Ecorama – La Grande Interview
Jacques Riou – Managing Partner

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David Jacquot: Our guest now on "La Grande Interview", live on Boursorama, is Jacques Riou. Good morning.
Jacques Riou: Good morning.

DJ: Joint Managing Partner of Rubis, a global business, let's remember, in the storage and distribution of oil products. Let's set out clearly and simply what it is that you do, your core business, because not everyone is aware of this but you are however pretty much everywhere.
JR: Our core business is very simply, very everyday: we distribute fuels in Europe, Africa and the Caribbean. All types of fuel, combustibles. And we also have a division which stores both chemicals and fuels, biofuels and agri-bio products.

DJ: We also see petrol pumps. Do any of these belong to you as well?
JR: To our brands, yes, which are ours and our brands'. We have two brands: Vito, in the French Antilles for example, and Rubis, everywhere else, in Africa, and so on.

DJ: And the company's doing well. We'll talk about the Stock Market later but I've seen the figures as you published your 1st quarter results a few weeks ago. Sales have continued to accelerate in the 1st quarter: a 49% (1.5 billion) increase following on from the 18% growth in sales last year, for 2021. What's behind these good results. Is this a good sign above all for the rest of the year, as things change so fast that what we see in the rear-view mirror sometimes seem very far away.
JR: The figures are very good. That's nothing new for our Group. We must be a bit wary about sales because our sales are directly connected to oil product prices. When the price for oil products is at 20 dollars, the sales figure goes down; when it's at 150 dollars, the sales figure goes up.

DJ: So it's marvellous for you when the price is at 120 dollars?
JR: No, quite the reverse. We distribute oil products which we buy on the international market. So, we love having low prices for oil products so we can go back to our customers and say "prices have fallen again, please buy even more of our products".

DJ: So 100 dollars isn't a good price for you?
JR: We're not in a good configuration for the Group, in our business model but, despite everything, we are delivering very good results. We're more focused on the volumes which we are selling and the margin on each litre sold.
Volumes are up 10% on last year, for the same quarter. And, on a like-for-like basis, we're still 8% above our 2019 pre-Covid record.
In a configuration, as you have just emphasised, which is a bit unfavourable for us, and with drivers that are not giving completely what they should give as aviation is still 25% below what we could be doing, there are one or two countries which are still experiencing economic difficulties, and so on.
So, very, very confident for this financial year…

DJ: Aviation, shipping, we say shipping, so, everything that uses petrol?
JR: Jet fuel, fuels for ships, and so on. But not only this and I was going to say more, as we have just created a Rubis Renewables division…

DJ: Oh yes, a sign of the times.
JR: … which completes, and happily and on a large scale, our traditional business.

DJ: We're going to talk about Rubis Renewables but just a word on margins. You margins are therefore under pressure? We were just speaking earlier about inflation concerning assets and real estate prices, which is a different topic, but how are you feeling this inflation?
JR: Our margins are holding up very well in a context which, in our line of business, is difficult. Our margins are perfectly stable, which is nothing new.

DJ: Can you give a figure?
JR: It's very variable, depending on the markets but, roughly speaking, this business, it's 10 cents a litre, to give a really ball-park figure. There is a little variation, with which, here you have behind me a picture with trucks, ships, we are financing all this logistics and all of the service stations and storage facilities.

DJ: But transport, we see that transport costs have exploded. Once again, margins have to be protected.
JR: But, unfortunately, the price to our customers has itself increased a great deal. Compared with the first quarter of last year, you have +90%. So, indeed, it's painful, it's unpleasant, but crude price volatility wasn't invented this century. We've always seen oil at 20 dollars and at 120 or 180 dollars. These are the configurations, when you take a look…

DJ: The highest, from memory, was 140…
JR: The highest was 140-150 but we've seen very high prices in the past. This is a configuration that we find over the years and the decades and I'm always surprised that we're surprised as this forms an intrinsic part of this market for oil products, on the basis of external shocks…

DJ: But it's hard to imagine the barrel falling back down to 40 or 50 dollar isn't it?
JR: Yes, but with each phase of strong growth, it was hard to imagine that this was going to fall. And when oil was at 20 dollars, we never imagined it would be at 120 dollars one year later.

