Electricity Sector

Tiwai Transmission Cure to Take Time

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We are upgrading one notch the rating of all of the four large generator/retailers. Contact Energy (CEN) and Genesis Energy (GNE) are upgraded to OUTPERFORM, Mercury (MCY) and Meridian Energy (MEL) are upgraded to NEUTRAL. The driver of the rating changes has been the significant market reaction to Rio Tinto's (RIO) announcement that it is undertaking a strategic review and our view that the risk of closure is small (less than 10%).

Modest target price changes, with MEL and CEN to take a hit regardless of the outcome of negotiations

We have lowered our target prices between -0.4% and -3.3% for the risk associated with NZAS closing. The changes reflect:

- A likely cut in earnings to MEL (-$13.0m) and CEN (-$4.5m) as we expect them to offer a lower price to NZAS, which will be accepted. We do not expect the other generator/retailers to offer a price reduction.
- Lower ASX future electricity prices. ASX futures have fallen modestly reflecting a combination of closure risk and expected lower wholesale prices if closure occurs.
- Modest value adjustment for residual factors, risk weighted to 20%.

The share price reaction following the RIO announcement has been -12%, -14% and -15% for MCY, CEN and MEL respectively. Whilst MSCI speculation is also a factor, in our view the share price movements are overdone, either creating a buying opportunity or reducing the premium the stocks had been trading at.

Figure 1. Target price and rating changes

	Target Price			Rating		
	Old	New	% Chg	Old	New	Chg
CEN	$8.22	$8.03	-2.3%	NEUTRAL	OUTPERFORM	▲
GNE	$3.28	$3.23	-1.5%	NEUTRAL	OUTPERFORM	▲
MCY	$4.55	$4.53	-0.4%	UNDERPERFORM	NEUTRAL	▲
MEL	$4.25	$4.11	-3.3%	UNDERPERFORM	NEUTRAL	▲

Source: Forsyth Barr analysis

Closer look at transmission issues

A key issue for MEL and CEN is how quickly can transmission constraints be relieved. If NZAS closes, we estimate 1/3 of hydro generation that was otherwise going to the smelter will be spilt. Transpower's Lower South Island grid upgrade will take ~3 years to complete and during that time CEN and MEL will be the worst affected. Eliminating constraints further north is likely to take longer as Transpower has yet to get regulatory approval for those upgrades.

Further detail on the transmission issues and constraints are noted in the body of the report.

Investment View

The share price reaction to the potential closure of NZAS has created buying opportunities in the electricity sector. We believe the risk of closure is low (less than 10%) and that CEN, GNE and Trustpower (TPW) all offer good value at present (OUTPERFORM). We are NEUTRAL on MCY and MEL.

Incorporating NZAS Smelter Closure Risk into Target Prices

Forecast changes

We have built in forecast changes for the smelter closing, accounting for:

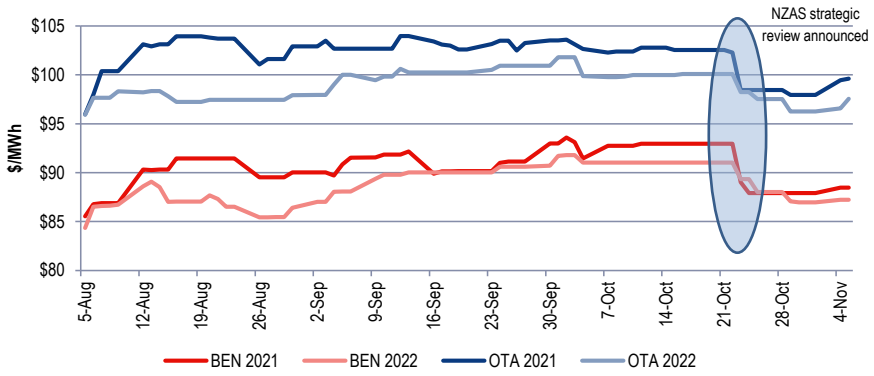
- The likely downward effects on wholesale electricity prices
- A probable discounted offer MEL and CEN will make to NZAS

Use of ASX Futures curve

The primary impact for the whole electricity market will be seen in a reduction in wholesale electricity prices, which will flow through to retail and commercial prices. We believe the effects will be temporary, with the closure of thermal plant in the North Island and transmission work relieving constraints. However, the reduction in electricity prices will likely lower electricity prices for at least three years.

The ASX electricity futures prices are the best market indication of the potential impact on wholesale electricity prices, and also incorporate the chance of NZAS closing. Based on the strategic review timeline and one year notice period, the earliest NZAS could reasonably be expected to close is 1 April 2021. Our analysis of the ASX futures price curve show that following an initial downwards movement after the 23 October announcement ASX price curves have not moved materially, and in the past few days have actually increased again. That said, we note only limited volumes have transacted.

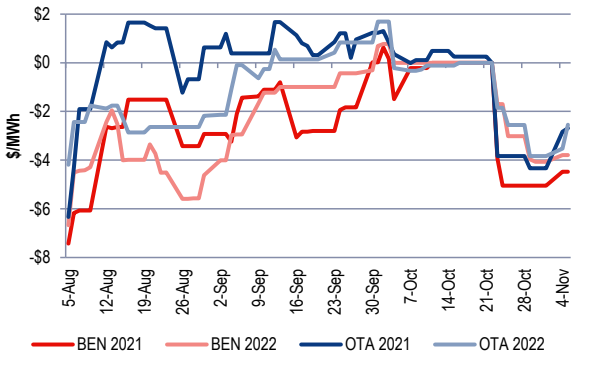
Figure 2. ASX electricity future prices (annual)



Source: IRESS, Forsyth Barr analysis

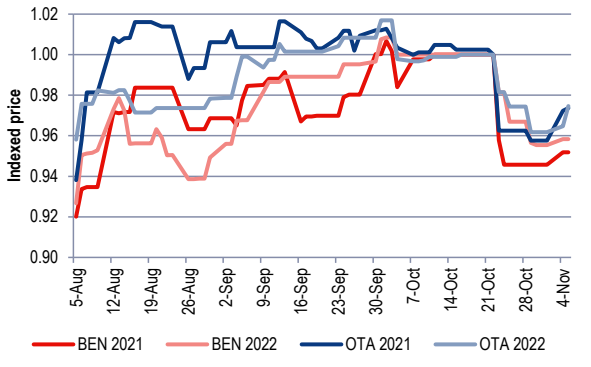
The price movement is greatest at Benmore (BEN), as would be expected given South Island prices will be affected the most by NZAS closing. However, the BEN 2021 price is only -5% (-$4/MWh) lower. The Otahuhu (OTA) price is currently only -3% (-$3/MWh) down on the pre-NZAS announcement price. In addition, both BEN and OTA prices are higher than they were three months ago.

Figure 3. Price movement vs. 22 October



Source: IRESS, Forsyth Barr analysis

Figure 4. Price movements indexed to 22 October



Source: IRESS, Forsyth Barr analysis

We use the new lower future electricity prices as a basis for our electricity forecasts.

MEL and CEN likely to offer something to NZAS

MEL and CEN are the companies likely to be most impacted by NZAS closure, particularly in the short-term. We, therefore, expect both companies to offer a modest price cut to NZAS. We do not expect the other large three players, GNE, MCY or TPW to offer anything to NZAS. Whilst they offered modest support three years ago and again last year when NZAS increased its contracted electricity +50MW, given these three companies are the least affected by NZAS closing, we expect them to leave CEN and MEL to do the heavy lifting.

