

24 August 2021

## Results for Half Year ended 30 June 2021 and capital management

Viva Energy Group Limited (the **Company**) today announced the Group's financial results for the half year ended 30 June 2021 (**1H2021**), which are in line with prior guidance provided to ASX in July 2021.

The underlying financials presented in this announcement reflect re-segmentation changes. Refer to "Changes to financial reporting" section for further details.

### Key Financials & Highlights:

All financials in \$M unless noted otherwise	1H2021			1H2020	Change
	Retail, Fuels & Marketing	Refining	Group	Group	
<b>Sales Volumes</b>	6.7BL	-	6.7 BL	6.4 BL	0.3 BL
<b>Gross Profit (RC)<sup>1</sup></b>	<b>673.3</b>	<b>115.6</b>	<b>788.9</b>	<b>674.5</b>	<b>114.4</b>
<i>Retail</i>	373.7	-	373.7	378.5	(4.8)
<i>Commercial</i>	299.6	-	299.6	272.6	27.0
<b>Underlying EBITDA (RC)</b>					
<i>Retail</i>	116.7	-	116.7	118.4	(1.7)
<i>Commercial</i>	105.9	-	105.9	90.7	15.2
<b>Retail, Fuels &amp; Marketing</b>	222.6	-	222.6	209.1	13.5
<b>Refining</b>	-	43.8	43.8	(66.8)	110.6
<b>Corporate</b>	(5.0)	(5.1)	(10.1)	(10.6)	0.5
<b>Underlying EBITDA (RC)</b>	<b>217.6</b>	<b>38.7</b>	<b>256.3</b>	<b>131.7</b>	<b>124.6</b>
<b>Underlying NPAT (RC)<sup>2</sup></b>	<b>108.6</b>	<b>3.3</b>	<b>111.9</b>	<b>24.4</b>	<b>87.5</b>
<b>Capex</b>	21.8	26.5	48.3	52.4	(4.1)
<b>Underlying FCF</b>	131.3	12.7	144.0	97.1	46.9
<b>Dividend</b>	<b>65.9</b>	<b>Nil</b>	<b>65.9</b>	<b>15.5</b>	<b>50.4</b>

- Group sales volume growth of 5% on half year ended 30 June 2020 (**1H2020**) driven by strong Retail performance
- Commercial EBITDA (RC) up 17% on 1H2020 supported by reduced servicing costs
- Refining business returning to profitability after a challenging 2020
- Strong cash generation leading to Group net cash position of \$44.7M at 30 June 2021
- Proceeds from divestment of stake in Waypoint REIT to be returned
- Segment reporting changes to provide greater transparency of underlying cash performance

- Dividend policy changes aimed at delivering more consistent dividends based on the profitability of the Retail and Commercial segments
- Determined a fully franked dividend of 4.1cps (\$65.9M), a 60% payout from Retail, Fuels & Marketing Underlying NPAT (RC)

**CEO commentary:**

Viva Energy CEO and Managing Director, Scott Wyatt said: “Viva Energy has delivered a strong result in the first half of 2021, with improved operational and financial performance across all parts of the business. Performance was driven by continued strength of our Retail business, recovery within the Commercial business, strong cost management, and improved refining conditions. This delivered a Group Underlying EBITDA (RC) of \$256.3M, up \$124.6M from the prior period.

“During the period, significant changes have been made to the Company which have repositioned it for the future. The long-term Fuel Security Package from the Federal Government provides critical support for the business during periods of low refining margins, recognises the contribution refineries make to the nation’s energy security through the introduction of mandatory stockholding obligations on imports, and materially contributes to the investment necessary to meet new fuel specifications. Collectively, these measures significantly improve the outlook for the refining business and provide a solid foundation on which to develop the range of projects we plan for our Energy Hub at Geelong.

