Channel
Infrastructure NZ

NZX RELEASE

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Channel Infrastructure delivers HY23 results

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 2023 (1H23).

Highlights

- Permanent decommissioning of the refining plant safely completed, to plan and to budget.
- Declared a fully imputed ordinary interim dividend of 4.2 cents per share.
- Upgrade to FY23 EBITDA, Free Cash Flow and Dividend guidance.
- The remaining c.45 million litres of jet private storage capacity is expected to be commissioned during 3Q23.
- Continued strong recovery in jet fuel demand, now at 76% of pre-COVID levels, in-line with Envisory's[1] outlook.
- Significant progress to realising value from decommissioned refinery plant.
- Savings from long term renewable electricity supply agreement locked in from 2024, and with Energy Attribute Certificates attached, Scope 1&2 emissions are largely eliminated from 2024 – six years ahead of target.
- Progressing study into the production of e-SAF at Marsden Point to the pre-feasibility phase, with partners FFI.

All numbers relate to the six months ended 30 June 2023 (1H23) unless stated otherwise. Comparisons will be made to both the six months ended 30 June 2022 (1H22) which includes only one quarter of continuing operations (2Q22), and the six months ended 31 December 2022 (2H22) which includes a full six months of import terminal operations.

[1] Envisory: Formerly known as Hale and Twomey.

Key Financial Results

	1H23 $ million	2H22 $million	1H22 $ million
Continuing Operations			
EBITDA	**43.5**	37.7	19.7
Net Profit before tax	**20.1**	15.3	7.8
Dividend declared: - interim	**4.2 cps**	-	
Dividend declared: - final	**N/A**	5 cps	
Dividend declared – special	**-**	2 cps	
Discontinued Operations			
EBITDA	**(2.7)**	(2.5)	26.5
Net (Loss)/Profit before tax	**(4.2)**	(13.6)	16.0

Commenting, Chair James Miller said: "Channel is going from strength to strength as the team delivers and executes on our strategy and plans, making significant progress against all of our 2023 priorities. In line with our dividend policy, which reflects the high cash flow generation of the business, we have declared a fully imputed ordinary interim dividend of 4.2 cents per share. Today, we have also lifted FY23 guidance for EBITDA, Free Cash Flow and Dividend."

CEO Rob Buchanan said "We are working hard towards our aspiration to become a world class fuels terminal operator, and after fifteen months of import terminal operations, our focus remains firmly on safe, reliable, and efficient operations. We have a critical role to play in building resilience in New Zealand's fuels supply chain, and we will continue to support our customers with infrastructure they, and New Zealanders can rely on. With our unique and highly strategic infrastructure, we are focused on supporting the country's energy transition which also provides opportunities for us to grow the business.

"We have had an exciting first six months as we locked in a long-term renewable electricity supply and made significant progress to unlock value from our decommissioned refinery plant. With our partners Fortescue Future Industries, we are now progressing to pre-Feasibility for the potential production of green hydrogen and synthetic Sustainable Aviation Fuel (e-SAF) at Marsden Point, ensuring we will be part of New Zealand's critical aviation fuels supply chain long into the future."

Strong financial result

Revenue from continuing operations was $64.4 million, up 10% from $58.4 million in 2H22 reflecting the benefit of the PPI indexation of terminal services contracts, increased private storage fees (as more capacity was commissioned) and higher ancillary charges. Terminal Fee revenue of $53.1 million (fixed plus variable revenue) marginally exceeded the pro rata Take-or-Pay due to strong volumes and ancillary charges in the six months ended 30 June 2023.

Operating costs remained relatively stable at $20.9 million (2H22 $20.7 million). As a result of increased revenue and effective cost management, EBITDA increased 15% from $37.7 million in 2H22 to $43.5 million in 1H23, delivering a strong EBITDA margin of 68%.

Net debt as at 30 June 2023 was c.$295 million (FY22: $257 million), with leverage[2] at 3.6 times Net Debt to EBITDA. The company is currently considering alternatives for refinancing of its $75m Subordinated Notes issue, which has a first election date on 1 March 2024, including the New Zealand retail bond market subject to market conditions.

Conversion and private storage projects on track

Conversion costs remain within budget, with c.$174 million spent to 30 June 2023, including c.$32 million of private storage conversion projects. Permanent decommissioning of the refinery process plant is now complete. The remaining c.45 million litres of jet private storage capacity is expected to be commissioned during 3Q23, increasing the total Marsden Point terminal capacity to 280 million litres.

Continued recovery in Jet fuel volumes, reflecting a significant increase in aviation demand

36 import shipments were received and discharged during the six months, compared to 37 in 2H22 and 19 in 2Q22. Terminal and pipeline throughputs were c.1,632 million litres in 1H23, up 7% on the previous six months ended 31 December 2022, reflecting a continuation of the post-COVID recovery. The increased throughput continues to be driven by strong aviation demand recovery, with jet throughput doubling on 1H22 volumes. Overall volumes are tracking in-line with the updated outlook produced by Envisory and released with the FY22 results in February of this year.

CEO Rob Buchanan said "Aviation will underpin the future of our business, and we continue to see this grow and recover post-COVID, in line with our modelling. With a significant number of new long haul flight routes to and from New Zealand announced during the year, we expect demand to continue this strong growth trajectory. Channel has a key role to play in supporting this growth, given our highly strategic position, providing security of supply and energy resiliency within the aviation fuel supply chain to Auckland."

