

Vivo Energy plc

Q1 2020 Trading call

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Transcript

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## **Giles Blackham (Giles) – Head of Investor Relations**

Good morning, everybody. Thank you for joining us for our call this morning and thank you for your patience, as we've worked through the technical issues to get everyone on the line. I think there's been a glut of calls this morning at 9:00 a.m., which has led to a big backlog. So hopefully everyone is now on the line and apologies again for that.

Giles:

As you know, we put our results out this morning. We have also added some slides to our website, to provide a little bit of extra context to the situation in our markets. But the plan for the call this morning is just to run through some short comments from Christian and Johan, before opening up the lines for questions.

Giles:

Given the current circumstances, Christian, Johan and I are all in different locations. So please do bear with us over the course of the call, in case of any logistical issues. We will do our best to make it work as smoothly as possible.

Giles:

With that, I'm going to hand over now to Christian. Christian?

## **Christian Chammas (Christian) - CEO:**

Thank you, Giles. Good morning, everyone. I want to say, and just start by saying how proud I am of what our teams are doing and how they have reacted to the new circumstances brought by coronavirus. Our first priority will always be our people, the families, and our customers, and we have taken quick and decisive action across the business to protect these stakeholders.

Christian:

From the end of January, before the virus started to spread, we imposed a restriction on travel across our business. And at all times, we have been actively monitoring the situation and following the advice and direction of both the World Health Organisation, as well as government and public health authorities across our markets.

Christian:

We quickly activated a range of business continuity plans across our business and have provided the required PPE equipment to those that need it. As a decentralized organisation with virtual central teams, we are all set up very well in this function to work remotely, and where possible, we have staff working from home or on shifts to minimize the risk to them.

Christian:

From the beginning, we started holding weekly executive meetings, so that we can address issue and challenges in a timely matter and try to anticipate what might happen. We have also seen an immediate return on our investment into the ERP system and technology platform, as we have been able to create daily reporting dashboards, to have real-time reporting of the trends across the business, including from our automated sites. This wouldn't have been possible a year ago.

Christian:

Before we go into the details of our performance, it is worth some context. Governments in Africa acted at around the same time as those in Europe to restrict movements, even though the virus arrived in Africa considerably later. This has meant today that there is less than 15,000 confirmed cases in our 23 operating countries. There is clearly less testing taking place than in Europe, but there has been just 376 deaths reported to date, according to John Hopkins, across countries with a combined population similar to the EU, which has had over 100,000 deaths.

Christian:

Looking at Vivo specifically, we have had just six confirmed cases amongst our 4,500 employees and dealers. This doesn't mean there hasn't been an impact on our countries. And given where we operate, we have had an even bigger responsibility to our communities.

Christian:

Each of our teams in our operating countries have played their part in supporting the response. Whether it is by helping health workers, governments, local NGOs or individuals, we have committed 100% of this year's community budget to provide support in our host countries. We have made significant donations to help organisations, as well as initiatives, having ranged from the provision of food, sanitizers, medical supplies, as well as fuel for key workers.

Christian:

We've also provided support for e-learning in some countries where schools are closed. We have blended hand sanitizers for the Kenyan government and amongst the range of initiatives in Morocco, we are funding the production of 400 ventilators in the country. As we continue to strive to become Africa's most respected energy company, we have made sure that we are doing the right thing and bring our help to the countries in which we live.

Christian:

Moving to our first quarter performance, we delivered \$179 million of gross cash profit, which was 6% higher than last year. These figures don't tell the full story. As we saw gross cash profit grew by over 20% in the first two months of the year, with strong volumes, due to the benefit from additional months in countries compared to last year and improved retail volumes in share markets, as well as strong margins.

Christian:

We saw very little impact from the coronavirus in the first two months, but it was only in the last two weeks of March, that volumes fell. As countries implemented measures to stop the virus from spreading, we also had lower margins in March. Due to the fall in demand and the valuations of stock held at that time.

Christian:

It was a good start, but we have now adapted to the different operating environment with an imposition of restrictions on movement in our operating countries, meaning that fuel volumes in April are running at about half of expected levels. The restrictions vary by country, but there are three broad groups.

Christian:

The smallest group of countries, including Tanzania, Zambia, and Mozambique have imposed a range of social distancing measures, with schools shut and mass gatherings banned. The second group of 10 countries, including Kenya, Senegal and Côte d'Ivoire have social distancing in place, but have also imposed either overnight curfew or partial lockdowns, including restrictions on travel in and out of major cities. Also, these groups have seen volumes fall by around a third, with significant variability in each country.

