



Vivo Energy Q3 Trading Update 2018

Thursday, 25th October 2018

Introduction

Giles Blackham

Head of Investor Relations, Vivo Energy plc

Welcome

Thank you very much everyone for dialling in this morning. With me I have Johan Depraetere in the room in London and our CEO, Christian Chammas, is currently in Senegal so is dialling in from there. Hopefully we will manage to get through this without any technical hitches but please bear with us if that does happen. The plan for the call is to run through the key messages from the trading update we put out this morning and then open up the lines for Q&A. With that, Christian, I will hand over to you.

Trading Update

Christian Chammas

Chief Executive Officer, Vivo Energy plc

Good morning everybody. Nice to be online with all of you from sunny Dakar. Well, dusty and cloudy Dakar, sorry. A few messages for your governance. Overall we continued to deliver growth and build the scale across our business. That is good to have. We were very pleased and we confirm it that the restructuring of the Engen transaction will bring the next chapter of growth with operations in eight new countries and will increase our access to over 425 million population across Africa from 1st March. That is also very good news. We now expect to deliver more than our targeted retail site openings this year. We had indicated about 80 and we are now quite confident we will do better.

The importance is that we always focus on an annual performance. It is very difficult to compare quarter-on-quarter. There is so much noise between one quarter and the other one. When we come back and give you the outlook for 2018 in a couple of months we will be more comfortable to compare. Some years will be stronger than others and some markets will be different but overall we know and we feel confident that we have managed that over the last seven years so we will continue doing that.

We will continue to deliver a strong financial performance and in 2018 you will see it. That will be underpinned of course by volume growth, good margins and we will deliver that against the medium-term guidance set out at IPO. We will not be far out. We are ahead of plan when it comes to expansion of our business, be it in Retail or otherwise. Engen will bring more, as I said earlier on, and we will show that the Retail network business will have grown by about 15% compared to the beginning of 2018. That is good to have. I am talking here of Retail side.

Finally, the opportunities are still there. We are still excited about the continent and we are still focusing on it, as you all very well know. These are the key messages. I am now open to receive questions. I will answer them and Johan will take some as well when necessary. Jake, for you to ask who wants to shoot first. Thank you.

Q&A

Alexander Mees (JP Morgan): Good morning Christian, good morning Johan. I have three questions, please. The first one with regard to Retail volume growth in the quarter, I wonder if you are able to estimate what it would have been if you exclude Kenya, Uganda and Cote d'Ivoire.

Also, I know it is difficult to extrapolate from one quarter but I am wondering if the target for 6-7% growth in Retail volumes is still valid.

Christian Chammas: Johan, do you have the precise figures?

Johan Depraetere (Chief Financial Officer, Vivo Energy plc): I do not have them in front of me, no. We do not like to get into the details on a country but clearly the number would be higher and would be, I would say probably closer to the guidance that we gave at IPO.

Christian Chammas: Kenya puts issues on pipeline delivery or commissioning. The pipeline fill, or cent[?] share[?] of the pipeline fill impacted Kenya and Uganda significantly. That is behind us, I have to say. Kenya and Uganda are both important contributors to our business so that is behind us since the beginning of September. That is very good news. The Ivory Coast issue with the refinery that caught fire, that will continue. The country is now importing product but in parallel they had a damaged jetty in Abidjan so of course that limited supply. I think that will continue till the end of the year and probably early next year. However, it is smaller in the equation but all that impacted us, as you have rightly said. We would have been probably very close to the guidance.

Alexander Mees: Excellent, thank you. Secondly in terms of Commercial, obviously a great performance in the quarter. I think at the start of the year we were expecting volumes for 2018 in Commercial to be flat. What has changed over the course of the year to mean it is so much better than that?

Christian Chammas: First of all, the market is growing in quite a few countries. Aviation business is doing very well and we have won quite a few tenders so that is good news as well. Our marine business is delivering also. We have got a fair share or even a bigger share of the cake than we expected. We were prudent, I guess, and we are doing a lot better. That is the overall story, three reasons why it is doing better.

