Channel
Infrastructure NZ

NZX RELEASE

29 February 2024

Channel Infrastructure (NZX: CHI), New Zealand's largest fuel infrastructure business, has today released its financial results for the year ended 31 December 2023 (FY23).

Highlights

- Full year throughput of 3.4 billion litres, slightly ahead of Envisory's fuel demand outlook, driven by growing jet fuel demand
- Fixed and variable terminal fees exceeded the minimum contractual take-or-pay level, reflecting strong throughput and higher ancillary charges
- $87.2 million EBITDA from continuing operations and $61.8 million Normalised Free Cash Flow for first full financial year at the top end of August guidance
- Declared an unimputed final ordinary dividend of 6.3 cents per share and a special dividend of 1.5 cents per share, bringing the total FY23 dividend to 12 cents per share representing a dividend yield of 8.3%[1]
- Conversion project is now substantially complete, with firefighting upgrades expected to complete this year and bund upgrade work expected to continue until 2027
- Over 100 million litres of private storage now in service, with 45 million litres of jet storage commissioned in Q3 FY23
- Refreshed strategy released, with a focus on being a world-class energy infrastructure company and provider of infrastructure solutions to meet New Zealand's changing fuel and energy needs
- Evaluating brownfield growth opportunities, including Government and additional customer storage requirements, providing increased fuel supply chain resilience for New Zealand.

All numbers relate to the twelve months ended 31 December 2023 (FY23) unless stated otherwise. Comparisons will be made to the year ended 31 December 2022 (FY22) which represents only nine months of import terminal operations.

[1] Based on share price as at 31 December 2023 of $1.45 and includes special dividends declared

Key Financial Results

	FY23 $m	FY22 (9 months of operations) $m
Continuing Operations		
Revenue	**130.7**	88.2
EBITDA	**87.2**	57.5
Net profit before income tax	**34.1**	23.1
Stay-in-business capex	**10.5**	11.8
Normalised Free Cash Flow	**61.8**	58.0
Total ordinary dividend	**10.5 cps**	5.0 cps
Special dividend	**1.5 cps**	2.0 cps
Discontinued Operations		
EBITDA	**2.7**	24.0
Net (loss)/profit before income tax	**(5.0)**	2.4

Commenting, Chair James Miller said "Over the past two-years, the Channel team has successfully executed on the plan we set back in 2021, including the conversion project. Therefore 2023 was the right time to refresh our company strategy to ensure we were identifying and pursuing the best opportunities. We remain focused on being a world-class operator of resilient infrastructure to support New Zealand's energy transition well into the future."

"Channel Infrastructure is well positioned with strong and stable cash flows and uniquely strategic assets that provide the key fuel supply route to Auckland. In 2023 we are incredibly proud to have delivered our shareholders a dividend yield of 8.3%[2], alongside a free cash flow yield of 11.3% and a Total Shareholder Return of 9.2%."

CEO Rob Buchanan said "During 2023 we saw a continued strong recovery in aviation demand, with jet fuel volumes now approaching pre-Covid levels. As the critical infrastructure supply route for jet fuel to Auckland Airport, aviation demand, which is forecast to continue to grow for the foreseeable future, will underpin our core business over the longer term, and with our refreshed company strategy in place, we are well placed to maximise the opportunities ahead of us. The

[2] Based on share price as at 31 December 2023 of $1.45 and includes special dividends declared

trajectory for the future of jet fuel remains positive with a significant number of new long-haul flight routes to and from New Zealand starting to operate."

"During 2023, we set ourselves the ambition to be world-class operators of our assets as well as charting a way forward to grow the company. We continue to make investment into our assets and capabilities, supporting the long-term resilience of our assets and positioning us as the partner of choice as we look to deliver on growth opportunities at Marsden Point and beyond."

Strong financial result in line with August guidance

In its first full financial year of operations, Channel Infrastructure's continuing operations delivered Revenue of $130.7 million (August guidance $128 - $130 million). Fixed and variable terminal fees exceeded the minimum contractual take-or-pay level, with strong throughput and higher ancillary charges resulting in FY23 EBITDA of $87.2 million (August guidance $84 - $88 million). With an EBITDA to Free Cash Flow conversion of 71%, Normalised Free Cash Flow was $61.8 million. Stay-in-business capital expenditure was $10.5 million (FY22: $11.8 million) reflecting four tanks that undertook maintenance turnaround during the year in line with the long-term Asset Management Plan (FY22: three tanks). Growth capital expenditure increased from $15.8 million in FY22 to $30.6 million in FY23 reflecting the peak in private storage work and the parallel construction on the related firefighting and bund upgrades.

