the second impact that you see is really the addition of the Engen acquisition from March last year.

Johan Depraetere:

Moving on to the heat map. Again, something we started sharing in August and you can see it's a different picture from the first half. Second half we see a recovery. You see that Ivory Coast and Tunisia have rebounded from their first half performance, with also, Uganda having a very strong second half as they kind of moved away from maximising unit margin to actually regaining some of the market share that we sacrificed in the first half. We also had very strong performances in Kenya, Burkina Faso and Mauritius. You might remember Guinea was pink in the first half, continues to be pink in the second half. But that's mainly because of the classification of white pumps that used to be in retail and now have moved to commercial. So, the performance actually in Guinea, of the Shell branded sites, have been very strong.

Johan Depraetere:

Some of the weaker markets. We continue to focus on price leadership in, in Ghana, maximising our total gross cash profit. So, like we did in Uganda, and we also see the big country there is Mali where, again, for the year they're positive but in the second half, due to the security issues that they have as a country, we saw an impact on the retail fuel volume.

Johan Depraetere:

Moving to the Engen markets which were not there in the first half, we've included them and you can see actually, and this is based on MI numbers because we didn't own the business in '18, but year-on-year, you can see that all eight markets showed a very healthy growth of over 5% across the board. So we feel that the momentum is back. I think Shell retail volumes grew about 2% on the year but they kind of showed momentum towards the second half growing at 3% year-on-year.

Johan Depraetere:

Now, talking about retail. You can see gross cash profit is up 6% which really has two effects. It's the margin, as I mentioned, is down 5% year-on-year but volume is up 10%. Both non-fuel retail and premium fuels have made strong contributions to this year and you can see that under on the right-hand side. Non-fuel retail, gross cash profit is now $33 million clearly held by Engen, but even without Engen the Shell branded non-fuel retail businesses up 16% year-on- year. So delivering slightly ahead of guidance.

Johan Depraetere:

We see a lot of potential of QSR in the Engen markets and are actually planning to open a KFC in Gabon and one in Rwanda later this year. On the premium fuels, which is at the bottom, right-hand corner, we actually sell now the V-Power in five markets, including Tunisia, which was launched in the second half of 2018. And you can see it accounts now 2% of volume and 3% of group profits. But what you see there is actually the year-on-year growth in the volume from V-Power, which is going from 24 to 30% in 2019. So again, we start from a low base but tremendous momentum in our premium fuels business.

Johan Depraetere:

Moving on to Commercial. Again, second year in a row, very strong year with gross cash profit growth overall 18% and you can see both aviation and marine growing 23% and core commercial growing 17%.

So a good performance in both businesses. We highlight that we're focusing now on gross cash profits because, actually, volume in the Shell branded markets is slightly down year-on-year, partly driven because, as we mentioned in August, we have the wholesale business, which is a trading business. We pulled out of it because it became not profitable for us, which had a mix effect as well.

Johan Depraetere:

Some markets, some mines that went into to maintenance but in summary the unit margin was up 4% compensating for the small decrease in volume. And you can also see the impact of Engen, where again, Engen delivered. And also we had a supply contract in the second half which helped grow the volume, especially in the second half. And we will see that impact going to the first half of 2020.

Johan Depraetere:

The final segment is lubricants. It's our smallest market. But as you remember, has the highest unit margin. We saw gross cash profit grow at 6% but again, we see, as you remember in August, the first half was quite challenging around volumes, especially in the B2C channel in one of our markets. But we took action and recovered in the second half and you can see that business is performing and you might remember, we often discussed the Shell lubricant's margin around $550 per metric cube. And we can now confirm that for the full year we actually have reached at $550 unit margin in Shell lubricants.

