Alleron Investment Management

Caltex Australia Ltd (CTX)

Entry Date: Mar 2012
Exit Date: Jun 2016
Approximate Return: 153%

Background

In 2012, Caltex Australia Limited had two different revenue streams derived from:

- Fuel Distribution and Marketing and
- Petroleum Refining

At the time, the full year results for FY2011 showed an EBIT loss of $208m for the refining division alongside a $697m profit for the fuel distribution and marketing division. Distribution and marketing had experienced 8 years of growth of 8% p.a. with substantial margin growth. In contrast, refining was capital intensive and subject to very volatile earnings, ranging from a loss of $208m to a profit of $937m within the previous decade. The volatility in overall earnings attracted only a high single digit prospective PE ratio.

Energy Argument

Alleron considered that CTX could transform itself by focusing the business on the marketing and distribution arm, with the potential to both liberate capital and smooth earnings growth. If CTX closed the refining business the value of its earnings would re-rate to something akin to a staple retail stock with a PE ratio in the high teens.

Entry Trigger

The trigger for entry was the item in the 2011 final results announcement of a write-down of $1.5bn to the refinery business. This was an indication that the company was considering closure of the refinery business. Alleron immediately entered the stock and gradually built its position as it received confirmation that the energy argument had traction.

Exit

Alleron exited the position in Jun 2016 when, in our opinion, CTX had realised the full value of its business transformation. Figure 1 shows CTX entry and exit with the long position highlighted in green. The ASX 100 accumulation (XTOAI) performance is shown in blue for reference.

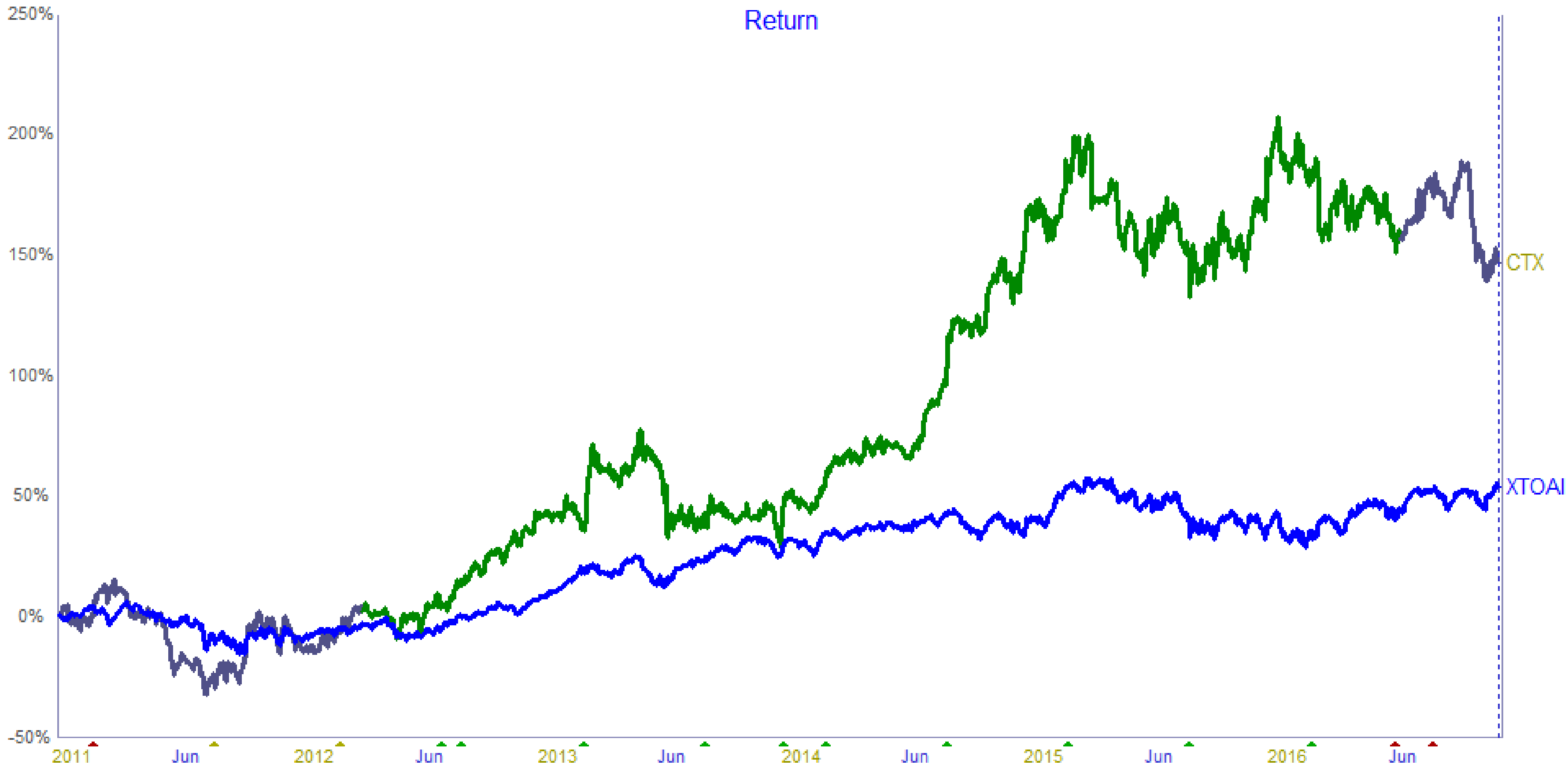

Figure 1: Alleron CTX Investment (Mar 2012 – Jun 2016)

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