

Puma Energy insulated from oil-price volatility

A well-run downstream oil company with a robust business model and a decent track record that we see no imminent signs of being disrupted



Source: Shutterstock

PUMA Energy was founded in 1997 and was established as an independent company after splitting out from the commodities trader Trafigura in 2007.

The unique business model involves building up retail, and B2B fuel distribution in emerging markets where market penetration is still comparatively low and demographic trends offer higher growth rates. Its strategy is focused on markets that lack storage and distribution infrastructure, where it can establish a leading market share and build regional hubs. In most of its markets, PUMA, therefore, benefits from economies of scale in supply. To ensure product supply into these countries, PUMA builds/acquires storage facilities for itself as well as renting them out to third parties. This vertical integration gives PUMA strong control over the whole supply chain.

PUMA's distribution and fuel retail activities are located in 49 countries, with a large proportion concentrated in emerging markets in Africa and Latin America. PUMA's is highly diversified across geographic regions, which reduces its dependency on any single country. Also, PUMA's role in

developing and improving energy infrastructure and fuel supply reliability gives host governments a strong incentive to promote and maintain supportive regulatory regimes.

Business profile

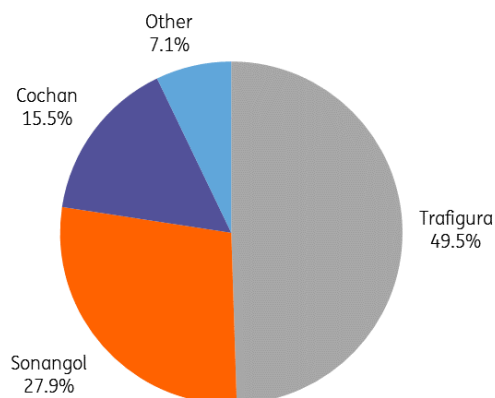
Headquartered in Singapore, Puma Energy is a vertically integrated midstream and downstream oil group which stores, supplies and distributes refined oil products largely in emerging markets with revenues of \$15.2bn in 2017.

The midstream segment, which accounts for 18% of \$740mn EBITDA, mainly consists of storage facilities (also rented out to third parties), two refineries in Nicaragua and Papa New Guinea and transportation and marine mooring systems.

The vast majority of Puma Energy's storage capacity is used to support downstream business. The company owns and operates approximately 8.3m m3 of storage capacity. The downstream segment, which accounted for 82% of EBITDA, consists of distinct business lines including retail petrol stations, business-to-business (B2B), aviation, wholesale, bitumen, lubricants, bunkering and LPG, with retail and B2B business lines being the significant contributors to downstream segment profits. The company operates 3,064 retail service stations and serves 71 airports.

Ownership structure

PUMA is a privately owned company. The largest shareholder is Trafigura, a global commodities trader, which owns 49.49% of the firm. Sonangol, the state oil company of Angola, is the second largest shareholder with a 27.92% stake. Cochran Holdings LLC, which with PUMA has had a relationship since 2005, owns 15.45%. The balance is owned by private investors.