Johan Depraetere:

We focus a lot on costs, so we just want to share this cost. And this is the G&A cost for Vivo Energy as a group for the last three years. I want you to focus on the clean G&A because there's some special items and the depreciation which we want to exclude. So the cash, let's call them the clean cash G&A expenses have for the last three years only grown by $4 million, despite additional cost of being public. Also, growing our volumes by 15% and adding eight new markets, it really highlights the operating leverage we have in the business and our focus on efficiencies. How do we do that?

Johan Depraetere:

We continuously look at opportunities to make sure that our costs are as lean as possible. And also, given our model of having a virtual central organisation, we benefit of some of the currency depreciations in the African continent. So, that also helps to keep our costs down. But again, I think these are very impressive numbers.

Johan Depraetere:

Moving on to net income. As you can see, adjusted net income is lower. But I like to highlight that this is mostly driven by non-cash items. You can see that we saw finance costs specifically increasing year-on-year, but there's mark-to-market accounting expense on our swaps. As you remember, our term loans, we actually entered into a swap agreement, where we moved from floating to fixed interest rates. Given that interest rates actually went down, we assumed they were going up, are going down, we actually have to reflect that in our books. And you can see there it's an $8 million cost.

Johan Depraetere:

Then, in Zimbabwe under IFRS we were forced to adopt hyperinflation accounting, and again, we saw a $5 million inflation adjustment in our finance expenses. We also see that the effective tax rate increased to 39% from 36% which really has several factors. The Moroccan revenue authority imposed two and a half percent additional income tax on the oil marketing companies. We also have the Engen effect, which has slightly increased our tax rate.

Johan Depraetere:

Moving on, as I said, to the cashflow, you can see, again, a lot of numbers. The bottom line number is the adjusted fee cashflow, adjusting for special items but really, what we look at. You can see growth from $154 million in '18 to $325 million. I think there's about a $111 million of timing impact related to working capital payments. Most of them are coming from Kenya, from East Africa, where as I mentioned also in August, the industry supplied by tenders. If you win tenders, it has a massive impact on your working capital because you supply the whole industry and you get attractive supply terms. If you don't win, you actually have to prepay for your fuel. Now it happened that in Q4, we didn't win any in Q2. But in Q4 we actually won more than expected. And so that impact, you can see on the cashflow. But even as you remove those, you still see a very healthy adjusted free cashflow over $200 million.

Johan Depraetere:

Which leads us to leverage because of the strong cash flow generation. Our leverage net debt over EBITDA has now fallen to just 0.5 times. We paid back $80 million of our amortising loan. But we also drew about $62 million of the RCF to pay for the cash part of the Engen acquisition. Leases and short-term borrowings have gone up slightly, which is due to the Engen acquisitions. And we'll continue to pay the debt during this year. And we expect leverage to remain somewhere between the 2018 and 2019 levels. And again, as you might remember in August, our leveraged actual was 1.1. So we kind of have this range depending on working capital movements sit between 0.5, and let's call it one going forward.

Johan Depraetere:

Capital returns and capital expenditures. Very important as we continue to be investing for future growth. Or watch it remain above 20%, which is really what we set as a target and we stick to that target at 21%. We saw a 22% increase in growth capex during the year as we continue to expend both our fuel and non-fuel offerings. Special projects has slightly gone down, because that's mostly related to our ERP implementation. But there's still other projects like site automation, which are ongoing. And we actually expect to see maintenance capex is slightly down. Don't forget, there's also a maintenance opex element related to our maintenance. But we expect our maintenance capex slightly up for this year as we make sure that our sites remain shining or up to the standards that we like to see them.

Johan Depraetere:

So now moving on to the final slide, which is the technical guidance. And Christian will add some other guidance. But this is the guidance. So on capex, we see a small pickup to about a 150, $160 million. Continue to foresee adding 8200 sites for the year. Including also some KDRs, which are knocked down and rebuilt. The tax will remain to be broadly in line with the 2019 number. And because Morocco, higher tax remains in place for the time being. And then working capital, we continue to see our structural negative working capital to be in place. But as I said, there will be some timing elements that probably will bring down the cashflow year on year, given that the 325 is not the real underlying number. That is the end of my section. And I hand it back to Christian.