Christian:

The final nine countries, including Morocco, Tunisia, Uganda and Mauritius have had full lockdowns in place for all of April. In these countries, we have seen volumes fall by more than 50% on average. And because the group contains countries that are large volume contributors to the group, this has brought the group average down.

Christian:

The lockdowns currently run until at least early May, with Morocco's running until 20th of May, but they may well be extended depending on the circumstances. We do not expect volumes to stay at this level, and it will depend on the restrictions remaining in place in the coming weeks and months. Ghana, for example, imposed restrictions on movement in its major cities through the first three weeks of April, but relaxed those 10 days ago. And we have seen a pick-up in volumes since, but the overall situation continues to evolve.

Christian:

One important step we are taking is to support our forecourt dealers and transporters to help them while they feel the impact of the lower volumes. We want to ensure that the frontline employee pump attendants and truck drivers are kept safe, supported and are still employed when we come out the other side of this.

Christian:

We've also worked with dealers to quickly adapt the sites by adding hand washing stations, distance markers and limiting the number of people in shops at any one time, as well as adapting the ranges we sell in our shops. We don't know what the future holds and what impacts the virus will have, but we are an agile and innovative business and have already adapted to the new reality.

Christian:

We will be ready for when the restrictions are relaxed and when demand increases, we'll be there to supply it. I will now hand over to Johan to talk you through some of the financial elements. Thank you.

**Johan Depratere (Johan) - CFO:**

Thank you Christian, and good morning everyone.

I want to start by reminding people that we run a thriving business. We have only 2 700 employees for a business that sold over 10 billion litres of fuel last year, and our EBITDA margin calculated against gross profit, which is effectively our revenue line, was around 58% in 2019. We keep costs tight so that we benefit from the operating leverage as we grow volumes. Unfortunately, in times like this, this works

against us as a majority of our costs below the gross cash profit line on the P&L are fixed. However, there are areas we've been able to manage the expenditure. We have paused all spending on uncommitted marketing and CAPEX. We're not committing to cuts in these areas, but will reduce spend in Quarter 2, and it's clearly too early to quantify the impact on the full year.

Johan:

Where we have been able to take significant action has been on the supply of fuels. As fuel is not on demand in Africa, we normally run around 20 days of inventories to ensure supply for our customers. This varies by country, but supply chain can be anything up to two months long for countries like Uganda. When demand then drops dramatically, we cannot reduce inventory levels overnight and have to work with our suppliers to bring them back into balance. We've been successful in cancelling or deferring around 75% of shipments for Quarter 2 and expect inventory levels to normalize in May and June. The higher inventory levels have had a couple of side effects. One is on working capital, and the other one is as Christian mentioned, is the value of our stocks.

Johan:

We always say that we are agnostic to the oil price, and that remains true. Our underlining margin is unrelated to the oil price, and is a fixed amount per litre in local currency in our 20 regulated markets. Just to remind you, it's not a percentage of the pump price. However, due to the simultaneous shock to both oil price and demand, there has been a bigger than normal impact on the revaluation of our stocks, which may create a short term impact on reported margins at the end of the period. As you would expect, we're also monitoring our credit exposure carefully, as this is managed on a daily basis. It's an area we've always placed great focus on because of the value of the products we sell, and we'll continue to do so. During the last four weeks, we have seen an increase in over dues, but we have not seen any impact on defaults.

Johan:

Moving on to our balance sheet. We continue to have access to significant liquidity and are well capitalised. We had available short term resources amounting to a total of \$1.6 billion at the end of March. Due to the operating locations and our decentralised model, each of the countries are normally self-funding and have their own local facilities designed to support their working capital needs. At the end of March, these local undrawn facilities amounted to \$1 billion in aggregate, with around 30% of our total facilities utilised. We've seen an increase in utilisation during April, but due to the reduced orders we are placing for supply, we would expect this to improve in May, and we remain comfortable with the headroom we have in all our countries.

Johan:

In terms of commitments for long term debt of \$369 million, which matures at the end at the end of 2022, and which all sits at the holdco. We have principal re-payments of \$82 million due this year. These will be covered from cash on hand already at the holdco, and we have over \$235 million of capacity in our corporate revolving credit facility to provide additional flexibility for the group if required in due course. Also now, the market is focused on covenants. Ours are tested twice a year on a trailing 12 month basis, and we see no issues for our trading levels for the midyear test.

Johan:

Finally, given the current impact on fuel volumes and uncertainty as to how long this will continue, we have taken the decision to no longer recommend the payment of the final year dividend. We do recognise the importance of dividends to shareholders and will consider paying additional dividends when there's more clarity around the outlook. I will now hand it back to Christian who will provide a quick summary before we move to Q&A. Thank you.