DJ: The difficult thing for you then is managing this difficulty regarding the barrel price?
JR: Exactly. Above all, we're not trying to predict the future, we are adapting in order to be efficient…

DJ: You have to deal with it…
JR: … efficient, whatever the configuration. And we've been showing that we know how to do this for 20 years.

DJ: Europeans, and moreover this is in the news today, are coming together. There's talk of this possible embargo on Russian oil. If this does happen and oil prices go up to 150 dollars, I'm not asking you for a prediction, but would this complicate the situation for you?
JR: The situation would be a little bit more difficult. It's obvious that our customers would be less inclined to travel and that this penalises economic activity, but we serve essential needs: travel, producing hot water, cooking, heating. These essential needs are always covered, whether we are in developed countries, in less rich countries, whether oil prices are low or extremely high.

DJ: And us Europeans, can we manage without Russian oil? Sorry, it's not your subject directly, but all the same…
JR: It's not my subject directly but what I'm seeing on the oil market is that it's an extremely fluid global market, heavily arbitraged. It's therefore quite easy to move cargo from one part of the planet to another. This is a market that is able to adapt and oil industry logistics have been built up for decades now and are in place all around the world. It's easy to see the difficulty, if I take a counter-example, gas delivered via pipelines is much more rigid in terms of logistics and it is much more difficult to switch from one supplier to another.

DJ: But it's less costly. Pipelines are less costly, right? Perhaps I'm wrong, I say that I don't know but…
JR: Building thousands of natural gas pipelines, this represents investments in the tens of billions…

DJ: Ah, yes.
JR: Look at Nord Stream 1, 2, and so on. So, this creates enormous difficulties for many people, but there's always this economy which adapts and will do it, which naturally takes months.

DJ: On Rubis Renewables, Jacques Riou, there's this investment in Hydrogène de France, a 18% stake, is that right?
JR: That's correct.

DJ: … that you hold today, the acquisition of a 80% interest in Photosol underway now, you are ramping up, if I've understood correctly, in renewables and low carbon. Can we talk about acceleration or not?
JR: Exactly. This is an acceleration.

DJ: Because you have no choice? Because you believe in this?
JR: So, this was something which was already in the pipeline. We put our foot to the floor in 2020, as the environmental or energy transition process has become an absolute immediate requirement. We have therefore adapted to the pace which was being imposed and, in late 2020, we announced that we were going to continue to decarbonise our current business activities, which is what we are doing, a 30% reduction in carbon emissions by 2030, and that we were doing to invest in low carbon activities alongside our traditional activities. We made the choice of green photovoltaic electricity, because of the interest this represents and because behind green photovoltaic electricity you have hydrogen. And we're lucky enough to be able to partner with Hydrogène de France which completed its IPO a few months ago, within the last year, and with which we have a strategic agreement. This means that we are in the position of first investor for each project being developed by Hydrogène de France, whether in Europe, in the Caribbean or in Africa. So, there's one project which is under construction in Guyana, a second, almost identical one, in Barbados, which are large-scale projects combining photovoltaic panels (green electricity fed directly into the grid), hydrolysers to produce hydrogen, hydrogen which is stored and re-used in fuel cells to generate electricity at night. So we're distributing green electricity 24 hours a day.

DJ: What percentage of your business do renewables represent today? Because I saw that in 2030…
JR: So I was going to say something to you about Photosol if you don't mind. We've just completed the deal that you mentioned. We have indeed acquired a 80% stake in Photosol, an independent leader in France in the market for green electricity photovoltaic panels. And when you add Photosol to our investment in HDF, we're at more than 20% of our assets, compared to the total. This means that, today, we are a genuine multi-energies group, and that's not PR, it really is over 20% of green assets in a group which, until now, has been focused on traditional fuels.