We have made a base assumption that CEN and MEL offer to reduce their energy prices -$5/MWh and -$3/MWh respectively, which equates to a reduction in CEN EBITDAF of ~-$4.5m, and MEL ~-$13.0m, a total gain of +$17.5m per annum for NZAS. We assume CEN offers a slightly larger price reduction because the downside impact for CEN is still material, with the absolute EBITDAF impact closer to the relative value impact. Whilst ~$17.5m is well short of what we expect NZAS is seeking, we would be surprised if NZAS does not accept whatever is offered (i.e. we expect MEL and CEN will have lower earnings after the NZAS strategic review process, regardless of the outcome).

Politics will be crucial in final offer to NZAS

High transmission prices appear to be at the heart of NZAS's complaint about delivered electricity prices. However, it is hard to see the regulator or the Government cutting across the current regulatory process. That means a political solution will be required to bridge any gap between what NZAS will accept as a minimum (which based on our analysis of the current economics of the smelter shouldn't be much) and what MEL and CEN will offer.

Whilst Minister Megan Woods has indicated there will be no offers to NZAS, NZ First leader Winston Peters appears to be more conciliatory. The regional growth fund is the obvious source of funds to help bridge any gap. The internal coalition politics is, therefore, likely to play a key role in the outcome of smelter negotiations.

Additional value adjustments

In addition to the direct adjustments to our forecasts for lower wholesale electricity prices and possible offers that MEL and CEN will make to NZAS, we have made an additional discount based on the expected value at risk from NZAS closure. We use a risk weighting of 20% for the probability NZAS will actually close (note that this is conservative as we believe the chance of closure is less than 10%). The value discount is based on the high level analysis presented in our report *RIO Cries "Wolf"* published on 25 October.

Target price movements factor in the low closure risk

Our target price movements are a function of incorporating the ASX futures curve into our forecasts, specific lower NZAS revenue for CEN and MEL as well as a modest risk-weighted (20%) discount for closure.

Figure 5. Value and target price changes

	Estimated indirect value impact (risk weighted)		Direct NZAS support			Target price change	
	$m	$/share	Annual $m	Value $m	$/share	$/share	% change
CEN	(83)	-$0.12	(4.5)	(54)	-$0.08	-$0.19	-2.3%
GNE	(56)	-$0.05	0.0	0	$0.00	-$0.05	-1.6%
MCY	(46)	-$0.03	0.0	0	$0.00	-$0.02	-0.4%
MEL	(211)	-$0.08	(13.0)	(156)	-$0.06	-$0.14	-3.4%

Source: Forsyth Barr analysis

Note: The MCY target price reduction has been partially offset by the recent increase in out TLT valuation (target price up +$0.20 to $3.00)

Share price movements overdone

Generator/retailer share price movements have been dramatic post the NZAS announcement. However, it is a complex situation, with MSCI index changes and continued low interest rates also influencing the generator/retailer share prices. Whilst MEL has seen the largest declines in its share price, from our perspective it was starting from an elevated valuation starting point, hence, most of the fall in its share price closes the gap to our underlying valuation.

Figure 6. Share price movements post-NZAS strategic review announcement

	Share price as at		Price movement	
	22-Oct	6-Nov	$	%
CEN	$8.52	$7.33	-$1.19	-14.0%
GNE	$3.26	$3.16	-$0.11	-3.2%
MCY	$5.45	$4.79	-$0.66	-12.1%
MEL	$5.42	$4.60	-$0.82	-15.1%
TPW	$8.60	$8.26	-$0.34	-4.0%

Source: IRESS, Forsyth Barr analysis

With share price movements overdone, we are upgrading CEN and GNE to OUTPERFORM from NEUTRAL and upgrading MCY and MEL to NEUTRAL from UNDERPERFORM.

Transmission constraint removal will take time

Critical to the rebalancing of the wholesale electricity market is transmission investment to relieve transmission constraints that will appear following NZAS closure. The transmission grid has been developed with major generation and load centres in mind. Whilst it is designed to generally move electricity north, the closure of NZAS would create constraints between Clutha and the Waitaki Valley. Just like debottlenecking roads moves the choke point elsewhere, the same occurs with transmission. Debottlenecking the lower South Island would in turn create constraints on the interisland HVDC link and then further north in the Central North Island.

There are three core transmission upgrades required to completely "unblock" all transmission constraints to enable electricity to flow from the far south to the far north.

- Lower South Island upgrade
- Increased HVDC link capacity
- Central North Island grid upgrade

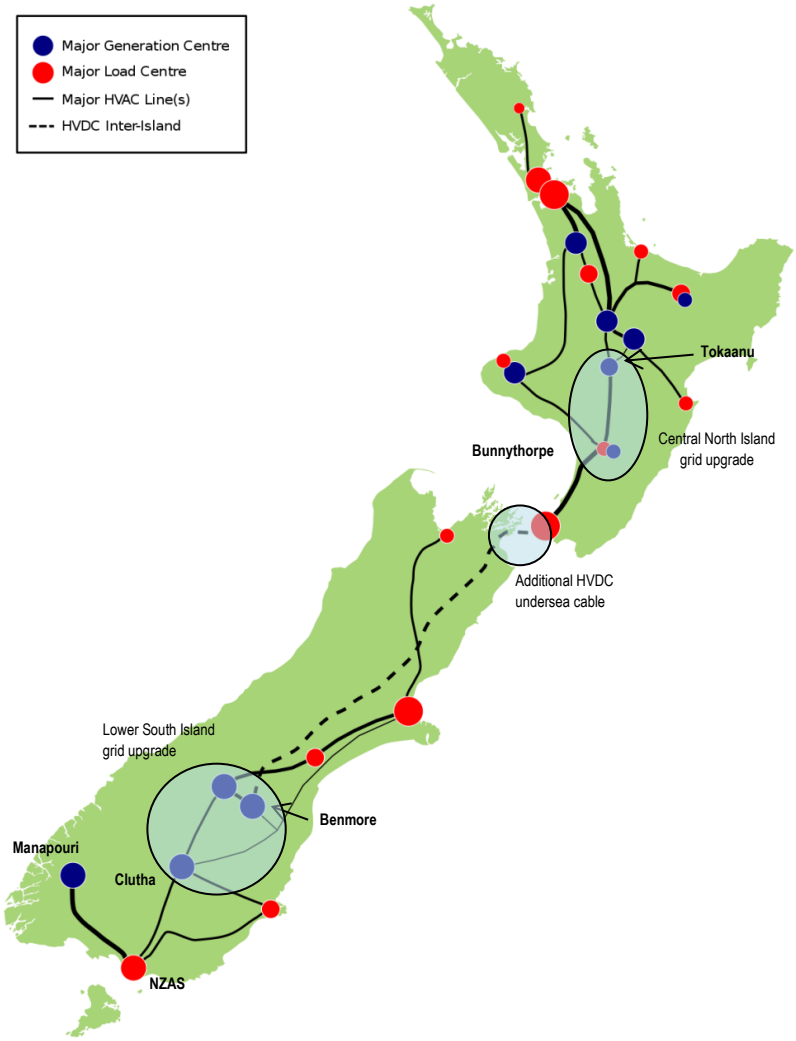
Figure 7. Summary of grid upgrades required

Project	Description	Time to complete	Estimated cost	Regulatory approval
Lower South Island	Upgrade of 220kV lines between Clutha and Waitaki to enable Manapouri (MEL) and Clutha River (CEN) generation to reach Benmore, the southern HVDC interisland link terminal.	3 years	$100m	Yes
HVDC link	Increase HVDC capacity by installing a fourth undersea cable. Current operating capacity is ~900MW due to reserves requirements (although the physical capacity is 1,200MW). A fourth cable in theory would allow HVDC physical and operating capacity to increase to 1,400MW.	5 - 8 years	$150m	No
Central North Island	Upgrade 220kV lines between Bunnythorpe (Palmerston North) and Tokannu (southern end of Lake Taupo) to enable South Island generation to reach the upper North Island.	5 - 8 years	$350m	No
		5 to 8 years	**$600m**	

Source: Transpower, Forsyth Barr analysis

It is important to note that the EA has already approved the Lower South Island upgrade, reducing the lead time for Transpower to complete that work. However, an extra cable on the HVDC link and the Central North Island upgrade have not been approved and Transpower has not yet completed the work to assess what the best solution is. Whilst Transpower is undertaking the required analysis to replace the undersea cables in the middle of the 2020's (and it would be logical to lay an extra cable at that time), it has yet to submit a proposal to the EA for approval.

