Viva Energy Australia

ASX Release

26 August 2024

Results: Half Year ended 30 June 2024

Viva Energy Group Limited today announced the Group's financial results for the half year ended 30 June 2024 (**1H2024**).

Group Highlights

- Group fuel sales +6% on a pro forma basis to 8.3 billion litres[1]
- Group EBITDA (RC)[2] +25% to $452 million
- Interim 2024 fully-franked dividend of 6.7 cents per share, at top end of payout ratio[3]
- Completed OTR Group acquisition, advancing ambition to more than double Convenience & Mobility (C&M) EBITDA to above $500 million by 2028 and extending Commercial presence in regional areas

1H2024 Group Results

All financials in $M unless noted otherwise	**1H2024**	**1H2023**	**Change (%)**	**Change (#)**
Sales volumes[1]	8,277 ML	7,828 ML	5.7%	449
EBITDA (RC)	**451.7**	**361.9**	**24.8%**	**89.8**
EBIT (RC)	338.3	275.8	22.7%	62.5
NPAT (RC)	**192.1**	**174.1**	**10.3%**	**18.0**
Dividend (cps)	6.7	8.5	(21.2%)	(1.8)
Convenience & Mobility				
Fuel sales volumes[1]	2,401 ML	2,422 ML	(0.9%)	(21)
Convenience sales[1]	730	740	(1.4%)	(10)
EBITDA (RC)	122.1	123.7	(1.3%)	(1.6)
Commercial & Industrial				
Fuel sales volumes[1]	5,876 ML	5,406 ML	8.7%	470
EBITDA (RC)	237.9	231.2	2.9%	6.7
Energy & Infrastructure				
Geelong Refining Margin (US$/BBL)	10.8	10.8	0.0%	0.0
Refining intake (MBBL)	20.6	16.2	27.2%	4.4
EBITDA (RC)	112.4	22.9	390.8%	89.5
Corporate				
EBITDA (RC)	(20.7)	(15.9)	30.2%	(4.8)

CEO Commentary

Viva Energy CEO and Managing Director, Scott Wyatt, said: "Viva Energy delivered a strong first half performance with both fuel sales and EBITDA growing by 6% and 25% respectively, and further progress on our strategic agenda with the acquisition of the OTR business."

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"Cost of living pressures and illegal tobacco trade are having an impact on consumer demand within our convenience businesses, at the same time that wage and cost inflation are driving up the cost of doing business across all our business units."

"In this context, our financial results for the first half demonstrate significant resilience and the benefits that come from diversity within our businesses. Continued strength in our commercial businesses, and strong production performance at our Geelong refinery were key drivers of earnings growth."

"We expect the consumer market to remain challenging through the remainder of 2024, but have made good progress integrating our retail businesses and will pursue cost and earnings improvements as a priority over the next 18 months."

"We remain focussed on extending the leading OTR convenience offer across the Express network which will commence in scale from 2025."

Convenience & Mobility (C&M)

C&M delivered EBITDA (RC) of $122.1 million in 1H2024, broadly in line with the prior corresponding period.

Fuel sales volumes in the company operated network were 1,601ML, down 5% on a same-store, pro forma basis (including OTR Group in 2Q2023)[1,4]. Liberty Convenience (LOC) delivered sales growth of 9%, driven by network growth, a skew towards regional locations, and a stronger value-led proposition which has performed well in the current environment. Premium petrol sales penetration in the company-operated network was relatively steady at 36%[5].

Convenience same-store sales declined ~5%[1] as lower same-store tobacco sales (-17%) outweighed modest growth across other categories. The mix shift away from tobacco and OTR's contribution supported a convenience gross margin of 38% in the quarter ended 30 June 2024 (2Q2024).

Looking forward, C&M is highly focused on its opportunity to reduce costs by integrating the Express Convenience Retail, Viva Energy Retail and OTR Group businesses. Overall synergies and efficiencies are on track to deliver more than $60 million per annum over three years (post completion of the OTR acquisition) by:

- Rationalising marketing and above store procurement costs;
- Supplying fuel to the South Australian market from the Geelong Refinery;
- Exiting the Transitional Services Agreement (TSA) with Coles Group by 1 May 2025 (development of back-of-house and point-of-sale systems is progressing well and being deployed ahead of the expiry), and;
- Consolidating ERP systems.

Planning is progressing well for conversions of existing Express stores to the OTR offering. We expect to convert the first 30 stores over the next 12 months, of which 5 will be converted by the end of 2024. Landlord consents and town planning are taking longer than expected, slowing deployment this year.

The objective from the first 30 conversions is to test, learn and adapt the OTR model to the variety of existing Express formats. These conversions have been spread across store types and geographies, including stores that are both currently successful and stores that have underperformed in recent years. Our short-term focus is to learn as much as possible from these conversions ahead of replicating and rolling out the offer.

Commercial & Industrial (C&I)

C&I EBITDA (RC) increased by 3% to $237.9 million in 1H2024, a record half for the business. On a pro forma basis[1] sales volumes were up 9% (to 5,876ML) through a combination of acquisitions and strong demand from the Aviation, Resources, Agriculture and Defence sectors in particular.

Most sectors performed well, outside of bitumen due to lower road maintenance activity during the period. Higher supply chain costs were more than offset by new business wins including the Defence contract (secured in the second half of 2023) and the OTR wholesale fuels business (integrated into Liberty Rural) from 2Q2024.

We expect conditions to remain broadly supportive for the remainder of 2024, with continued growth from recent acquisitions and business wins, and longer-term cost improvements from improving supply chain capability.

