15 November 2011

Z Energy half year result

Z Energy today said trading conditions were tough with low economic growth and high pump prices resulting in declining industry fuel volumes over the six months to 30 September 2011. Despite a noticeable increase in competitor responses to Z's brand activity, Z continued to grow its market share in petrol and diesel sales and received positive feedback from its customers about the changes in brand and customer offers.

For the six months, Z has returned Earnings Before Interest, Taxation, Depreciation, Amortisation and Financial Instruments (EBITDAF) of $88.7 million, down slightly from $97.3 million in the previous corresponding period.

Z Chief Executive Mike Bennetts said while Z was continuing to outperform the rest of the market and advance the company's strategy, the price of fuel at over $2 continued to impact driving behaviour.

"Petrol and diesel volumes across the industry are down 1.4 per cent on the same period in 2010. In contrast Z's total petrol and diesel volumes have risen 3.4 per cent on the previous corresponding period, meaning that in a tough, competitive market, Z continues to gain market share and grow its customer base."

Mike Bennetts said motorists were continuing to benefit from very strong competition on pricing, with Z's post tax profit on all total fuel volumes over the six months at two cents per litre.

"As expected, we are seeing significant restructuring and consolidation in the New Zealand fuels market and we expect this to continue. This provides a unique environment for Z to execute its three year strategy against which we have made pleasing progress."

Mike said the sale of Shell last year and the rollout of the Z brand was the most visible change, but further change was likely in the market structure and infrastructure side of the industry.

"During our strategy development process, we identified gaps in the country's fuel storage infrastructure that we will close through selective investment. Z has just completed a $25 million bulk fuel storage facility at Lyttelton and will invest an additional $40 million in new fuel storage across the country over the following three years."

Mike Bennetts said the domestic supply chain has become less resilient over the last decade due to rationalisation of infrastructure investment and more tankage was needed to boost security of supply for customers and the country.

"In order to make these investments, and in the context of our strategy, we've reviewed the way some of these assets have been run and ensure they are being operated commercially.

"We have also now completed a review of our portfolio of commercial customers and identified where our operating and funding costs are not adequately covered by our revenue. We are now taking steps to improve the economic sustainability of this part of the business."

Z has also diversified its debt structure through the successful completion of a $150 million retail bond issue. "Our new funding structure provides us with the flexibility and strength to pursue growth opportunities as they arise," he said.

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Mike said the decision to replace the Shell brand with Z was already in action with the first new Z site due to open in Whangaparoa on 19 November.

“We spent the last four months of the 10 site Z pilot programme listening to feedback on the Z brand and our improved offer. We now have the confidence to commit $60 million to the rebrand of our network over the next nine months and the refit of our largest 100 stores.

“Across the country, Z sites will be springing up pretty quickly over the next nine months, with guaranteed forecourt service and $1.2 million being invested into local neighbourhood projects and organisations around each site.”

Mike Bennetts said the 10 site pilot project saw a growth in fuel volumes against previous site performance and non Z branded control sites.

“We’ve listened carefully to what Kiwis told us they wanted in a retail service station and now we’re committed to delivering it. Customers told us they want to support a Kiwi company but that we also need to be world class and do a better job than our competitors.

“We’ll be delivering a faster, friendlier, more helpful service across all of our sites and top quality espresso coffee and pies, and upgraded bathrooms at the larger sites in our network.”

Mike Bennetts said one of the company’s strategic priorities was speed.

“Our customers told us that getting in and out quickly mattered to them so we are in the process of rolling out a $10 million point of sale system which will cut card transaction times by around eight seconds each, giving Z the fastest transaction times in this industry.”

Mike Bennetts said over the full year, Z would have made significant contributions to issues that mattered to New Zealand because Z’s focus is solely on the local market and Z has the ability to respond quickly to changing circumstances.

“As a local company we’re making a meaningful contribution in the aftermath of the Christchurch quakes and our chartered marine refuelling barge, Awanuia, has been used in the Rena oil recovery effort for over a month, which may yet result in a small financial loss.

“Making the Awanuia available to the Rena effort has come at significant disruption to our commercial marine customers and I want to thank those customers publicly for their patience and understanding which has enabled Z to make this contribution.”

Mike Bennetts said the economic outlook for the remainder of the financial year was uncertain but, if challenging trading conditions persisted, Z was looking to deliver forecast EBITDAF at the lower end of the previously indicated range of $170m - $190m.

“We are taking a number of steps to improve the commercial performance of our business from our infrastructure assets to our retail offer and to investing in the future of New Zealand.

“As a New Zealand company, we are committed to delivering value to all of our customers, to creating local jobs wherever possible, and to strengthening the New Zealand supply chain.”

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