TRANSCRIPTION

Company:	**Viva Energy**
Date:	**25 August 2022**
Time:	**10:30am AEST**
Duration:	**62 Minutes**

[START OF TRANSCRIPT]

Operator: Thank you for standing by, and welcome to the Viva Energy Australia Half Year 2022 results call. All participants are in a listen-only mode. There'll be a presentation, followed by a question and answer session.

If you wish to ask a question via the phones, you'll need to press the star key, followed by the number one on your telephone keypad. I would now like to hand the conference over to Mr. Scott Wyatt, Chief Executive Officer. Please go ahead.

Scott Wyatt: Good morning. And thank you all for joining us to discuss Viva Energy's Half Year 2022 results, which follow the unaudited results that we provided in July. My name is Scott Wyatt, Chief Executive Officer of Viva Energy. And on the call with me today, is Jevan Bouzo, our Chief Operating and Financial Officer and Lachlan Pfeiffer, our Chief Business Development and Sustainability Officer.

I'd like to begin this morning by acknowledging the Traditional Owners of the lands on which we are collectively gathered for this call, and pay my respects to Elders past, present and emerging. As always, and before we explore our financial results, I would just like to touch on safety and environmental performance as summarised on slide five. While our performance is largely in line with last year, we have seen a significant reduction in personal safety incidents in recent months, which has been supported by our group-wide Safety Day, which was held in May.

We've had a strong commitment from all leaders to lift their presence in the field and to drive stronger levels of accountability and focus. And this is certainly helping to drive the improvements that we are seeing. Like many other businesses, absenteeism, as a result of isolation requirements and general winter flus, continues to put pressure on resourcing in many of our operational areas. But we have good support from our workforce, and expect these pressures to reduce as we enter the summer months.

Overall, I'm pleased with the focus we have on health and safety across the whole organisation. Turning to slide six, let me now talk to the highlights in our first half results. It's been an extraordinary period with tight supply and recovering demand in many markets, driving high levels of volatility in energy markets. Viva Energy has been well-positioned to

navigate these conditions, and has delivered a record first half result, growing sales volumes by 5% and more than doubling EBITDA to $612 million, compared with the prior period.

Our refinery at Geelong had a particularly strong first half, operating close to full production through a period of exceptionally high regional refining margins, and delivering an EBITDA of $371 million. Our commercial business has enjoyed a strong recovery, with sales up 7% and EBITDA up 55% on the prior period.

Retail sales grew by 1% in a relatively soft market, which was particularly impacted by Omicron and floods during the early part of the period. The contribution from all divisions demonstrates the strength and resilience that is inherent in Viva Energy's diversified business model, with the company achieving a net cash position of more than $300 million at the end of June, supporting a fully-franked interim dividend of 13.7 cents per share.

This strong financial position puts us in good speed to pursue our strategic growth agenda, which we shared at our Investor Day last year. We have made particularly good progress with the Geelong Energy Hub, securing government funding for refinery and storage upgrades and commencing the development of the hydrogen service station.

Independent panel hearings into the proposed gas terminal have been completed and we now await for government approval. Turning to our sales performance on slide seven, I'm really pleased with the growth that we have delivered in both our retail and commercial businesses in the first half of 2022.

Commercial sales volumes increased by 7%, while retail lifted 1%, despite market impacts from pandemic, flood and high petrol prices. Sales growth has been driven by continued recovery in the aviation sector, strong demand from wholesale segments, new customer wins and continued growth in the Liberty Convenience retail channel.

Slide eight compares Viva Energy sales performance with the rest of the market and with pre-COVID demand. With the exception of aviation, we've out-performed the market across all segments, and are holding market share and retail, despite continued impacts in capital cities from the pandemic, which are particularly impacting petrol demand.

It is unclear when and how retail demand will recover over time. But our metropolitan focus, Coles Express network, is well-placed to benefit from any recovery and continues to perform well, despite the currently softer conditions. Brand share preference based on a comprehensive survey of motorists shows that the Shell brand maintains a leading position in the market as the preferred fuel for one in every five petrol users.

Turning to slide nine, let me talk more about the refining environment, which has driven such a strong performance in this part of our business. Regional refining margins increased sharply during the first half due to several factors: lower exports from China, sanctions on Russian oil, demand recovery and reductions in global refining capacity from permanent closures and maintenance activity.

While increases in crude premier for the crudes process that Geelong have had a dampening effect, strong production and optimization delivered a particularly solid Geelong refining margin of $19.90 US per barrel for the period more than three times this average in the first half of 2021. Let me now hand over to Jevan to talk in more detail about our financial performance.

Jevan Bouzo: Thanks, Scott. I'll start on slide 11. The first half of this year really demonstrates the potential of this business. At a group level, EBITDA was $612 million, up $355 million on the prior period. Free cash flow was $494 million, up $350 million on the same half last year.

With a strong balance sheet going into 2022, we ended up with net cash of $324 million at the half with no debt. Through a particularly volatile period for energy markets, retail fuelers and marketing EBITDA grew 14% to $253 million with NPAT up, a similar proportion.

This supported an improvement in the interim dividend from this segment to 4.9 cents per share. Refining performance has been the real standout for the period. And I'll talk more about the drivers of performance and the decision on the dividend here on the following slides.

Overall, it's been an exceptional half, with $355 million of NPAT, supporting a combined interim dividend of 13.7 cents per share. Turning to slide 12, we've set out the retail EBITDA bridge. Sales volumes increased by 1%, a good result in the context of record-high pump prices, flooding along the East Coast and motorists continuing to work from home due to COVID impacts.