Christian Chammas:

Thank you, Johan. So if you could concentrate now after the excitement of the financials, I will try and conclude. I intend to repeat this, and it's fundamental to repeat it and repeat it. Our vision from day one, including when we were private, was to say, we have to gain respect and to become the most respected company in Africa. And we've been doing that day after day through HSSE, through our management of our teams, our stakeholders, the environment. And that is fundamental. You have to build a reputation. We were a new player between brackets. The same old brand, but a new player as the owner. And that remains through an intense focus on HSSE. You have to be the first in the class, because that is I guess your reputation driver.

Christian Chammas:

You can not talk about being reputable if you are not first of the class when it comes to HSSE. We are therefore very proud of our performance. In 2019 we had zero incidents in the Shell countries. And on top of that, the frequency rate across the group is very low. 0.04 is something we're very proud of. On top of that in road safety, education and environment, we spent a lot of money on a 100 projects that were driven by partners with us behind the scenes, in order to bring what I would call a plus to the communities around us. And with a serious focus on I would call, road safety and the environment. Finally, we had three spills, but baby spills. It's important to give you an indication it is one out of one and a half million. So you can see that it is a small very quantity in the scale of things. And basically we are on spills in the same way as HSSE.

Christian Chammas:

We are very, very focused at it. And we don't let anything get away with it. And our transporters are aware our depots operations, our stations, everybody's aware that that is something that we have zero tolerance on that aspect. Again, it goes to your reputation. We will remain focused on the environment. And we have building blocks now, be it in the objective to reduce our impact. We produce CO2 about a 100,000 tons per annum. But we focus on cleaner fuels. We focus on the efficiency of our operations, of our sites. And of course we're adding more and more solar. Through 2020 we will be building a five year plan to basically address that fully with an objective to minimising it, i.e. that impact over the coming years. And we will obviously bring more clarity to that in the report for 2020 results. That is our commitment.

Christian Chammas:

It is important to remember that the business has a strong backdrop. A strong GDP in the continent is something that we have as a heritage and something that is recurrent. Population growth is something also that is in the DNA of the continent. And that drives growth and consumer spending. And that is how our business has grown. It relies on these two elements. And if you look at since inception, i.e. in 2012, the weighted average of the growth of the Vivo Energy market is about 3.8. Well, let's say 4%. And if you compare it to U.S. and the European average of 0.5, it means that we have potential. And we have grabbed that over the years. So yes, we have seen weaker years. And you can see them on that chart. But it is not a permanent trend. And we know that 2020 is announced to be stronger. And we will see what happens. But whatever happens, we will grab the opportunities.

Christian Chammas:

Another point which is important that we just don't rely and wait for the market to grow. We have actions and we have to adapt. And there are four ... These three elements which are important. The digital side. We have now a very efficient ERP, and we're plugging in as much as we can in order to expand the digital platform. That is what we're doing. And we started doing it even in 2018. Because we know that will make the difference. Knowing your client better, bringing more of what he wants at the right time, or she wants. That will make the difference at the end of the day. So that's what we work on. And we can see that through loyalty programmes we've launched, that has already started bringing colossal impacts. On the Black Friday, which happened a couple of months ago, we had a spike in sales because of we used loyalty through promotions to attract more. And there was a massive spike of sales.

Christian Chammas:

I mean, it's something we never used to do. But now we do it, because we know better. We have more information on who buys where and when. So that's a strength. The other point which is important is the kerb appeal, i.e. all our partners around food and convenience that are now coming on board and want to work with us more and more, because we've signed quite a few JVs. Well, that will also enhance that offering to our clients at the end of the day.