Alexander Mees: Terrific. Finally with regard to everyone's favourite topic, Morocco. I was wondering if you have had any further dialogue with the government recently, whether that debate has moved forward at all.

Christian Chammas: No, no. As I said last time, the company locally has not talked to government since June last year. There has been no discussion, no debate. The finance bill is out for the coming year for the country. There is no indication of any change of the environment when it comes to our business. They do not plan to put any subsidies which would have maybe indicated a change in their policy. It is business as usual. Basically we auto-regulate, as I said, a bit more effectively than we used to, to be more sensible citizens. With the barrel going down I guess that is an opportunity to see prices drop and maybe a return to better margins.

Martin Boéris (Exane): Good morning gentlemen. I have three questions, two on Morocco and one on network expansion. On Morocco, what was your Retail volume growth in the first nine months of 2018, and could you tell us a bit more on the magnitude of the decline in your Retail unit margin?

Regarding network expansion, you said that you expect to exceed your target of 80 new retail stations this year. What number do you think you will reach this year and could you tell us in which countries are you mostly expanding at the moment? Thank you.

Christian Chammas: As you know very well, we do not give country-by-country details of volume growth or whatever. There has been good growth in Retail, obviously higher than the overall but that is all I can say. When it comes to the margins, as you can see, our overall margins have been affected but not dramatically. In the last three months people were indicating there would be a serious impact to our overall margins. There has been but it is not a big bang as people expected. We have shown resilience in Morocco through other businesses. We have shown resilience overall in other countries. Even though we have been hit by supply constraints and issues in Kenya, Uganda and Cote d'Ivoire. All that enabled us still to show good growth and also margins that have resisted. The currencies showed resilience, the margin showed resilience and our business has gone through that.

Yes, we will exceed our indications of 80 sites for this year and when we come back to report on the annual results we will give you the precise figures because they will be more precise.

Stuart McGuire (Credit Suisse): Good morning gentlemen, three questions from me. On the supply issues can you confirm that you actually had retail stock-outs at petrol stations in those three countries and whether there is additional perhaps infrastructure or storage that you could be instituting to ensure that does not happen in the future?

Christian Chammas: One has to be clear for the case of Kenya, Uganda and Cote d'Ivoire. In these three there was supply disruption. It had nothing to do with our own logistics. In Kenya there was a pipeline under construction. It was delayed and therefore you had constraint on the amount of quantities you could get. It was outside of our management. When we did get quantities allocated to us through the pipeline they were below our fair share. The three major companies in Kenya which are Vivo, Total and KenolKobil, did not get what they should have got and I do not want to expand on that. Finally, that created a shortfall in what you could sell. We did not have problems on our side as such. It was more the supply logistic aspect which is not in our hands unfortunately. That is the story.

Cote d'Ivoire it was different. It is the refinery that caught fire. There was a constraint on supply of gasoline and they had to import. On top of that unluckily for them the jetty that receives these products was damaged so automatically we had again a shortfall in the quantities which we could sell. That has impacted us and is still continuing to impact. However, Cote d'Ivoire being a smaller contributor to the overall equation will be not as impacting as the other two. However, Kenya and Uganda are fixed.

Stuart McGuire: Okay, thank you. My second question is related to the Cote d'Ivoire, albeit small. Does the supply cost change for you given the constraints? I am trying to get at whether there is an impact on margins perhaps.

Christian Chammas: You know we buy all our products from the refinery that has a monopoly in Cote d'Ivoire and therefore it is their obligation to supply us the quantities at the fixed price for the period. If they have an additional cost it is their problem. It is not our problem so my procurement cost does not change.

Stuart McGuire: Okay, great, thank you. Finally on the DRC, has there been any movement there in perhaps trying to get the government on side and incorporate that into the acquisition of Engen?