The volume performance highlighted the diversity of our networks, growth from the dealer-owned and Liberty Convenience network, offset lower volumes from Alliance where more sites are located in metro areas. As you know, a rise in petrol and diesel price tends to compress retail margins temporarily. And this had the greatest impact on earnings, along with some impact from the excise changes.

Non-fuel income was slightly down as shop sales partially normalised after a period of strong growth during the pandemic. And we continued to deliver our marketing and brand sponsorship plans, which have no doubt contributed to the resilient market share and strong brand preference that Scott covered on slide eight, and will set us up well for a recovery in the second half.

There's also a couple of small one-offs impacting the result, which we don't expect to repeat. On slide 13, I'm proud of the significant improvement in commercial EBITDA in the first half, rising 55% to $164 million. The improvement here has been a result of lots of hard work across many different areas in which we operate and serve our customers. Volume growth and favourable margin mix on segments where we won new business has contributed to an improvement of $30 million.

Short-term trading and supply chain benefits of $16 million are a result of import arrangements we have in place with Vitol, which have supported us and our customers through a period of particularly volatile global energy markets, smoothing the impact of rising product premiums.

A focus on being available to serve our customers when they need it most has driven some short-term spot opportunities, which won't necessarily repeat, but have provided a win-win for both our business and our customers. Outside of these opportunities, some small improvements in margin have mostly offset our increases in costs through the period.

Turning to slide 14, refining. As Scott highlighted, the Geelong refinery operated at near full capacity during an extraordinary period, capturing the benefit of higher regional refining margins, particularly in the second quarter. This is clearly reflected in the bridge, with the GRM more than tripling to almost $20 per barrel over the course of the first half. Higher overall costs from shipping, manufacturing and energy were mostly attributable to producing marginal barrels of oil in a favourable environment and some disruption in supplying Tasmania from Geelong.

Gas and electricity prices also rose sharply in the second quarter. And we continue to manage these through a rolling hedging programme to smooth impacts of significant movements in price. Given the strong refining margins, we did not receive any support from the Fuel Security Services Payment scheme during the period.

On slide 15, we've set out a breakdown of net cash flow for the year, which totalled $223 million, an underlying free cash flow before borrowings, dividends and investments of $494 million. Through a period of sharp rises in oil price, where we saw finished product prices above $200 per barrel, in Aussie terms, we managed the cash position exceptionally well.

The inventory gain for the period offset the draw on working capital, highlighting the strong cash generation of both refining and our retail fuels and marketing business. Turning to slide 16, we've set out our capital expenditure profile. Overall, capital expenditure for the first half was $66 million net of contributions.

While a lot of capital spend will occur in the second half, particularly around major projects that kicked off late in the first part of the year, we've reduced our full-year guidance to $235 million to $275 million net of contributions. The reduction in guidance reflects the fact that we've taken a disciplined approach to new projects and managing costs through a period of COVID impacts on workforce and limited contractor availability, along with some impacts of phasing on large major projects, which will run over multiple years.

Slide 17 sets out our strong balance sheet position. In line with our capital management framework, we returned $49.5 million to shareholders during the year. And on the back of the strong earnings performance, we moved from a net debt position of $95 million to net cash of $324 million. The dividend announced today will see us pay out $213 million in the

second half. And we continue to focus on the ambitious capital programme we have ahead of us.

As we set out in November last year, our long-term target gearing range is still in place. And we remain focused on identifying opportunities to deploy capital in line with our stated objective of adding over $50 million to EBITDA over the next three to five years. As we consider opportunities to deploy funds, we continue to weigh these options against opportunities for further capital management. And we still have the remainder of our on-market buyback of $22 million available.

I'll now talk to the decision on the interim dividend in more detail on slide 18. As you know, we have announced a 13.7 cents per share dividend for the first half, which is more than three times the dividend from the first half last year. Talking to each of the segments, the board has determined the payout ratio of 60% for retail fuels and marketing NPAT in line with past practise, delivering a dividend of $76 million in the first half fully-franked, or 4.9 cents per share. About 15% above what it was last year. This is in line with our policy to pay consistent dividends from this segment every six months.

The board has also determined to bring forward the annual component of the company's dividend on refining to reflect its exceptional earnings performance in the first half. This means refining will deliver a fully-franked dividend of $137 million or 8.8 cents per share, equating to 60% of its NPAT during the first half.

It's our intention that the final dividend for refining will apply to its earnings for the second half before resuming to an annual assessment from 2023, consistent with our policy for refining dividends. The total dividend of 13.7 cents per share will be payable to registered shareholders on a record date of 8 September 2022. I'd now like to hand back to Scott to cover our strategic update and outlook.

Scott Wyatt: Thanks, Jevan. Before I go to the outlook for the business, I would like to discuss the progress we've made on our strategic priorities on slide 20. As I've mentioned before, the federal government's fuel security package materially transforms the outlook for our refining business, providing confidence to invest in major upgrades to the refinery and to progress our broader vision to transform the site into a modern energy hub.

To that end, we've made significant progress to date as we seek to maintain energy security, while also contributing to a lower carbon future. In supporting the energy transition, we are making inroads into reducing our Scope 1 emissions through modernising our plant, pursuing energy efficiency projects and optimising the use of natural gas and our own gas.

We are also assessing the potential for solar generation on our surplus land at the refinery. For the much larger Scope 3 emissions, we are developing new energies where we see a business case. We have commenced the development of our first green hydrogen service station with completion expected by late 2023. And in July, we ordered 2.5 megawatt electrolyser, which will be the largest in Australia by a considerable margin.

