



COVID-19, a possible takeover and a new CEO: interesting times!

Company/ASX Code	Caltex Australia (CTX)
AGM date	Thursday 14 May 2020
Time and location	10am, online
Registry	Boardroom Pty Ltd
Webcast	Participate by logging on to https://web.lumiagm.com . Meeting ID 310-385-214. An AGM online users guide may be downloaded from: https://www.caltex.com.au/our-company/investor-centre/shareholder-meetings
Poll or show of hands	Poll on all items
Monitor	Roger Ashley assisted by Don Adams
Pre AGM Meeting?	Yes, with Chairman Steven Gregg and Director Barbara Ward together with Georgina Koch (Deputy General Counsel) and Dale Koenders (Investor Relations)

The individuals or their associates involved in the preparation of this voting intention have no shareholding in this company.

	Financial Reports
ASA Vote	No vote required

ASA WILL BE VOTING PROXIES AND ASKING QUESTIONS IN THE NORMAL MANNER ONLINE.

Summary of ASA Position

Obviously the Coronavirus will have an unquantifiable across-the-board impact on 2020 results and also asset sales and the planned IPO.

In the longer term, growth in road fuels particularly will plateau and fall: only the time frame is unknown. An upgrade and expansion of non-fuel convenience retail on existing sites may be providing revenue growth but still remains a small part of the overall mix. Despite a less than stellar return on investment in the convenience retail market to date, CTX predicted an uplift in profit of \$85m by 2024 (at its investor update held in December 2019 and in its annual report) driven by convenience retail including new Woolworths Metro stores and the additional sales arising from the return of franchised stores to company operation.

No significant strategic growth alternative has yet been articulated despite sales volumes of all types of fuel (diesel, jet and retail petroleum) being on a downward trajectory.

Financial performance

Statutory Net Profit After Tax (NPAT) was down Year On Year (YOY) by \$177m (32%) and as a guide to this result, RCOP* Earnings Before Interest and Tax (EBIT) for each of the reported operating segments, Convenience Retail and Fuels & Infrastructure, were down by \$106m (35%) and \$120m (21%) respectively. Sales revenues showed a small increase of \$576m (2%) which includes growth in international operations which are not shown separately in the Annual Report.

Fuel volumes through Convenience Retail were down 2% and lower fuel margins accounted for a drop in profitability of \$115m, partially offset by improved shop earnings (\$5m).

The Lytton refinery operation profits fell by \$91m to \$70m YOY due to lower refiner margins (which have fallen from \$US13.02/bbl in 2017 to \$US8.08/bbl in 2019) and power outages with much of the remaining shortfall arising from lower prices in a renegotiated Woolworths supply contract (\$47m).

Since the end of 2019, significant fuel sales volume declines have occurred, particularly in jet fuel which is down by 80-90% as a result of COVID-19 travel restrictions. Petrol sales are down by 40-50% and diesel sales by 10%. Some marginal petrol outlets may be closed as a result, capital spending has been scaled back and the company will bring forward and extend the duration of the planned Lytton refinery maintenance shutdown. It will recommence operations when margin conditions have sufficiently recovered.

Progress has continued to convert franchised service stations to company owned following underpayment of wages by some franchisees and is expected to be completed in 2020.

The AGM seeks approval for a change of company name to "Ampol". This change has been necessitated by the Chevron Corporation terminating its licence agreement for Caltex's use of Chevron trademarks including "Caltex".

An IPO is planned for mid-2020 to list a property trust comprising some 250 Convenience Retail sites in which Caltex will hold 51% equity. This will increase funds available to Caltex while retaining operational and strategic control of the sites.

The company intends to implement the Task Force on Climate-related Financial Disclosures recommendations by 2021.

** Replacement Cost of Sales Operating Profit (RCOP) measure applies a cost of sales based upon the current, or replacement cost of product, to revenue rather than the actual purchase price and is a preferred, non-statutory, profit measure within the company.*

Key events

The Directors' Report mentions the interest in the company by two potential suitors: Alimentation Couche-Tard of Canada (ATD) and the British EG Group.