Christian Chammas:

And we will continue expanding these partnerships, because that brings value to Vivo, to our shareholders, and of course to our clients before that. The markets are attractive, and we see more and more players interested in these markets. So we see increased activity of people, therefore it's challenging. Why not? It's good for us and it keeps us awake. We have new entrants. We have also people who decide now to rebrand completely. Well, they're welcome. We will fight them in the same way as we fight any competition. We will offer better services, better offerings. And we will make sure we're top of the class in the HSSE domains. And we have leading brands, right? Shell, Engen, and all the other partners around us in food and otherwise. And with that we will keep ahead of the competition. And that is the way we do business.

Christian Chammas:

Engen. Well, I can say we're very delighted of this acquisition. It's just 2019, so a 10 month of ownership by Vivo. So that's no major surprises I can say. And progress has been fairly swift. You're talking here of 10 months since in 2019. We have already rebranded 14 sites in Kenya. We've opened in the eight countries. We took over the new countries. We opened 15 new sites. We refreshed as we call it, or gave it a refurbished look to 83 sites. So, a lot of work happened. We changed an important number of teams, be it a country leadership, country leadership teams, or managing directors or even below. Because we knew we had to inject a new blood. And that was basically what we did in Shell. So we did it also in Engen. That is nearly finished. We have I think 20 more jobs to fill in, in the coming weeks.

Christian Chammas:

A big massive change when you realise what the population was. So it's good, because you bring change, you bring new blood, you bring new talent. Basically, it drives that momentum, which is necessary to these new acquisitions. On the commercial side, yes, there are big opportunities in mining, industrials, et cetera, in some countries where their market share are very low. We are working on it. We already won quite a few big tenders, one of which was quite massive. And it will carry on to the end of the first quarter of this year. So that's pleasing to have. But again, at the same time, not only are we building, bringing in new blocks, to the interface. But we've also delivered strong financials. It's good to have as well. So yes, we remain optimistic when it comes to Engen.

Christian Chammas:

So 2019 was good. But we could always do better. It's not the end of the road and end of the story. We can do more. We have to focus on what you see these four areas in 2020, as I talked about earlier. There is a lot of potential in the Engen world. We will unlock it and we'll bring it to Vivo. We've just started, as you saw. The retail volume in the existing businesses was a bit weak as Johan mentioned. Well, it ramped up already in the second half in the last quarter. And that will continue to ramp up, because we have cleaned up the house, as we say. Made sure that the mistakes that happen don't happen again. So that will ensure that it carries on in 2020. The two bottom parts are important. It's the food and convenience offerings, that has to carry on.

Christian Chammas:

That is ultimately in the years to come a big contributor to Vivo Energy. It's already building up. It represents 3% to the pie so early on. Well, which is not insignificant, right? In view of our size. But it will carry on. It will carry on. And we have to push it. And also we need to carry on being ahead of our peers in what I call technology innovation digital, because that is what will make the difference. And I think we have an edge. And we have to push it now to a new frontier every year, every month, every quarter. Things are changing so fast. We have 800,000 customers that visit us every day on our sites. Well, we have to serve them better differently. And to make sure they repeat and repeat, and repeat the visit.

Christian Chammas:

So 2020 in summary, we expect it to be a good year as well, with mid single digit gross cash profit growth. Because that's what we have to deliver to our EBIDTA, our adjusted EBITA. So here we're talking gross cash profit, but that comes all the way down into the profit and loss. But again, that is built on opportunities. We have opportunities in the Engen countries. We have opportunities in the Shell countries. We have opportunities, you never know when it comes to merger and acquisition. One day it will come down our way. Well, we will look at it and if it makes sense, we'll grab it like we did with the Engen opportunity. So it means that we are in a good position, strong position, good platform. And we will build more for the benefit of Vivo, and of course our shareholders. Thank you very much. Right. I pass the microphone back to Giles. Thank you.

Giles Blackham:

Thanks, Christian. Thanks Johan. We're going to move to the Q and A portion of the presentation today. So first of all, can we just see if there's any questions from the room. Nick, over to you first, please.