Energy & Infrastructure (E&I)

E&I EBITDA (RC) increased by 391% to $112.4 million in 1H2024. The Geelong Refinery operated at near full capacity in the half, compared to the prior corresponding period when it was undergoing a major maintenance turnaround.

Production units are operating well following the turnaround, with intake at 20.6MBBLs, unit availability at 97% and the Geelong Refining Margin (GRM)[6] averaging US$10.8/BBL. The GRM was impacted by approximately A$10 million due to a unit outage affecting feedstock supply to the polypropylene plant during May 2024, but otherwise the refinery continues to run at full capacity. Operating costs (including energy and excluding supply and corporate costs) declined to A$9.7/BBL, with higher coastal shipping costs and elevated energy prices continuing to hold costs above our mid-cycle levels of ~A$8.5/BBL.

Regional refining margins have weakened due to global oil demand outlook and in particular fears of recessionary impacts in the USA. Geo-political factors continue to hold oil prices relatively high, also compressing refining margins. Actual GRM for July 2024 was US$8.6/BBL.

Dividends and Capital Management

NPAT (RC) increased by 10% to $192.1 million in 1H2024 compared to the previous corresponding period. At a business level, C&M and C&I NPAT (RC) totalled $152.4 million, and E&I NPAT (RC) was $39.7 million.

A fully franked interim dividend of 6.7 cents per share ($106.9 million) has been determined. This represents a 70% payout ratio of C&M and C&I NPAT (56% of the Group), at the top end of the dividend policy range[3]. The dividend is payable to registered shareholders on the record date of 10 September 2024, with a payment date of 25 September 2024.

Closing net debt as at 30 June 2024 was $1,452.4 million, compared to a net debt position of $380.0 million at 31 December 2023. The increase was driven by several factors:

- The net cash consideration for the purchase of OTR Group of $1,042.6 million. Viva Energy financed the acquisition through a new A$1 billion term loan facility, with the balance funded through existing facilities;
- Capital expenditure of $114.9 million (net of proceeds and government receipts), including $21.5 million of C&M integration costs, and;
- Dividends paid of $109.5 million.

Capital spend in FY2024 is expected to be approximately $500 million (including transaction costs and net of government contributions[7]). This is approximately 10% lower than previous guidance reflecting updated phasing of spend across 2024 and 2025.

We continue to target long-term gearing of 1.0 to 1.5 times, based on Term Debt / underlying EBITDA (RC).

Authorised for release by: the Board of Viva Energy Group Limited.

Event details

Date: 26 August 2024

Time: 10:00 am (AEST)

To join the briefing, participants must pre-register via the below link. You will then receive the webcast link and dial in number via a calendar invite.

https://s1.c-conf.com/diamondpass/10039820-hg87y6.html

Notes:

1. Viva Energy acquired Coles Express Convenience Retailing on 1 May 2023 and OTR Group on 28 Mar 2024. To allow a like-for-like comparison, the prior corresponding period has been restated such that fuel volumes and convenience metrics include pro forma Coles Express and OTR Group contributions from 1 Jan 2023 and 1 Apr 2023 respectively and exclude the sites divested as part of the OTR acquisition from Mar 2023.
2. Viva Energy reports its 'Underlying' performance on a "replacement cost" (RC) basis. RC is a non-IFRS measure under which the cost of goods sold is calculated on the basis of theoretical new purchases of inventory instead of historical cost of inventory. This removes the effect of timing differences and the impact of movements in the oil price.
3. Viva Energy's dividend policy targets a payout ratio of between 50% and 70% of C&M and C&I NPAT on an interim and full-year basis, and 50% to 70% of the E&I NPAT at the end of each financial year.
4. Same-store sales exclude stores that were opened or closed in the last 12 months, as well as stores impacted by disruptions (e.g. refurbishment).
5. Calculated as premium gasoline over total gasoline for retail fuel volumes only.
6. The Geelong Refining Margin is a non-IFRS measure calculated in the following way: IPP less the COGS, and is expressed in US dollars per barrel (US$/BBL), where:

   IPP: a notional internal sales price which is referrable to an import parity price for the relevant refined products, being the relevant Singapore pricing market and relevant quality or market premiums or discounts plus freight and other costs that would be incurred to import the product into Australia.

   COGS: the actual purchase price of crude oil and other feedstock used to produce finished products.

   Geelong Refining Margin is a financial measure Viva Energy uses to illustrate and aid in the understanding of the performance of the Geelong Refinery. It involves elements of estimation and is not alone a measure of historical financial performance. In addition, it is only one contributor to the replacement cost Underlying EBITDA of Viva Energy. In its financial reporting, Viva Energy converts GRM into Australian dollars using the prevailing month average exchange rate.
7. Capital expenditure including Federal Government funding contributions for Strategic Storage and Ultra-Low Sulphur Gasoline (ULSG) & Aromatics upgrades. Maximum Government contribution for Strategic Storage and ULSG & Aromatics projects are $33 million and approximately $150 million respectively. Contributions treated as deferred revenue when received and recognised in line with deprecation once the project is complete.

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About Viva Energy

Viva Energy (ASX: VEA) is a leading convenience retailer, commercial services and energy infrastructure business, with a history spanning more than 120 years in Australia. The Group operates a convenience and fuel network of almost 900 stores across Australia, and exclusively supplies fuels and lubricants to a total network of approximately 1,300 service stations.

Viva Energy owns and operates the strategically located Geelong Refinery in Victoria, and operates bulk fuels, aviation, bitumen, marine, chemicals, polymers and lubricants businesses supported by more than 20 terminals and 60 airports and airfields across the country.

www.vivaenergy.com.au