Figure 8. NZ transmission grid (simplified) and grid upgrade locations



Source: LC Mortensen, Forsyth Barr analysis

Estimated transmission constraint effects

MEL's Manapouri and CEN's Clutha hydro schemes will be the most impacted from NZAS closing, until transmission constraints are relieved. The effects are twofold — first, more water will be spilled. Second, wholesale electricity prices will fall. Initially there will be price variances between the lower South Island, the rest of the South Island and the North Island. Once the initial lower South Island work has been completed, the price separation will be North Island/South Island across the HVDC link.

Figure 9 over the page estimates the amount of hydro generation that will be spilt until transmission constraints are relieved. Note, the analysis is based on an average hydrological year — during wet periods more water will be spilt and during dry periods there may be no water spilt.

The estimated generation curtailment is initially between -1,500GWh and -2,000GWh. The current line capacity out of the lower South Island is ~600MW, which equates to ~5,250GWh per annum. The lower South Island grid upgrade project will roughly double line capacity, ensuring in all but very wet conditions, all of the Manapouri and Clutha generation should be able to be exported.

Figure 9. Estimated impact of transmission constraints

	NZAS open GWh	NZAS closed, transmission constraints bind GWh	Lower SI transmission constraints resolved GWh
Average annual Manapouri generation	4,850	4,850	4,850
Average annual Clutha generation	3,900	3,900	3,900
Average annual White Hills wind farm generation	180	180	180
Average annual other lower SI generation (estimated)	450	450	450
Total large scale generation in lower SI	**9,380**	**9,380**	**9,380**
NZAS demand	(5,250)	0	0
Other Southland/Otago demand	(2,350)	(2,350)	(2,350)
Electricity exported north from Lower SI	(1,780)	(5,250)	(7,030)
Electricity hydro generation "spilt"	**0**	**1,780**	**0**

Source: Forsyth Barr analysis

Note: this analysis is based on average hydrological conditions. Contract NZAS demand is 622MW, however, it is currently only using ~600MW

The alternative to building new transmission is building new generation closer to the load. Whilst the lower South Island work will clearly go ahead, the economics for upgrading the HVDC are less certain.

The HVDC upgrade is more about increasing peak capacity than it is transmitting further energy north. We estimate that the cost of building the extra notional 500MW of capacity across the HVDC link (and then further north) is ~$1.0m/MW, which compares favourably with new gas-peaking generation (particularly when there is no fuel cost). We would, therefore, expect all of the transmission upgrades to go ahead.

Transpower has published details of the transmission upgrades required (based on existing information) here:

https://www.transpower.co.nz/clutha-upper-waitaki-lines-project-and-tiwai-future-faqs

Contact Energy

OUTPERFORM

NZAS Creates Opportunity

Following the announcement that Rio Tinto (RIO) is undertaking a strategic review of NZAS, Contact Energy's (CEN) share price has declined -14%, which in our view is overdone such we are upgrading our rating to OUTPERFORM. Whilst NZAS closure would be a negative, we view that outcome as unlikely (less than 10%) and the share price reaction an overreaction.

What's changed?

- **Earnings:** FY20/FY21 EBITDAF -$1m/-$8m lower to $466m/$483m
- **Target Price:** Reduced -19cps (-2.3%) to $8.03
- **Rating:** Upgraded to OUTPERFORM

Upgrade following significant share price fall

CEN's share price has dropped -14% following the announcement on 23 October than NZAS is undergoing a strategic review. Whilst we recognise there is downside risk to CEN, we view the risk of closure as unlikely. In addition, if NZAS were to close, over time we expect the electricity market to adjust, such that the negative effects of closure would be temporary. Nevertheless, until transmission constraints are resolved, CEN will face reduced generation volume and lower wholesale electricity prices, particularly in the lower South Island. Recognising the value impact of these risks, we have lowered our target price -19cps (-2.3%, 20% risk weighting for NZAS closing) to $8.03. However, that is materially less than the share price reaction, hence, we believe CEN is currently offering the best value amongst the generator/retailers and we are upgrading our rating to OUTPERFORM from NEUTRAL.

CEN expected to offer some support to NZAS

With CEN one of the most affected if NZAS were to close, we expect it will offer a lower electricity price and that NZAS will accept the offer. This is the best case scenario. Our assumption is that it will offer to reduce its price -$5/MWh, which equates to ~$4.5m.

Tauhara geothermal development option to go on the back-burner

An indirect effect of NZAS threatening to close is the delay of new developments. However, with drilling at Tauhara currently delayed due to issues with the drilling rig and a decision on whether to go ahead with the project scheduled for after the NZAS strategic review, we do not see this as a significant issue for CEN.

Share price fall likely exacerbated by MSCI Index

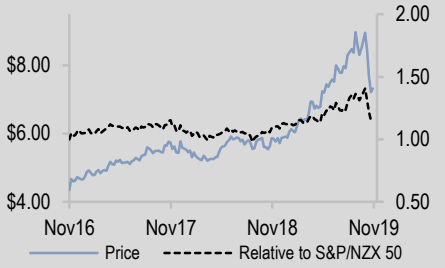
Prior to the NZAS announcement, CEN had a better than even chance of entering the MSCI Index. However, we now seen that as unlikely (less than 20% chance) and hence we suspect part of the share price fall is investors who had bet on CEN's inclusion in the Index selling.

Investment View

Our rating is OUTPERFORM. We view CEN as offering the best value amongst the generator/retailers. We believe the NZAS closure risk is more than priced into the share price. CEN is offering an attractive dividend yield and has one of the best potential development projects (Tauhara) in the country.

