

Vivo Energy
Q3 Trading Update 2023
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Transcript



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Moderator: Hello and welcome to Vivo Energy's Q3 trading update. Following the presentation, we will be taking questions from the webcast. So if you would like to ask a question, please click on the questions button in the bottom toolbar. At this time, I would like to hand over to Jay Gleacher, CFO of Vivo Energy.

Jay Gleacher: Good afternoon. Thanks everyone for joining the third quarter 2023 trading update for Vivo Energy. Joining me on the call today is my colleague Issam Sadiq from Vivo. So I will take you through the highlights. We'll do this relatively quickly, and as the colleagues have said, we have enabled the function for submitting questions, so please feel free to submit them as we go along and then hopefully we can use the second portion of this phone call today to answer your questions and have a discussion about how the business is progressing. And I think as we've discussed with at least some of you who we've met in person over the last few months, we're very pleased to continue these updates as Vivo Energy post de-listing. And I know we missed the first quarter, but we enjoyed doing the first half update in August and expect to continue doing this going forward.

So just the picture here is from a new LPG business that we've acquired and we're very excited about, so those red cylinders you see there are bottles of LPG that we're excitedly putting out into the market in Namibia now. So if you'd go to the next slide please. So yeah, in terms of highlight, the third quarter was a strong quarter for us, definitely the strongest quarter of the year we've had thus far. And in terms of comparables, in terms of the statistics, gross cash profit, which is the main KPI we look at for our quarterly trading updates, 7% greater in terms of cash delivered than this time last year, so we're pleased about that. Similarly, from a volume perspective, 2.7 million litres was also slightly ahead of last year. We can get into some of the details in terms of the segments and some of the headwinds we do face that continue the trends that we've seen throughout 2023, but at least on a quarterly basis, the third quarter was a stronger quarter than the first or second.

More broadly, the Engen transaction continues to progress well. When we signed it back in the first quarter, we said that we hope to close it by the end of the year. We remain committed to that ambition and timing and we're getting towards the end of the year, and so we very much hope to close it. There were some announcements in the public domain last week where various competition authorities in relevant markets, in particular in South Africa, have recommended the transaction. So that was an important milestone for us to hit, which we're very excited about, and we'll continue to see more announcements from the authorities as we work through that. And again, we're very pleased in terms of where we are and hope to get this over the line.

And as we talked about in our first half update in August, we very much remain focused within the current Vivo '23 around building for the future, investing into new businesses, LPG being a major theme for us, and continuing the organic CapEx programme that we're so excited about. And right here, we've already been able to add 97 net new service stations this year, which is significant progress, and we expect, actually, to add a number more in the fourth quarter. I'll get into the financial performance in a bit more detail in the subsequent slides, but we do want to highlight that unit margins for the quarter were \$79 per cubic metre. So not only is that 5% ahead of last year, but you'll see that's ahead of the year to date number and the year to date trend. I'll speak more about that when we get to the subsequent page.

So if you go to the next slide please. So in terms of segments and where we see things... I'll start with retail because it's the core business and it's the one that's... I don't think the segment is challenged, but I think the performance in retail reflects the macro challenges that we face. And again, I think we talk a lot about the resiliency of our business and so we're pleased with the retail performance, but obviously being 2% behind volume from this time last year is new for us. And I think year to date, also being behind on volumes is new for us and something that we're working very hard to fix, particularly in East Africa. Some of the macroeconomic conditions are very challenging from an availability of hard currency perspective, from a cost of living challenge from inflation, and fortunately, some of the governments trying to manage the situation a little bit more proactively, which has caused some challenges from us.

But I think strategically, the retail business continues to perform well, and I think the way that we're focused on it with our local teams is ensuring that we come out of this crisis stronger than the competition. And us being behind 2% broadly represents an increase in market share because we think the market is down by more than that. The Lubricants business had a stronger quarter, 6% volume growth. That's really driven by our commercial customers and also finally getting more momentum in the export channels. And again, I think there's a number of jurisdictions in Africa that we don't have a fuels presence in, but we have the ambition to have a lubricants presence in and we've added some management capacity to really focus on that business and we're driving that and we're pleased with how we're doing on the lubricant side. And commercial, we are 5% ahead on a volume basis from last year. And again, I think that's a bit of portfolio effect.

