Q4 2021 trading update

Thursday, 10th February 2022

Operator: Good afternoon ladies and gentlemen and welcome to Rubis Q4 trading update conference call. At this time all participants are in listen only mode until a question-and-answer session and instructions will be given at that time. If anyone should require assistance during the call, you can press star and then zero on your telephone keypad. And just to remind you all this conference call is being recorded. And now I like to head over to Mr. Bruno Krief, CFO, please go ahead, Sir.

Bruno Krief: Thank you, good afternoon everybody. Thank you for being here with us for the review of the Q4 trading update. I would say that we had some developments towards the end of the year.
First with operations, with sales[1] up 5% as you have noticed in the press release that you have got a few minutes ago. I would say these strong sales were pointing across the board both at Rubis Énergie, Rubis Support & Services and also the JV Rubis Terminal. And despite a slight reduction in unit margins, the gross margin is up across the board.
The second point is that the strategic move is in place within Rubis and specifically with the acquisition of Photosol at the end of last year.
Thirdly, we are in a position to reiterate our trust in the materialisation of a growth at Rubis Énergie and also at the JV Rubis Terminal for full year as anticipated previously.

So, coming back to total sales and gross margin by region. We have seen that Europe is up 3%, while unit margin is maintaining a high level after its record peak last year in 2020. In the Caribbean volumes are up 9% with an increase in margin by 2% for the fourth quarter. We have seen aviation doing quite well as expected and in line with the previous Q3 numbers. We can say that at this stage of the year, in Q4, aviation sales were 84% of the 2019 level, while for the full year they are at 56% of the 2019 level. So, this is showing an acceleration and the good momentum of aviation sales towards the end of the year with also good contribution with margin.
In Africa whole volumes are up 2%, the margin is a bit lower in relation to price structure which has been capped in Madagascar same as in Q3 2021. Bitumen volumes are comparable to last year which had recorded especially high level in terms of margins. Adjusted for that, in Africa we can see a progression of 7% of unit margin.
So, all in all for the full year, volumes for the Rubis Énergie are 7% up, unit margin is slightly down at -3% and the total gross margin in millions of euros is up 3%.

If we look at the Support & Services operations, they have been quite active. Sales reported up 34%, of course, this is linked to some extent to the increase in oil price. Nevertheless, in the Caribbean region we enjoy quite good volumes and good units, profit making for the full year, a good contribution again for this region in the Caribbean for trading and shipping operations.

In the Storage operations, JV Rubis Terminal, as you are aware we completed the sale of Turkey by the end of last year. And if we look at total operations in Q4 excluding Turkey, storage revenues are up 5% both for Q4 and also for the FY 2021 which is quite hefty numbers with a contribution across the board, from the ARA zone, from Spain and France of course. So, this is again a good year for our JV Rubis Terminal.

Other areas of operation of the Group, in the ESG you have been noticing that we are continuing the Roadmap and the actions in relation to this. We joined the Sea Cargo Charter, a commitment for more responsible shipping plus transparency and climate reporting. On the other hand, and also as already disclosed, we joined the carbon disclosure project and we got a grade B in the climate change reporting, making us among the top third in the ranking.

[1] Sales – here to read “volumes”

Next to come is the first comprehensive report in CSR and non-financial performance which will be published soon in April this year, three months from now.

So, we can say that at this stage of the year, after a few weeks past January, we can say that we are confident, all that we have seen in our operations are making us confident. So, this is a brief comment on the document that you have just received, it is much more extensive of course. We are there, myself and Anna, to answer your questions. So if you are ready, please.

Participant 1: Good evening, congratulations on the full year which is better than I expected. I have a question regarding storage business and the set of Rubis in Turkey. Could you remind us how much was paid by Rubis to acquire the company and how much was invested and if you made a profit on the sale or a loss. And what will be an impact on the accounts of Rubis?

Bruno Krief: Yes, we have not disclosed the sales number, the amount of the divestment, this is the agreement between the seller, ourselves, and the purchaser. What I can comment is that of course this translates in the sales of this terminal. And I can remind you that in the year 2020 we had some 11 million EBITDA generated by the Turkish operation; in the year 2021 because of the lack of contango and backwardation, profits were quite lower and we manage to sell the company at some 8x EBITDA. So, the average EBITDA between 2021 should have been in the region of 8 million euros so this could help you to make your calculation. Then you're talking about values. It's a bit early to comment but we'll also tell you that the event of restructuring Rubis Terminal and reorganization with changing the value of each asset was revalued because there were carve outs to another company at the transaction price reflected in the team with ISquared. So, there is an economic value but there is also an accounting value which probably this is the one you have to live with today and for the accounts in 2022. And this will result in profits, both for Rubis Terminal and for Rubis shareholders.