NZX Code	CEN
Share price	NZ$7.33
Target price	NZ$8.03
Risk rating	Low
Issued shares	715.5m
Market cap	NZ$5,245m
Average daily turnover	1,207k (NZ$8,492k)

Share Price Performance



Financials: June	19A	20E	21E	22E
NPAT* (NZ$m)	280.4	248.0	259.0	263.2
EPS* (NZc)	39.2	34.7	36.2	36.8
EPS growth* (%)	23.4	-11.5	4.4	1.6
DPS (NZc)	39.0	39.0	39.5	40.0
Imputation (%)	64	60	70	75

Valuation (x)	19A	20E	21E	22E
EV/EBITDA	12.4	13.3	12.8	12.7
EV/EBIT	20.6	23.5	22.0	21.3
PE	18.7	21.2	20.3	19.9
Price / NTA	2.2	2.4	2.5	n/a
Cash dividend yield (%)	5.3	5.3	5.4	5.5
Gross dividend yield (%)	6.6	6.6	6.9	7.0

*Historic and forecast numbers based on underlying profits

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Contact Energy Limited (CEN) Priced as at 06 Nov 2019: NZ$7.33 June year end

Forsyth Barr valuation			
Valuation methodology	Blend of spot valuations, weighted to multiples		
12-month target price (NZ$)*	**8.03**	**Spot valuations (NZ$)**	
Expected share price return	9.5%	1. DCF	7.19
Net dividend yield	5.3%	2. Market multiples	7.99
Estimated 12-month return	14.9%	3. Dividend yield	8.89
Key WACC assumptions		**DCF valuation summary (NZ$m)**	
Risk free rate	2.00%	Total firm value	6,336
Equity beta	0.88	(Net debt)/cash	(1,108)
WACC	6.6%	Value of equity	5,228
Terminal growth	1.5%	Shares (m)	716

Profit and Loss Account (NZ$m)	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
Sales revenue	2,275	2,519	2,363	2,273	2,231
Normalised EBITDA	**479**	**518**	**466**	**483**	**490**
Depreciation and amortisation	(220)	(205)	(202)	(201)	(199)
Normalised EBIT	**259**	**313**	**264**	**282**	**291**
Net interest	(84)	(70)	(58)	(59)	(58)
Depreciation capex adjustment	99	104	100	98	96
Tax	(48)	(72)	(58)	(63)	(65)
Minority interests	-	-	-	-	-
Adjusted normalised NPAT	**227**	**280**	**248**	**259**	**263**
Abnormals/other	(97)	65	(100)	(98)	(96)
Reported NPAT	**130**	**345**	**148**	**161**	**167**
Normalised EPS (cps)	31.7	39.2	34.7	36.2	36.8
DPS (cps)	32.0	39.0	39.0	39.5	40.0

Growth Rates	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
Revenue (%)	9.4	10.7	-6.2	-3.8	-1.8
EBITDA (%)	-4.4	8.1	-10.1	3.8	1.4
EBIT (%)	-11.6	20.8	-15.8	7.2	3.1
Normalised NPAT (%)	9.1	23.4	-11.5	4.4	1.6
Normalised EPS (%)	9.1	23.4	-11.5	4.4	1.6
DPS (%)	23.1	21.9	0.0	1.3	1.3

Cash Flow (NZ$m)	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
EBITDA	**479**	**518**	**466**	**483**	**490**
Working capital change	38	(19)	(6)	(6)	(1)
Interest & tax paid	(111)	(112)	(117)	(126)	(131)
Other	(27)	14	-	-	-
Operating cash flow	**379**	**401**	**342**	**351**	**358**
Capital expenditure	(82)	(63)	(93)	(65)	(66)
(Acquisitions)/divestments	6	382	-	-	-
Other	(7)	-	-	-	-
Funding available/(required)	**296**	**720**	**249**	**286**	**292**
Dividends paid	(201)	(251)	(279)	(279)	(283)
Equity raised/(returned)	1	-	-	-	-
Increase/(decrease) in net debt	**(96)**	**(469)**	**30**	**(7)**	**(9)**

Balance Sheet (NZ$m)	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
Working capital	(22)	(3)	3	9	11
Fixed assets	4,253	4,126	4,017	3,881	3,748
Intangibles	441	425	425	425	425
Other assets	404	132	132	132	132
Total funds employed	**5,076**	**4,680**	**4,577**	**4,447**	**4,316**
Net debt/(cash)	1,448	943	973	966	957
Other non current liabilities	901	955	950	941	931
Shareholder's funds	2,727	2,782	2,654	2,540	2,428
Minority interests	-	-	-	-	-
Total funding sources	**5,076**	**4,680**	**4,577**	**4,447**	**4,316**

Valuation Ratios	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
EV/EBITDA (x)	14.1	12.4	13.3	12.8	12.7
EV/EBIT (x)	26.0	20.6	23.5	22.0	21.3
PE (x)	23.1	18.7	21.2	20.3	19.9
Price/NTA (x)	2.3	2.2	2.4	2.5	2.6
Free cash flow yield (%)	5.7	6.4	4.7	5.5	5.6
Net dividend yield (%)	4.4	5.3	5.3	5.4	5.5
Gross dividend yield (%)	5.2	6.6	6.6	6.9	7.0
Imputation (%)	48	64	60	70	75
Pay-out ratio (%)	101	100	113	109	109

Capital Structure	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
Interest cover EBIT (x)	3.3	4.8	5.0	5.3	5.4
Interest cover EBITDA (x)	5.7	7.4	8.0	8.2	8.4
Net debt/ND+E (%)	34.7	25.3	26.8	27.6	28.3
Net debt/EBITDA (x)	3.0	1.8	2.1	2.0	2.0

Key Ratios	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
Return on assets (%)	4.9	9.8	5.4	6.0	6.4
Return on equity (%)	4.7	6.3	5.6	6.3	6.9
Return on funds employed (%)	4.5	9.4	5.2	5.8	6.2
EBITDA margin (%)	21.1	20.6	19.7	21.3	22.0
EBIT margin (%)	11.4	12.4	11.2	12.4	13.0
Capex to sales (%)	3.6	2.5	3.9	2.9	3.0
Capex to depreciation (%)	37	31	46	32	33

Operating Performance	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
Divisional Revenue ($m)					
Wholesale electricity	1,157	1,463	1,336	1,215	1,146
Retail electricity	883	863	873	890	905
Retail gas sales	71	73	81	83	86
LPG sales	121	58	-	-	-
Other	31	32	33	33	33
Total Revenue	**2,263**	**2,489**	**2,323**	**2,221**	**2,170**
Operating Statistics					
Hydro generation (GWh)	3,479	4,232	3,722	3,887	3,887
Geothermal generation (GWh)	3,323	3,257	3,346	3,346	3,346
Thermal generation (GWh)	1,812	1,422	1,694	1,704	1,784
Total Generation (GWh)	**8,614**	**8,911**	**8,763**	**8,937**	**9,018**
GWAP ($/MWh)	85	129	121	98	88
Gas consumed (PJ)	17.5	13.9	16.1	16.1	16.9
Gas price ($/GJ)	6.1	7.1	7.2	7.3	7.4
Retail electricity volumes (GWh)	6,997	6,554	6,108	6,234	6,229
Electricity customers (000)	413	411	411	408	406
Average usage/customer (MWh)	8.7	8.6	8.6	8.6	8.7
Average retail price ($/MWh)	242	244	247	252	257
LWAP ($/MWh)	91	138	132	107	96
LWAP/GWAP	1.07	1.07	1.09	1.09	1.09
Retail gas volumes (PJ)	2.9	3.1	3.2	3.2	3.2
Gas customers (000)	65	67	67	68	68
Average gas sales price ($/GJ)	24.6	23.6	25.5	26.0	26.5

* Forsyth Barr target prices reflect valuation rolled forward at cost of equity less the next 12-months dividend

Summary forecast changes

Figure 10. Summary forecast changes

	FY20			FY21			FY22		
	Old	**New**	**% chg**	**Old**	**New**	**% chg**	**Old**	**New**	**% chg**
Revenue	2,371	2,363	-0.4%	2,292	2,273	-0.8%	2,272	2,231	-1.8%
EBITDAF	**467**	**466**	**-0.3%**	**491**	**483**	**-1.6%**	**502**	**490**	**-2.4%**
EBIT	265	264	-0.5%	290	282	-2.7%	303	291	-4.0%
Reported NPAT	149	148	-0.6%	167	161	-3.6%	177	167	-5.3%
Normalised NPAT	149	148	-0.6%	167	161	-3.6%	177	167	-5.3%
Adjusted NPAT	249	248	-0.4%	265	259	-2.2%	272	263	-3.4%
EPS	34.8	34.7	-0.4%	37.0	36.2	-2.3%	38.1	36.8	-3.4%
DPS	39.0	39.0	0.0%	39.5	39.5	0.0%	40.0	40.0	0.0%
Generation (GWh)	8,763	8,763	0.0%	8,937	8,937	0.0%	9,018	9,018	0.0%
Electricity Wholesale Price ($/MWh)	$122.2	$121.2	-0.8%	$100.2	$98.0	-2.2%	$93.0	$88.4	-4.9%
Retail Demand (GWh)	6,108	6,108	0.0%	6,234	6,234	0.0%	6,229	6,229	0.0%

Source: Forsyth Barr analysis

Investment summary

Our rating is OUTPERFORM. We view Contact Energy (CEN) as offering the best value amongst the generator/retailers. We believe the NZAS closure risk is more than priced into the share price. CEN is offering an attractive dividend yield and has one of the best potential development projects (Tauhara) in the country.