And also, honestly, compared to retail, starting from a lower base where I think we felt like our market share in retail has always been really strong and our market share in commercial was not commensurate, i.e. we had a lower market share in some of these markets for commercial relative to retail. So there's been a lot of focus this year from our side on putting as much effort into commercial as retail, and I think we're starting to see some of the green shoots from that. But that's also not without risk and it's something that we're focused on making sure that we're growing profitability more than just volume itself. But nevertheless, I think we're pleased with the quarter and we're pleased,

particularly in the September month as the business started to gain some momentum and we hope to continue that momentum into the fourth quarter. Again, I think the numbers kind of speak for themselves so we can address it in the Q and A perspective, but on a year to date basis, the challenges, I think, are understood and consistent with what we talked about in the H2 update.

So volumes, on an overall basis, first time, slightly down, so working hard to address that. So that unit margin number year to date of 69. So again, that's on a per quarter basis, to have \$79,000 a cube is a strong quarter. Again, I think with my Vitol lens, I would say that we probably understated the margin in the first quarter and overstated the margin in the third quarter when you think about it on a replacement cost basis. But on an IFRS basis, it's very much exactly what we are reporting. But as we indicated, going forward, we will share two views of the world, both the IFRS results and the replacement cost results, and you would have seen a more smoother quarter on quarter progression had we been able to share those numbers with you at this stage, but that's a project near and dear to my heart that we're working hard on.

If you'd go to the next page, please. So this trend line, again, you've seen this chart before and I thought it was helpful to put it up here. So if we had put a blue dot on the right hand side of this line for quarter 3, 2023, you'd see that in the quarter where we're up in that \$79 a cube range, so sort of higher than where our trailing number is. And again, we'll see where we come out in the fourth quarter. But overall, I think even in light of all the headwinds and the macro volatility on commodity price, where, again, we saw an increase in price during the third quarter, which essentially we were able to pass on to our customers pretty well, the business has continued to perform strongly.

So if I just go to page five, and again, just kind of rattling through this quickly and hope and do encourage people to ask some questions. I think if I summarise strong financial performance for the quarter, tough first half of the year, very focused on how we close out the year and how we set ourselves up for next year, coupled with that, continue to invest for growth. I'll share some anecdotes around the acquisitions in a second, but continuing to invest in terms of the organic CapEx profile and really focus on how we get the Group really reintegrated back with the parent company Vitol and ready to integrate Engen as an acquisition here. I think the new Group, as and when we get there, will really be a very, very powerful and very compelling investment proposition from its ability to increase its portfolio and benefit from the exposure and participation in the various markets that we're focused on.

So as we stay here in terms of inorganic opportunities, two that we want to highlight. So we bought a business in Namibia called GasIt, which is an LPG distributor. LPG is a product that we have a long history with in a few of our markets and we think plays very well to our strengths and our value added, and we're very excited to add that product into our portfolio in Namibia and we expect that to contribute and be accretive for the Namibian business kind of from day one. So we're now working hard to integrate the new team and bring

more capacity into that business. And then we have also announced a small bolt-on acquisition on the island of Mayotte. For those of you who don't know much about Mayotte, it is a small island in the Indian Ocean, it's part of France. And so, again, it has a number of characteristics and profiles that we think suit our business well. We're excited to add that distribution business into our network and also start to organise some synergies with the other Indian Ocean Island businesses that we're participating here.

And I think just to conclude, as I said, I think we're tracking in this quarter, hopeful that we can end the year with good momentum to get into next year. Clearly what's going on in the broader world around geopolitics is something that we keep a close eye on and a concern about. We're not going to sort of sit here on this call and speculate on what may or may not happen both from a geopolitical perspective or from a commodity price perspective, but obviously depending on how things go, that will have indirect impacts on our business depending on what the situation is. So yeah, I think at this stage, no more remarks from my side, but if I can turn it back over to the team and then maybe they can take us through the Q and A portion.

Moderator: We have a couple of questions from the webcast, and as a reminder, if you would like to ask a question, please click on the question button in the bottom toolbar. Our first question today comes from Vladimir David from Muzinich & Co. "Hi Jay, what were working capital dynamics like in Q3?"

Jay Gleacher: Issam, do you want to start on that one?

Issam Sadiq: Yes. So in terms of working capital dynamics, obviously we continue to work very hard to reduce the receivable that we have from governments, particularly in the two markets where we have a bit of concentration, Kenya and Senegal, and we've been making some progress. So since H1, since end of June, we have been able to reduce the overall government receivable by around \$40 million and we will continue to work on that. There's a particular focus on that. For the rest of working capital items, I don't think there is a major change in the way our working capital is structured.