Nick S.:

Hi guys it's Nick Stefano from Renaissance Capital. Thank you for taking my questions. I have three if I may. The first one is on volumes in March. I know you change your guidance to gross cash profit. I was wondering if we assume a $50 oil price environment, which is where we are right now, we make sense to presume that there might be some upside to margins from deregulated markets, and overall volume upside across their retail business that will more than offset any maybe downside from commercial, because of coronavirus. That's the first one. So one down to Johan. With the fed cutting down interest rates yesterday, do you think that the time might be appropriate to go to debt capital markets in order to readjust your capital structure? And the third one's on lubricants - volumes were a bit weak year over year, because especially in the Shell business. In know that's a market that you had higher aspirations in terms of growth. Obviously that's not the case now. Do you want to maybe speak a bit about that, because I think you guys like volume upside will be quite a potential. Thank you.

Johan Depraetere:

Yes, on the first one, if you look at the slide that Christian presented, deregulated fuel markets are only 20% of our business. So it's not big enough to move the needle. And it's really driven by competitive dynamics in terms of how do we price in a lower oil price environment. And generally we always said, especially given that 20 of our 23 markets are regulated, we actually are not really correlated to the oil price movement. So that's just the first question. Commercial with the virus, we have some aviation and marine business. Aviation is only 4% of our business. So again, we don't see massive exposure there. Well, it's still early on. And Christian can maybe add something on the Coronavirus' potential impact for our business.

Johan Depraetere:

On debt capital markets. Yes. It's something that we continuously monitor. And we'll continue to do. So given that where the market is now, it's something that we looked at before. And all I can say, we continue to monitor that very closely. In lubricants, I think yes, last year was a challenging year. But as we said, it was mostly driven by one of our largest markets. And especially in the B2C segment where we saw a significant drop in the volume. And again, we expect to see recovery in that, and see volume pick up in this year. So I don't know if you want to add something to that? And I hope I answered your questions. Thank you.

Christian Chammas:

The lubricants business... In some of the big markets, and we've got three that are quite significant, it really reacts instantaneously. People are very sensitive to price. And I mean very sensitive. You'd be surprised that the prices don't change that much in the B2C channel. Because the sellers in that channel don't change their price. Even if we change the price, they don't. They keep it constant. Because the little mechanic guy who buys from the dealer or reseller, he doesn't pass that small change even if it's a dollar or a cent, which we think is, "Oh, it's important for us." But for that person, he doesn't want to hear of that. Right? So the price remains fairly constant. So when you have importations for example, from exotic places that come and show a significant drop of pricing, then automatically the cursor just goes, "Boom." Like that.

Christian Chammas:

And you have to fight very hard to keep it. So you have two solutions. You squeeze your margins that you follow. Or you say, "I'm very sorry. I will not squeeze my margins. I will make sure I'll defend." So anyway, so it's a mix of one or two, or three. In one of these countries, which Johan was mentioning. Well, there was a big, big, big, big door opening from importations. Right? And therefore as we are, and we still remained virtue of the market leader in that segment, where we were really hit. And we had to adapt and change our marketing or distribution channels, regroup, et cetera. So there was a lot of hard work that was done in 2019. It was rolled out from early September, 2019. We will see the full benefit in 2020. I was there last week and again we have to tweak it again because there's nothing static. It's changing every day. And now with the barrel at 50, the dollar at whatever, et cetera, all this is moving in all directions and you have to be reactive and change. It's not only a question of saying, "Oh, I'm the best in the world, you will buy me." Well, yeah, at the right price.

Giles Blackham:

Next question, James.

James Hubbard:

Yes. Thanks. James Hubbard from Numis. So thinking about first half this year net debt, all else being equal, is it all about Kenya? Does Kenya now become an 80 million swing factor depending on whether you win or lose the next tender round? So there's that.