Net Debt as at 31 December was c.$315 million[3] (FY22: $257 million), with leverage at 3.6 times Net Debt to EBITDA. The company successfully issued $100 million of unsecured, unsubordinated retail bonds in November 2023, to refinance the subordinated notes.

Fuel volumes approaching pre-Covid levels

In 2023, Channel Infrastructure successfully received and discharged 70 import shipments and delivered c.3.4 billion litres of fuel to Auckland and Northland. This was slightly ahead of the Envisory fuel demand outlook[4], driven by a 72% increase in jet fuel throughput as the strong recovery in jet fuel demand continued, while petrol and diesel volumes remained stable. Fuel volumes are now approaching pre-Covid levels, with Q4 FY23 volumes c.93%[5] of pre-Covid levels and jet fuel volumes in Q4 FY23 representing c.92%[4] of pre-Covid levels.

The Conversion project is substantially complete

The permanent decommissioning of the refinery plant and workforce transition are both complete with 99% of employees who left the business having been supported into new job opportunities or retraining. The remaining conversion work largely relates to firefighting upgrade work to be completed this year and bund upgrade work which will continue to 2027. Despite the pandemic, supply and labour shortages, major weather events and the high inflationary environment, conversion costs remain in budget with $163 million spent as at 31 December 2023. With the significant increase in construction costs impacting the expected cost of the tank bund upgrades,

[3] Excludes fair value adjustments associated with retail bond CHI030
[4] Forecasts prepared by independent energy consultants Envisory and included in the FY22 results presentation
[5] Q4 2023 versus Q4 2019

it is expected that the total spend will now be towards the upper end of the initial 2021 budget of $200 - $220 million.

Over 100 million litres of Private Storage commissioned since conversion

The initial Private Storage conversion project is largely complete. Since conversion, over 100 million litres of private storage has been commissioned with the final 45 million litres of jet fuel storage successfully commissioned in the third quarter of FY23, and this will have a full year revenue impact in FY24. Total private storage contributed $11.1 million[6] of revenue in FY23, up from $2.7 million in FY22. This project remains within budget with $42 million (against a total budget of $45 - $50 million) spent to 31 December 2023. Firefighting and bund upgrade work is ongoing and with increasing construction cost inflation it is anticipated that the total cost of the project will be towards the upper end of the budget.

Progress made towards becoming a world-class operator

Channel's ambition is to become a world-class operator of its assets, by further improving safety culture and systems, lifting customer focus and operational discipline through targeted, incremental investment in the reliability, resiliency and capabilities within the business. This investment, which amounts to around 1% of additional operating cost, will ensure Channel can continue to support New Zealand's fuel supply chain well into the future and position Channel as an infrastructure company of choice for our customers. In 2023, Channel made progress towards this ambition with a site-wide safety culture programme put in place and the delivery of a long-term asset management plan.

Pursuing growth opportunities

During the year, Channel made significant progress towards freeing up further land at Marsden Point for repurposing opportunities and realising value from decommissioned refinery plant, with the entry into an option agreement in July 2023 to sell certain permanently decommissioned ex-refining equipment to Seadra Energy Limited (Seadra) for an agreed sum of US$33.875 million. Seadra has invested significant time and resource in an ongoing due diligence process, and has submitted to Channel a health, safety and environment plan for the deconstruction work. Seadra has paid option payments of US$4.5 million and has until 7 July 2024 to exercise this option.

Channel continues to evaluate the multiple growth opportunities available at Marsden Point. In 2023, Channel submitted a response to the Government onshore diesel storage tender. Channel also continues to look for other opportunities to assist its customers with their supply chain and meeting their fuel storage needs.

Given Channel's infrastructure is critical to the jet fuel supply chain, aviation is set to make up an increasingly large part of the future business, and the company has a key role to play in utilising its infrastructure to enable the decarbonisation of aviation in New Zealand. Sustainable Aviation Fuel (SAF), which utilises existing aircraft and airport infrastructure is expected to be the most technically viable route to achieve decarbonisation for long-haul travel. This presents an exciting

[6] Includes revenue from initial and additional private storage contracts

opportunity for Channel to receive and store imported SAF through its existing infrastructure in the future, and to investigate the manufacture of SAF at its Marsden Point site. Throughout FY23, we continued to work with Fortescue on the pre-feasibility study to investigate the economic viability of the development of an eSAF production facility at Channel's Marsden Point site.