We plan for the station to be the first in the network, along the East Coast. We're also investing in processing capability for ultra-low sulphur petrol, which supports the introduction of Euro 6 low emission vehicle standards. We have successfully secured government funding for this project, and are moving through the project milestones to achieve the upgrades by the end of 2024.

Looking further ahead, we are assessing opportunities for co-processing biomass in waste streams to produce lower carbon fuels like biodiesel and sustainable aviation fuel, alongside traditional hydrocarbon refining. Our LyondellBasell Australia acquisition, which was completed during the period, provides an opportunity to divert soft plastic waste streams into Australian recycling for the first time.

In regards to energy security, we remain focused on leveraging our position as a significant established energy supplier to play a major role in serving the nation's needs. We have invested approximately $30 million in upgrading the refinery to optimise its monitoring and control settings over the last few years, and have strategies in place to maximise production of specialty products like bitumen.

A new export line will allow us to increase production in backyard imports in other eastern seaboard states, such as Sydney and Brisbane. We have also commenced construction of a new 19 million litre diesel storage, which will support the government's strategic storage programme, whilst also improving the flexibility and export capability of our products.

Our proposed gas terminal in Victoria is progressing well. And in July, we reached an agreement with GeelongPort to construct the required pier and berthing infrastructure for the floating storage and regasification unit. We await the outcome of the environmental regulatory process.

Turning to the outlook on slide 21, we remain optimistic about the year ahead on the back of a strong first half. In retail, we have seen volumes recover, up 5.6% sequentially in July, and higher again in August as COVID cases appear to have peaked and more workers have returned to the office. Margins have also recovered, coinciding with the drop in oil prices.

Our strategy is to continue optimising the network with a focus on diesel growth, the expansion of Liberty Convenience and the Coles Express alliance, where we have a further refreshment programme plan for 2023. And commercial demand has remained robust in July and August, but this has been tampered by rising quality premia for jet and diesel in particular.

By leveraging our strong competitive position, we aim to grow earnings through our core segments of aviation, marine and resources and to maximise the integrated value of specialty products. Lastly, the refining segment continues to benefit from, historically, high regional refining margins, albeit they have fallen from their peak levels in the second quarter.

The Geelong refining margin declined to US $15.20 per barrel in July, largely as a result of rising crude premia and falling crack spreads. However, we are seeing signs of further strengthening as the Northern winter and expected oil sanctions approach. An unplanned outage of the catalytic cracking unit has impacted production during August. And we estimate it has reduced the Geelong refining margin by about US $5 per barrel for the month.

However, the unit is returning to service, and that should see us well-placed to maximise production for the remainder of the year. Overall, I'm very optimistic about the second half. Our retail business is well-placed for strong recovery, and whilst commercial maintains a robust competitive position and continued growth opportunities.

While refining performances dipped in July and August, fundamentals for the refining market remain tight as we head into the next wave of EU sanctions and as winter looms for the Northern Hemisphere. On that note, let me now open for questions.

Operator: Thank you. If you wish to ask a question, please press star, one on your telephone and wait for your name to be announced. If you wish to cancel your request, please press star, two. Your first question comes from David Errington from Bank of America. Please go ahead.

David Errington: Morning, Scott. Morning, Jevan. It's amazing, Scott, how quickly a year goes when a year or so ago, things were looking pretty grim. Now, today, you deliver a result with a dividend like that. Life is fantastic. Jevan, probably to you. I don't know. Or Scott, whether to you.

But I want to open the batting with commercial. This is a business that is like the second cousin, if you like, of the group and when it was retail and then refining. But these commercial results just look outstanding to me. Jevan, can you give a bit more detail, or again, Scott, if it's relevant to you?

But that slide 13 just looks to be quite an outstanding slide, where you've got market recovery, favourable margin mix on new business wins. Favourable margin mix on new business is wonderful. You're not trading away margin for that.

And then can you go into a bit of detail with these one-off trading benefits that you get? Because that's something that I wasn't familiar with, given that you buy from Vitol. And these on spot sales in volatile times, and the sustainability of that, given that we're going to go through more volatility, I would imagine, in fuel supply. The opportunities of them being more sustained. So can you give us a bit more colour on what looks to me to be one of the highlights of this result?

Scott Wyatt: Thanks, David. And thanks, pretty much for the question. Before I hand over to Jevan just to talk about the specific question around the relationship with Vitol and the supply benefits there, let me just say a few things about commercial.

I'm sure you'll acknowledge that we've always spoken pretty highly of commercial and tried to point out the strength and the diversity of the commercial business. So I think relative to other companies, we have probably a much more diverse business than most. We obviously supply jet fuel and diesel in bulk to large commercial customers.

But we also have a very broad specialties business as well. And that gives us obviously exposure to a much broader range of products and services, a broader range of customers and a broader range of segments. And that has, historically, always provided quite a bit of internal resilience to sector swings. And I think this has been a period where that diversity has really shone through, and probably a period where all the sectors that we have sold into have all performed pretty well.

And that's evidence in the results that you see in commercial. It's kind of linked a bit to our long-term strategy, is to continue to build on that strength and find opportunities to add to that business. It's a big part of our long-term strategy for the commercial business. And leverage the strength that we have there and the capacity we have in that part of the business to grow even further into the future.

So in short, David, we've always been pretty excited about the commercial business, but I think this has been a period where hopefully, the results really show that. And hopefully, as we go forward from here, it'll be much better recognised by the market.

