

## NZX RELEASE

25 August 2022

### **Strong Cash Flow in H1 increases confidence in return to Dividends for FY22**

Channel Infrastructure (CHI), New Zealand's largest fuel infrastructure business based at Marsden Point in Northland, has today released its financial results for the six-months ended 30 June 2022 (H1 2022).

The financial results reflect discontinued operations of the refinery for the three-months ended 31 March 2022 (Q1 2022) and the continued operations of the import terminal for the three-months to 30 June 2022.

#### **Operational Highlights**

- Completed refinery shutdown safely and to plan, despite the challenges of COVID in the community
- First quarter of terminal operations successfully completed with 19 import shipments discharged
- Jet demand at highest level since 2019; demand is currently above 50% of pre-COVID levels and continuing to recover as borders open and aviation capacity returns
- Conversion project tracking to plan and budget, with decommissioning of the plant 70% complete and the highest-risk phase of the project over

#### **Financial Highlights**

- Strong EBITDA margin from continuing operations of c.66%, demonstrating improved financial performance under the new operating model
- Significant cash flows funded two-thirds of conversion spend in H1 2022
- Net assets up 5% from \$1.33 to \$1.40 per share
- Successful retail bond issue completed in May 2022, and bank refinancing well underway to reset cost of capital
- Performance tracking in line with FY22 guidance, and FY23 EBITDA now expected to be at the top end of guidance
- Strong cash flow increases confidence in return to dividends in March 2023

Commenting, CEO Naomi James said: "These financial results reflect the transition to Channel Infrastructure on 1 April, and the stable earnings and cashflows that come with our long-term customer contracts. Performance is in line with FY22 guidance and FY23 EBITDA is now expected to be at the top of the guidance range. Our strong cash flow increases our confidence we will return to dividends in March 2023."

"We have successfully completed our first quarter of import terminal operations and, following the opening up of New Zealand's borders, we have seen jet fuel demand rapidly recover to over 50% of pre-COVID levels. The most complex and risky part of the conversion project with the transition from refinery to terminal operations is now behind us, and the project remains on-plan and to budget."

"Work is progressing on a number of growth opportunities, alongside our partners, to support New Zealand's fuel security and decarbonisation, by using our highly strategic assets to deliver long-term shareholder value. With significant underutilised capacity at our site, we are well positioned for the future."



## Strong EBITDA and cash flow supports return to dividends for FY22

Revenue from continuing operations was \$29.8 million reflecting the first three-months of terminal operations. On 1 April, the long-term Terminal Services Agreements with customers bp, Mobil and Z Energy commenced, with fixed and minimum fee components, which allows time for a recovery in jet fuel demand from COVID impacts. The strength these contracts provide is reflected in the fact that over 90% of total revenue from continuing operations was fixed or underpinned by “take-or-pay” fees. Import terminal operating costs were \$10.1 million reflecting energy and utilities (23%), labour (23%) and site operations, and other (54%).

The strong EBITDA margin of c.66% and operating cash flow generation<sup>1</sup> of c.\$41 million allowed Channel to fund two-thirds of conversion spend in H1 2022.

Continuing operations (\$m)	H1 2022
Revenue	29.8
EBITDA	19.7
Net Profit Before Income Tax	7.8
Net Debt	215.3
Net Assets	522.4

Refining operations ceased in March 2022, and in the last three-months of operation generated revenue of \$69.0 million, and an EBITDA of \$26.5 million.

Net Debt increased from \$183.6 million as at 31 December 2021 to \$215.3 million as at 30 June 2022 as the refinery’s shutdown, decommissioning, and workforce transition were completed, with \$63 million spent in H1 2022. Net assets increased by 5% (from \$495.5 million as at 31 December 2021 to \$522.4 million as at 30 June 2022) to \$1.40 per share.

## Successful first quarter of terminal operations with jet fuel recovering to above 50% of pre-COVID levels

Channel discharged 19 import shipments in Q2 2022 and a total of c.593 million litres was delivered to the Auckland market through the Marsden Point to Auckland Pipeline, with the balance of c.85 million litres delivered to Northland via the Truck Loading Facility adjacent to the Terminal.

Diesel demand remained strong in H1, reflecting wider economic activity, and petrol demand showed a rapid recovery from lockdown impacts, albeit remained slightly below pre-COVID levels due to high pump prices. Petrol demand has now recovered to pre-COVID levels. As expected, jet fuel demand has recovered with the reopening of the borders and aviation capacity returning and is now at the highest level since 2019 – currently at above 50% of pre-COVID levels. Airline capacity constraints are currently limiting the rate of recovery of aviation. Nonetheless, the potential exists for jet demand to recover faster than previously expected with all border restrictions lifted.

