Caltex Australia Limited
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25 February 2020

FULL YEAR ENDED 31 DECEMBER 2019 RESULTS

Caltex (ASX:CTX) today announces its financial results for the twelve months ending 31 December 2019.

Result Summary	Full year ending 31 December	
	2019 ($M)*	**2018 ($M)**
Fuels & Infrastructure (excluding Lytton) EBIT	380	409
Lytton EBIT	70	161
Fuels & Infrastructure EBIT	**450**	**570**
Convenience Retail EBIT	**201**	**307**
Corporate Costs	**(44)**	**(51)**
Group RCOP EBIT	**607**	**826**
RCOP NPAT (excluding significant items)	**344**	**558**
Inventory gain/(loss)	(14)	14
Significant items gain/(loss)	53	(12)
HCOP NPAT	**383**	**560**

** 2019 result includes an unfavourable non-cash impact to NPAT of approximately $14m from the adoption of AASB16*

Key points

- Replacement cost of sales operating profit (RCOP) NPAT of $344 million, above the midpoint of guidance range provided in December 2019.
- Result impacted by lower Lytton earnings, subdued market conditions in refining and retail fuel, and the EG wholesale fuel supply contract reprice. While market conditions stabilised in the second half, they are yet to recover as the Australian economy remained weak.
- Resilient underlying result from Fuel & Infrastructure Australia, given tough industry backdrop, with growth in international volume and EBIT in 2H 2019.
- Retail fuel margins strengthened in 2H 2019, reflecting a modest industry recovery and further Caltex outperformance on margin/site, with market share and premium fuel share gains.
- Continued to progress initiatives from retail network review. Property IPO targeted for mid 2020, to release significant capital.
- Final dividend of 51 cents per share (fully franked), representing a 61% payout ratio.

Managing Director and CEO, Julian Segal, said "Caltex continues to respond to the tough operating conditions with a focus on capital discipline and reducing costs, while also progressing its growth strategies.

"2019 was a disappointing financial result, impacted by lower regional refining and retail fuel margins, softer economic conditions, and unplanned outages caused by a third-party power disruption at our Lytton refinery. Despite this, the underlying performance of our business has been resilient and we have continued to build on the solid foundations we have in place for future growth.

"In Fuels & Infrastructure, we maintained our position as the leading player in Australian transport fuels and delivered strong volume and earnings growth in our international business. In Convenience Retail, we have continued to transition stores to company operation, outperformed the industry on fuel margin per site, and launched our first Caltex Woolworths Metro stores.

"Coupled with a focus on capital discipline, progress on sustainably reducing our cost base and the initiatives underway to unlock value following our retail network review, we are well positioned to deliver both short and long-term value for shareholders."

Business performance

Fuels & Infrastructure delivered an EBIT result of $450 million, including $380 million from Fuels & Infrastructure excluding Lytton (above guidance of $365 – 375 million) and $70 million from Lytton (in line with revised guidance of 16 January).

The Fuels & Infrastructure EBIT reduced by 21% on the previous corresponding period (pcp), given lower Lytton earnings and impact from the repriced EG Group (Woolworths) long-term fuel supply contract. Adjusting for the $47 million EBIT reduction in the EG Group contract, 2019 Fuels & Infrastructure (Ex Lytton) EBIT of $380 million was 4% stronger than pcp. This performance was underpinned by continued growth in our International operations and was achieved despite softer fuel demand across most customer segments and difficult freight market conditions.

Total Fuels & Infrastructure fuel sales volumes increased by 3% to 21.1BL in 2019, driven by a 36% increase in International sales volumes to 4.8BL. Australian sales volumes (which includes Convenience Retail and Australian Wholesale) fell by 3% (0.6BL) to 16.3BL, with Jet volumes down 4.7% on pcp as Caltex remained disciplined despite margin pressure from elevated freight costs that could not be recovered on shorter term contracts.

The 2019 Lytton EBIT was $70 million, down from $161 million in the pcp. This decrease was due to the impact of lower Asian region refiner margins and the net impact from the refinery outages in 1H 2019, caused by disruption to third-party power supply. The average 2019 Caltex Refiner Margin (CRM) was US$8.08 per barrel, down from the 2018 average of US$9.99 per barrel. As previously announced Q4 CRM was impacted by both falling Singapore Weighted Average Margin (SWAM) and the rise in landed crude oil premiums.