Jevan Bouzo: Can probably touch on the trading benefits for you there as well, David. And thanks again for the question. It really is, I think, a benefit of the relationship that we have with Vitol to supply us with imported products. They carry a lot of the global trading exposure for us.

And it means when we have particularly volatile periods, like we've seen in the first half, with sharply rising product premia, the arrangements we have with them mean the impact of that is smoothed over time.

And so we have seen a little bit of one-off benefit from that in the context of most of the 16.4 million that we've called out there. So quite helpful in the context of those arrangements. And we will see some of that cost upflow through over time. We've also called out the spot sales that you mentioned as one-off opportunities in the first half.

David Errington: It just looks to be a very well-performing business. And just, I'll finish, Scott. We're not going to have too many more unplanned breakages at the refinery, are we? This catalytic cracker, that's not major, is it? Or is it just a couple of weeks? What are we looking at there?

Scott Wyatt: We obviously don't enjoy these outages, David. To be fair, the refineries had a long period of running extremely well. And that was evident in the first half, at a time when there was real opportunity to be had by running well as well. And that's obviously a big part of our results.

We're in the process of restarting this week and that'll set us up well, I think, for the rest of the year at a time when refining cracks, particularly diesel, are starting to expand again. So I think we're potentially looking into quite a good period for refining.

And there's one silver lining, David. We had an outage the one period during the year when margins were pretty low. So if we're going to have one, we timed it pretty well.

David Errington: Well, that's good. So it's back up and running now with cracks rising? That's what's happening, is it? Right?

Scott Wyatt: Yeah.

David Errington: Oh, that's good. So it was down when the margin was down. Well, geez, you can't do much wrong at the moment, Scott, can you? Thanks very much, Scott and Jevan.

Scott Wyatt: Thanks, David.

Operator: Thank you. Your next question comes from Michael Simotas from Jefferies. Please go ahead.

Michael Simotas: Good morning. First question from me is on the cash flow. It was clearly a very strong performance in light of the movement in the oil price. Can you just give us a little bit more colour on how you manage to manage your working capital position so tightly? And will you be able to hold onto that cash position, heading into the second half or was there some timing benefit in there?

Jevan Bouzo: I can talk to that one. Thanks for the question, Michael. I think a lot of credit goes to the wider treasury and fuel sourcing teams in managing exposure. It's something that is not an easy task, and particularly in a volatile period that we've had, has been quite challenging.

I think we've demonstrated a track record over time of pretty carefully managing our inventory exposure in the context of gains and losses there against our supply chain and working capital exposures. There's no real one-offs that we've called out in the first half.

And I think we've been able to continue the trend of largely having those two lines offset each other so that we can maintain pretty strong cash conversion as a business, something that I expect we'll continue to focus on pretty heavily going forward. And agree, it's been very successful through a challenging period and something we're quite proud of.

Michael Simotas: Well done on that. The second question I've got is just relating to the commercial business and the product quality premia, and then maybe relate that back to the benefit you got from the relationship with Vitol during the first half.

How should we think about the impact from quality premia in the second half versus the first half? Others have called out some pressure in the first half, but it looks like your relationship with Vitol offset that to a large degree. So how do we think about that going forward?

Jevan Bouzo: I can take that one as well, Michael. That's right, we have called that out in the outlook slide as well. And we're certainly seeing higher quality premia on products. There was a lot of volatility in the first half, where you see the trading benefit, supply chain benefit that we've called out.

That's really a testament to the quality of relationship we have with Vitol and our ability to smooth those sorts of impacts over time. So I don't expect that we'll be able to avoid those quality premia increases. And that's why we've talked to it on the outlook slide.

The job at the moment is conversations with customers to pass that on where it's a genuine underlying increase. And that's a continuing piece of work that we're very focused on. Again [crosstalk].

Michael Simotas: Sorry, I was just going to say, Scott, it sounds like you're in a good position relative to your competitors. So it should be a relatively easier conversation with the customers. Is that a sensible way to look at it?

Scott Wyatt: I wouldn't say passing on costs are easy conversations with customers. They're always obviously difficult. But we do have strong relationships with our customers and flexibility in our contracts for these sorts of periods.

But I'd also go back to the point I made before as the commercial business is much more than just diesel and jet. And a significant proportion of our earnings come from other segments and other products, which are less exposed to some of the premia's that we are seeing come through on those main products. So again, the diversity provides quite a bit of internal resilience to those cost pressures.

Michael Simotas: Thank you.

Operator: Thank you. Your next question comes from Mark Wiseman from Macquarie Group. Please go ahead.

Mark Wiseman: Hi. Good day, Scott and Jevan. Thanks for the update today. Just had a couple of questions. Firstly, on the crude premia for the Geelong refinery, could you provide just a little bit more colour on crude sourcing in July and August and just some context for the second half? How big have those crude premias been for the specific crudes that you're running and how should we think about that? Thanks.

Scott Wyatt: Look, we don't provide that level of detail. But naturally, in a period where you've got strong refining cracks, particularly led by diesel cracks, that it tends to drive the premias up for diesel-rich crudes. So probably, in terms of your question, in the general sense, that's where we're seeing the particularly elevated crude premias, where refineries are all incentivized to maximise diesel production, as we are as well.

And that obviously sends the crude premias up for those particular crudes. But that's only part of the slate, and obviously other crudes have lower premias. And we obviously always try and optimise around the crudes that are available in market and views we take on, what those forward margins are going to look like.

So that's a pretty dynamic process that we run, and we obviously always try and make the best decisions we possibly can with the crudes that are available. But in a general sense, hopefully that helps address your question.

