Caltex Australia

ASX/Media release

26 February 2019

2018 FULL YEAR RESULTS AND OFF-MARKET BUY-BACK ANNOUNCED

Caltex (ASX:CTX) today announces its financial results for the 12 months ending 31 December 2018. The RCOP NPAT result of $558 million is above guidance provided in December 2018. Caltex today also announces an Off-market Buy-back of approximately $260 million, expected to complete in 2Q 2019.

Managing Director and CEO, Julian Segal, said: “In 2018 we made significant progress executing the Fuels & Infrastructure and Convenience Retail strategies, setting the Company up for long-term success.”

“Fuels & Infrastructure again performed strongly. Leveraging our integrated supply chain, Caltex delivered solid growth in Australian wholesale volumes and strong growth in our International business. Our Convenience Retail team has made great progress in the transition of franchise sites to Company operations and developing our convenience offer, including our strategic partnership with Woolworths.

“Our 2018 financial results and the ~$260 million Off-market Buy-back announced today demonstrate our progress on transforming our business, our commitment to growth and our continuing focus on delivering returns to shareholders.”

Result highlights

- Full year Replacement Cost Operating Profit (RCOP) NPAT of $558 million, above the guidance range of $533-553 million provided on 18 December 2018.
- The result represents a solid underlying operating performance during a critical year of transformation, with the business delivering a return on capital employed of 19%.
- The RCOP NPAT of $558 million included the impact from $128 million lower refiner margin, $35 million lower earnings from the Woolworths fuel supply re-negotiation, and ~$20 million of impacts from transition of sites to Company operations.
- Fuels & Infrastructure total EBIT of $570 million was in line with the guidance range of $560-580 million. Fuels & Infrastructure (ex Lytton) delivered a very strong result, with EBIT up 21% compared with the prior year, underpinned by higher Australian and International fuel sales volumes. Total fuel sales increased by 7% to 20.4BL, with International fuel sales volumes up by 39% to 3.5BL.
- The Lytton refinery EBIT of $161 million was down $167 million compared to 2017 due to lower refiner margins, and a $20 million impact of a previously announced refinery outage.
- Convenience Retail EBIT of $307 million was above the guidance range of $295-305 million. The Company has made excellent progress in the transition of stores to Company operations, with a total of 516 stores now operated by the Company, compared with 316 at the beginning of the year. Convenience Retail EBIT was 8% lower than the prior year, including a ~$20 million impact from the on-going transition of stores to Company operations.
- Final dividend of 61.0 cents per share (fully franked) declared, representing a 61% payout ratio for the half year and a 55% payout ratio for the full year.
- Caltex announces an Off-market Buy-back of approximately $260 million, expected to complete in 2Q 2019.

Results summary	Full year ended 31 December 2018 $M	2017 $M	% change
HCOP result after tax	**560**	**619**	**(9)**
Adjust for:			
Inventory loss/(gain)	(14)	4	
Significant items loss/(gain)	12	14	
RCOP result after tax	**558**	**638**	**(12)**
RCOP result before interest and tax	826	959	(14)
Fuels & Infrastructure (ex Lytton) EBIT	409	338	21
Lytton Refinery EBIT	161	328	(51)
Fuels & Infrastructure (incl Lytton) EBIT	570	666	(14)
Convenience Retail EBIT	307	334	(8)

Off-market Buy-back

Caltex today announces an Off-market Buy-back of approximately $260 million ($1 per share), expected to complete in 2Q 2019. This is consistent with Caltex's previously articulated capital allocation framework. This framework balances the allocation of capital to maintain a strong balance sheet, ensure a safe and sustainable business, invest in growth and return capital to shareholders.

Managing Director and CEO, Julian Segal, said: "Since closing the Kurnell refinery in 2014, Caltex has transitioned the business to one that generates more reliable cash flows. This focus on capital efficiency supported an Off-market Buy-back in 2016, the increase in the dividend payout ratio to 50-70%, the acquisition of two international beachheads for growth, and supports today's announced ~$260 million Off-market Buy-back."

"Since 2016 Caltex has allocated over $2.2 billion to inorganic growth opportunities and returns to shareholders. Including the Buy-back announced today, Caltex has returned over $1.6 billion in capital to shareholders, while maintaining a return on capital employed of around 20%."

Chairman, Steven Gregg, said: "While attractive growth opportunities exist in the portfolio, Caltex believes the Buy-back will benefit all of our shareholders, given it is expected to improve Caltex's earnings per share and return on equity". Caltex also has sufficient franking credits to ensure that dividend component of the buy-back price is fully franked.