## Significant progress on carbon targets

In April, Channel Infrastructure published its first Sustainability Report, which provided a summary of its sustainability performance to date and outlined the Company’s ambitious targets for the future. During H1 2022, we have made significant progress towards these targets.



The extensive workforce transition program continued throughout the period with significant workforce changes occurring after the refinery shut-down in March. Channel Infrastructure set an ambitious target for at least 90% of employees seeking new employment securing a job or retraining within six-months of leaving the Company. This is on-track with greater than 90% of staff who have left in Q2 2022 having found their next opportunity, and only five still looking for their next opportunity.

Channel Infrastructure is targeting Net Zero scope 1 and 2 emissions by 2030. The shut-down of the refinery saw a 98% reduction in 2019 emissions (over one million tonnes of CO<sub>2</sub> per annum). The business has also seen an 85% reduction in electricity consumption and now has no natural gas requirements – reducing thermal generation demand and supporting New Zealand's wider efforts to decarbonise. CO<sub>2</sub> emissions fell to c.27 ktCO<sub>2</sub> in Q2 2022 compared to 222 ktCO<sub>2</sub> in Q1 2022 with further reductions expected in H2 2022.

Our environmental remediation work remains a priority, with ongoing environmental management at Marsden Point continuing to remediate legacy groundwater hydrocarbons; the flush out and decontamination and cleaning of plant and equipment ready for demolition and recycling and removal of materials is ongoing, and included in the decommissioning and terminal plans and budgets.

### **Conversion project remains on-plan and to budget**

Channel Infrastructure successfully commenced operation of New Zealand's largest fuel import terminal at Marsden Point on 1 April 2022, following the safe shutdown of the refinery in March. Two months of intensive site works was completed after closure to permanently decommission the refinery assets. The process of plant decommissioning is now approximately 70% complete, and the plant has been dismantled internally with only the shells and structures remaining. The highest-risk phase of the project is now behind us.

Over the next nine-months decommissioning works will continue to ensure the main refinery process plant and remaining tankage facilities are in a safe state for at least 10-years. Concurrently, Channel will continue terminal upgrades to provide additional jet fuel storage, to improve tanker unloading capacity and to upgrade its fire-fighting and secondary containment systems.

Conversion costs are tracking to plan, with project spend to the end of July of \$84 million<sup>2</sup>. Of the total budget, more than half has already been spent or committed, reducing the risk of inflation on project costs.

### **Focused on Growth Opportunities**

Channel Infrastructure's highly-strategic assets opens up many growth opportunities with the significant industry change, and New Zealand's decarbonisation ambitions.

As previously announced, work is underway to convert a number of tanks to increase storage capacity for customers, with further opportunities for additional tank conversions should they be required to meet fuel storage requirements. With increased fuel storage at Marsden Point, we have the opportunity to support New Zealand's fuel security now, and as the Government looks to implement its expected fuel stockholding policy.

This week, Marsden Point received the largest refined product ship to ever visit New Zealand. As the largest fuels import terminal in the country, Channel Infrastructure is the only location in New Zealand capable of receiving product tankers of this size, offering customers significant freight savings, and our significant tankage capacity enables the storage and distribution of the fuels on board, to where customers need it most.

Conversations continue with customers on meeting their requirements to support the importation of BioFuels ready for the incoming BioFuels Mandate policy, and the study with Fortescue Future Industries (FFI) investigating the commercial feasibility of green hydrogen production is nearing completion.

Channel Infrastructure recently opened a Request for Information process to secure long-term low-cost electricity supply, which will be an important opportunity to reduce electricity costs which make up one-quarter of terminal operating costs. The Maranga Ra onsite solar project provides a unique opportunity to establish renewable capacity, at significantly lower-cost than the market is currently delivering. With resource consents



already in place at Marsden Point, and available transmission capacity, the project can be developed much faster than most other solar projects being proposed.

### **Focus on diversifying funding sources and aligning cost of funds with an infrastructure business**

Net debt increased to \$215.3 million as the conversion activities were delivered in H1 2022, and debt is expected to peak around the end of 2023. Existing debt facilities of \$375 million are sufficient to fund the remaining conversion costs, with c.\$160 million of liquidity headroom available at 30 June and no significant near-term maturities.