Mark Wiseman: That's great. Thanks, Scott. And just finally, on the Geelong LNG import terminal as part of the Energy Hub, could you just maybe confirm the expected cost of that project? Is it still unchanged? And once the approval comes through, assuming it does come through positively, what's then required prior to FID?

Scott Wyatt: Look, I might take the opportunity to bring Lachlan into that question.

Lachlan Pfeiffer: Good day, and thanks. Just to give you a bit of an update, maybe on the second half first on process. As Scott said earlier, we're now through the EES panel hearings and awaiting the report from that committee, which will then go to government. And so we're now looking to the end of Q4. Sorry, in Q4, for that regulatory approval.

Then, we've obviously had the time in that period to get pretty organised with the project. As we publicly said, we've got great commercial customer partners into the project and Geelong Port has come in as part of the project to build the jetty, which is a significant part of the capital associated with the project.

So we'll be looking to move to FID as soon as we can. It is dependent on both that government decision, and then working with our customers on the timing to deliver that. But we'll be looking to do that as efficiently as possible after that approval stage.

As to cost, I think that's something we need to update a bit later as we get closer to FID. As I said, with Geelong Port coming in, and building the pier infrastructure, they will take some of the capital expense through that arrangement. And we will be funding the capital, which does, effectively, the top sides of the pier and the onshore facilities and the pipeline to deliver the project.

Mark Wiseman: That's great. Thanks Lachlan. Cheers.

Operator: Thank you. Your next question comes from Dale Koenders from Barrenjoey. Please go ahead

Dale Koenders: Morning guys. Maybe, just while we're talking about LNG import, can you perhaps give a little bit of update of where you are with customers and offtake? And the certainty of having the right financial terms to support the project moving forward?

Because it's just really difficult seeing spot LNG prices of $50 US in MMBtu and domestic gas prices are 14, to see how the customers will support this?

Lachlan Pfeiffer: I'm happy to take that question. And thanks for the question. As I've noted before, part of our thesis for our project was always that we wanted to see customer support from day one. And so we've had that through the participation on Engie and Mitsui consortium and the Vitol, VTTI and then Woodside joining the project at the back end of last year, which I think shows, directionally, that the demand side and the customer side of the market sees the logic for where the LNG import team was being placed, but also the long-term need for it.

In terms of the gas market, there's obviously a substantial difference between parties who are looking at term LNG as opposed to the spot pricing. Our base-case is that we will provide the infrastructure, and we're looking for partners who are taking long-term capacity in the facility. And we still think that that thesis takes hold and will play out as we get close to FID.

Ultimately, the commercials are underpinned by the gas supply position in Victoria and the Gippsland Basin coming off in the mid-part of this decade and accelerating through the back end of the decade. So we think that still supports long-term capacity off-takers of the terminal, who will be looking for long-term gas positions in Victoria.

Dale Koenders: And then, maybe just a follow-up question, probably more for Jevan, just in terms of the balance sheet capacity. It's an amazing, strong balance sheet that you have. What are some of the competing opportunities for capital that you see for use before you'd maybe consider M&A or returning more capital to shareholders?

Is it the refinery? Is it certainty around the upgrade? Is it the LNG terminal? What do you think you need to work through before you can make a better decision on how much capacity you have?

Jevan Bouzo: Thanks. That's a good question. I think there's a range of factors we're working towards. It was only November last year that we put out the strategy presentation, talking to some of the opportunities that we were keen to pursue. And we're still conscious of the earnings target that we set out, the greater than $50 million of earnings over the next three to five years. And we're pretty focused on looking for opportunities to deliver that.

Again, I think we've got a pretty good track record of returning money to shareholders through further capital management, where it makes sense to do that. And we continue to weigh opportunities against that going forward. There's a few things we've done. We've obviously brought forward the refining dividends to deal a little with the net cash position.

And we've got a pretty ambitious capital programme, certainly through the back half of this year and over the next couple of years. And we'll be focused on delivering that. But there's a range of opportunities for us out there. There's a number of which are known, such as the Liberty Convenience opportunity. And obviously, the LNG import terminal we've talked to. We'll continue to work opportunities to deploy that, and we'll keep you guys updated as we do that.

Dale Koenders: So is the second half run rate for CapEx then more indicative of the run rate going forward over the next couple of years?

Jevan Bouzo: Yeah, it's a little project-dependent. It's certainly a higher capital year than it has been in the past this year, based on the guidance. And a lot of that is back-ended and focused on some of those energy hub related projects.

So things like the low sulphur gasoline upgrade at Geelong and the strategic storage tankage, which we'll straddle, obviously, next year and the year after as those projects complete.

So there will be a bit of a heavier load in that space. And if we're able to get some new opportunities, like the LNG import terminal up, then there'll be some spend associated with that too through that period.

Dale Koenders: Okay. Thank you.

Operator: Thank you. Your next question comes from Mark Samter, MST Marquee. Please go ahead.

Mark Samter: Morning guys. I've got a question for you on the balance sheet as well, Jevan. And I'm not going to call it amazingly strong; I'm going to call it depressingly strong. Even on a mid-cycle refining margin, come by the end of the year, you're going to generate a lot of cash through the second half of this year as well.

You're going to have well over a billion dollars of headroom, probably towards the bottom end of your gearing range. You talk about the investor and the M&A and the 50 million EBITDA uplift your targeting.

But I think the message, last time you guys spoke about M&A, was that you're targeting old world, low multiple businesses to get... Either you're going to spend a billion bucks on 20 times EBITDA businesses now, or you're not going to be spending all of that headroom on M&A.