Key drivers

- **Wholesale electricity prices and the electricity demand/supply balance:** The wholesale electricity price is the key driver of retail and commercial prices and therefore the key value driver. The electricity demand/supply balance and the cost of new generation underpin the wholesale price. Currently the NZ market is balanced.
- **Retail margins:** In recent years intense retail competition and new entrant retailers have eroded retail margins. Strong margins support profitability.
- **Hydrology:** Short-term earnings are impacted by hydrology. CEN prefers wet conditions as it lowers its average cost of generation. However, CEN's thermal fleet provides it with some downside protection from dry conditions.

Other key company and industry issues

- **Increased carbon costs:** Following changes to the Emissions Trading Scheme, CEN has to relinquish more carbon credits and carbon prices have increased materially. This is a modest headwind for FY20.

Upcoming catalysts/events

- **Geothermal development:** CEN has one of the best generation development opportunities in its Tauhara geothermal field. With modest electricity demand growth expected and CEN likely to close its base-load gas plant within three years, there is a strong chance it develops this field.
- **Success of cost-out:** CEN has successfully removed operating and capital costs over the past four years. It believes additional cost-out opportunities exist; delivering on these will be important for earnings.

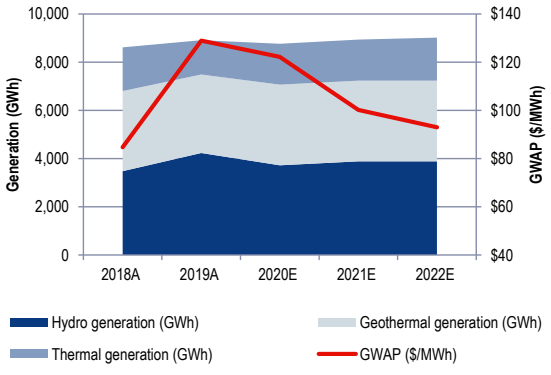
Key risks

- **Political/regulatory:** The 2014 election and recent Electricity Price Review (EPR) highlighted the political/regulatory risks inherent in the sector. Whilst the EPR gave the sector a thumbs up in most areas, the political risk is unlikely to ever disappear.
- **NZAS risk:** NZAS has indicated it is undertaking a strategic review, raising the possibility it may close. In our view, the smelter is unlikely to close (less than 10% chance) and the downside risks are fully factored into the share price.

Company description

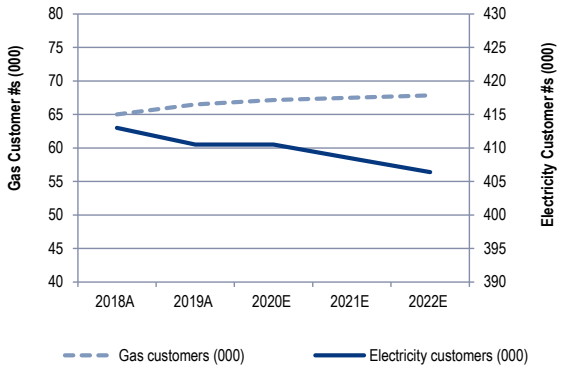
CEN generates around 25% of New Zealand's electricity and supplies electricity, gas and LPG to ~560,000 customers nationwide. Its generation portfolio consists of gas (a combined-cycle gas turbine and a gas-peaking plant), hydro (on the Clutha River in the South Island) and geothermal (in the central North Island). CEN typically produces ~8,800 GWh of electricity per annum and sells ~7,800GWh of electricity, around half of which is sold to mass market customers. CEN produces strong cash flows which it intends to return to shareholders.

Figure 11. Generation volumes and average generation price



Source: CEN, Forsyth Barr analysis

Figure 12. Customer numbers



Source: CEN, Forsyth Barr analysis

Genesis Energy

OUTPERFORM

Retail Tracking Well, Generation Less So

We are upgrading our Genesis Energy (GNE) rating to OUTPERFORM as we believe recent share price falls are overdone. GNE will be one of the least affected generator/retailers in the unlikely event that NZAS closes.

What's changed?

- **Earnings:** FY20/FY21 EBITDAF -$2m/+$4m to $365m/$410m
- **Target Price:** Lowered -5cps (-1.3%) to $3.23
- **Rating:** Upgraded to OUTPERFORM

NZAS risk relatively low for GNE

Compared to 2013, GNE's NZAS closure risks are materially lower. By the time lower South Island transmission constraints are removed (~2024), GNE will have very little contracted take or pay gas. In addition, it has no generation behind the initial lower South Island transmission constraint, so does not face spill risk. That said, we expect NZAS closure would result in GNE closing its Rankine units and running Unit 5 more as a peaking plant earlier than originally planned — there will be some modest costs associated with this. With GNE having a relatively low risk to NZAS closure, we do not expect it will be providing any price support to lower the risk of NZAS closing.

The modest value risks associated with NZAS closing have lowered our target price -5cps (-1.3%, risk weighting of NZAS closing of 20%) to $3.23.

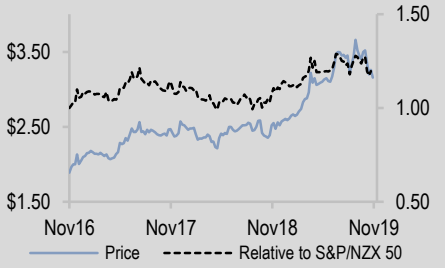
Mixed 1Q20 operating statistics

On the positive side, retail margins are growing faster at GNE than any other generator/retailer, across all products. However, low cost hydro generation was soft in 1Q20 and thermal generation volumes and costs higher than expected. We estimate that due to the high priced imported coal in the stockpile, the Rankine coal units cost more than $130/MWh to run in 1Q20, higher than the average generation price received.

Our FY20 EBITDAF forecast is -$2m lower to $365m, however, the higher than expected retail margins result in modest earnings growth in FY21 and beyond.