Total production was 5.8BL, which is a 6% decrease on 2018, reflecting impact of the unplanned outages, the planned T&I shutdown, and the economic decision to reduce feedstock purchases consistent with our focus on optimising earnings across the integrated value chain.

Convenience Retail delivered an EBIT result of $201 million, in line with the guidance of $190 - 210 million. The decline in Convenience Retail EBIT compared with 2018 was the result of prolonged softness in retail fuel margins, which had an unfavourable impact of $115 million, partially offset by improved shop earnings.

Convenience Retail fuel volumes fell 2.2% to 4.8BL in 2019, which was slightly better than the 2.3% decline in total industry retail fuel volumes. Retail fuel volumes in 2019 were impacted by economic weakness in addition to a more competitive retail fuel market. Petrol margins strengthened in 2H 2019 but diesel margins, which were more heavily impacted by a weak economy, remained soft. Despite Caltex being more indexed to diesel given the strength of its card business, Caltex outperformed industry on fuel margin per site by remaining disciplined while regaining fuel market share and further growing premium fuel volumes.

Network shop sales grew by 2% on pcp, driven by strong growth in hot beverages and fresh product categories, with Caltex's national market share increasing by 0.2% to 20.5% during the year. Shop contributions increased by $5 million (or 8%) on pcp, with operational improvements executed through the second half.

During 2019, Caltex continued the transition of franchise sites to company operations, a key enabler of the company's convenience retail strategy. A total of 112 franchise sites were transitioned to company operation during the year, bringing the number of company-operated sites to 631, with >99% of the network to be company operated by the end of 2020.

Corporate costs of $44 million decreased by 14% ($7 million).

Balance sheet

Interest bearing liabilities net of cash at 31 December 2019 were $1,746 million, including $868 million of net borrowings and $878 million of lease liabilities (post adoption of AASB16). Closing net borrowings of $868 million compares with $955 million net borrowings at 31 December 2018 (prior to adoption of AASB16).

Caltex remains committed to maintaining a strong investment grade credit rating. The actions announced over the last 12 months (network review, HBU sale, property IPO, cost out, capex reduction and proposed hybrid issuance) is expected to deliver increased balance sheet headroom.

AASB16 is a new accounting standard, applicable from 1 January 2019, requires companies to bring the majority of operating leases on-balance sheet. The results provided today reflect the adoption of AASB16 with a favourable non-cash benefit to EBIT in 2019 of $39m, but an unfavourable non-cash impact to NPAT in 2019 of approximately $14m. Further information is provided in the 2019 Full Year Results presentation.

Final dividend

The Board has declared a fully franked dividend of 51 cents per share for the second half of 2019, which represents a payout of 61% of the second half 2019 RCOP NPAT. Together with the first half dividend of 32 cents per share, this results in a fully franked full year dividend of 83 cents per share (full year payout ratio of 60%).

The record and payment dates for the final dividend are 10 March 2020 and 3 April 2020.

Transaction update

As announced on 17 February 2020, Caltex received a revised, conditional, non-binding and indicative proposal from Alimentation Couche-Tard Inc (**ATD**) to acquire all of the shares in Caltex by way of a scheme of arrangement at an indicative cash price of $35.25 per share less any dividends declared and paid by Caltex. The Caltex Board considers that it is in the interests of Caltex shareholders to engage further with ATD and Caltex will provide ATD with the opportunity to conduct additional due diligence on a non-exclusive basis.

On 19 February 2020, Caltex announced that it had received a non-binding, indicative and conditional proposal from EG Group Limited (**EG**) to acquire all of the shares in Caltex via a scheme of arrangement for a combination of $3.9 billion cash and securities in an entity to be listed on the ASX which will own the Caltex Fuels & Infrastructure business. The Caltex Board is currently considering the proposal.

The ATD and EG proposals are each subject to various conditions and there is no certainty that any will result in a change of control transaction.

Webcast and conference call

Caltex is hosting an investor call to discuss its 2019 Full Year results at 10.00am (AEST) on 25 February 2020, which is also available via webcast on our website www.caltex.com.au/our-company/investor-centre/

Conference ID: 10003503

Toll-free Australia	1 800 870 643
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United Kingdom	0800 051 8245
Japan	005 3116 1281
New Zealand Toll Free	0800 453 055
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Authorised for release by: the Company Secretary of Caltex Australia Limited.

* Note: Comparisons in this report are made relative to 2018 unless otherwise stated.

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