Has there been any change in the thought process of what you're spending on M&A, or should we still think there's going to be plenty of headroom post-M&A?

Jevan Bouzo: I think we'll continue to consider opportunities. The 50 million earnings target that we put out there was in excess of 50. So there's obviously opportunity for us to deliver more than that. I hear what you're saying. I think I'd be personally pretty disappointed if we had to spend a billion dollars to deliver 50 of EBITDA.

So I think that does give us some flexibility to consider a range of options, both in delivering that target and also, opportunities for further capital management. But a little bit more time to play out as we think about those opportunities into the end of the year.

Mark Samter: And being even more direct on it, are you seeing opportunities that are even more accretive than buying your own stock back on five times EBITDA?

Jevan Bouzo: Well, I think there's a range of factors that you weigh against that right. That's certainly the obvious opportunity, and we've demonstrated that we're happy to do that in the past.

When you think about some opportunities in that space, particularly the Liberty Convenience one, which you know well and the LNG import terminal, I think there's an ability to start to diversify the earning space a little bit more beyond traditional fuels.

And so that drives value too. But again, we've got to weigh the strategic value of that against the opportunity to undertake further capital management. And as you say, with a strong balance sheet and a lot of capacity, that we have the potential to do a combination of things.

Mark Samter: Now, I might just ask a quick question, if I can, on the retail result? We saw a quarterly split from Ampol, and they had a much weaker second quarter than first quarter. And when we look at AIP margins, they were actually pretty consistent on average through the quarter.

But it looks like you both probably underperformed industry margins, whilst margins were falling during the second quarter. Is that a fair synopsis? And therefore, should we also say second half industry margins today is at 23 cents a litre versus 12.7 cents a litre? Should we also assume, if that's the case, that you probably outperform the industry as margins are rising?

Jevan Bouzo: It's a little hard to hear you, Mark. But I'll have a go. I think the AIP margins that are published are obviously helpful, directionally, from time to time. But I think it is worth remembering that they're a bit of a simple average across all networks and all sites.

And so while they are helpful, directionally, ultimately the actual volume weighted average, the margin performance, the side by side performance in each individual market around each service station is what drives the overall market.

And I think you're right, the rising product prices and the volatility in that space in the first half has certainly had an impact. And I think industry has done a reasonable job of trying to manage that and absorb it. Obviously, as we go forward, there's a range of volatility in product prices. And we'll have to continue to manage that while driving a sensible outcome for that part of the business.

Mark Samter: Perfect. Thanks, guys.

Operator: Thank you. Your next question comes from Joseph Wong from UBS. Please go ahead.

Joseph Wong: Good morning. Congratulations on a solid result. First question is just on the LNG import terminal. Firstly, just wanted to understand the status of the HOA with Hoegh LNG on the FSRU. And then, leading into that, is how do you see the economics of your LNG import given the ACCC report, talking about the progress at Port Kembla and Venice Energy?

Lachlan Pfeiffer: Good day. Thanks for the question. Apologies, I just blanked on the first part of the question.

Scott Wyatt: Hoegh agreement.

Lachlan Pfeiffer: Hoegh agreement. Ah, of course. So as we publicly said, we still are working quite closely with Hoegh, who are the market leader in FSRUs with regard to provision of a vessel. That heads of agreement is still on foot, and we're working closely with them on delivery of a vessel. It obviously is relatively tight in that market, given conditions in Europe at the moment.

We are confident that we'll be able to secure a vessel. You should take into account that the envelope for delivery of a vessel that we're looking at is probably different to what is currently driving the European market. So we think there's good opportunity there. Of course, we need to get through the regulatory approval stage, and then get into the commercial NFRD stage before either we would commit, or they, for the final vessel to be delivered for the project.

In terms of the ACCC report into gas, I think what you can read through that report is that while there's been some tightness in the market, supply has been maintained through this year. But the real drop-off in gas supply, as I said before, comes in the middle of the decade and growing to the back half of the decade. And so the delivery of our terminal matches that quite neatly. And so we think both AEMO's current guidance and the updated ACCC report is supportive of the project where we're looking to deliver.

Joseph Wong: Okay, got it. Maybe if I just turn to refining then. Just wanted to understand a bit more on your rolling energy hedging costs, given electricity prices have lifted. How should we think about these costs gradually coming into the business?

Scott Wyatt: That was a question around energy hedging, was it? We've got a bit of a bad line here at the moment.

Joseph Wong: Yes.

Scott Wyatt: So in terms of energy costs, we have a mix of term contracts and we carry some spot, which is evident in the results you can see in the first half. Because energy costs are slightly up, reflecting our exposure to spot markets.

But predominantly, we do term and we carry a bit of spot because we like to obviously manage production variability and optimise around own gas and gas from the market as well. So that's a strategy that served us pretty well in the past, and will remain a part of our hedging strategy into the future as well.

Joseph Wong: Ok. And then the last one, maybe just on your hydrogen refuelling facility, can you provide a bit of colour on how much earnings uplift that might provide and how much that might contribute to your $50 million target?

Lachlan Pfeiffer: Thanks for the question. So just to recap for everyone, the hydrogen facility is a service station, a fully operational commercial service station that we're looking to deliver on our Geelong site by the back end of next year.

We are looking at the first stage to have fully operational 15-odd vehicles running through that. And part of the core thesis of the project is to bring those customers with us, and they are part of the project and part of funding. It's obviously only one station right, so the earnings from that are not going to be material in the context of the business.