Channel Infrastructure is focused on diversifying its funding sources and improving funding competitiveness, with the objective of lowering its cost of debt, consistent with an infrastructure business. In May, \$100 million of unsecured retail bonds were issued. Bank refinancing is well progressed to align with the infrastructure business profile. The currently drawn bank debt is fixed, providing funding cost certainty and protection in the increasing interest rate environment.

### **Performance in line with FY22 guidance and FY23 EBITDA tracking towards top end of guidance range**

Looking forward performance is tracking in line with FY22 guidance, Channel Infrastructure will continue to benefit from the stable earnings that the import terminal operating model provides. Import terminal fees commenced from 1 April and are expected to contribute c.\$75 million for the 9-months of the terminal operation. Total operating costs<sup>3</sup> are expected to be c.70 million for 2022, with \$53 million spent to the end of June (including \$43 million on discontinued operations, and \$10 million on continued operations). As the conversion project progresses, we expect borrowings to increase, and average to c.\$220 - \$230million.

Looking beyond 2022, Channel Infrastructure is now expecting FY23 normalised EBITDA, from continuing operations, to be at the top end of its guidance range of \$76 - \$84 million. Channel Infrastructure will benefit from the Producer Price Index (PPI) indexation from 1 January 2023 as all fees earned under terminal services agreements and private storage agreements (making up c.90% of total revenue) will be subject to indexation based on 12 monthly inflation to 30 September 2022, pro-rated for nine-months. PPI for the nine months ended 30 June 2022 was 6.6%, which implies an additional c.\$7 million of revenue. Electricity remains a key cost to the business, and therefore, management remains focused on work to reduce electricity costs, to maximise earnings from the business.

### **Strong cash flows increase confidence in return to dividends in March 2023**

The Board confirms its dividend policy pay-out of 60-70% of Free Cash Flow (being adjusted net cash generated from operations less maintenance capex)<sup>4</sup> which supports achieving target Net Debt of 3x to 4x EBITDA, consistent with an investment grade rating. The first opportunity for a dividend will be in March 2023 after the FY22 financial results, provided net debt is below 4.5x EBITDA.

The Company expects net debt to be below 4x EBITDA at year end, and, indicatively, Free Cash Flow (excluding growth capex and conversion costs) from the terminal in May and June of c.\$9 million would equate to a FY22 dividend of c.6cps at the mid-point of the dividend pay-out range.

### **Conference Call**

Channel Infrastructure's Chief Executive Officer, Naomi James, and Chief Financial Officer, Jarek Dobrowolski will give a presentation on the company's financial and operational performance for H1 2022 via a webcast commencing on Thursday 25 August 2022 at 11:30am NZT.

Participants need to pre-register for the conference by navigating to [Link](#)



## Footnotes

1. Operating cash flow from operations excluding one-off conversion costs.
2. Includes private storage of c.\$4 million. Overall conversion project budget includes \$200-220 million of conversion costs and \$45-50 million for private storage over approximately four years, as well as \$50-60 million of demolition costs longer-term.
3. Operating costs associated with continuing and discontinued operations, excluding one-off conversion costs.
4. The Board reserves the right to adjust the payout ratio or expected timing for the recommencement of dividends should the timing, costs or revenue associated with the conversion (including new services such as Private Storage Services) or the import terminal business change. The dividend policy will be 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. It is the intention of the Board to attach imputation credits to dividends to the extent that they are available.

- ENDS -

## Authorised by:

**Chris Bougen**

General Counsel and Company Secretary

## Contact details

Investor Relations contact:

Anna Bonney

[investorrelations@channelnz.com](mailto:investorrelations@channelnz.com)

Media contact:

Laura Malcolm

[communications@channelnz.com](mailto:communications@channelnz.com)

+64 21 02363 297

## About Channel Infrastructure NZ

Channel Infrastructure is New Zealand's leading fuel infrastructure company.

Channel Infrastructure owns critical infrastructure, supplying the Northland and Auckland markets, which make up 40% of New Zealand's liquid fuel demand and all of the jet fuel to 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 is well positioned to support New Zealand's changing future fuel needs, with growth opportunities at the Marsden Point site including additional fuel storage to support fuel security, renewable electricity supply through the Maranga Ra solar project, and work underway with customers and partners on biofuel and hydrogen opportunities.

For more information on Channel Infrastructure, please visit: [www.channelnz.com](http://www.channelnz.com)