Source: Company data, ING

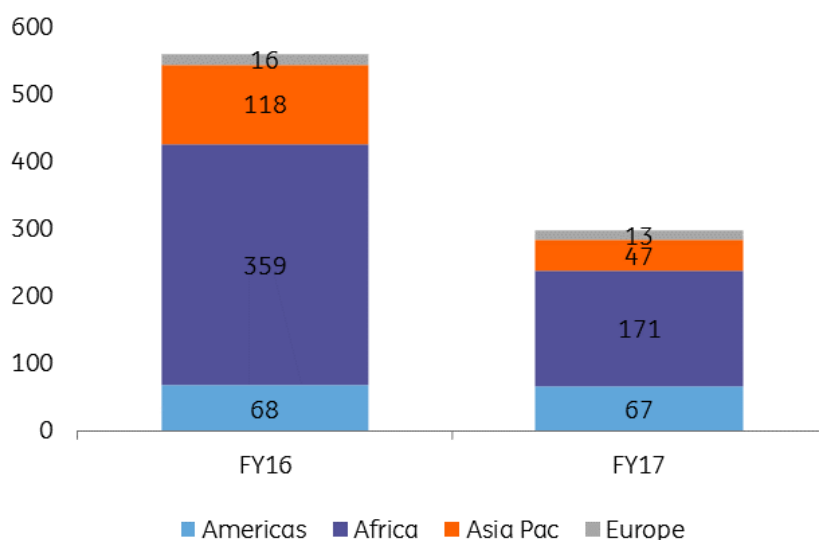
FY17 earning summary

Puma posted FY17 results that were decent but, as expected, slightly weaker than the very high levels achieved in FY16. EBITDA declined 22% YoY to \$740mn despite a 4% increase in sales volumes, as Downstream unit margins came under pressure early in the year before rebounding (overall flat YoY) and Midstream volumes fell 16% due to weak activity in Africa, though margins here rose 18% YoY.

Overall, the consequent fall in Downstream EBITDA of 3% to \$607mn unsurprisingly overcame the

4% rise in Midstream EBITDA to \$133mn. Looking at cashflows and the balance sheet, operating cash flows declined from \$838mn to \$477mn on the year due to an increase in working capital linked to the start-up of new activities, increased inventories and reduced payables.

However, PUMA reduced capex substantially from \$561mn to \$298mn (83% weighted towards organic growth). Cash from financing normalised to \$89mn in FY17, reflecting drawings on loans as well as interest and dividend payments. The result was that cash on the balance sheet increased 54% YoY to \$519mn, while leverage declined slightly to 2.7x (including inventories, without which it stands at 4.0x).



Source: Company data, ING

- Puma reported decent stable sales volumes in FY17 (+4% to 22.8mn m³), with growth strongest in Asia and the UK, while throughput declined 16% YoY to 16.6mn m³. Gross profit increased 4% to \$1.7bn thanks to higher volumes and stable unit margins, while EBITDA declined 2% to \$740mn as it was affected by additional personnel and rental costs as well as provisions for local taxes. Capex declined 47% YoY to \$298mn while operating cash flows fell 43% to \$477mn for reasons cited above. Capex remains fully financed by operating cash flows.
- Looking across the segments, Downstream posted reasonable volume growth (+5% to 21.9mn m³) driven by retail, aviation and the UK business. Gross profit (+5% to \$1.4bn) increased in line with volumes as unit margins remained stable, while EBITDA (-3% to \$607mn) was impacted by higher opex. Meanwhile, Midstream showed reduced throughput volumes (-16% YoY), mainly in Africa. These were partially offset by an 18% increase in unit margins to \$13/m³, meaning that gross profits were actually flat YoY at \$227mn. More positively, EBITDA rose 4% to \$133mn.
- In terms of geographic segmentation, all areas posted growth in EBITDA except Europe and Africa, which saw a notable decline. However, the effect on free cash flow was cushioned by the sharp reduction in capex from \$561mn in FY16 to \$298mn in FY17. 57% of capex occurred in Africa and involved organic growth rather than acquisitions.
- FY17 operating cash flows fell from \$838mn in FY16 to \$477mn as working capital increased due to the ramp-up of new activities and reduced payables. Investing cash flows of \$359mn, which were fully financed by operating cash flows, declined from \$733mn due to

reduced capex and acquisition spending, while financing cashflows improved from (\$14mn) to \$99mn on loan drawings, interest payments and dividend payments.

- Leverage improved slightly from 2.8x to 2.7x over the period (including inventories), during which PUMA refinanced \$600mn of Senior Notes. We note that unsecured HoldCo debt now represents 87% of the Group's debt, while 47% of PUMA's debt matures in 2021 or beyond.