“The Company has been awarded a grant of up to \$33.3M for the establishment of 90ML Diesel storage which will improve production and import economics, and further benefit from the proposed implementation of mandatory stockholding obligations. We also continue to make solid progress on our Gas Terminal, which remains the best placed project to meet the looming Victorian gas shortfall expected in 2024, and have made good progress on other opportunities such as Hydrogen for trucks and bus fleets. These projects are aimed at leveraging the strategic position we hold in the Victorian market.

“Our Retail business is benefiting from growth in the Liberty Convenience business, the expansion of Shell V-Power to new markets, and the refreshment of Coles Express store network with our Alliance partner. Convenience and premium fuel sales continue to grow, and we are looking forward to further developing our fuel and convenience offerings with our partners as this marketplace continues to evolve. We have taken steps to reduce the costs of servicing our Commercial business in order to optimise margins in a lower sales environment until aviation and marine sales volumes recover and delivered solid growth in other segments which have been less affected by the pandemic.

“Taking into account these changes and feedback from investors, we have made important changes to our segment reporting and dividend policy in order to provide more transparency of the cash performance of the various segments and align this with dividend distributions. We expect that this will deliver more consistent dividends to our shareholders, with further upside when the Refining business outperforms. Given the underlying profitability of the Retail, Fuels & Marketing business, we have determined to pay a \$65.9M interim dividend to our shareholders, and are in a position to return the proceeds from the divestment of our stake in Waypoint REIT.

“Overall, I am very pleased with the Company performance in the first half, and while we expect the next few months to be impacted from periodic lockdowns in capital cities, I remain confident that sales will quickly recover as restrictions are relaxed and look forward to a return to more stable conditions in 2022.

**Retail**

Retail sales volumes were up 23% on 1H2020, with the improvement driven by growth in the predominately regionally-focused Liberty Convenience and Dealer Owned channels. Weekly fuel sales in the Alliance channel averaged 58.4 million litres per week, broadly in-line with levels achieved in 1H2019

and up on 1H2020. Premium petrol sales represent 32%<sup>3</sup> of total petrol sales which is in line with 1H2020. The performance of our premium brand reflects both strong demand and improved availability of V-Power branded fuel through the retail network and was supported by the launch of the Shell V-Power 'Fuel the Feeling' campaign.

Retail EBITDA (RC) of \$116.7M is consistent with the \$118.4M result achieved in the prior period which benefited from the rapidly falling oil price. While oil price increases during the half led to some margin compression, the impact was offset by improvements in both volume and non-fuel income attributed to convenience sales growth at Alliance retail sites.

The Company continues to invest in improving the retail offer and the network, undertaking approximately 80 store refurbishments in the period with our Alliance partner, Coles Express. The refurbishments support growth in both the convenience and fuel offer.

### **Commercial**

The Commercial segment benefited from continued robust economic activity with solid sales performance achieved in Resources, Transport, Specialty, Agriculture and Wholesale sectors. While aviation and marine cruise sales volumes continue to be impacted by border closures, the steps taken to reduce servicing costs during 2020 have ensured that these sectors continue to make a meaningful earnings contribution to the Commercial business.

Commercial achieved an EBITDA (RC) of \$105.9M which is up \$15.2M when compared with \$90.7M achieved in 1H2020.

### **Refining**

Refinery operations and financial performance improved from 1H2020 but remain challenged by COVID-19 impacts on both global and local fuel demand. Notwithstanding these impacts, GRM<sup>4</sup> in 1H2021 was US\$6.1/BBL, up from US\$2.9/BBL in the prior period, with margins benefiting from lower crude premia, higher production and improved product yield. The Refinery delivered an EBITDA (RC) of \$43.8M, up from a loss of (\$66.8M) in 1H2020.

During the period the Geelong Refinery operated at full capacity, with intake at 21.4MBBLs and availability at 98%, compared with 1H2020 when the refinery operated in a hydro-skimming mode in May and June of 2020. Increased production has led to higher variable operational costs for the period.

