CALTEX
Caltex Australia

# ASX/Media release

27 August 2019

## HALF YEAR ENDED 30 JUNE 2019 RESULTS

Caltex (ASX:CTX) today announces its financial results for the six months ending 30 June 2019.

| **Result Summary** | **Half year ending 30 June** | |
|---|---|---|
| | **2019 ($M)** | **2018 ($M)** |
| Fuels & Infrastructure (excluding Lytton) EBIT | 192* | 209 |
| Lytton EBIT | 1 | 105 |
| **Fuels & Infrastructure (F&I) EBIT** | **193** | **314** |
| **Convenience Retail (CR) EBIT** | **85** | **161** |
| **Group RCOP EBIT** | **255** | **443** |
| **RCOP NPAT** | **135** | **296** |
| Inventory gain/(loss) | 21 | 87 |
| Significant items gain/(loss) | 0 | 0 |
| **HCOP NPAT** | **155** | **383** |

** Includes a $40m impact from the repricing of the EG Group (Woolworths) fuel supply contract*

**Key points**

- Replacement cost of sales operating profit (RCOP) NPAT of $135 million, towards the top end of guidance range.
- Caltex is focusing on capital discipline and reducing costs across the business, with $100 million per annum cost out program announced today.
- Execution of Caltex's retail strategy continues, leveraging learnings from our work to date and a review of our company-controlled sites to ensure capital is allocated to deliver maximum value for shareholders.
- To date the review has identified ~500 sites that will deliver strong returns and growth from an enhanced convenience offer and disciplined execution and ~50 sites that have a higher and better alternative use and will be divested.
- The review continues on the remainder of the company-controlled retail site network. It will provide a clearer roadmap to deliver earnings growth with appropriate returns, while ensuring we maintain the presence of our ~2,000 site-strong StarCard accepting network.
- Interim dividend of 32 cents per share (fully franked), representing a 59% payout ratio.

Managing Director and CEO, Julian Segal, said that while the result is disappointing overall, Caltex is responding by focusing on capital discipline and reducing costs.

"Economic weakness, soft retail fuel margins, lower refining margins and outages have impacted our performance. Fuels & Infrastructure continues to deliver underlying growth and reliable cash flows and Convenience Retail has regained market share while remaining disciplined in a tough retail fuels market.

“We are responding to the tough conditions through a focus on capital discipline and by sustainably reducing our cost base. We are also progressing our retail strategy, leveraging learnings from our work to date and a review of our company-controlled network to ensure our offer is tailored to meet individual site and local area customer requirements.

“Caltex has a history of adapting to operating conditions to continue to succeed and we will remain agile to deliver for our shareholders.”

**Cost-out program and reduction in 2019 capex guidance**

Caltex is operating in a difficult economic environment and is taking steps to reduce its cost base.

A cost-out program is being implemented to deliver a $100 million per annum reduction in operating costs by the end of 2020. Several initiatives have already been implemented, including organisation design changes and the decision to relocate head office from the Sydney CBD.

The cost savings identified under this program are sustainable and delivery will be enhanced by Caltex’s strong culture of continuous improvement. We will leverage learnings from the ongoing optimisation of operations at our Lytton refinery and across Caltex’s integrated fuel supply chain.

2019 capex guidance is also being lowered from $320-385 million to around $300 million (versus $355 million in 2018, excluding Seaoil investment).

Caltex is committed to delivering strong underlying cash flows, maintaining a strong balance sheet and maximising returns to shareholders through both high returning growth projects where available and returning excess capital.

**Convenience Retail network review**

Caltex continues to progress its Convenience Retail strategy by leveraging learnings from the transition of retail sites to company-operations (500 sites and 5,000 employees), the roll out of 63 Foodarys and the review of our Caltex- controlled retail network. This review is aimed at ensuring our offer is tailored to meet individual site and local area customer requirements, and delivers earnings growth with appropriate returns.

**Around 500 sites** within the company-controlled network have been identified to deliver strong returns from an enhanced convenience offer, with clear opportunities to deliver growth through disciplined execution. **Around 50** metropolitan freehold sites have also been identified as being able to deliver a higher value through alternative use and will be divested in tranches commencing in 2H 2019.

For the remaining sites in our company-controlled network, there is further work to be done to determine the best way to capture value, while ensuring Caltex maintains its ~2,000 site strong StarCard accepting network.