Given steady leverage, capex financed by operating cash and steady (though admittedly low) margins, we find Puma Energy attractive. Its unique business model gives it the necessary scale in its chosen markets and insulates it from the effects of oil-price volatility.

Author

Alissa Lefebvre

Economist

alissa.lefebvre@ing.com

Deepali Bhargava

Regional Head of Research, Asia-Pacific

Deepali.Bhargava@ing.com

Ruben Dewitte

Economist

+32495364780

ruben.dewitte@ing.com

Kinga Havasi

Economic research trainee

kinga.havasi@ing.com

Marten van Garderen

Consumer Economist, Netherlands

marten.van.garderen@ing.com

David Havrlant

Chief Economist, Czech Republic

420 770 321 486

david.havrlant@ing.com

Sander Burgers

Senior Economist, Dutch Housing

sander.burgers@ing.com

Lynn Song

Chief Economist, Greater China

lynn.song@asia.ing.com

Michiel Tukker

Senior European Rates Strategist

michiel.tukker@ing.com

Michal Rubaszek

Senior Economist, Poland

michal.rubaszek@ing.pl

This is a test author

Stefan Posea

Economist, Romania

tiberiu-stefan.posea@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Jesse Norcross

Senior Sector Strategist, Real Estate

jesse.norcross@ing.com

Teise Stellema

Research Assistant, Energy Transition

teise.stellema@ing.com

Diederik Stadig

Sector Economist, TMT & Healthcare

diederik.stadig@ing.com

Diogo Gouveia

Sector Economist

diogo.duarte.vieira.de.gouveia@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Ewa Manthey

Commodities Strategist

ewa.manthey@ing.com

ING Analysts

James Wilson

EM Sovereign Strategist

James.wilson@ing.com

Sophie Smith

Digital Editor

sophie.smith@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

Adam Antoniak

Senior Economist, Poland

adam.antoniak@ing.pl

Min Joo Kang

Senior Economist, South Korea and Japan

min.joo.kang@asia.ing.com

Coco Zhang

ESG Research

coco.zhang@ing.com

Jan Frederik Slijkerman

Senior Sector Strategist, TMT

jan.frederik.slijkerman@ing.com

Katinka Jongkind

Senior Economist, Services and Leisure

Katinka.Jongkind@ing.com

Marina Le Blanc

Sector Strategist, Financials

Marina.Le.Blanc@ing.com

Samuel Abettan

Junior Economist

samuel.abettan@ing.com

Franziska Biehl

Economist, Germany

Franziska.Marie.Biehl@ing.de

Rebecca Byrne

Senior Editor and Supervisory Analyst

rebecca.byrne@ing.com

Mirjam Bani

Sector Economist, Commercial Real Estate & Public Sector (Netherlands)

