Channel
Infrastructure NZ

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Channel Infrastructure 2023 Guidance update

Channel Infrastructure (CHI), New Zealand's largest fuel import terminal business based at Marsden Point in Northland, has today provided an update on its FY2023 financial guidance. Key highlights include:

- Following the 8.4% increase in Producers Price Index[1] announced today, 2023 revenue is now expected in the range of $125 million to $128 million (previous guidance: $116 million to $120 million).
- Additional terminal services revenue contracted which is expected to deliver c.$4 million revenue in 2023 (and c$25 million over the 5-year contract term).
- 2023 EBITDA guidance increased from $76 - $84 million to $82 - $86 million increasing the indicative dividend range from 8 –11 cents per share to 9 –11 cents per share.

Channel Infrastructure CEO Naomi James commented: "Channel Infrastructure's long-term contracts provide protection and benefit in the current inflationary environment. With the benefit of the PPI indexation on revenue more than offsetting the inflationary impacts we are seeing in our cost base, and the continued execution of our growth strategy with additional private storage contracted, we have today increased our FY23 earnings and dividend guidance. Conversion costs continue to track to plan."

Updated 2023 financial guidance

Ahead of the transition to a new business model, Channel Infrastructure disclosed detailed 2023 forecasts to provide insight to shareholders on the financial profile of the new business going forward. Channel Infrastructure has today updated this 2023 financial guidance to reflect the Producers Price Index (PPI), contracting of electricity supply and additional terminal services revenue, and latest operating and capital expenditure forecasts.

FY23 Financial metrics (continuing operations) [2]	Previous Indicative FY23 guidance ($m)	Updated Guidance ($m)
Revenue	116 – 120	125 – 128
Operating costs	36 – 40	41 – 44
EBITDA	76 – 84	82 – 86
Depreciation	32	34 – 35
Financing costs	15 – 18	c.16
Income tax payable	Nil	No change

[1] For the 12 months ended 30 September 2022.

[2] Guidance is for terminal operations (classified as continuing operations) and excludes discontinued operations (i.e. one-off conversion cost opex and capex of $200-220 million) and private storage capex ($45-50 million), with no change in guidance for these projects which continue to track to plan and budget. Guidance also excludes any opex and capex associated with new growth opportunities.

Capex (business as usual)	5 – 12[3]	c.8 – 10
Indicative Normalised Free Cash flow	46 – 64	56 – 60
Indicative dividend range	8 –11 cents per share	9 – 11 cents per share

Channel Infrastructure terminal services and private storage fees are subject to Producers Price Index “All Industries – outputs” indexation (PPI). Today Statistics New Zealand announced the PPI for the 12-months ended 30 September 2022 was 8.4%, which, pro-rated for 9 months to 6.3%, confirms the take or pay level under the Terminal Services Agreements at $106.3 million in 2023 ($6.3 million above the 2022 annualised take or pay fee equivalent).

In addition to the private storage already contracted and currently being commissioned through to mid-2023, Channel Infrastructure has contracted additional terminal storage revenue, expected to be c.$25 million over the next 5 years. This contract further adds to Channel’s revenue and earnings base and is in addition to the private storage agreements that have been announced to the market previously. This contract is another important step towards our positive future as a new business that is delivering on our focused growth strategy, supporting customers with their fuel needs and contributing to New Zealand’s decarbonisation efforts and domestic fuel security. Capital works (comprising tank and linework modifications) with an estimated cost of c.$7 million will be required, with revenue of c.$4 million expected in 2023 as this work is undertaken and additional storage capacity is commissioned.

Fuel throughput in 2023 is expected to grow from 2022 levels with the continuing recovery in jet fuel demand, while remaining below the take-or-pay fee level under the Terminal Services Agreements.

Operating and capital expenditure guidance has been updated to reflect higher electricity prices expected in 2023[4] compared with 2022, expected activity levels and resourcing requirements, with jet demand and storage capacity increasing next year, as well as cost inflation across a number of areas.

Depreciation guidance has also increased reflecting the continuing investment in terminal upgrades and private storage capacity[5].

As announced on 11 November 2022, this year’s refinancing programme has reduced the Company’s cost of funds, with financing costs now expected at the lower end of previous guidance at c.$16 million[6] in FY2023 (previous guidance $15 million - $18 million), implying an effective interest rate of 5 to 5.5%. Channel’s fixed rate bonds and interest rate swaps provide significant funding cost certainty for 2023, in a rising interest rate environment. Based on current conversion project and private storage capex phasing, it is expected that in the next 12 to 18 months debt will peak at around $100 to $120 million above current levels of $230 million.

With the increase in EBITDA expectations for 2023, based on the Company’s capital allocation framework and dividend policy of returning 60-70% of normalized free cash flow[7] to shareholders, the indicative dividend range for FY23 increases from 8 to 11 cents per share to 9 to 11 cents per share.

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[3] Indicative capex range over the initial 10-year term of the Terminal Services Agreements.
[4] Channel Infrastructure has now also contracted electricity supply for the full 2023 year, at an average cost of $215/MWh, while closing out the earlier held hedges (realising a profit of $1 million which will be recognised in 2022). Electricity transmission costs are yet to be set for 2023, with re-rating of the Marsden Point site and new TPM charges due to take occur at the end of Q1 2023.
[5] Based on current fair value asset valuations and depreciation rates.
[6] Based on expected average level of borrowings of c.$300 million in FY23, fixed debt costs ($115 million of interest rate hedging swaps and $175 million of fixed rate bonds) and current Bank Bill Rate (BKBM) for unhedged debt. Excludes non-cash interest costs (i.e. unwinding of interest associated with provisions)
[7] Normalised free cash flow is net cash generated from operations less maintenance capex and excluding growth capex.

Authorised by:

Chris Bougen
General Counsel and Company Secretary

Investor Relations contact:
Anna Bonney
investorrelations@channelnz.com

Media contact
Laura Malcolm
communications@channelnz.com
+6421 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 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 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