DJ: It's also a way of preparing for the future because we know that oil consumption will end up falling one day or another?
JR: This is something that will be, depending on the milestones, progressive and differentiated. It's obvious that, in Europe, we're going to be reducing oil's share very quickly. In Africa, things will be going a lot less quickly, it's not possible. Same thing in the Caribbean. So our Group is taking up a position, this is why these are very interesting times as far as I'm concerned. We have placed our Group in a position to be efficient in oil in those geographies which have an absolute need and for a long time to come still, while at the same time decarbonising our activities, and to be effective in generating green electricity, in particular in Europe, and here the market is in the process of increasing extremely rapidly, and then investing in the hydrogen market, green of course. So we are ready to meet the needs of our customers, whoever they may be …

DJ: And therefore to complete more acquisitions, in renewables?
JR: I would say that we love to do this. I think that we have a genuinely solid platform. Take the case of Photosol. They are specialists in the French photovoltaic electricity market. Why can't we do in other European countries what they have done in France (they are remarkable people who remain our partners, they're keeping a 20% stake)? You know that European policies, and moreover in each country in Europe, have been given an extra boost in turns of turning towards solar power, wind power, etc. with the issue you mentioned, the very serious events which have occurred in Ukraine, and the re-scaling of all energy-related logistics in Europe.

DJ: Afterwards comes the question of how not to over-pay for all these acquisitions, because we know that in terms of valuation multiples, these renewables companies are at very high levels and can't be higher than Rubis' level of valuation, we'll discuss this next?
JR: Yes indeed higher that the valuation of Rubis. For our acquisition of Photosol, I'm convinced that the price we paid was reasonable.

DJ: Which was?
JR: We paid 386 million, plus the debt. This is a deal at 770 million for 80%. It's a very big acquisition. As an aside, just to say that our level of indebtedness has remained very reasonable. So it was at a very reasonable level. Don't forget that this is a business with an annual growth rate of 40%. We had 300 MW installed, we're building 150 this year alone. So we're going into a sector in which growth is extremely high.

DJ: But in terms of operating network multiples, what are we at compared with the industry multiple? Just to have an idea.
JR: So, on photovoltaics, you don't really think in terms of instant EBITDA multiples. The rates are at a level of 40% per year. Imagine that today's EBITDA is totally irrelevant. We did studies on DCF (discounted cash flow) instead. Something which is not looked at very much: the problem is not…

DJ: But you don't deny, sorry to interrupt, you don't deny there's this risk of overpayment and I imagine you are paying close attention, but it's there. I remember the boss of Total who said "but the problem is that when I buy, it costs an awful lot".
JR: So you have to try to find …

DJ: The hidden gem, the black swan…
JR: Cheap, doesn't exist. You have to buy quality, at a reasonable price. That is an advantage. The point that people don't always see, they say to us "green energy doesn't bring in much money". Indeed, when you get 6 or 7% on the capital invested, you are relatively happy, whereas, in the oil industry, you're looking at more like 12%. Simply put, the cost of capital has nothing to do with it. The cost of capital in the oil industry is somewhere in the order of 8, whereas, for green energy, it's 4 times lower. So you're comparing in green energy 6 or 7% rather than 2, and, in the oil industry, 12% compared with 8. So, the difference is still 4%. What I want to say, the foundation of the economy is to invest and to have a yield higher than the cost of your capital. This has been verified in the oil industry and in green energies.

DJ: So the profitability is the same when the cost of capital is taken into account. So the cost of financing, both debt and equity.
JR: Absolutely, we are convinced of this. Hence the difficulty of comparing the two if you compare this using multiples of gross operating surplus.

DJ: Let's turn now to share prices as this is a subject for Rubis. We didn't say, Rubis has, I think, sales of 5 billion Euros?
JR: At least 5 billion this year.

DJ: Can 2022 perhaps be a record year or not?
JR: It will be a very good year. A record year, very difficult at this stage of …
DJ: 2019 was a record year…
JR: 2019 was a record year. At the moment, we've exceeded the 2019 level. And I would say that 2020 and 2021, right in the middle of Covid, we were down 5, 6, 7, 8%, on the record.