Participant 2: Good evening, I have actually four questions. The first one on the volumes distributed by Rubis Énergie in Africa: over the full year they are 11% above pre-pandemic level – can you give us this figure on an organic basis, i.e. the volumes stripping out KenolKobil?

Bruno Krief: Between 2021 and 2019, we have excluded acquisition of KenolKobil. So you can compare on the same basis 2021 and 2019 precisely to answer your question, so 11% increase is the same perimeter. This is another way of looking at this, there is another column excluding aviation. Column 2021 vs 2019 at isoperimeter and 2021 vs 2019 excluding aviation across the board, including not only Africa but also Caribbean.

Participant 2: My second question, and I didn't get it. You said +3% in gross margin in Euro terms for Rubis Énergie in 2021. Was it for the full year or the Q4?

Bruno Krief: It was for the full year.

Participant 2: Alright. Thank you. And can you comment also on the most recent margin trend, unit margin trend considering oil prices have continued to increase year to date? Shall we expect further margin contraction, at least in H1?

Bruno Krief: The advantage is that it started a few months ago actually, the sharp increase. So, there could be some squeeze when there is very quick and unexpected increase at a certain moment. But the increase in oil price has started gradually, all along the year. Then that accelerated during the fourth quarter and even more recently. So when you are in such a configuration of price move, we have had already you know the capacity to pass on to the customer the change in price or most of it. So we are not, I would say, trapped by a sudden increase.

So this is the little nuance but we have been experiencing over the past six months, gradually and then even more so the acceleration of increase, still in the trend of increase. So in this case, I would say it's less painful for us as a distributor to pass the change in price, to pass the increase to the selling price.

So, of course if we have the choice, we prefer an environment where the price is stable or even going down. But as you know, all over the years we have been able to manage the situation looking at what we have given as the total margin for the year and so, clearly the situation is the one that I have just described. It's a better configuration, the one we are experiencing.

Participant 2: Another question on 2022 earnings. You are nearly back on track in terms of volumes at Rubis Énergie, are there some reservoir of growth for FY 2022 in organic terms now that the pre-pandemic recovery is behind us?

Bruno Krief: In terms of aviation volumes, on the full year basis, we are still 54% compared to 2019. So here, there is reservoir of growth quite substantial. And even more if we take into consideration the margin increase because we're making quite hefty margin per unit in aviation currently. It’s a bit the same situation than we can have if you want to buy a flight ticket currently to go to Spain, to Morocco because it's extremely expensive. So we are catching up like everybody. So this is one leverage that we have.
We have also the leverage in eastern Africa, in Kenya and the surrounding countries where the plan in terms of refurbishing and rebranding and including the convenience store, and so we are investing and completing the programme. It will be accelerating during the year 2022 to 2023. And we see quite rapidly the impact on the sales journey and frequentation of our stations. So this is another good leverage we can have.
And globally speaking also, it is true that if we compare 2022 and 2021, 2021 was a year where we have had here and there some lockdowns. So if 2022 retrieves a more normal pace, there is also some leverage across the board.

Participant 2: Thank you, very clear. And my last question concerns M&A, external growth. Do you intend to make further M&A in renewable activities or do you consider that you now have the right setup in place? And also, what's your view on the legacy, I would say, fossil-fuel asset. Shall we expect now the capital allocations to be exclusively towards renewable asset at Rubis?

Bruno Krief: Not necessarily. We are in a position to generate growth and to purchase growth in both operations. Of course, we have an appetite to build up the new operations. We cannot start a business and just stop the developments and the philosophy of growth after the first acquisition. So clearly, we have the advantage of having with us a good team, some expertise. We have a very strong position in France and we would like to leverage this existing value elsewhere, it could be either in Europe or in another continent. So clearly, we will allocate some funds for growth in the renewable.
And relating to the energy distribution business, it is clear that this sector has entered a sort of period of questioning, making that it could accelerate the exit of certain actors from the sector and make opportunities to make acquisition at even better price. So we have to consider of course, not only the price, but the perspective and the profitability long term of acquisitions. All in all, we have also taken the sort of commitments to, over the medium long-term period, to get to a sort of balance between the new energies and the traditional energies. New energies mostly in the developed countries and traditional energies, so petrol gas station and LPG and bitumen, in areas of the world where the energy transition has not the same momentum. So, this continent will get to the energy transition but probably with some decades delay compared to Paris, London or Frankfurt. So we believe that our portfolio of business is well positioned within this context.

Participant 3: Yes, thank you very much. Good evening Bruno. Just one on my side. Can you give us an idea of the unit margin evolution in Q4? I believe that for the first nine months it was down, you indicated that in Q3 call. But have you seen a quarter-to-quarter improvement in the trends in unit margin? Can we hope that in 2022 there are no longer headwinds to the business?