This is more about a long-term strategy, working closely with customers and government to prove up hydrogen as a viable alternative to diesel in the longer-term and a zero-emission alternative. And we think there is long-term growth in that business. But it won't be material earnings in the short-term.

Joseph Wong: Ok, just to confirm the economics of the standalone project today, that still stacks up on your return framework?

Lachlan Pfeiffer: We do have a bit of a bad line. I lost the last words there. But did say does the economics stand up on our capital framework?

Joseph Wong: [Crosstalk] Yeah, your capital framework, on how you think about allocating capital?

Lachlan Pfeiffer: Yes, they do. But you should take into account, this is half government-funded as well right. So hydrogen, at the moment, is obviously not cost competitive either with the fuel or the vehicles to diesel. Over the future period, we expect that cost competitiveness to get closer.

But half the funding for both the building of the site and bringing the electrolyser, but also the delivery of the vehicles, is being provided by ARENA. But with that funding involved, yes, we do expect a return from the service station.

Joseph Wong: Okay. Thanks.

Operator: Thank you. Once again, if you wish to ask a question, please press star, one on your telephone and wait for your name to be announced. Your next question comes from Scott Ryall from Rimor Equity Research. Please go ahead.

Scott Ryall: Hi. Thank you very much. And thank you for continuing to set the gold standard for efficient result presentations. I just have two questions. One is around slide 20 and some of the opportunities that you've talked to around energy transitions.

And particularly, processing and picking up on the hydrogen question just now, can I just confirm on co-processing that you're looking to do that at Geelong? And then you've acquired the LyondellBasell, if I've got that right, business already. But that would appear to me to be more an organic growth opportunity rather than any acquisitions. Would that be a fair comment to make?

Lachlan Pfeiffer: That's probably the right way to think about it. Obviously, with the refining package, we agreed with government and committing to refining out to 2028. It gives us the opportunity to look at Geelong and work out what that facility can be in the longer-term and really bring a vision to what it can do in the back half of the decade and post-2030.

One of the advantages of a refinery is that it does have significant processing capability, which is necessary to produce lower carbon fuels and recycled plastics. And that processing capability is valuable. So it has the ability now to do some co-processing. We're looking at additional opportunities to develop new kit that would go into Geelong to process other waste and alternative feedstocks. We think that's an important part of an energy transition in the medium term, to be able to provide lower carbon fuels to the market while we've still got traditional engines for quite some time to come.

So the summary of that is that we feel like we've got the opportunity to do that work, to develop those initiatives and we're pursuing that now. The plastic facility next door has been joined to our refinery asset for a long time. It was run by LyondellBasell. We think it suits better to be part of the wider Viva Energy business now. And that's the thesis for doing the acquisition.

It now gives us the opportunity to look at plastics recycling in greater depth. And bringing the two businesses together makes that opportunity much easier to assess. And obviously, the plastics industry, which is, again, could consider it diversification, and another stream to our specialties businesses.

They've got their own challenges with regards to wanting to see increased recycling product come through that system. And there's some industry and government initiatives and mandates to do so over the coming terms. So we think that's an attractive opportunity as well.

Scott Ryall: Okay, great. And then I'll just continue on the hydrogen one. You mentioned there's the first step in establishing a network along the East Coast. And I get the fact that Geelong's one site and all of this.

But if that's ultimately the ambition, can you just explain to me the gateways for investment that you'd look at? And what are the key milestones that you'd be looking at in terms of making further investments and over what timing, please?

Lachlan Pfeiffer: So obviously, the Sydney into Melbourne route is such a heavy freight route that it's the logical first place to develop new fuels and initiatives in that freight market. And starting off with the Geelong, gives you the anchor point to then build out that network up to Sydney.

And then obviously, you'd then look to extend to Brisbane and then potentially to Adelaide in the other direction. You'd probably be surprised, it's not that many service stations you need to build to connect the two major cities. And we're assessing that now.

You should take into account there's also, open now, Victoria and New South Wales government funding for this exact expressed purpose, which is something that the two state governments have done together. So we'll be part of that initiative and looking to participate in that.

And so from a stage gate, that's probably the first stage gate to look into that expansion. The other important things is start to see vehicles on the ground, and that's the thesis behind this first Geelong service station.

What we really want to prove up with Geelong is the vehicles here in Australia and operating, doing genuine commercial freight tasks for genuine commercial counterparties and show that that can work. And that will then lead in and give the wider industry confidence to invest into the long haul freight network.

Scott Ryall: Okay, great. And then can I just ask, probably, a question for Scott, I think. The government started talking about potentially further changes in emission standards, obviously to enhance availability of electric vehicles. But can you just give us a sense of how you're thinking about that in a strategic sense, please?

Scott Wyatt: Look, obviously, the one that has been announced, and one that we're working to is obviously the introduction of low sulphur petrol by the end of 2024, which is the most important change to support the introduction of lower emission Euro 6 vehicles.

I think that the government's looking at starting consultation around CO2 emissions, which is probably more about the vehicle mix. Doesn't necessarily move into fuel standards. But that will obviously change the model, or further support the introduction of lower emission vehicles into Australia as well by regulation over time, if that comes to pass.

So there's always a bit of a nexus between vehicle standards and fuel standards. So we will clearly stay close to those issues. But for now, the known part of the equation is obviously low sulphur, and that's what we are working towards in the project we have government support for.

Scott Ryall: Okay, great. Thank you. That's all I had.

Operator: Thank you. Your next question comes from Daniel Butcher from CLSA. Please go ahead.