mirjam.bani@ing.com

Timothy Rahill

Credit Strategist

timothy.rahill@ing.com

Leszek Kasek

Senior Economist, Poland

leszek.kasek@ing.pl

Oleksiy Soroka, CFA

Senior High Yield Credit Strategist

oleksiy.soroka@ing.com

Antoine Bouvet

Head of European Rates Strategy

antoine.bouvet@ing.com

Jeroen van den Broek

Global Head of Sector Research

jeroen.van.den.broek@ing.com

Edse Dantuma

Senior Sector Economist, Industry and Healthcare

edse.dantuma@ing.com

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

Rico Luman

Senior Sector Economist, Transport and Logistics

Rico.Luman@ing.com

Jurjen Witteveen

Sector Economist

jurjen.witteveen@ing.com

Dmitry Dolgin

Chief Economist, CIS

dmitry.dolgin@ing.de

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@asia.ing.com

Egor Fedorov

Senior Credit Analyst

egor.fedorov@ing.com

Sebastian Franke

Consumer Economist

sebastian.franke@ing.de

Gerben Hieminga

Senior Sector Economist, Energy

gerben.hieminga@ing.com

Nadège Tillier

Head of Corporates Sector Strategy

nadege.tillier@ing.com

Charlotte de Montpellier

Senior Economist, France and Switzerland

charlotte.de.montpellier@ing.com

Laura Straeter

Behavioural Scientist

+31(0)611172684

laura.Straeter@ing.com

Valentin Tataru

Chief Economist, Romania

valentin.tataru@ing.com

James Smith

Developed Markets Economist, UK

james.smith@ing.com

Suvi Platerink Kosonen

Senior Sector Strategist, Financials

suvi.platerink-kosonen@ing.com

Thijs Geijer

Senior Sector Economist, Food & Agri

thijs.geijer@ing.com

Maurice van Sante

Senior Economist Construction & Team Lead Sectors

maurice.van.sante@ing.com

Marcel Klok

Senior Economist, Netherlands

marcel.klok@ing.com

Piotr Poplawski

Senior Economist, Poland
piotr.poplawski@ing.pl

Paolo Pizzoli
Senior Economist, Italy, Greece
paolo.pizzoli@ing.com

Marieke Blom
Chief Economist and Global Head of Research
marieke.blom@ing.com

Raoul Leering
Senior Macro Economist
raoul.leering@ing.com

Maarten Leen
Head of Global IFRS9 ME Scenarios
maarten.leen@ing.com

Maureen Schuller
Head of Financials Sector Strategy
Maureen.Schuller@ing.com

Warren Patterson
Head of Commodities Strategy
Warren.Patterson@asia.ing.com

Rafal Benecki
Chief Economist, Poland
rafal.benecki@ing.pl

Philippe Ledent
Senior Economist, Belgium, Luxembourg
philippe.ledent@ing.com

Peter Virovacz
Senior Economist, Hungary
peter.virovacz@ing.com

Inga Fechner
Senior Economist, Germany, Global Trade
inga.fechner@ing.de

Dimitry Fleming
Senior Data Analyst, Netherlands
Dimitry.Fleming@ing.com

Ciprian Dascalu

Chief Economist, Romania
+40 31 406 8990
ciprian.dascalu@ing.com

Muhammet Mercan
Chief Economist, Turkey
muhammet.mercan@ingbank.com.tr

Iris Pang
Chief Economist, Greater China
iris.pang@asia.ing.com

Sophie Freeman
Writer, Group Research
+44 20 7767 6209
Sophie.Freeman@uk.ing.com

Padhraic Garvey, CFA
Regional Head of Research, Americas
padhraic.garvey@ing.com

James Knightley
Chief International Economist, US
james.knightley@ing.com

Tim Condon
Asia Chief Economist
+65 6232-6020

Martin van Vliet
Senior Interest Rate Strategist
+31 20 563 8801
martin.van.vliet@ing.com

Robert Carnell
Regional Head of Research, Asia-Pacific
robert.carnell@asia.ing.com

Karol Pogorzelski
Senior Economist, Poland
Karol.Pogorzelski@ing.pl

Carsten Brzeski
Global Head of Macro
carsten.brzeski@ing.de

Viraj Patel
Foreign Exchange Strategist

+44 20 7767 6405

viraj.patel@ing.com

Owen Thomas

Global Head of Editorial Content

+44 (0) 207 767 5331

owen.thomas@ing.com

Bert Colijn

Chief Economist, Netherlands

bert.colijn@ing.com

Peter Vanden Houte

Chief Economist, Belgium, Luxembourg, Eurozone

peter.vandenhoute@ing.com

Benjamin Schroeder

Senior Rates Strategist

benjamin.schroeder@ing.com

Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

chris.turner@ing.com

Gustavo Rangel

Chief Economist, LATAM

+1 646 424 6464

gustavo.rangel@ing.com

Carlo Cocuzzo

Economist, Digital Finance

+44 20 7767 5306

carlo.cocuzzo@ing.com