



23 January 2019

Z Energy quarterly update

Upward revision to FY19 earnings guidance

Z Energy's (NZX:ZEL) operational performance for the third quarter of FY19 has been positively impacted by rapid declines in the price of underlying crude meaning the company was able to improve its competitive position in the retail market with less pressure on both retail and commercial margins.

The reversal of the crude price lag and reduced retail margin compression in the quarter allows for a review of FY19 earnings guidance with RC EBITDAF for the full year revised upwards to \$420 million – \$450 million.

Dividend guidance has also increased, based on higher 3Q earnings and a more stable crude outlook. Total dividends for FY19 are now expected to be between 38 and 47 cents per share inclusive of the 12.5 cents per share interim dividend paid in December 2018.

Market share stabilises in 3Q as crude price falls

Total industry volumes for all fuels increased 5.2% to 2,510 million litres for the December 2018 quarter compared to the corresponding December quarter in 2017, driven primarily by growth in commercial fuel markets. Z Group total fuel volumes, excluding industry and export sales, increased 0.7% for the same period.

During the December 2018 quarter total retail industry volume was down -3.1% while Z Energy was flat year over year. Comparing the December 2018 quarter (3Q) with the September 2018 quarter (2Q), retail petrol market share for Z is up 0.9% and Caltex is down -0.8% over the same period.

In commercial markets Z achieved volume growth in the quarter but lost market share in diesel and jet. The decline in commercial diesel was from high volume / low margin account losses which have been replaced towards the end of the quarter by volume that has improved the portfolio mix.

Falling crude price effects

In a falling crude market Z Energy enjoys better retail and commercial trading conditions.

During the quarter Brent crude prices fell 40% from a high of US\$86/bbl in early October to US\$51/bbl by late December. The drop in crude prices had the effect of reducing the notional main port price⁽¹⁾ for 91 Octane from \$2.449 per litre to \$2.019 per litre during the quarter. The notional main port price graph for the last 18 months is reproduced below. The decline in the main port price advantages both Z and Caltex networks as customers increase fill volumes (the average for Z has increased from a 3Q low of 26 litres per fill to a more typical 28 litres) and decrease price sensitivity, shifting consumption towards full service retail offers.

With a decline in the crude price, Z's earnings from commercial sales of diesel, jet fuel and bitumen are advantaged through price leads. Some customers purchase crude on an "m-1" basis i.e. product sold in December is priced on November's input cost. On that basis the -\$10m of Commercial price lag disclosed in the 1HFY19 actuals has more than fully reversed to be a +\$8m price lead in the December accounts.

(1) Notional Main Port price is defined as the notional average national price for a litre of 91 Octane excluding regional taxes



Commerce Commission market study and RAP Inquiry

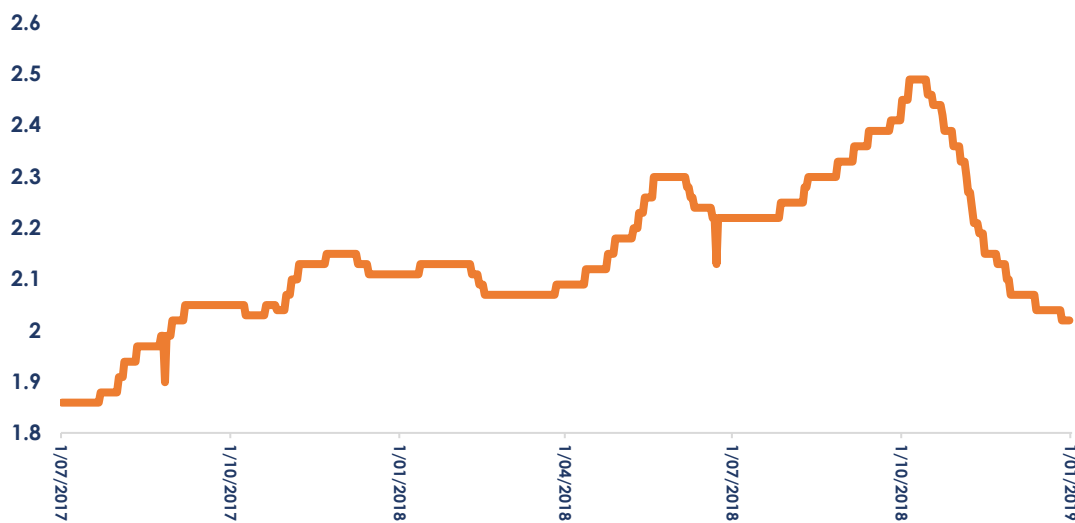
During the third quarter the government passed into law market studies legislation giving the Commerce Commission new powers to undertake market studies. The government has confirmed that the Retail Fuel Industry will be the first industry to be reviewed under the new market study powers. As of 23 January 2019 Z confirms that it has complied with all information requests of the Commerce Commission.