Bruno Krief: The fourth quarter in terms of unit margin momentum, as we commented earlier, it was slightly lower than last year. But you have also to take into consideration these very strong increase in supply prices over the past 12 months. Definitely.
Then, all that you have to answer to the traditional question it is how Rubis is managed in this environment of volatility of oil prices. We are present like many actors in this area for decades. And at the end of the day, we have this formidable capacity to pass them to the customer - the volatility in price, there could be one quarter delay and with some momentum, acceleration or not in the way we can pass it on. At the end of the day, it should take a moving average over 10 years, 15 years of the unit margin or the quarterly margin, you won't see the volatility of the prices. So, this is how we are developing within this environment.

Participant 3: Yes, I understand Bruno. But my question was really have you seen quarter-over-quarter improvement of the pace of the decline just for us to have a view on your entry point in 2022?

Anna Patrice: Yes, hi, this is Anna Patrice. Can I step in, please? So you know that in Q3 we have told you that we had a negative impact from Madagascar and a high comparison basis with bitumen, remember that? And that adjusted for that, the margins were up. And so in Q4 we had again those two negative impacts and if you adjust for these two negative impacts the unit margin is up in Q4.
We said that the high comparison basis with bitumen started in the 2nd half of 2020 and lasted into 2021. So that means that probably in the beginning of 2022 you will still have some of the impact but it will be diminishing.
And regarding Madagascar, we don’t have a crystal ball, but what we told you is that we used to have that situation in the past, that in the past it lasted for roughly six months and then later on we were able to compensate for the loss of the margin. So probably it started again, if you remember last year, that means that in 2022 it should start to improve.
So, the underlying margins are already higher. And those two effects will fade out throughout 2022.

Participant 3: Okay, thank you, it is absolutely clear. Thank you.

Participant 4: Yes, hello. So, congratulation for the good results and good recovery. I have three secondary questions. One: regarding Haiti at the end of the year. Is there any risk to have goodwill wright off? Two: regarding the bitumen market, I remember that the bitumen market this year in Africa is sort of slowed down by elections, that's what I’ve got from you recently. So is it still the case or can the outlook be different? And three: maybe it's too early to tell, but I guess there is no surprise with Photosol at this point because it's a big investment. So I guess is there any good surprises or not so good surprises at this point?

Bruno Krief: Well, it is too early to talk about bad or good surprises because at this stage of the year we even have not completed yet the acquisition. I can simply remind you that we are looking at a sector with very long-term contracts, 20 years or so, guaranteed tariffs and price index. So when the SPV, which are the companies which are delivering electricity for each project, are in place, it’s embarked for 20 years and there are not so many surprises and this is the nature of this business.
Of course, we will have the opportunity to talk more in details about Photosol in the coming months.
Regarding your question on Haiti, I would say that the situation in terms of economics, politics, social has not evolved dramatically over the past four months or last 12 months. We have had probably one positive news in the front of the margin structure, with an effort from the state to catch up in terms of margin. And this has helped also the profitability in Haiti for the petrol distributors. And as you know, we have written down the value of the assets during the year 2020, in the accounts for an amount of as far as I remember 46 million. We have regular reviews with our auditor, according to the formulas, risk premium and business plan, which are reviewed not only annually but also semi-annually. And so far there has not been any case

for reviewing the value, the new value. So let's wait how the situation in Haiti evolves. Probably this year there is political agenda, it should be in place with elections, maybe or maybe not because nobody knows at this stage of the year. But anyways we are there, we are supplying fuel, we are supplying for the aviation, the LPG, the power generation. And we have no choice but to continue to build our business there and to wait for better times. And so far contribution from Haiti, we will have a chance to talk about it later when we publish the results, is not representing a big thing within the Group. Is there another question?

Participant 4: The bitumen situation in Africa?

Bruno Krief: Oh, the bitumen situation in Africa. The good thing is that over the past 5 years we have formidably increased our diversification accross the Western African countries. When we started it was 80% Nigeria, today it is around 50-55%. There are new countries where we have been investing and where now we have developed a franchise to distribute the product from South Africa to Gabon, to Cameroon, Ghana, Togo, Burkina Faso. We have a formidable franchise in this region. You have elections here and there each year, so there could be positive or negative impact in one country at such time. But when you are in the basket of 10 or 12 countries, the volatility is mitigated I would say. What is important is that all the continent needs infrastructure and we are there with very solid asset and very high market share to supply the product and a good quality product and I am very confident about what we can build in bitumen in the next two, four, five, ten years.

Operator: We appear to have no further questions, Sir, so I handle over the conference back to you.
Bruno Krief: if we are done with that, thank you very much for all for this discussion and good exchanges. Bye-bye.

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