On 20 April, Caltex announced that discussions with ATD had concluded with ATD advising that it would not proceed with its takeover proposal. ATD remains interested in acquiring Caltex's operations but believes that any decision to do so would have to await post COVID-19 clarity around economic conditions.

In the meantime Caltex has strong liquidity and undrawn committed facilities with no debt maturing in 2020.

Key Board or senior management changes

Julian Segal, the CEO for the previous eleven years retired in March 2020. Matthew Halliday, formerly Chief Financial Officer has been appointed Interim CEO; a position that will no doubt be resolved once outstanding takeover issues have been resolved. Caltex's general manager of fuels and infrastructure, Louise Warner, has been named interim chief operating officer, while group treasurer and deputy CFO Jeff Etherington will become interim CFO.

ASA focus issues

The company's policy for non-executive directors' shareholdings is to require each Director to accumulate shares to the value of the annual base fees within three years of the Director's appointment to the Board. Gender diversity on the Board and in senior leadership positions is company policy and there is an objective to eliminate gender-based pay differences.

A prospective tender for audit services has been deferred.

Summary

(As at FYE)	2019	2018	2017	2016	2015
NPAT (\$m)	383	560	619	611	522
UPAT (\$m)	344	538	621	524	628
Share price (\$)	33.95	25.48	34.05	30.46	37.70
Dividend (cents)	93	118	121	102	117
TSR (%)	36.9	(21.7)	15.8	(16.5)	13.6
EPS (cents)	151	215	237	232	193
CEO total remuneration, actual (\$m)	2.9	4.4	8.0	7.8	13.9

For 2019, the CEO's total actual remuneration was **32.6 times** the Australian Full time Adult Average Weekly Total Earnings (based on November 2019 data from the Australian Bureau of Statistics).

Item 1	Re-election of Melinda Conrad as a Director
ASA Vote	For

Summary of ASA Position

Ms. Conrad was appointed to the Board in 2017 and is an experienced director, currently serving on the boards of ASX and Stockland Group. She is currently a member of the Audit Committee, the Human Resources Committee and the Nomination Committee.

There is no known reason not to support Ms. Conrad's re-election.

Item 2	Remuneration Report
ASA Vote	Against

Summary of ASA Position

CEO Remuneration Structure

	Target \$m	% of Total	Max. Opportunity \$m	% of Total
Fixed Remuneration	2.149	37%	2.149	26%
STI - Cash	1.504	26%	3.008	36%
STI - Equity	0	0	0	0
LTI	2.148	37%	3.223	38%
Total	5.801	100.0%	8.380	100%

We have previously voted against the remuneration report and note that, while the 2020-2022 Long Term Incentive (LTI) has been amended to two equal measures: a Relative Total Shareholder Return (TSR) and Return on Capital Employed (ROCE), the performance period is only three years with no holding lock if the recipient holds sufficient shares and the target ROCE has not been quantified

Our major concerns are that the STI is payable totally in cash upon vesting and offers a maximum opportunity of 140% (120% previously) of base salary. A financial gateway for the STI is the achievement of 80% of RCOP Net Profit After Tax (NPAT) which appears to equate to 80% of budgeted RCOP NPAT. This threshold raises the question of whether the STI financial measures are merely an extension of base salary; ie. a further reward for doing one's job. The ASA has previously been assured that internal budgets are sufficiently challenging to justify this threshold.

Notably, fixed remuneration for the CEO has not changed since 2015 and only one senior executive will receive an increase in their fixed remuneration in 2020.

Item 3	Change of Company Name
ASA Vote	For

Summary of ASA Position

Caltex has received a termination notice from Chevron Corporation regarding its licence agreement for use of the Chevron trademarks in Australia, including the Caltex name. The company seeks to change its name to Ampol, historically a well-known name in the Australian petroleum market.

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