An inquiry into the Refinery to Auckland Pipeline (RAP) was also launched by the government during the quarter. The inquiry was established on 10 December to inquire into the cause(s), contributory factor(s) and impacts of the RAP outage in September 2017 and the relevant operational and risk management practices of relevant parties. Z Energy is set to participate in the Auckland Fuel Supply Disruption Inquiry.

Forward outlook

The crude markets remain volatile with Brent crude prices rising 24% from US\$51/bbl in late December to US\$63/bbl at the end of last week. The above guidance is based on a relatively stable crude environment for the remainder of the financial year within a range of US\$60 to US\$70 per barrel.

Notional Main Port Price (1 July 2017 to 31 Dec 2018)



Z Energy operational data for quarter ended December 2018

Health, safety, security and environment (HSSE)

	December 2018	December 2017	September 2018
Lost time injuries	9	2	6
Spills to ground	0	0	0
Robberies ¹	0	2	6
Fuel quality incidents	0	0	0
Process safety incidents	0	1	0
Food safety incidents	0	1	1
Total recordable case frequency	1.99	1.20	1.76
Motor vehicle incident frequency	1.21	2.18	0

Fuels

All fuels in millions of litres	December 2018	December 2017	September 2018
Total industry volumes (all fuels) ²	2,510	2,386	2,271
Z Group total fuel volumes	1,157	1,121	1,145
Petrol - Z Retail	197 ³	186	171 ³
- Caltex Retail	109	121	106
Diesel - Z Retail	76	76	72
- Caltex Retail	41	44	38
- Commercial	208	214	197
Other fuels	327	311	279
Supply - Domestic	148	146	127
- Industry & Export	51	23	155

1 Robberies reported only relate to Z Retail sites. Caltex sites are owned and operated by independent dealers

2 Excludes 'Supply - Industry & Export' sales

3 Z Retail volumes include volumes from 53 Foodstuffs sites



Refining

	December 2018	December 2017	September 2018
Refining NZ gross refining margin (GRM):			
USD GRM per barrel	6.53 ⁴	6.83	6.86
NZD GRM per barrel ⁵	9.62	9.88	10.20

Customer experience

	December 2018	December 2017	September 2018
Z Retail customer satisfaction ⁶	90%	88%	90%
Total Z Retail transaction count	14.5 million	14.9 million	13.8 million
Z Retail: fuel-only transactions	7.4 million	7.7 million	7.2 million
Z Retail: fuel and store transactions	1.7 million	1.8 million	1.6 million
Z Retail: store only transactions	5.4 million	5.4 million	5.0 million
Z Average weekly store sales	\$37,918	\$36,981	\$33,870
Z Average weekly store sales like-for-like	\$38,515	\$37,210	\$34,346
Number of Z branded service stations	203	205	203
Number of EV charging stations	8	8	8
Caltex Retail customer satisfaction ⁶	79%	-	80%
Number of Caltex branded service stations	139	140	140
Number of truck stops ⁷	155	157	155

4 This number is from Refining NZ published data for the November/December period

5 The NZD conversion is calculated by Z

6 Customer satisfaction determined using ongoing internal customer measurement

7 This figure represents the combined Z and Caltex branded truck stops

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