The Buy-back will be conducted by way of an Off-market tender process which will open on Monday, 18 March 2019 and close at 7.00pm (Sydney time) on Friday, 12 April 2019. The record date for the Buy-back is 4 March 2019.

Details about the Buy-back will be provided in the Booklet which is expected to be released on 1 March 2019 and will be sent to shareholders shortly after that date.

Further details of the proposed Buy-back timetable are contained in the 2018 Full Year Results investor presentation.

Business performance

Fuels & Infrastructure delivered an EBIT result of $570 million, within the guidance range of $560-580 million provided in December. This result includes unfavourable externalities of $16 million, comprising a net realised loss (after hedging) on foreign exchange.

Total Fuels & Infrastructure fuel sales volumes increased by 7% to 20.4BL in 2018, underpinned by a 39% increase in international sales volumes to 3.5BL. This was due to growth in Ampol activity, a full period of contribution from Gull NZ, the commencement of managing supply on behalf of Seaoil and increasing international third-party sales.

Australian sales volumes (Convenience Retail and Australian Wholesale) grew by a net 2% (0.3BL) to 16.9BL. Sales to Australian Wholesale customers (excluding Woolworths) were up by 10%, an exceptional result. This was partly offset by lower sales to Caltex Convenience Retail and to Woolworths, reflecting the decline in the Australian Retail fuel sector during 2018.

Included in the Fuels & Infrastructure 2018 result is an EBIT contribution of $161 million from the Lytton refinery, down $167 million due to the impact of lower refiner margins and the previously announced refinery outage. The average 2018 CRM was US$9.99 per barrel, which compares unfavourably with the 2017 average of US$13.02 per barrel. Total production was 6.2BL which is in line with 2017.

Convenience Retail delivered an EBIT result of $307 million, above the guidance of $295-305 million provided in December.

During 2018, Caltex continued the transition of franchise sites to Company operations, a key enabler of the Company’s convenience retail strategy. A total of 182 franchise sites were transitioned to Company operations during the year, bringing the number of Company owned sites to 516. The transition of sites from franchise to company operation impacted Retail earnings by ~$20 million, and was a key driver of the Convenience Retail EBIT result being 8% lower than the 2017 result.

Convenience Retail fuel volumes fell 4% to 4.9BL in 2018, broadly in line with the total market. Volume in 2018 was impacted by historically high board prices, from the increase in global crude pricing and a decline in the Australian exchange rate through the year.

The expanded Woolworths loyalty and fuel redemption arrangements commenced in November 2018, with encouraging early results. The first new Caltex Woolworths Metro convenience store is now expected to open in 2H 2019.

Corporate costs total of $51 million increased by $10 million on 2017, given major project activities (Woolworths strategic partnership, the asset optimisation review and other business development opportunities) in 2018.

Asset optimisation review

As was announced in August, the Asset optimisation review concluded that a passive sale and leaseback transaction was not financially compelling. Caltex will continue to explore opportunities to maximise the value created from these assets. The recent appointment of David Bridger as General Manager, Real Estate, will further support this process.

Strong balance sheet maintained

Net debt at 31 December 2018 was $955 million. This compares with $814 million at 31 December 2017, and $1,041 million at 30 June 2018.

The net debt of $955 million represents a gearing ratio of 22% (net debt / net debt plus equity). Including lease liabilities, gearing is 35%. Adjusted net debt / adjusted EBITDA** at 31 December 2018 was approximately 1.6x, toward the lower end of the Group's target capital structure range (1.5x – 2.0x).

Adjusted net debt as at 31 December 2018 is stated prior to the completion of the announced Buy-back.

Final dividend

The Board has declared a fully franked dividend of 61 cents per share for the second half of 2018, which represents a payout of 61% of the 2H 2018 RCOP NPAT, following the increased payout range announced in October. Together with the first half dividend of 57 cents per share, this results in a fully franked full year dividend of 118 cents per share (full year payout ratio of 55%).

The record and payment dates for the final dividend are 4 March 2019 and 5 April 2019 respectively.

Webcast and conference call

Caltex is hosting an investor call to discuss its 2018 Full Year results at 9.30am (AEDT) on 26 February 2019, which is also available via webcast on its website www.caltex.com.au

Dial-in number: International +61 2 8038 5221 or Toll-free Australia 1800 123 296
Conference ID: 178 1015

* Note: Comparisons in this report are made relative to 2017 unless otherwise stated.

* Note: Pricing lags on product sales have now been excluded from RCOP earnings, and are now included in movement in inventory as a component of inventory gain/loss. All references to RCOP have been restated.

** Note: Adjusted net debt and EBITDA consistent with rating agency methodology.

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