During 1H2021, the Refinery received \$40.6M from the Federal Government's Temporary Refining Production Payment. This program has been succeeded by the Federal Security Services Payment (FSSP), which commenced on 1 July 2021 and will conclude on 30 June 2027 (unless extended at the option of the Company).

With the FSSP in place, the Company is proceeding with major maintenance activities that were deferred from 2020. The expected capital expenditure is approximately \$25M-35M (in line with prior guidance). The major maintenance activity is expected to negatively impact refining intake by approximately 0.9MBBLs in the quarter ending 30 September 2021. The Company is also continuing to advance preliminary studies of the low sulphur gasoline and other associated capital projects. As previously disclosed, the total capital cost of this project and other associated projects, is expected to be up to approximately \$250M, with the Federal Government co-contributing up to a maximum of \$125M (or 50%) of the capital costs.

## Underlying NPAT and Dividends

Underlying NPAT (RC) was \$111.9M, up from \$24.4M in 1H2020, supported by stable earnings from the Retail, Fuels & Marketing and the Refining business returning to profitability.

As a result of the strong performance in Retail, Fuels and Marketing, the Company was able to resume dividend payments in-line with a revised dividend policy. The revised policy is as follows:

- The Directors intend to target a dividend payout ratio of between 50% and 70% of Retail, Fuels and Marketing NPAT (RC)<sup>5</sup>
- The Directors intend to target a dividend payout ratio of between 50% and 70% of Refining NPAT (RC). The declaration of Refining dividends will be assessed on an annual basis, and if declared, paid together with any final Retail, Fuels and Marketing dividend<sup>6</sup>.

The change in dividend policy aims to deliver more consistent dividends based on the profitability of the Retail and Commercial parts of the business.

As a result of the strong Retail, Fuels & Marketing NPAT (RC) of \$108.6M and, in line with the revised dividend policy, the Board has determined to pay an interim dividend of 4.1 cents per share.

## Capital Management

The Company retains a strong balance sheet with a net cash position of \$44.7M at 30 June 2021 and, consistent with prior commitment, the Company intends to return the proceeds from the Waypoint REIT divestment through a capital return (\$100M), along with an on-market buy-back (\$40M).

The Company has determined that distributing these funds to shareholders remains in their best interest, and the most efficient mechanism is through a combination of capital return of \$0.062 per share (subject to shareholder approval) and on-market buy-back of up to \$40M. With respect to the capital return, an equal and proportionate share consolidation of 0.97 shares for every one share currently held (i.e. 100 shares would become 97) will also be undertaken, to adjust the Company's number of shares for the quantum of the capital return (subject to shareholder approval). The Company will hold a general meeting of shareholders on 11 October 2021 to seek approval for the capital return and consolidation. Further information regarding the capital management program is contained in the Notice of Meeting released on 24 August 2021. The buy-back is expected to commence following implementation of the capital return and share consolidation.

The proposed capital management initiatives described above, together with the other capital management initiatives undertaken since the Company's Waypoint REIT divestment, represent a total return of funds to shareholders of approximately \$720M, after receiving \$734.3M in pre-tax proceeds of the divestment.

## Business outlook

The business remains well positioned to manage near-term impacts and risks associated with COVID-19, in particular the recent capital city lockdowns which are likely to impact retail fuel volumes for the remainder of the year. Prior experience shows that retail fuel volumes are quick to recover once restrictions ease. Refining production, both intake and optimisation, may be constrained as a result of weaker fuel demand following an extended lockdown in Victoria and NSW.

Despite these near-term challenges, the Company remains well positioned with a strong balance sheet with capacity for growth, and will detail some of these opportunities at the upcoming Investor Day in late 2021.

### Gas Terminal Project

The Company continues to make significant progress on its Gas Terminal Project, which is targeting first gas by 2024 (subject to Final Investment Decision). Recent reports continue to support the need for new sources of gas as traditional production declines given the important role gas plays in the economy. Project design and environmental studies are well advanced ahead of the planned lodgement of the Environmental Effect Statement documentation later this year.