NZX Code	GNE
Share price	NZ$3.16
Target price	NZ$3.23
Risk rating	Low
Issued shares	1029.4m
Market cap	NZ$3,248m
Average daily turnover	494.6k (NZ$1,541k)

Share Price Performance



Financials: June	19A	20E	21E	22E
NPAT* (NZ$m)	158.9	157.3	201.4	249.7
EPS* (NZc)	15.5	15.2	19.3	23.7
EPS growth* (%)	21.7	-2.1	26.7	23.3
DPS (NZc)	17.1	17.4	17.7	18.0
Imputation (%)	80	90	95	95

Valuation (x)	19A	20E	21E	22E
EV/EBITDA	12.2	12.2	10.9	9.9
EV/EBIT	26.6	28.8	22.8	20.2
PE	20.3	20.8	16.4	13.3
Price / NTA	1.8	1.9	2.0	n/a
Cash dividend yield (%)	5.4	5.5	5.6	5.7
Gross dividend yield (%)	7.1	7.4	7.7	7.8

*Historic and forecast numbers based on underlying profits

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Investment View

Our rating is OUTPERFORM. GNE is trading on the sector leading dividend yield and market multiples. It also has the strongest near-term growth profile, aided by high cost gas contracts rolling off from FY21 onwards. Its downside risks to NZAS closing are also amongst the lowest in the sector.

Genesis Energy Limited (GNE) Priced as at 06 Nov 2019: NZ$3.16 June year end

Forsyth Barr valuation					
Valuation methodology		Mix of market multiple and DCF			
12-month target price (NZ$)*	**3.23**	**Spot valuations (NZ$)**			
Expected share price return	2.2%	1. DCF	2.90		
Net dividend yield	5.5%	2. Market multiple	3.15		
Estimated 12-month return	7.7%	3. Dividend yield	3.60		
Key WACC assumptions		**DCF valuation summary (NZ$m)**			
Risk free rate	2.00%	Total firm value	4,299		
Equity beta	0.88	(Net debt)/cash	(1,255)		
WACC	6.7%	Value of equity	3,044		
Terminal growth	1.5%	Shares (m)	1,029		

Profit and Loss Account (NZ$m)	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
Sales revenue	2,305	2,701	2,656	2,433	2,395
Normalised EBITDA	**361**	**363**	**365**	**410**	**453**
Depreciation and amortisation	(206)	(197)	(210)	(214)	(231)
Normalised EBIT	**155**	**167**	**155**	**196**	**221**
Net interest	(74)	(73)	(73)	(66)	(61)
Associate income	-	-	-	-	-
Tax	(22)	(27)	(23)	(37)	(45)
Deprecation capex adjustment	71	92	98	107	134
Adjusted normalised NPAT	**129**	**159**	**157**	**201**	**250**
Abnormals/other	(109)	(100)	(98)	(107)	(134)
Reported NPAT	**20**	**59**	**59**	**94**	**115**
Normalised EPS (cps)	5.8	6.5	5.7	9.0	11.0
DPS (cps)	16.9	17.1	17.4	17.7	18.0

Growth Rates	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
Revenue (%)	18.1	17.2	-1.6	-8.4	-1.6
EBITDA (%)	8.4	0.8	0.4	12.3	10.5
EBIT (%)	-2.0	7.8	-7.4	27.0	12.7
Normalised NPAT (%)	-18.9	23.5	-1.0	28.0	23.9
Normalised EPS (%)	-19.6	21.7	-2.1	26.7	23.3
DPS (%)	1.8	0.9	1.8	1.7	1.7

Cash Flow (NZ$m)	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
EBITDA	**361**	**363**	**365**	**410**	**453**
Working capital change	33	(27)	(1)	(12)	(8)
Interest & tax paid	(120)	(123)	(109)	(118)	(129)
Other	(7)	17	-	-	-
Operating cash flow	**266**	**231**	**256**	**280**	**315**
Capital expenditure	(108)	(69)	(74)	(64)	(57)
(Acquisitions)/divestments	0	(0)	-	-	-
Other	-	-	-	-	-
Funding available/(required)	**159**	**162**	**182**	**215**	**258**
Dividends paid	(148)	(132)	(139)	(143)	(167)
Equity raised/(returned)	(1)	(1)	-	-	-
Increase/(decrease) in net debt	**(10)**	**(29)**	**(43)**	**(72)**	**(91)**

Balance Sheet (NZ$m)	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
Working capital	90	111	112	124	132
Fixed assets	3,430	3,717	3,664	3,536	3,371
Intangibles	364	364	368	362	355
Other assets	84	121	121	121	121
Total funds employed	**3,968**	**4,313**	**4,264**	**4,143**	**3,979**
Net debt/(cash)	1,206	1,228	1,272	1,216	1,126
Other non current liabilities	806	934	921	905	881
Shareholder's funds	1,956	2,151	2,071	2,023	1,972
Minority interests	-	-	-	-	-
Total funding sources	**3,968**	**4,313**	**4,264**	**4,143**	**3,979**

Valuation Ratios	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
EV/EBITDA (x)	12.3	12.2	12.2	10.9	9.9
EV/EBIT (x)	28.8	26.6	28.9	22.8	20.3
PE (x)	24.8	20.4	20.8	16.4	13.3
Price/NTA (x)	2.0	1.8	1.9	2.0	2.1
Free cash flow yield (%)	4.9	5.0	5.6	6.6	7.9
Net dividend yield (%)	5.3	5.4	5.5	5.6	5.7
Gross dividend yield (%)	7.0	7.1	7.4	7.6	7.8
Imputation (%)	80	80	90	95	95
Pay-out ratio (%)	132	110	114	92	76

Capital Structure	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
Interest cover EBIT (x)	1.4	2.1	2.1	3.0	3.6
Interest cover EBITDA (x)	4.9	5.0	5.0	6.3	7.4
Net debt/ND+E (%)	37.7	35.5	37.3	36.7	35.5
Net debt/EBITDA (x)	3.3	3.3	3.4	2.9	2.4

Key Ratios	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
Return on assets (%)	2.4	3.4	3.4	4.5	5.2
Return on equity (%)	3.0	3.1	2.9	4.7	5.9
Return on funds employed (%)	3.6	3.6	3.4	4.4	5.2
EBITDA margin (%)	15.6	13.5	13.7	16.8	18.9
EBIT margin (%)	6.7	6.2	5.8	8.1	9.2
Capex to sales (%)	4.7	2.5	2.8	2.6	2.4
Capex to depreciation (%)	52	35	35	30	25

Operating Performance	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
Renewable generation	3,084	2,835	2,611	2,717	2,717
Gas generation	3,392	2,586	2,836	2,783	2,783
Coal generation	657	1,410	1,121	876	876
Total GNE generation (GWh)	**7,133**	**6,831**	**6,568**	**6,377**	**6,377**
GWAP ($/MWh)	92	143	132	108	97
Coal used (tonnes)	348	720	580	453	453
Coal price ($/tonne)	120	139	142	125	126
Gas used (PJ)	26.7	20.2	21.0	20.5	20.5
Gas price ($/GJ)	7.9	8.6	8.7	8.5	8.5
Electricity customers (000)	503.7	499.5	499.5	494.5	492.0
MM/SME volumes	4,169	4,077	4,067	4,057	4,036
TOU volumes	1,811	1,992	2,061	2,082	2,102
Total fixed price volumes (GWh)	**5,980**	**6,068**	**6,128**	**6,139**	**6,138**
Average MM usage/cust (kWh/yr)	8,240	8,126	8,122	8,162	8,191
Average FPVV price ($/MWh)	206	207	212	214	217
LWAP ($/MWh)	92	139	133	109	97
LWAP/GWAP	1.01	0.97	1.01	1.01	1.01
Line losses (%)	5.3	5.4	5.6	5.6	5.6
Retail gas customers (000)	106.2	107.1	107.2	107.7	108.2
Retail gas volumes (PJ)	7.5	8.2	8.4	8.5	8.6
Gas volume/cust (GJ/yr)	70.5	76.7	78.6	79.0	79.4
LPG retail sales (tonnes)	35,005	38,507	42,925	46,590	49,141
Kupe production					
Gas production (PJ)	11.8	11.8	10.5	10.0	11.5
Oil production (k barrels)	533	473	381	355	564
LPG production (k tonnes)	45.9	50.6	45.2	42.4	47.8
Kupe EBITDAF ($m)	115	109	98	94	121
Energy EBITDAF ($m)	245	255	267	315	331
GNE EBITDAF ($m)	**361**	**363**	**365**	**410**	**453**