Caltex is confident with the progression of its convenience retail strategy, and still anticipates it will deliver a meaningful growth opportunity. The learnings from the past two years and results of the review to date indicate that the previously guided uplift target of $120m-150m by 2024 will not be met. Caltex will take the necessary time to ensure the disciplined execution of the strategy, including tailoring the right format with the right cost base to the right local market, and will provide further updates as the retail strategy is executed.

**Business performance**

**Fuels & Infrastructure** delivered an EBIT result of $193 million, within the guidance range of $190 - 210 million.

Despite softer fuel demand across most customer segments and a negative $40 million EBIT impact from the repriced EG Group (Woolworths) fuel supply contract, 1H 2019 F&I (Ex Lytton) EBIT of $192 million is down only slightly compared with the previous corresponding period (pcp). This is an excellent result achieved through our focus on optimising earnings across the supply chain in the prevailing market conditions. It demonstrates the competitive strength and resilience of our underlying business.

Total Fuels & Infrastructure fuel sales volumes decreased by 6% to 9.6BL in 1H 2019, due to a 16% decrease in international sales volumes to 1.5BL. Australian sales volumes (which includes Convenience Retail and Australian Wholesale) fell by 4% (0.3BL) to 8.1BL.

Included in the Fuels & Infrastructure 1H 2019 result is an EBIT contribution of $1 million from the Lytton refinery, down from $105 million. This is due to the impact of lower Asian region refiner margins and the previously announced unplanned refinery outages caused by a third-party power disruption. The average 1H 2019 CRM was US$7.50 per barrel, down from the 1H 2018 average of US$10.06 per barrel. Total production was 3.0BL, which is a 7% decrease on 1H 2018 production, with impacts from both the unplanned outages and decision making related to margin conditions.

**Convenience Retail** delivered an EBIT result of $85 million, in line with the guidance of $75 - 85 million. The 47% decline in Convenience Retail EBIT compared with 1H 2018 is the result of prolonged softness in retail fuel margins, which had an unfavourable impact of $65 million.

Convenience Retail fuel volumes fell 1.6% to 2.4BL in 1H 2019, which is slightly better than the 2.1% decline in total industry retail fuel volumes. Volume in 1H 2019 was impacted by economic weakness in addition to crude oil price timing lags and a more competitive wholesale and retail fuel market.

During 1H 2019, Caltex continued the transition of franchise sites to company operations, a key enabler of the company's convenience retail strategy. A total of 66 franchise sites were transitioned to company operations during the first half, bringing the number of company-operated sites to 584, with >99% of the network to be company operated by the end of 2020.

**Corporate** costs of $22 million decreased by $9 million on 1H 2018.

**Balance sheet**

Interest bearing liabilities at 30 June 2019 was $2,163 million, including $1,264 million of net borrowings and $899 million of lease liabilities with the adoption of AASB16 for the first time. This compares with $955 million net borrowings at 31 December 2018.

Caltex remains committed to maintaining a strong investment grade credit rating. The actions announced today (network review, cost out and capex reduction) will deliver increased balance sheet headroom.

**Interim dividend**

The Board has declared a fully franked dividend of 32 cents per share for the first half of 2019, which represents a payout of 59% of the 1H 2019 RCOP NPAT.

The record and payment dates for the interim dividend are 10 September 2019 and 4 October 2019.

**Webcast and conference call**

Caltex is hosting an investor call to discuss its 2019 Half Year results at 10.30am (AEST) on 27 August 2019, which is also available via webcast on our website www.caltex.com.au/our-company/investor-centre/

Conference ID: 10001186

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| United Kingdom | 0808 168 3761 |
| Japan | 005 3116 1306 |
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* Note: Comparisons in this report are made relative to 1H 2018 unless otherwise stated.

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**Caltex Australia**
A proud and iconic Australian company, Caltex [ASX: CTX] has grown to become the nation's leading transport fuel supplier, with a network of approximately 2,000 Company-owned or affiliated sites. Caltex aims to be the market leader in complex supply chains and the evolving convenience marketplace by delivering the fuel and other everyday needs of its diverse customers through its networks. Caltex has safely and reliably fuelled the needs of Australian motorists and businesses since 1900. It operates as a refiner, importer and marketer of fuels and lubricants. Follow us on LinkedIn, Twitter and Facebook, and for more information visit www.caltex.com.au