Moderator: Right. Great, thank you. And our next question comes from Anna Kuchina at T. Rowe Price. "How many sites will be acquired with Engen transaction? What volume growth do you expect to come with the acquisition?"

Jay Gleacher: Great, I'll take this one. So yeah, I think firstly, the simple way to say it is that the Engen transaction is very material to us and will be a game changer for Vivo, and that's why we're excited about it and hopeful that we do close it out along the timeline that we have talked about. So in terms of number of sites and what we'll do to the business, so the Engen portfolio today has about 1,300 stations. So you compare that to the 2,650 odd that we think we're going to have, and obviously that's just doing that math off the top of my head, but that's about a 50% increase in terms of station count. So again, very significant to us. And then in terms of from a volume perspective with the commercial business, it will be

somewhere between 50 and 75% increase in the total volumes that we do through the portfolio. And so again, it'll be a big impact here.

"What's your expectation for the full year EBITDA business? And then number two, has the funding for the acquisition of Engen changed? Do you still plan to use local South African rand facilities and equity?"

So the second question I can answer, and I think the first question, unfortunately I don't think I can answer at this stage. So the short answer to question number two is no, our plans have not changed. So as we've said on previous communications, we will fund the acquisition with Engen with a combination of local South African rand denominated debt, taken out at the Engen opco level, so that's really ringfenced to that transaction. Vivo and its local partner are jointly raising that facility and it's really local debt in that business.

And then the equity contribution will be in the form of new shares in Vivo Energy issued to its shareholder, Vitol, for cash, and Vitol will inject the cash into Vivo Energy to fund that acquisition. So again, no incremental leverage at Vivo for funding the equity portion of the Engen deal. We will be consolidating the debt of Engen, but as we don't own a hundred percent of it, then there'll be our kind of indirect 74% stake in the business that we'll own and hopefully generate dividends over the medium term that come back to Vivo Energy holding and for the benefit of the note holders and the shareholders at the Vivo level. And then Issam, I don't know if you want to just remind everybody how we think about forward looking statements.

Issam Sadiq:

Yeah. Thanks Jay. And just maybe to add to that, as Jay mentioned, I think the way to think about the impact on that going forward in terms of leverage, obviously we maintain our commitment to use the cash or the dividends we receive from the target in order to deliver, and we remain committed to that, so that's a target. In terms of obviously your question about EBITDA, as Jay mentioned, unfortunately we can't guide you on that, but what we can say is if you compare H1 versus year to date Q3, we have been able to close the cash margin gap that we had versus last year, same period as last year, from minus 18% in H1 to minus 9%. So I think we're on a good path and hopefully over the next remaining weeks to close the year, we'll be able to further close that gap. So that's what we can say at this point in time.

Moderator:

Thank you. And we just have one follow-up question from Dimitri. "What is the current, as of Q3 '23, total debt? Total debt including shareholder loan and leases was around 1.55 billion as of H1 '23. Did it go up or down as of Q3 '23?"

Issam Sadiq: Maybe I can take that question, Jay. So in terms of total debt, we haven't shared that number in our trading update, but what I can say is that there is no fundamental change to the structure of our debt, particularly long-term debt. In terms of short-term debt, as you know, there is a little bit of volatility depending on the working capital dynamics. But again, what I can talk about is really the structural changes that we've had so far, and apart from the reduction that we've had in government receivables of about \$40 million from June to end of September, there is no fundamental or structural changes in our working capital, and therefore, there is no fundamental change in structure of our total indebtedness.

Jay Gleacher: Maybe just give a guidance in terms of how we think about our leverage statistics and where we're sort of working towards.

Issam Sadiq: Yeah. So in terms of leverage, in H1, when we reported our leverage of 2.1 times EBITDA, so that's pre IFRS. So we adjust our leverage with the IFRS 16 accounting. So we exclude lease liabilities, but we exclude also the leases from our EBITDA, so we make that adjustment. That leverage, obviously, we will continue to make sure we remain below the level that we have set to ourselves as a maximum leverage over the medium term. So as we progress towards the year end, we should not deviate too much from that level.

Moderator: All right. And it seems like that's all the questions we have from the webcast today. So Jay, I'd like to hand back over to you for closing remarks.

Jay Gleacher: Thanks everyone for the questions and we look forward to communicating in more detail at our next update.