DJ: OK, down 27% for the share price over one year. Up 4% since the start of the year. You are valued on the stock market at just over 3 billion. Still, on the level of book equity capital, how can you explain it? What can be done to trigger a change, because it looks like there's a disconnect between the Group's operating results? Because you've issued a dividend, a dividend of 6% per year, growth and there's a share price which is lagging behind. A falling out of love, it has to be said, the words have to be said.
JR: Absolutely. Listen, may I say that I'm the joint head of a company, an entrepreneur, a happy man. The one thing that irritates me, to be polite, is the share price and it's the fate of our shareholders. Difficult to explain. In 2020, the rumour was to say "oil is over, and it's over tomorrow morning". The entire global oil sector lost 40%. Oil producers, who lost billions in 2020, made billions in 2021 and have finally more or less returned to their pre-Covid levels. This is not the case for us. We're not the only ones in this situation, but this is not the case for us. And, for the time being, they're saying to us "yes but you have to prove that you're capable of working with oil at 150 dollars, at 20 dollars, and so on". Yes but, we've been proving this for 20 years now, we're not going to change our rationale. So, today, this is a point of interrogation for me. It is perhaps, it is probably an anomaly. The Rubis group is worth 10 times the net earnings, I just can't explain it.

DJ: So, for you, the Rubis share price is an anomaly?
JR: That's my judgment

DJ: And so you are still struggling, or not at all any more, as investors fall out of love with the oil industry sector? And perhaps it's also your response to the growing strength of Rubis Renewables too?
JR: Absolutely. I think that we have got a foothold, that few groups have done this in a comparable way and on this level. In the mid-term, we are aiming to have 25% of our assets comprised of green energy, in addition to our traditional business (again once we have decarbonised). As far as I am aware, there aren't many groups which are positioning themselves in this manner. There are the very large groups which everyone thinks of in the oil sector, which are effectively extremely ambitious, but we are aligning ourselves with this type of ambition.

DJ: How can we, Jacques Riou, change how investors see Rubis, when the earnings, you tell me, year after year …
JR: I think that sometimes it takes a bit of time. We are in an extremely chaotic period so we are lucky enough to be able to take a long-term view of things, to position the Group for the coming 10 years. I quite understand how investors could ask questions for a year or two, saying "is this group in a good position or not, in a highly-changing universe?" But when you say the net earnings for a group like this, at least 10 times, then there are questions to answer.

DJ: Last question, Jacques Riou, what is your response to those who say that some investors – and you'll see where I'm going here – don't like partnerships?
JR: It's true, you can't please everybody. Partnerships, in association with the stock market, form the two pillars which have enabled this Group to be built up from nothing in just over twenty years. The stock market has provided us with the capital, the partnership structure gives us freedom and has allowed us to develop this Group and continues to allow us to do so.

DJ: So the stock market is useful for you, not for the share price but to raise funds and support the growth and expansion of the Group?
JR: To raise funds, vital, and to support growth. We are making, we are trying to make good investments, we are trying to manage them well, we are coming back to see our shareholders saying "we're keeping going, are you with us?" and it's been that way for twenty years. The stock market is a very important driver for the development

of companies who want to get involved. The partnership structure makes a long-term view possible, allows our team members to have a vision over the long term and, in periods with this much disruption, for me, this is an asset for the Group. But, of course, you can't please everyone.

DJ: There are other leading names again listed, and who are doing very well?
JR: You have Hermès, you have Michelin. Out of the CAC 40, this is nevertheless two out of 40. This is not marginal and all the executives, we are two on this level, all of our assets are committed. So, of course, our assets would not be sufficient for anything in the event of a genuine drama, but we are really bound to the fate of this business and the fate of our shareholders.

DJ: Thank you for coming in and we'll see you again soon and we'll look at what the share price is, if something's triggered a change or not. Jacques Riou, joint manager of Rubis, global business involved in the distribution, storage of oil products, energy and renewables. You said 20 to 25%, is that right?
JR: 20% now, 25% very soon. In 2030, probably before.

DJ: Perhaps before. We'll talk again before then.

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