Focused on delivering on our strategic priorities for the year

Delivering a low-cost, secure, and renewable electricity supply was one of our key priorities for 2023. In June, a long-term fixed price variable volume contract was entered into for the supply of renewable electricity from 1 January 2024. This contract fixes one of the Company's largest operating costs, while delivering a further improvement in the future earnings profile, with a saving expected of over $2 million per annum over the initial contract term (against the 2023 contracted supply price). The electricity supply arrangements under this new contract includes Energy Attribute Certificates certifying that electricity has been generated from renewable sources. Meeting all our electricity needs from renewable sources would mean that Channel will have largely eliminated its direct emissions from 2024 - some six years ahead of the company's target.

Channel is well prepared to support the Government with its planned Strategic Diesel Storage initiative, having already completed Front End Engineering and Design on potential tank conversions in anticipation of the Government tender process and is working with its customers to understand the impact of the Government's proposed Minimum Stockholding Obligation.

Fortescue Future Industries (FFI) scoping study for green hydrogen and synthetic Sustainable Aviation Fuel (e-SAF) production at Marsden Point is now progressing to the pre-feasibility stage. The pre-feasibility study will investigate a 300MW, c.60 million litres per-year e-SAF production facility at Marsden Point, with the e-SAF to be distributed via the existing Marsden Point-to-Auckland Airport supply chain. During this phase Channel will work with FFI on developing an appropriate commercial model for this project, recognising the strategic value of the land at Marsden Point with direct access to the Auckland Airport fuel supply chain.

[2] Calculated as Net Debt / annualised rolling EBITDA from continuing operations.

With a focus on realising value from decommissioned refinery plant, Channel entered into an Asset Sale Agreement with US-based Seadra Energy Incorporated (SE) in July 2023, granting an option to purchase permanently decommissioned parts of the former hydrocracking complex for a non-refundable option payment of US$4 million. Should Seadra Energy elect to exercise the option, the purchase price will be US$33.875 million[3]. If this agreement goes ahead, this provides an opportunity for Channel to free up space at our Marsden Point site from these permanently decommissioned refinery assets, allowing us to consider repurposing and site restoration opportunities, such as the potential manufacture of green hydrogen and e-SAF at Marsden Point.

Channel Infrastructure aspires to become a world class operator of terminal assets. As new systems and processes have been embedded through the transition to an import terminal, the optimisation of terminal operations will provide the foundation for continued strategic success.

Upgraded FY23 guidance provided in November 2022

Ahead of the transition to import terminal operations, Channel Infrastructure provided detailed 2023 guidance on the financial profile of the new business. These forecasts were upgraded in November 2022 to reflect the impact of the Producers Price Index (PPI) on terminal services revenue, contracting of electricity supply and additional terminal services revenue contracted.

Reflecting increased terminal services revenue generated in 1H23 through higher ancillary charges and testing volumes at Independent Petroleum Laboratories Limited (IPL)[4], FY 23 EBITDA guidance has today been increased from $82 - $86 million to $84 - $88 million. The high conversion of EBITDA into Free Cash Flow has resulted in a c.4% increase to the Company's FY23 Normalised Free Cash flow guidance, from $56-$60 million to $59-$62 million.

FY23 Financial metrics (Continuing operations)	November 2022 Guidance ($ million)	Updated August 2023 Guidance ($ million)
Revenue	125-128	**128-130**
Operating costs	41-44	**42-44**
EBITDA	82-86	**84-88**
Depreciation	34-35	**No change**
Financing costs	c.16	**No change**
Income tax payable	Nil	**No change**
Capex (business as usual)	c.8-10	**c.9-11**
Indicative Normalised Free Cash Flow	56-60	**59-62**
Indicative Dividend Range	9-11cps	**9.5-11.5cps**

Business as usual capex for FY23 is now expected to be between $9 - $11 million, reflecting higher tank maintenance costs identified following a full inspection of the specific tanks once they had been taken out of service. These tanks will be returned to service for c.10-15 years before their next statutory inspection.

[3] Including the option payments, but prior to any transaction costs – refer to NZX release 10 July 2023.
[4] Channel Infrastructure's fuel testing laboratory (100% owned subsidiary).

Board declares interim ordinary dividend and upgrades guidance for FY23 total dividend

With continued strong normalised Free Cash Flow of $34 million and net debt to EBITDA ratio of 3.6 times as at 30 June 2023, well within the targeted range (3-4 times), the Board has declared a fully imputed ordinary interim dividend of 4.2 cents per share. The interim dividend will be paid on 20 September 2023, with a record date on 6 September 2023.

Given the upgraded FY23 guidance announced today, the indicative dividend guidance range for the total FY23 dividend has been lifted from 9 – 11 cents per share to 9.5-11.5 cents per share. The Board is committed to delivering stable ordinary dividends over time to shareholders, while maintaining credit metrics consistent with a shadow investment grade credit rating of BBB+. The FY23 dividend payout range will be determined having regard to the company's dividend payout policy of 60-70% of normalised Free Cash Flow, the full year result and the status of near-term investment opportunities.

- ENDS -

Conference Call

Channel Infrastructure's Chief Executive Officer, Rob Buchanan, and interim Chief Financial Officer, Denise Jensen, will give a presentation on the company's financial and operational performance for HY23 via an audio conference commencing on Wednesday 23 August 2023 at 11:00am NZT.

Participants can register for the conference by navigating to this LINK.

Authorised by:

Chris Bougen
General Counsel and Company Secretary

Contact details
Investor Relations contact:
Anna Bonney
investorrelations@channelnz.com

Media contact:
Laura Malcolm
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 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 and studies underway with partners on hydrogen and sustainable aviation fuel opportunities.

For more information on Channel Infrastructure, please visit: www.channelnz.com