



Royal Vopak

Navigating the changing tides of global trade in a transitioning economy

Royal Vopak, a titan in the global tank storage industry, boasts a rich history, tracing its roots to storehouses at the ports in Amsterdam and Rotterdam in the 17th century, storing spices, tea, coffee, tobacco, margarine fats and other staples for the Dutch East India Company.

Adapting to the shifting tides of global trade, one of Vopak's corporate forebears accepted its first shipment of petroleum for storage in 1862. As global demand for crude oil and refined petroleum products surged in the early 20th century, fuelled by the rise of the automobile, the storage of oil products and liquid chemicals would emerge as one of the Group's core activities. A spate of industry consolidation starting in the late 1960s and continuing into the 1990s conferred economies of scale, enabling the Group's expansion into international markets. A period of dramatic growth in Vopak's global storage capacity followed in the early 2000s, with the company investing heavily to serve rapid growth in demand fuelled by China's astonishing economic ascent and the burgeoning liquified natural gas industry. Today, Vopak operates a global network of more than 70 storage terminals in 21 countries. Its network represents a critical link in the global supply chain, with the company's strategically positioned terminals on key maritime trade routes, enduring relationships with customers and unrivalled environmental and safety credentials conferring a leading position in the global market for the storage of oil, gas, chemicals and refined industrial products. This advantaged position within the global trade ecosystem, in turn, sustains consistently high levels of utilisation for the company's assets, supporting

the generation of reliable cash flows and underlying proportional EBITDA margins well above 50%.

In recent years, increased focus on the decarbonisation of the global economy has prompted fears that structurally declining demand for fossil fuels could undermine the durability of Vopak's earnings. These fears weighed heavily on the company's market valuation in the period 2020 – 2022. While the trailing 12 months have seen Vopak's stock price recover much of the ground it lost during this period, relative valuation metrics remain compressed by historical standards, despite strong recent results and expectations of continued robust medium-term financial performance.

We believe the concerns over the durability of Vopak's business model are overstated, exhibiting a failure to recognise the subtle but significant shift in the company's portfolio in recent years, and the growing share of its earnings secured by long-term contracts.

A subtle, but significant shift in Vopak's portfolio:

Continuous portfolio optimisation over the last decade has subtly repositioned Vopak's business. In 2014, oil and chemical storage terminals dominated the company's portfolio, accounting for ~90% of proportional capital employed. By contrast, Vopak's current portfolio exhibits greater balance. In the first half of fiscal 2024, the company reported that approximately 50% of its proportional capital employed was allocated to oil and chemical terminals, with the remaining 50% of its capital employed in markets expected to be strategic growth drivers in a global economy that is seeking to balance ambitions for rapid decarbonisation with the imperative

for maintaining energy security – gas and industrial terminals and storage for low- and zero-carbon fuels.

The transformation of Vopak's portfolio has followed from the implementation of a concordant and clearly articulated strategy, executed along three fronts:

- The company has divested a significant portion of its legacy oil and chemical storage capacity, often exhibiting deft market timing to secure highly accretive valuations at cyclical peaks.
- Management has repurposed traditional oil storage capacity, deploying modest amounts of new capital to convert existing maritime fuel infrastructure to support the storage of sustainable aviation fuel and renewable diesel in Los Angeles and to convert oil storage facilities in Deer Park, Houston, for vegetable oils. Both projects are underpinned by long-term commercial agreements and are expected to deliver attractive operating cash returns above 15%.¹
- Management has deployed almost €900m of consolidated capital expenditure into growth opportunities in gas and industrial storage since November 2022, increasing proportional capital employed in these verticals by more than 50%. Projects are overwhelmingly supported by long-term commercial agreements, with most projects expected to deliver operating cash returns of over 15%.¹

Buoyed by strong market demand, the transformation in Vopak's portfolio has supported strong expansion in returns on capital, with the company's results for the first half of fiscal 2024 demonstrating a proportional operating cash return¹ of 16.7%, ~450 bps above the level achieved in 2021.

Further deployment of growth capital into gas and industrial terminals and storage capacity for sustainable fuels and feedstocks is expected to continue to optimise Vopak's positioning for the energy transition. Management has committed to deploy €1 billion of

consolidated growth capital expenditure into 'new energies' opportunities by 2030 and is widely expected to upgrade its 2030 consolidated capital expenditure target for gas and industrial terminals, having already achieved ~90% of the aspiration announced at its 2022 Capital Markets Day. Collectively, these investments are expected to see the share of Group capital employed attributable to gas, industrial and new energies terminals grow from ~50% at the end of 2023 to 60-70% by 2030.

A growing share of earnings secured by long-term contracts with inflationary escalation clauses:

Significantly, the evolution of Vopak's portfolio has also enhanced the resilience and predictability of its earnings and cash flows. Where oil and chemical storage contracts are typically struck with short tenors, ranging from a few months to five years, gas and industrial contracts exhibit much longer duration: typically at least 10 years for gas contracts and at least 20 years for industrial contracts. The shift in the composition of Vopak's portfolio has thus significantly lengthened the average duration of its contracts, with the proportion of contracts initially struck with a tenor of at least 10 years rising from ~23% in 2015 to ~34% at the end of 2022 and the average duration of the company's contracts now greater than 10 years. Notably, gas and industrial storage contracts typically include inflationary escalation clauses, an attribute rarely replicated in shorter-term oil contracts.


Predictability amidst transition:

With a storied history spanning more than 400 years, Vopak has navigated countless transitions in the flows of global trade. With a portfolio that has undergone a subtle but significant transformation to optimise its positioning, and a growing share of earnings secured by long-term, inflation-linked contracts, we expect the durability of Vopak's earnings and cash flows to persist as the global economy transitions towards net zero.

Sources: Company disclosures.

¹ Vopak defines operating cash return as proportional operating cash flow divided by average capital employed. Proportional operating cash flow is pre-tax and excludes growth capex, derivative movements and working capital movements. Management defines proportional capital employed as proportional total assets excluding assets and current liabilities that are not related to operational activities.

 info@magellangroup.com.au

 +61 2 9235 4888

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