Viva Energy continues to work with its commercial partners to develop contractual documentation which are expected to provide substantive agreements for terminal capacity. The Company continues negotiation with floating storage and regasification unit (FSRU) providers, with an announcement of a preferred partner expected in late 2021.

### Changes to financial reporting

The Group has taken the opportunity to review its current financial reporting and has repositioned its reporting segments to simplify and provide improved transparency of underlying performance going forward. The changes to financial reporting include reporting Underlying EBITDA (RC) including lease expenses to better align this measure with cash generation of the business, allocating Supply, Corporate and Overhead costs to provide better transparency of segment performance and simplify Underlying NPAT (RC) to remove the requirement for a separate Distributable NPAT (RC) measure.

The four key changes implemented include:

1. **Adjustment to lease accounting** - Lease expenses previously excluded from EBITDA (RC) in accordance with AASB16 Leasing have now been included in the Underlying results of each relevant business. The impact of adopting AASB16 (including lease interest and lease related amortisation) will be reported between NPAT (RC) and NPAT (HC).
2. **Supply, Corporate and Overhead Costs** - All applicable Supply, Corporate and Overhead costs have been allocated into operating segments to provide better transparency of non-refining Underlying EBITDA (RC). The residual "Corporate" segment reflects certain head office functions and commonly used resources that are not considered appropriate to be allocated to the Group's reportable segments.
3. **Segment reclassification** - Wholesale volumes, which includes Liberty Wholesale, have been moved from Retail into Commercial as the margin and product mix of wholesale fuel volumes is more aligned with the Commercial segment. The Retail segment exclusively represents sales from our branded retail network.
4. **FX & Derivatives** - Revaluation gain / (loss) on FX and oil derivatives will be reported between NPAT (RC) and NPAT (HC). Underlying NPAT (RC) now aligns with previous Distributable NPAT (RC) is used in the revised dividend policy.

Further information and detailed reconciliation of accounts can be found in the HY2021 investor presentation lodged on ASX 24 August 2021.

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

## Conference Call details

The results will be presented by Scott Wyatt, Chief Executive Officer, and Jevan Bouzo, Chief Operating and Financial Officer, via webcast and call.

Date: 24 August 2021

Time: 10:30 am (AEST)

To join the briefing, participants must pre-register by navigating to <https://s1.c-conf.com/diamondpass/10014675-l45v3gas.html>.

You will then receive the webcast link and dial in number via a calendar invite.

## Notes:

1. 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.
2. Underlying NPAT RC now represents Distributable NPAT (RC) due to the reporting changes implemented
3. Calculated as premium gasoline over total gasoline for retail fuel volumes only
4. 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 referable 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.

5. The actual dividend payout ratio is expected to vary between periods depending on a variety of factors, including the general business environment, the operating results and the financial condition of the Company, future funding requirements, capital management initiatives, taxation considerations (including the level of franking credits available), any contractual, legal or regulatory restrictions on the payment of dividends by the Company, and any other factors the Directors may consider relevant at that time.
6. In addition to the above factors, the declaration of Refining dividends will be assessed having due regard to the level of any government support received

**Further enquiries:**

**Media Enquiries**

Michael Cave  
T: +61 409 647 910  
E: michael.cave@vivaenergy.com.au

**Investor Relations**

Cameron Sinclair  
T: +613 8823 4811  
E: investors@vivaenergy.com.au

**About Viva Energy**

Viva Energy (ASX: VEA) is one of Australia's leading energy companies and supplies approximately a quarter of the country's liquid fuel requirements. It is the exclusive supplier of high-quality Shell fuels and lubricants in Australia through an extensive network of more than 1,330 service stations across the country.

Viva Energy owns and operates the strategically located Geelong Refinery in Victoria, and operates bulk fuels, aviation, bitumen, marine, chemicals and lubricants businesses supported by more than 20 terminals and 55 airports and airfields across the country.

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