Christian Chammas: You know we did a carve out and today there are eight new countries coming on board on 1st March and that is being rolled out. DRC is put on hold for now. It is in the hands of Engen. We are not on it as such because it is really their mandate to try and see if they can progress the matter. If they do find a positive solution and they bring it over we will look at it.

Andy Gboka (Bellevue): Good morning everybody. Thank you very much for the call. I have a couple of questions. The first one is on Morocco. To understand the consumers' reaction, I think most retailers increased prices maybe ten days ago. How do you feel about that increase? How is it going down with the consumers? Are they okay or do you feel that people are getting a bit nervous again? Also, do you think that this may also have an impact on consumption there?

The second question, still on Morocco, I know you guys cannot disclose too much on margins and everything but I wanted to understand with the price increase that you implemented earlier this month, do you think that you have a reasonable headroom to keep your margins above the level they were at before the liberalisation? Do you think that we may see margins coming down to that level despite the price increase?

The third question I have is on your cash and debt. Can you disclose the level of debt that you have as of September 2018 and also cash please?

Christian Chammas: Morocco is the favourite topic. Prices go up and down. Primarily when you do price increases, we have to be clear, you are trying to ensure that the variation in the barrel is reflected and that is what we do basically every two weeks. The last increase at the beginning of last week was basically an increase to reflect what had happened the previous period on the barrel. It went up and it actually was the first time that it went up above the 10 MAD which is something that was in the mind of everybody €1 or \$1. This was just over 10 MAD in gas oil. When prices go up anywhere in the world nobody is happy so of course there was noise but you did not have street noise. It is normal. Next week with a bit of luck we will see prices going down because the barrel has since then moved down and from Monday of the coming week or thereabouts prices will go down, probably by the same amplitude as by how much it had gone up last week. That will be a positive element and we will talk about it of course. We will make sure that people talk about it, 'Look, the price has now come down.'

When it comes to the margin itself every time you have these ups and downs when you go up you obviously cannot add on. It is very difficult. However, when it comes down you try and recover a bit. It is not a question of happening week by week. It would take a few months to reconstitute our margin. When you see the results we have announced we have shown

resilience. Yes, Morocco's margins have been impacted but overall, be it in Morocco or at Group level, we have resisted very well. I guess we can live with that.

Andy Gboka: Actually to follow up on that, earlier in the call you mentioned that you were quite resilient in Morocco. You got a hit but it was not as bad as people feared. My point is just to understand, do you think that your margins with the prices today can go closer to the level we had prior to the liberalisation back in 2015?

Christian Chammas: The margins prior to liberalisation were lower than what they were a couple of months ago so the idea is to improve our margins all the time. Today the margins are what they are and hopefully with time we will be able to increase our margins and to improve the Group's overall margin. That is our mandate. I cannot go into too much detail.

Johan Depraetere: This is a trading update so we do not disclose any cash or debt and I can just refer back to the first-half results where net debt stood at \$295m, which was 1.0x EBITDA coverage. Nothing further to add there.

Vik Sharma (RMB Morgan Stanley): [Inaudible] oil prices moving up, apart from the resilient performance. I wanted to know if there are some instances where we have actually seen a slowdown or has there been any kind of demand destruction because oil closed at \$75 or \$80 a barrel?

Christian Chammas: I think we have already answered that but I will answer it again. The markets are really demand-orientated. When you get supply destruction it really hits you. The demand is such that there is today such a drive to have more than the barrel, yes, it is important but you have no choice. This is a product which you need to go from A to B and there is no alternative for now. There might be in deregulated markets where prices change immediately like Morocco to a certain degree, Uganda and Ghana, yes, there might be spot impacts. However, over a period of 1 month, 3 months or 12 months all that dissipates. The demand is very high.

Alex Molloy (Credit Suisse): Good morning everyone. In your guidance you point to 4% volumes for the full-year. You are running at 3% year-to-date. What gives you confidence that there will be an acceleration in volumes in Q4?

