

CALTEX IN FOCUS



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Perpetual has viewed Caltex in recent years as an under-gearred, high cash flow infrastructure stock in the making.

In terms of our quality filters Caltex easily qualified as an investment candidate.

Firstly Caltex is a high quality company with excellent and extensive fuel distribution assets. It and BP were the only fully integrated fuel businesses in Australia, possessing significant barriers to entry to new competitors.

Secondly company management had a clear plan to transform the business from an integrated fuels company into a pure fuel distribution and marketing business, moving away from its traditional operations as an oil refiner in the process. We thought this was a good long term strategic move by management as the nature of oil refinery is very volatile and subject to the fluctuating oil price. Additionally the continued operation of the refinery business would have required significant further capital expenditure.

Thirdly in terms of our conservative debt filters Caltex's debt to equity ratio was low. Whilst the shift away from refining would involve some restructuring costs, the exit of a volatile earnings business would benefit investors long term.

Finally the fuel distribution and marketing unit possesses long-term defensive attributes as evident in their predictable, recurring earnings. We think transport marketing margins will continue to expand, demand for diesel will remain strong and barriers to entry will continue to exclude competitors from entering the industry.

The stock represented compelling investment value in recent years with low earnings multiples, strong cash flow and \$1 billion of franking credits on the balance sheet.

CALTEX SHARE PRICE