James Hubbard:

And then you mentioned the CO_2 emissions. I'm wondering, all the trucks that you use, which I believe are third party, but under your close supervision, do you include the emissions from those trucks in that calculation and...

Christian Chammas:

The trucks, yes. That deliver on our account. Yes. That is the bulk of our emission. So the ERP for example, has brought a massive benefit to all this. Why? Because it has allowed us to become smarter in deliveries, regrouping deliveries with different sites, with different destinations, reducing the kilometres, and making sure that you load the trucks to the maximum.

Christian Chammas:

And we also have now put what I call site automation, which means that we have visibility on the stocks in the site. So you can drop products, make sure that your trucks are full and therefore optimise also the loads. So all that indirectly reduces the kilometres and increases the number of tonnes you deliver per kilometre. So that is positive. And that is why I think I mentioned it, some of the Shell countries whereas the Engen countries, the emissions are actually lower.

Christian Chammas:

So it means what we've brought in from Engen, it means that Shell has been dropping. We need to go further. And that is the work we're doing now and for the next six months basically to say how do we reduce that to a dream of zero in the coming years. And that would be our ambition. But we will talk about it more, as I said, when we announce our results for 2020. Because that would be a plan and it would be a commitment in an annual report and saying this is what we're going to do.

Johan Depraetere:

So on your first question, the simple answer is yes.

James Hubbard:

Oh that's good.

Johan Depraetere:

And maybe to add, given that it does create a lot of noise and doesn't really help us explain the underlying case of the business. So we engage the industry and the regulator to see if we can actually create a level playing field that would reduce the noise.

Johan Depraetere:

Now unfortunately I can't commit that it will happen this year, but we are doing our best effort to find a way to actually create that level playing field this year. So we'll keep you updated on that.

James Hubbard:

And how often are the Kenya tender-

Johan Depraetere:

. Three a month.Depending on the different fuels. So there is many, because it's a big country

James Hubbard:

So large quantities?

Johan Depraetere:

Yes.

James Hubbard:

And it's competitive tendering.

Christian Chammas:

So we answer to the standards for the industry. So we participate. We either win or lose and behind us we get the backing of suppliers. Some of them you've heard of and others you haven't...

James Hubbard:

But essentially you may not win the next one and you may not want to win the next one-

Christian Chammas:

Yes exactly because half of 18 we didn't win much.

James Hubbard:

And if that happens then there's a potential 80 million working capital reversal on the back of that.

Christian Chammas:

Yes exactly. That's exactly what happened.

James Hubbard:

Okay. Thank you.

Johan Depraetere:

We've consistently won a number and that's how we plan, even. That's how every year we sit down and say the Kenya team knows they have to win. And also that they're evaluated on that. Now as I said, it's just a bit cyclical and it's not predictable.

Christian Chammas:

But our objective is not only to win because of the financials, which in brackets; It also brings you an advantage when it comes and you are more competitive in some segments where because we had not been winning, we had to move out. You mentioned resellers and all that. It's good to have access to quantities which are yours and enable you to price them effectively in order to be able to compete in that segment. By being absent you don't have that flexibility. So there are two reasons why we need to be present, but then you're talking here of one sense.

Giles Blackham:

Thanks Christian. Any other questions for the room?

Harry Gowers:

It's Harry Gowers from JP Morgan. Just wondering on your expectations for Shell branded retail volume growth in 20. Will it be the same as 19? And obviously the balance sheet is pretty strong now. So just in terms of M and A, what kind of assets that may be available out there.

Johan Depraetere:

So we going forward we will just guide as Vivo Energy because we believe we are one company now and we have two brands. So we won't distinguish between the two brands, so that gross cash profit line is what Christian mentioned for the whole group. So we actually are stepping away from you disclosing Engen and Shell really the numbers.