Christian:

Thank you, Johan. In conclusion, as you all will know by now, Vivo is a fast and agile business, and we have taken action to adapt our business to the current reality. We have operated through difficult times before in Africa. It is a resilient continent that will bounce back with fuel being an essential part of that recovery. Today, we are doing what we need to protect our people, our business, and our longer term strategy remains unchanged.

Christian:

We believe in the potential from our new Engen countries. We believe the expansion of our non-fuel offerings at our site will bear fruit. We believe that we have a premium brand on the continent that will enable us to drive growth over time. And finally, we believe that our investment in technology will set us apart from competition. We have been careful to maintain a strong balance sheet and access to liquidity over time, which will enable us to manage through this crisis, and we will be ready when our markets reopen.

Christian:

Thank you very much. I will hand over now to Giles for the Q&A.

Giles:

Thanks Christian. Thanks Johan. Operator, please see if there are any questions on the line?

Operator:

Yes, thank you.

Operator:

As a reminder, please press "\*1" to ask a question. And we will now take our first question. Please, go ahead Alexander Mees from JP Morgan.

Alexander Mees:

Good morning, gentlemen. Thanks for taking the call. Three questions, please. Just firstly, on your retail site. Are they all open at the moment, or if they are closed, can you say who makes the decision to close, whether it's you, the country manager or the site manager themselves? Secondly, I believe 20 of your 23 markets are all imported. So, I wonder if you think the low price of crude now will actually lead to additional demand for fuel into the future. And thirdly, obviously a very good start to the year in January and February. Can you just confirm that Shell branded volumes that perform strongly as well in that period? Thank you.

Christian:

Okay. Your first question on our sites being open. Yes, our sites are open. Obviously, if there's a curfew they're impacted. But when the government or the local authorities do not put any constraints, they are open to sell food. The shops have restrictions. I'm talking here, food or otherwise because of people moving within the shops. But, they are open as well. The decision is for all the COCOs and the CODOS is ours. In the case of the DODOs, they also have to comply with the opening hours because that is part of the contract.

Christian:

The second point was about supply, no, if I'm not mistaken? Johan?

Alexander Mees:

Yeah. So, the question...

Johan:

Demand. So, I think...

Christian:

Yeah.

Johan:

Yeah, the lower price impact on demand.

Christian:

Yeah. Don't forget that the prices are regulated in 20 out of 23 countries. So, depending on when the government decide to drop the price in order to adjust it to the new procurement cost, vis-a-vis, the barrel, that could be an impact. And of course, you see it all over the world, there could be an impact. For the time being, a few governments have dropped the prices, but not all of them. There are no subsidies in the majority of the countries, bar one, if I'm not mistaken. So, the prices are the reality, bar tax on there. So, we should see a return to demand. But, the continent is so reliant on energy for movement, for transport, for energy production and consumption that that is the driver. And if it's cheaper, well, it'll probably drive it even better.

Christian:

And finally, Johan, I think it was for you.

Johan:

So yes, Alex, the simple answer is yes, we seen a recovery in the Shell, especially Shell retail volumes to previous levels. So that's why we were very excited about the first two months.

Alexander Mees:

Excellent. Thank you. And well done for your efforts so far.

Christian:

Thank you.

Johan:

Thank you.

Operator:

Ladies and gentlemen, we will now take our next question from James Hubbard. Please go ahead.

James Hubbard (Numis):

All right, thank you. Just two questions. I think, it'd be useful if you could just take us through at a high level through the P&L impact and the cash flow impact from potentially having been bought at a maybe at a high oil price, and then potentially being sold at a lower one. I get a lot of questions on that, and it would quite useful to get it from the horse's mouth. And then secondly, Christian, you mentioned that Ghana came out of restrictions 10 days ago. Maybe it's too early to say, but I'm just wondering what scale of demand recovery have you seen over the ensuing 10 days? Thank you, in Ghana, that is.

Christian:

Okay. Johan?

Johan:

Yes. So actually the last comment Christian made, this is probably the best place to start. As he said, some government's actually, based on lower oil price have reduced the pump price and have changed the pricing formula where the input cost of product will have come down. Now, normally in our case, it's not an issue. Having said that, with the drop in demand, we actually have, call it some extra inventory that is sitting there. And that is part of the previous pricing formula. So that's where we would see a hit on margins.

Johan:

Now it's very difficult to quantify and given that it's a really kind of a moving target. We do a NRV, net realisable value at month end closing to see what that could be. But it's expected that once these inventories are sold down, that impact will then be removed. And especially now with oil price coming up again, in other words, we don't expect it to be material is really where we see it. So this is kind of the high level answer to that question.