* Forsyth Barr target prices reflect valuation rolled forward at cost of equity less the next 12-months dividend

Summary 1Q20 operating statistics

Figure 13. Summary 1Q20 operating statistics

	Sep-18 1Q19	Sep-19 1Q20	% Chg
Retail electricity sales (GWh)			
Mass market (MM)	960	940	-2.1%
Small, medium enterprises (SME)	274	290	5.7%
Commercial and industrial (C&I)	490	488	-0.4%
Total fixed price variable volume (FPVV)	**1,725**	**1,718**	**-0.4%**
Electricity customer numbers (000)	502.2	502.0	0.0%
Electricity customer number additions (000)	(1.5)	2.5	
MM sales/customer (MWh/customer)	2.45	2.46	0.1%
MM sales price ($/MWh)	$247.7	$253.5	2.3%
SME sales price ($/MWh)	$215.1	$214.9	-0.1%
C&I average selling price ($/MWh)	$132.6	$150.4	13.4%
Weighted average FPVV selling price ($/MWh)	**$209.8**	**$217.7**	**3.7%**
Electricity netback ($/MWh)	**$107.4**	**$114.0**	**6.1%**
LWAP ($/MWh)	$88.1	$125.7	43%
Retail gas sales (PJ)			
Mass market (incl SME)	1.7	1.7	0.5%
C&I gas sales	1.0	1.1	10.0%
Total gas sales	**2.7**	**2.8**	**4.2%**
Gas customer numbers (000)	106.3	106.4	0.2%
Gas consumption/customer (GJ)	15.6	15.6	0.0%
Retail gas price ($/GJ)	$22.0	$22.2	0.7%
Gas netback ($/GJ)	**$8.7**	**$9.3**	**6.9%**
Retail LPG sales (tonnes)			
Bottled sales	4,817	5,562	15.5%
Other bulk & SME sales	5,705	7,560	32.5%
Total retail LPG sales	**10,522**	**13,122**	**24.7%**
LPG connections (000)	64.1	70.4	9.8%
LPG connection additions	1.7	1.9	11.2%
LPG consumption/connections (kg)	76.2	80.1	5.2%
LPG netback ($/tonne)	**$863**	**$1,031**	**19.5%**
Generation (GWh)			
Hydro	991	759	-23%
Coal - Rankine units	96	361	276%
Gas - Rankine units	39	19	-51%
Gas - Units 5 & 6	649	706	9%
Wind	6	6	0%
Total generation	**1,781**	**1,851**	**4%**
GWAP ($/MWh)	$85.7	$124.6	45%
LWAP/GWAP	102.9%	100.9%	-2%
Portfolio fuel cost ($/MWh)	**$30.1**	**$47.8**	**59%**
Kupe sales and production			
Oil production (barrels)	129,976	110,999	-15%
Oil sales (barrels)	69,924	65,938	-6%
Gas sales (PJ)	3.0	3.0	0%
LPG sales (000 tonnes)	13,380	13,875	4%
Barrels of oil equivalent	**665,688**	**666,008**	**0%**

Source: GNE, Forsyth Barr analysis

Summary forecast changes

Figure 14. Summary forecast changes

	FY20 Old	FY20 New	Diff % Chg	FY21 Old	FY21 New	Diff % Chg	FY21 Old	FY21 New	Diff % Chg
Sales revenue	2,513	2,656	5.7%	2,408	2,433	1.1%	2,399	2,395	-0.1%
EBITDAF	**367**	**365**	**-0.5%**	**406**	**410**	**0.9%**	**446**	**453**	**1.4%**
EBIT	156	155	-1.2%	193	196	1.8%	215	221	2.9%
Pre-tax profit	84	82	-2.3%	127	131	2.6%	154	160	4.0%
NPAT	**60**	**59**	**-2.3%**	**92**	**94**	**2.6%**	**111**	**115**	**4.0%**
Earnings (cps)	5.9	5.7	-2.4%	8.8	9.0	2.5%	10.6	11.0	3.9%
Dividend (cps)	17.4	17.4	0.0%	17.7	17.7	0.0%	18.0	18.0	0.0%
Generation (GWh)	6,375	6,568	3.0%	6,377	6,377	0.0%	6,377	6,377	0.0%
FPVV sales (GWh)	6,080	6,128	0.8%	6,080	6,139	1.0%	6,079	6,138	1.0%
Customer numbers (000)	494	499	1.0%	490	494	1.0%	487	492	1.0%
GWAP ($/MWh)	$115.0	$131.5	14.3%	$107.2	$108.1	0.8%	$100.7	$96.6	-4.0%
LWAP/GWAP	1.008	1.011	0.2%	1.008	1.007	0.0%	1.006	1.006	0.0%

Source: Forsyth Barr analysis

Investment summary

Our rating is OUTPERFORM. GNE is trading on the sector leading dividend yield and market multiples. It also has the strongest near-term growth profile, aided by high cost gas contracts rolling off from FY21 onwards. Its downside risks to NZAS closing are also amongst the lowest in the sector.

Business quality

- **Low risk, modest growth industry:** Electricity demand is relatively inelastic and is expected to grow slowly in the future. The industry is well positioned to benefit from NZ decarbonising transport and industrial heat.
- **Unique generation position:** Most of the value within the electricity sector lies within the generation assets. GNE has the only coal plant which is critical cover for low hydro years. Historically, monetising GNE's thermal position has been difficult, although we expect that to improve.

Earnings and cash flow outlook

- **Strategy refresh:** GNE has announced a strategy refresh which will see it embracing new technology and focussing more on the customer. GNE is targeting FY21 EBITDAF of $400m+.
- **Gas relief coming:** GNE currently has too much gas due to legacy high priced take or pay contracts. These contracts start to roll-off after 2020, providing an earnings tailwind.

Financial structure

- **Balance sheet:** Whilst we are comfortable with debt levels, GNE's balance sheet has limited spare capacity following the acquisitions of Nova's LPG business and increasing its Kupe stake. GNE is lowering gearing through the use of a dividend reinvestment plan (DRP).

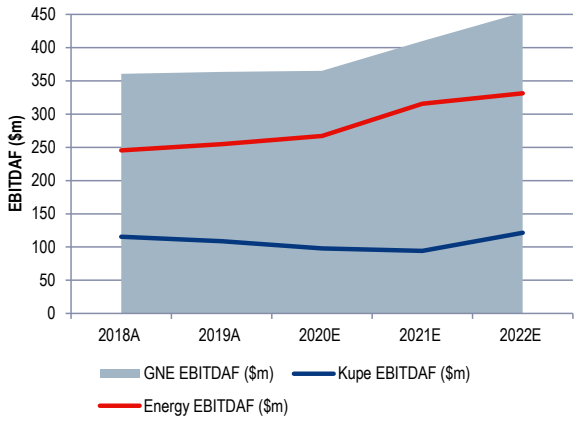
Key risks

- **Increasing carbon costs:** GNE is required to relinquish an increasing value of carbon credits. Higher carbon prices combine to create financial headwinds for the next few years.
- **NZAS risk:** NZAS has indicated it is undertaking a strategic review, raising the possibility it may close. In our view, the smelter is unlikely to close (less than 10% chance) and the downside risks are fully factored into GNE's share price.
- **Rising bond yields:** In recent years GNE has traded in line with bond yields. A lift in interest rates is likely to see GNE trade lower, although in our view interest rates will probably remain low for the foreseeable future.

