12 September 2019

Z Energy earnings update

Retail and Refining margins negatively affect FY20 earnings

Z Energy's (NZX: ZEL, ASX: ZEL) operational performance for the first five months of FY20 has been negatively impacted by unprecedented levels of discounting and price competition in our retail business. Gross Refining Margin for the first five months of FY20 has also been below forecast.

Because of weaker than expected retail and refining margins Z Energy (Z) has revised its EBITDAF earnings guidance for FY20 to be between $390 million to $430 million from the previous range of $450 million to $490 million[1].

Z is also updating its dividend guidance for the financial year FY20 to now be in a range of $0.48 to $0.50 cents per share from the previous range $0.48 to $0.54 cents per share.

Refining margins

During the first four months of FY20 refining margins have been weak across the region. August refining margins saw a material increase on previous months' margins, but Z does not expect that elevated level to continue. Z is forecasting a lower Gross Refining Margin until end of this calendar year, after which we expect to see a moderate uplift in refining margins due to the implementation of IMO2020 regulation changes.

Z estimates that the impact of reduced refining margin will negatively impact FY20 EBITDAF earnings by $10 million, most of which is already in the year to date performance.

Lower volumes, retail margin and price competition

Trading conditions during the first five months of FY20 have been affected by several factors that have affected both volumes and margins within the retail market.

In particular, the exit of Caltex from the AA Smartfuels Program to join the new "Pumped!" loyalty program alongside the Z brand has resulted in a significant increase in competitive intensity during the months of July and August. This intensity has shown up as unprecedented levels of discounting, increased frequency and level of discount days, in addition to increased promotional activity from competitors on price boards and through their respective loyalty programs.

During July and August this has negatively impacted margins for both Z and Caltex brands, with volume in the Caltex business also reduced as customers determine their preferred loyalty program. Z estimates that the impact of reduced retail margin and volumes will negatively impact FY20 EBITDAF earnings by $50 million, with half of that being reflected in the year to date performance.

1. The $450 million to $490 million range includes the adoption of IFRS16 accounting standard changes as highlighted at the FY19 results announcement earlier this year.

3 Queens Wharf
PO Box 2091
Wellington 6140
New Zealand

0800 474 355
z.co.nz