Christian Chammas: A good point. First of all, the destructions in Q3 in Kenya, Uganda and Cote d'Ivoire the three of them represent a fair share of our business. We were impacted there and that is behind us now since the beginning of September. From what we see today in October we are fairly confident that we will be around the 4%. Now, we will have to come back to you when we show the annual results but today we feel confident because there are more sites coming down that have been opened in the last quarter. We have more volume that will come through that which is positive. All the sites that were opened at the beginning of the year are ramping up so that brings more than what we saw in the previous quarters, which is why we feel confident. We have a good visibility on that as of today and we are nearly at the end of October so there are two more months. Yes, we feel confident.

Alex Molloy: Is there any reason, given the way the supply chain works in countries like Kenya and Uganda, that now that the supply issues which you faced in Q3 have been fixed, that you bounce back more than the baseline rate of growth, if you will? Is there an over-recovery of what you lost or is that the wrong way to look at it?

Christian Chammas: Let us put it this way, it is always very difficult to catch up losses like we have suffered in the last quarter from supply disruptions. You are talking of important losses over the quarter. It will be a challenge but there are three things in the destruction. You had the actual physical pipeline that was not there so that is fixed for good. Number two, there was the quantities that we should have had in that pipeline that was ours by allocation which were not there. Now it is there so that is fixed. Finally, there were strikes in Kenya which impacted Kenya and Uganda. Hopefully these three elements are behind us. I am not going to bet on doing more but that is why I am fairly confident, fairly bullish that, yes, we will hit 4%. Now, can we hit 7%? I think that is gambling and we do not like to gamble in front of all you gentlemen and ladies.

Nick Coulter (Citi): Good morning, thank you for taking my question. Would it be possible to comment on the broad trajectory of the retail unit margin excluding Morocco? Obviously not [inaudible] but directionally that would be very helpful. Thank you.

Johan Depraetere: It is difficult because, as I said, our principle is not to disclose any country margins and if we start doing all the countries excluding Morocco. Clearly probably Q4 in terms of Retail margins we expect a bit lower than the current quarter. We really want to focus on the overall unit margins rather than the segmental margins because Commercial has been very strong this year which is why we believe that we will end up somewhere around \$73/cube which is slightly above the guidance we gave at IPO in terms of mid-term. Again, to Christian's point, we will see what happens in the barrel in Q4 because that really is the key driver for the margin in Morocco and some of the other deregulated markets.

Cobus Cilliers (360NE Asset Management): Good morning gentlemen, thank you for taking my question. Can you please give us an update on how the SAP implementation has gone and what we should expect from the implementation? What is the key metric that you are using from a working capital perspective and so on? Thank you.

Johan Depraetere: We actually did go live in Kenya and Uganda on 1st September as planned. We also closed the books at the end of September. Now we are rolling out the other countries and hope to do that by Q3 next year, which is the sub-Saharan on the new platform. In terms of key metrics there is not really one key metric. It is really using the new platform to enhance the business visibility and the decision-making process given that we go from a relatively old system, which is JD Edwards, to a state-of-the-art platform that we can use to really change the way we are doing business. Probably we will come back to you in March next year to provide a bit more colour around what that will allow us to do going forward. However, it will help us to basically provide more visibility on the business and especially help drive the business's forward view given it is a real-time system. The good news is we are rolling out a state-of-the-art platform that will allow us to continue to grow as well and as a foundation for the future.

Giles Blackham: We have run out of time, I am afraid, so I think we should hold it there and say thank you to everyone for dialling in and for Christian and Johan. It is good to get the chance to speak to people. I am around for the whole day so please do ask me anything you need through the rest of the day. Until we speak again, thank you very much and good luck out there.

Christian Chammas: Thank you very much. Bye.

Johan Depraetere: Have a good day. Bye.

[END OF TRANSCRIPT]