Johan Depraetere:

On the balance sheet in M and A, I think as mentioned previously we are actively looking. Engen was our first significant acquisition but it was the first in seven years. So there's no pipeline of 20 deals that we're working on. But it's something, and that's why we also, again to talk about the debt capital markets, but why we keep our flexibility on the balance sheet is if there is something and it's sizeable that we can actually use our balance sheet to go after the acquisition.

Thomas Streeter:

Hi, thank you. Thomas Streeter from Streeter Investment Research. Just a quick one. So I noticed you rebranded some Engen sites in Kenya to Shell. So what was the reason, and would you do that in other countries, and is it just it's a stronger brand or...?

Christian Chammas:

Where we are present as Shell historically through the Shell purchase acquisition, we cannot have two brands. That's the agreement we have with Shell. So automatically we had to rebrand. Okay? So we rebranded the Shell sites. I think there is still a few to be rebranded, no? Maybe-

Johan Depraetere:

Not that many.

Christian Chammas:

Not that many. Okay. So that's one. The Engen countries, there is no obligation. So we considered at this stage that it's good to keep because it's a fairly strong brand in the East and Southeast because of the weight of South Africa and...

Johan Depraetere:

And maybe just to add, we actually have two license agreements. So we have a Shell license agreement and we have an Engen license agreement for the Engen agreement…for the Engen countries and both were initially 15 years.

Thomas Streeter:

So you wouldn't really be changing any more in the future then. So it was just a technicality really?

Johan Depraetere:

Correct.

Thomas Streeter:

Okay. All right. Thank you.

Christian Chammas:

Yeah we'll keep it as is. Yeah.

Giles Blackham:

Questions to the room? If not, shall we go to the line operator. So there's a question please.

Operator:

Thank you. Ladies and gentlemen, if you'd like to ask a question, please press star one on your telephone keypad. Once again, please press star one to ask a question. We will take a question from Nick Coulter of Citi. Please go ahead sir. Your line is open.

Nick Coulter:

Hi. Good morning. Thank you for taking my questions. Two if I may, and apologies they're both financial. Firstly on the dividend. Could I ask if you expect the dividend to grow in line with earnings or indeed slightly ahead in future years. And then secondly on the tax rate, please can I ask regarding the medium term outlook and whether we should expect that tax rate to begin to ameliorate in future years. Thank you.

Johan Depraetere:

Okay. Hi Nick. In terms of the dividend, we've not changing our policy of a minimum 30% payout but progressive and I think the signal we're sending today is that we're confident that we can pay more dividends and it can be progressive so that the 35% pay out is just a reflection of the results. At this point there's no change in policy. But when we will do, we'll come back to you. So the minimum 30% progressive remains in place for now.

Johan Depraetere:

In terms of the tax rate. As I said to my guidance for next year or for this year, we don't see any change in the 39%. We do, given that it is a relatively high tax rate, continue to look at ways to reduce that tax rate and again, we don't give medium term guidance but I guess we will do our best effort to bring that back to a lower number. Having said that, we always said that 35% is the level that we will hopefully reach in the medium term because below that, given a corporate income tax of 28% on average in our jurisdictions plus the tax we pay on our dividends up-streaming which is about on average 7%, that gives you a kind of a minimum of 35%. And we won't be able to really, unless the corporate income taxes start lowering across the continent.

Nick Coulter:

It sounds like that 35 central mid thirties ambition is still very much intact.

Johan Depraetere:

It is intact, but I'm saying is that we don't... I would say for the longer term, yes. The near to medium term, it takes time to bring that down. Because as I said, if Morocco continues with their two and a half percent, exceptional levy, rather than lowering corporate income tax, actually higher income tax and then it will be harder to reach that 35%.

Nick Coulter:

Super. Thank you.

Giles Blackham:

Thanks Nick.

Operator:

Thank you. We take our next question from Terra Partners Asset Management, Admire Mavolwane. Please go ahead.