James Hubbard:

Okay.

Johan:

And it also impacts clearly the deregulated markets where you have competitive pressures. And depending on what competition does, you might have to follow faster than you would normally do.

Christian:

Right. On Ghana, they went out of lockdown on the 20th, which was early this week, or last week, kind of. Anyway, 10 days ago. Yes, we have seen a ramp up of volume, but it is not at motorway speed. It is a gradual ramp up. I guess, at the end of this week and beginning of this week, we'll have a better idea. But yes, it is going back to business.

Christian:

We don't expect everywhere to ramp up at 100 miles an hour, okay? It is going to be a gradual process and we are using Ghana as a test case. And then we'll adapt the measures that we will put in place, the offering, be it through shops, through layout and whatever, to make sure that we capture as much as we can. But we are ready to go for it in any case.

James Hubbard:

Okay. Thank you.

Operator:

Thank you. We will now take our next question. Please go ahead, Martin Boeris.

Martin Boeris (Exane BNP Paribas):

Yes. So good morning. I have two questions please. First, group unit margins was on quarter on quarter, could you detail the impact of lower volumes on your unit margins, not only regarding the absorption of fixed cost like storage? Second question, what payment conditions do you have with your suppliers? Is there a risk we could see a significant working cap outflow because of the reduction in your payables this year? Thank you.

Johan:

So I think, maybe start with the second question. Yeah, second question is answer is no. I mean, I think, yes, we've seen a pick up recently in our working capital just because of the misalignment of stocks with supply and demand. So but as I said, we've been able to quickly adjust that and adjust 75% of supplies for quarter two. So that should normalise the working capital going forward. So there's no issue there.

Johan:

And I think the actual, the margin that you see quarter on quarter, the main impact actually has been the stock effects that we talked about, rather than the fixed cost element, because volume yes, was down but not as much as the impact of the stocks. And that's going back to James, your question, you can see that, a bit of impact there already in our margin. And then, so in other words, the impact, yes, is not material from the fixed costs for first quarter.

Martin Boeris:

Okay. And then just in terms of payables, so your suppliers are quite accommodate, I would say?

Johan:

Right.

Martin Boeris:

You are able to pay.

Johan:

Yes, we've not seen any change there.

Martin Boeris:

Okay.

Operator:

Thank you. Ladies and gentlemen, as a reminder, please press star one to ask a question. And we will now take our next question from Nik, Renaissance Capital. Thank you.

Nik Stefano (Renaissance Capital)

Right, guys. And thank you for taking my question. Nick Stefano, Renaissance Capital. And I've got three questions to ask. I'm going to start with the first one. I know it's the hard question, but would you maybe give me an idea of what kind of like working capital movement you're going to see this year? Is it going to be like 100 million built up or something like 300 million? I know it's very difficult to predict, but what is it about you're thinking? Well, say there are moving parts. We've got Kenya. We've got payables, inventory movement. So I just want to get a rough idea of what you guys are thinking.

Nik Stefano:

Then my second question is more it's about the volumes post this crisis. I presume that a lot of the dealers, some of the dealers in some sites might go out of business. And what happens then? Is it like the contract is, or the deal is with you? So what will happen to that site later on? Is it a case of you're going to maybe have no workings for about a year until someone takes over the site? How should I be thinking about it then potentially passing volume?

Nik Stefano:

And then finally, on your strategy and liquidity, you're taking the prudent decision to remove the dividend. Obviously you've got a very strong balance sheet, lots of liquidity, low leverage. How should I be thinking about potential opportunities that might arise towards the end of the year when we might have more clarity maybe in terms of M&A or how you might prioritise it? Thank you.

Christian:

Okay. Johann, you want the first and the last one, and I'll take the one on the dealers and volumes.

Johan:

Yes, yes. Thanks Nick. So I think just to remind everybody, our model is based on structural negative working capital. So we don't see any change in that. And yes, we have a disruption right now, but that's a very temporary disruption in our view.

Johan:

Secondly, the lower oil price actually will help us. So, the values we have in stocks will kind of reduce our stocks, will also reduce our payables and eventually, but we'll see that impact as well in terms of dollars values. And then as you said, we are structural negative, but we have these timing effects and you could see them very clearly last year, when in the first half, and especially coming from Kenya, we had quite a build-up in working capital. Then at the end of the year, we actually had a massive reduction in our

working capital. So again, especially some of these bigger countries will continue to show these movements.

Johan:

So we basically don't see any structural changes. And as you said, it's almost impossible, because if we win tenders in Kenya going forward, that will help us. And we always have that in our plan as well. So that's the one on the working capital. Christian, you want to answer the one on the dealers?