Daniel Butcher: Hi. Just a couple of detailed questions really around, first off, just on your product slate, just curious whether we should expect diesel to be 41% and gasoline to be 30% less going forward? Maybe you give us an idea for 2023 as well, given the second half off '22 seems to be impacted by that catalytic cracker outage, you mentioned.

And just curious, can you break down the other 17% a bit? Because there's quite different spreads, different costs within other? I'm just curious, if you can give us a rough breakdown of that, please?

Jevan Bouzo: Yeah, sure. I can give you a bit of colour on the refining slate, Dan. Thanks for your question. We're constantly assessing opportunities to process the optimal product slate at Geelong. And some of that depends on the margin environment at the time. Some of it also depends on the availability and the cost of different crudes relative to others.

And so while diesel production is a little bit off in the first half relative to prior periods, that's a pretty dynamic process where we're constantly assessing available crudes relative to the margins that we expect to see over the coming months in the market.

And so that will move around a little bit from time to time. Generally, there's been a trend over the past couple of years of trying to maximise diesel production because that's where the strength in margins have been, and certainly the expectation around strength in margins. And probably, expect to see that continue. But will depend a little on that dynamic process that the team at Geelong run.

Daniel Butcher: Okay. Would you mind giving colour on the 17% that's other? How much is fuel oil, LBG, that sort of stuff?

Jevan Bouzo: It's generally a pretty small component, fuel oil. And it's not necessarily a refined product. It's generally blended at Geelong to service specific industry. The other specialty products that sit within other are things like bitumen, chemicals, solvents and other products that support some of our specialties businesses in commercial.

Daniel Butcher: Okay. Very good. Fine. Just to follow up on the question on energy costs, perhaps I missed something there. But can you talk about how much gas and how much electricity Geelong uses? Is it mainly gas? Or is a large portion of electricity there as well? And when was the contract struck and went into rollover on the gas side?

Scott Wyatt: So both gas and electricity are significant inputs into Geelong's operating costs. So significant engineers are on both fronts, and we run a rolling term programme for both electricity and gas. But also, as I said before, carry an element of spot as well exposure just to optimise around production and spot prices in market.

And also in the case of gas, at least, anyway, as I said before, is optimise between whether we burn our own gas or purchase off the grid. So it's quite a dynamic process and it continues to roll. And obviously, we'll continue to assess the forward markets and take the optimal decisions based on what's available.

Daniel Butcher: Okay. Thank you. Just quickly on retail sales, I noticed that high margin premium fuels have dropped a bit by a couple of percentage points. And your listed competitor was down a little bit as well, presumably, due to high prices.

Can you maybe talk about where you think that could normalise that mid-cycle, those premium fuel sales? And could you increase your premium sales as a percentage with extra marketing spend et cetera?

Scott Wyatt: We certainly are investing. There's a lot of focus of a lot of our investment programme in both marketing and also availability. So with the changes we made to the agreement with Coles back in 2019, where we were previously, V-Power was exclusive to the Coles Express network.

Since then, now we've been able to roll that out across the whole Shell-branded network. So that's been quite effective for us in improving availability and also exposure in the market. And I know our marketing spend has been to support that as well.

So most of our sponsorship of marketing is directed towards our fuels brand, our premium brand. And we believe that also provides a bit of a halo effect to the broader other grades as well, just by having a strong brand recognition and premium [inaudible 00:58:24] supports the whole business. So it remains a key focus for us. It's a pretty important part of our strategy.

But obviously, at times of high petrol prices, consumers will make decisions to trade down. We've seen that in the past, and we've certainly seen it through this period as well, where they'll trade down from 98 to 95 and 95 to 91, where they can, depending on the vehicles that they're driving. So I think that's quite elastic. It'll come back again if we come to a period where petrol pump prices reduce and those products become more affordable again for consumers.

Daniel Butcher: Right. One quick last one if I could? You mentioned on slide 21 about the Alliance refreshment plan for 2023. Can you maybe just give us a couple of bullet points about what that involves?

Scott Wyatt: The refreshment programme, you're talking about?

Daniel Butcher: Yes, thanks.

Scott Wyatt: So we've been through a programme with Coles of refreshing the stores through the COVID over the last year or so. And we've done about just under 140 of those. And the results, we've been quite pleased with them. And we've committed with Coles to do another 140 in the year 2023.

So we'll continue to roll that out and hopefully, continue to progressively refresh the whole network over time. So it's mostly focused on stores. But there's also a bit focused on optimising forecourts as well and improving diesel pumpability, for example. And having all grades at all pumps where we can.

Daniel Butcher: And how do you share the costs on that and the benefits?

Scott Wyatt: We just share them. So it depends on the... It's just a shared cost. Some of it goes to forecourts, some of it goes to store. We benefit from increased store sales in terms of higher

royalties. And obviously, from a consumer perspective, they see it as one business. So it's important that we continue to co-invest in it together.

Daniel Butcher: All right. I'll leave it there. Thank you very much.

Operator: Thank you. There are no further questions at this time. I'll now hand back to Mr. Wyatt.

Scott Wyatt: Thanks everyone for joining us this morning and for your questions. As I mentioned at the beginning of the session, I'm really pleased with the way the business has performed in the first half and the results that we've achieved.

I'm also very excited about the projects that lie ahead and what they'll mean for our company as we position ourselves for both the energy transition and energy security. Thank you very much for your support. We really appreciate it. I hope you have a good day.

Operator: Thank you. That does conclude our conference for today. Thank you for participating. You may now disconnect.

[END OF TRANSCRIPT]