Admire Mavolwane:

Yes, thank you for taking my questions. The first question refers to Ghana. I might have missed it but I just wanted to try and understand what factors could be actually contributing to the lower volumes and is that only view or also own market? And the second question I would like to be Morocco competition inquiry, if there's any update and what can the expectation in terms of the direction the market will take. Will the government reinstate regulated prices?

Johan Depraetere:

Yes. Thank you for the questions. I'll take the first one and Christian will talk about Morocco. So in Ghana what we mentioned is that, just like we did in Uganda in the first half of 19, we went for maximising our gross cash profit and we mentioned price leadership in the presentation. So actually we are willing to capture that extra margin and sacrifice a bit more volume because it allows us to really maximise the top line. And so that's why we're saying we are the market leader in Ghana, which is a deregulated market. And so that is the reason of the negative volume growth in retail.

Christian Chammas:

Okay. Thank you. I have to separate two issues because you mentioned prices and regulation and then the competition board. The price issue which was in 2018 was an action by government following social media, whatever, pressure on a fewer players and therefore there was a lot of noise about regulation and whatever. That is behind us because the government received a position paper from the competition council actually on that saying there is a law in place, you have to abide by it and all the players have to abide by it. And they said that, so we moved on. And that is behind us for the time being and this hasn't been reopened since then. So it goes back to middle or early 2019.

Christian Chammas:

The second issue is the competition council. The competition council launched an inquiry towards all the industry players, which was more than a year ago, and they have investigated practices. And they came back to us with a certain number of issues and we came out with a statement in January on that matter. As of today there is nothing new compared to that information we gave you in January. So we are still in that modus operandi or that status quo and if there's anything new, believe me, we will come to you and give you the latest update. That's all I can say. Thank you.

Admire Mavolwane:

Okay. And then two more questions. Engen. How much did you spend in terms of refurbishment of the opening of the new outlets? And how much do you expect to spend going forward from the refurbishment?

Admire Mavolwane:

The second question refers to the major shareholder, Vitol Group. In your assessment does some of the negative press that comes out of that invite affect the share price when you look at it? And how does it affect your relationships with governments and other players?

Johan Depraetere:

Okay. On your first question, we actually don't disclose the granularity of our capex spend by refurbishment of Engen and growth. So the 150 to 160 covers the whole portfolio. And Vitol, Christian-

Christian Chammas:

Vitol is one of our shareholders. If you have any questions, please address them to Vitol. It's not for me to comment on any shareholder in these forums or any other forum.

Giles Blackham:

Thanks Christian and Johan.

Admire Mavolwane:

Okay. On the question of Engen, we just wanted the value of how much more you're going to spend after acquiring.

Johan Depraetere:

I think the shining, the 80 sites we refurbished, that's now finished. So the growth capex will be again spread between Engen and Shell and the sites again is for the group. So as I said earlier, we look at it as we are Vivo Energy and we trade under two brands and we will make sure that we will drive performance across the board. And that's how we look at the business.

Christian Chammas:

It's a question of opportunity and growth. You know we cannot segment and say we will only spend so much on this one and so much on that one. If there are opportunities that by far outstrip what you see on the other side, well you will put your money. Because it's a question of timing and speed and efficiency. So that is how we manage it. And if Engen is faster or, sorry, the opportunities in Engen countries are faster, then so be it. We will spend faster there. But then there is no year that looks like the other one. So that's why we keep it as a 100% sum and we are located depending on opportunities and we commit ourselves to do a minimum of 80 to a hundred sites per annum. That is our contract with you.

Admire Mavolwane:

Okay. Thank you.

Giles Blackham:

Thank you very much and I think that's all of our questions from the line unless there's anything else that's appeared in the room, I think we should call it a wrap here. And thank you very much everyone who's dialled in and attended. And to Christian and Johan we look forward to speaking to you in the not too distant future. Thank you.

Christian Chammas:

Thank you.

Johan Depraetere:

Thank you.