Board declares Final Ordinary Dividend of 6.3cps and a Special Dividend of 1.5 cps

With continued strong normalised Free Cash Flow of $61.8 million and net debt to EBITDA ratio of 3.6 times as at 31 December 2023, well within the targeted range of 3-4 times, the Board has declared a final unimputed ordinary dividend of 6.3 cents per share. Today the Board has also declared a special dividend of 1.5 cents per share. The Board is focused on disciplined use of shareholders' capital and the special dividend reflects the high cash flow generation of the business, which is sufficient to fund the remaining conversion work, balanced against the near-term pipeline of growth projects.

The total FY23 dividend is an aggregate 12 cents per share representing a dividend yield of 8.3%[7]. Following Mobil Oil New Zealand Limited's sale of their 14.2% shareholding in Channel Infrastructure in mid-December 2023, Channel's remaining imputation credit balance was forfeited as a result of the operation of the shareholder continuity provisions of the Income Tax Act. The final ordinary and special dividend will be paid on 28 March 2024, with a record date of 14 March 2024. The Board is committed to delivering stable ordinary dividends over time, while maintaining credit metrics consistent with a shadow investment grade credit rating of BBB+. Dividend policy is to pay-out 60-70% of normalised Free Cash Flows[8].

FY24 Guidance and Outlook

Looking forward to FY24, Channel Infrastructure expects FY24 EBITDA from continuing operations in the range of $91 – 95 million. Revenue will benefit from continued growth in jet fuel volumes, the PPI escalator of 2.1% and a full year contribution from private storage. It is expected that operating expenditure for FY24 will continue at FY23 levels reflecting the inflationary environment and investment in world-class operating capabilities representing c.1% of operating expenditure. Normalised Free Cash Flow is expected in the range of $62 million to $66 million for FY24 reflecting higher stay-in-business capital expenditure of between $11-12 million (compared to $10.5 million in FY23) as Channel continues to invest in the resiliency of its assets.

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[7] Based on the 31 December 2023 share price of $1.45 and includes special dividend declared.

[8] Adjusted for net cash generated from operations less maintenance capex, excluding conversion costs and growth capex). The dividend policy is subject to the Board's due consideration of the Company's medium-term asset investment programme; a sustainable financial structure for Channel Infrastructure, recognising the targeted investment grade rating; and the risks from short and medium term economic and market conditions and estimated financial performance.

	FY24 Guidance $m	FY23 Actual $m
Continuing Operations		
EBITDA	**$91-95m**	$87.2m
Stay-in-business capital expenditure	**$11-12m**	$10.5m
Normalised Free Cash Flow	**$62 - $66m**	$61.8m

- ENDS -

Conference Call

Channel Infrastructure's Chief Executive Officer, Rob Buchanan and Chief Financial Officer, Alexa Preston will give a presentation on the company's financial and operational performance at 10:30am today.

To access the audio call dial 09 929 1687 (New Zealand) or 02 9007 3187 (Australia) and ask to be connected to the Channel NZ annual results briefing. To pre-register for direct access to the call go to https://s1.c-conf.com/diamondpass/10036361-q7bf5d.html

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About Channel Infrastructure

Channel Infrastructure's vision is to be a world-class infrastructure company, delivering resilient infrastructure solutions to help meet changing fuel and energy needs.

Channel Infrastructure's assets are a critical part of the Northland and Auckland fuel supply chain, supporting the delivery of around 40% of New Zealand's transport fuel demand and all of the jet fuel to the Auckland International Airport. Utilising the deep-water harbour and jetty infrastructure at Marsden Point, as well as 280 million litres of storage tanks, and the 170-kilometre pipeline from Marsden Point to Auckland we receive, store, test and distribute fuel owned by our customers. Channel Infrastructure's wholly-owned subsidiary, Independent Petroleum Laboratory Limited, provides fuel quality testing services at Marsden Point and around New Zealand.

Channel Infrastructure will seek to support New Zealand's decarbonisation ambitions, by utilising our strategically-located assets and our expertise in supply chain infrastructure. The Company remains focused on its future growth opportunities at the Marsden Point site and beyond, including additional fuel storage to support fuel security and studies underway with partners on hydrogen and sustainable aviation fuel opportunities.

For more information on Channel Infrastructure, please visit: www.channelnz.com