Christian:

Yeah. So as a reminder to all of you, 65% of our sites are either company owned or company owned, dealer operated. So in the case of company owned, company operated, there is no issues there. We operate it ourselves. In the second case where it's a company owned site and dealer operated, if there's any issue, any default on the part of the dealer, we take over the site overnight and the following morning, we have somebody in place. And we put in place, the necessary working capital to restart the operations.

Christian:

But in any case, we monitor all these sites on a daily basis so we know exactly what is going on. We know the cash. We know the stocks and therefore it doesn't come as a surprise. We organise ourselves so there is no discontinuity in our core sales from us to the site or from the site to our clients.

Christian:

So these are what I would call the 65%. The remaining ones, which are 35%, which are dealer owned, dealer operated, if there is a liquidity issue or a default issue or an uncomfortable situation, we will propose to take over, right, on a temporary basis. And that again, could happen very fast. So we're quite confident that in this circumstance, it is more opportunistic than otherwise, right, because we have the capacity to take over. You can see from our liquidity across our different new or used. We will not hesitate to use that as an opportunity. Thank you.

Nik Stefano:

Just to clarify that, then it could be a case where your COCO and CODO mix might increase as sort of like a result of potential-

Christian:

Yeah, on a temporary basis. Yeah, on a temporary basis, on a temporary basis, because you are, in the case of a DODO, you're a caretaker until such a time when we either take it over fully and it becomes a CODO or the partner finds somebody else to bring finance, or he finds finance with a bank and recovers. So it's a temporary measure when it comes to the DODOs. But yeah, it could be, as I said, an opportunity for us to take over sites.

Nik Stefano:

Okay. And the last question on strategy and other opportunities, will it be mostly related to this, or maybe other M&A?

Christian:

No, no. Yeah, this is the retail side. Of course, we remain open to business when it comes to opportunities, be it in the existing countries and outside of the country. And we are still on quite a few opportunities and I'm not talking of big merger and acquisition. I'm talking of local opportunities. And when the situation normalises and we can see and have a bit more clarity, yes, we will go after these opportunities. And in my opinion, it is the right environment for us to go after opportunities because we have liquidity. There is opportunity with some operators and of course, we will be ready to go after these opportunities.

Nik Stefano:

Thank you so much. That was very clear.

Christian:

Thank you.

Johan:

Okay. Yeah, sure.

Speaker 2:

Thanks. Johan?

Johan:

Yeah. No, I think just to add that right now, clearly, we're exploring, we're looking but given the uncertainty, cash is king, and-

Christian:

We're not doing.

Johan:

... and once... Yes, we're not doing anything. We're not spending just to be very clear. That's also hence the different decision. But we are clearly strong, and hopefully we'll have this soon behind us. Nobody knows.

Nik Stefano:

Thank you.

Operator:

Thank you. Ladies and gentlemen, we will now take our next question from Simon Irwin, Credit Suisse. Please go ahead.

Simon Irwin (Credit Suisse):

Good morning, gentlemen. Most of my questions have been answered, just one quick one, which relates to this year's openings. Typically, how far out is the gap between you kind of committing to a

new opening and actually achieving it? Will you be looking to push these out, or is it more down to kind of presumably being a little bit more cautious about taking on new sites for opening later in the year?

Christian:

Before we went into the lockdown situation for January, February and probably March, there was quite a few projects in progress. So we have not stopped these. Everything that was launched is in progress, albeit at a smaller pace because activity is not the same everywhere. We have quite a few projects in hand at licensing phase or pre-construction phase. And we will revert back to business when, as we have been saying since this morning, when more clarity appears. It is obvious that if business starts ramping up in the next five, six weeks, we will not miss on opportunities, be it grassroots or by acquisition or by whatever other mode. As long as the return is there and the cash is there, we will go for it. And that is what I want to say.

Christian:

Will we be able to hit the promise of, I don't know how many sites... How many sites have we promised? Although the guidelines have been removed, but it was about 80 to 100 sites, if I'm not mistaken. Of course, we'll strive to do it. We would have lost maybe two months of work, but we will accelerate the moment we can.

Simon Irwin:

Great. Thank you very much.

Operator:

Ladies and gentlemen, that will conclude today's Q&A session. I would now like to hand back to the speaker for any additional or closing remarks.

Giles:

Thank you very much, everybody. Thank you, Christian, Johan, and everyone for dialling in and the questions. Good luck. And we look forward to speaking to you all soon. Thank you.

Christian:

Thank you very much. Bye-bye.

Johan:

Thank you. Bye-bye.