Company description

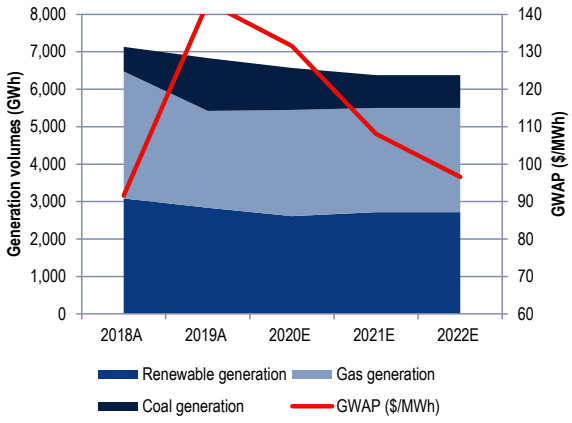
Genesis Energy is a large NZ electricity generator/retailer producing ~7,000GWh of electricity from its hydro and thermal power stations. It owns the only coal fired power station in NZ (which is a core asset to reduce dry year risk), a large gas-fired power station and several hydro power stations in the North and South islands. It is NZ's largest energy retailer, retailing electricity, gas & LPG to ~665,000 customers under its Genesis Energy and Energy Online brands and has a relationship with SPK to resell broadband services. It also owns 46% of the producing Kupe oil and gas field, taking 100% of Kupe gas to sell and/or use in its power stations.

Figure 15. EBITDAF split



Source: GNE, Forsyth Barr analysis

Figure 16. Generation volumes and average price received



Source: GNE, Forsyth Barr analysis

Mercury

NEUTRAL

NZAS Collateral Damage

We are upgrading our Mercury (MCY) rating to NEUTRAL due to, in our view, the overreaction of the market following the announcement that NZAS is undergoing a strategic review. MCY will be one of the least affected generator/retailers as all of its generation and most of its electricity customers are North Island based.

What's changed?

- **Earnings:** FY20/FY21 EBITDAF +$2m/-$3m to $516m and $525m
- **Target Price:** Reduced -2cps (-0.4%) to $4.53
- **Rating:** Upgraded to NEUTRAL

NZAS closure risk minimal for MCY

MCY's exposure to NZAS is limited. Whilst it will be impacted by a temporarily lower wholesale electricity price, it will not have to close any thermal generation plant and the retail price impact will be low as most of its customers are North Island based. For these reasons we do not expect MCY to offer lower electricity prices to NZAS.

MCY's share price reaction (down -12%) relative to the downside risk it faces from NZAS closing is, therefore, out of proportion. We have lowered our target price just -2cps (risk weighting of 20% for NZAS closure) for the increased risk of NZAS closing. That said, whilst MCY now looks more attractive, we are only upgrading our rating to NEUTRAL as MCY's lift in share price over recent months was driven by MSCI inclusion more than any underlying fundamentals. Our forecast changes are minimal.

Figure 17. Summary forecast changes

	FY20 Old	FY20 New	% Chg	FY21 Old	FY21 New	% Chg	FY22 Old	FY22 New	% Chg
Sales revenue	1,921	1,941	1.0%	1,808	1,785	-1.3%	1,770	1,732	-2.1%
EBITDAF	**514**	**516**	**0.5%**	**528**	**525**	**-0.6%**	**549**	**546**	**-0.5%**
EBIT	313	315	0.8%	323	320	-1.0%	349	346	-0.8%
Pre-tax profit	247	249	1.1%	254	251	-1.2%	278	275	-1.1%
NPAT	**176**	**177**	**1.1%**	**181**	**179**	**-1.2%**	**200**	**198**	**-1.1%**
Dividend (cps)	15.8	15.8	0.0%	16.2	16.2	0.0%	22.1	21.9	-0.9%
Generation (GWh)	6,898	6,898	0.0%	7,026	7,026	0.0%	7,314	7,314	0.0%
GWAP ($/MWh)	$128.5	$131.6	2.4%	$108.2	$104.8	-3.2%	$99.0	$93.0	-6.0%
LWAP/GWAP	1.048	1.046	-0.1%	1.050	1.050	0.0%	1.054	1.054	0.0%

Source: Forsyth Barr analysis

MCY expected to enter MSCI Index

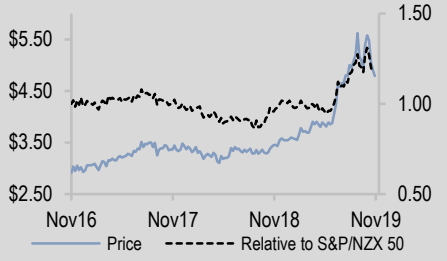
We expect MCY will be entering the MSCI Index. The announcement will be made on Friday 8 November.

Investment View

Our rating is NEUTRAL. MCY is a strong operator in the sector with well-positioned generation assets. Whilst its near-term dividend yield is the lowest in the sector, we expect that to improve following the completion of its Turitea windfarm in 2021. Overall we view MCY as fairly valued.

NZX Code	MCY
Share price	NZ$4.79
Target price	NZ$4.53
Risk rating	Low
Issued shares	1360.9m
Market cap	NZ$6,519m
Average daily turnover	717.4k (NZ$3,106k)

Share Price Performance



Financials: June	19A	20E	21E	22E
NPAT* (NZ$m)	239.0	248.4	273.8	285.0
EPS* (NZc)	17.6	18.3	20.1	20.9
EPS growth* (%)	-6.4	3.9	10.2	4.1
DPS (NZc)	15.5	15.8	16.2	21.9
Imputation (%)	100	100	100	85

Valuation (x)	19A	20E	21E	22E
EV/EBITDA	14.7	14.2	14.1	13.6
EV/EBIT	24.6	23.3	23.2	21.9
PE	27.3	26.2	23.8	22.9
Price / NTA	1.9	1.9	1.9	n/a
Cash dividend yield (%)	3.2	3.3	3.4	4.6
Gross dividend yield (%)	4.5	4.6	4.7	6.1

*Historic and forecast numbers based on underlying profits

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Mercury NZ Limited (MCY) Priced as at 06 Nov 2019: NZ$4.79 June year end

Forsyth Barr valuation			
Valuation methodology		Mix of market multiple and DCF	
12-month target price (NZ$)*	**4.53**	**Spot valuations (NZ$)**	
Expected share price return	-5.4%	1. DCF	4.13
Net dividend yield	3.3%	2. Market multiple	5.00
Estimated 12-month return	-2.1%	3. Dividend yield	4.49
Key WACC assumptions		**DCF valuation summary (NZ$m)**	
Risk free rate	2.00%	Total firm value	6,930
Equity beta	0.88	(Net debt)/cash	(1,223)
WACC	6.6%	Value of equity	5,708
Terminal growth	1.5%	Shares (m)	1,361

Profit and Loss Account (NZ$m)	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
Sales revenue	1,798	2,000	1,963	1,807	1,755
Normalised EBITDA	**566**	**505**	**516**	**525**	**546**
Depreciation and amortisation	(201)	(204)	(205)	(208)	(212)
Normalised EBIT	**365**	**301**	**312**	**316**	**334**
Net interest	(91)	(75)	(66)	(69)	(71)
Associate income	2	1	3	3	3
Tax	(91)	(73)	(72)	(72)	(77)
Depreciation capex adj	58	78	71	95	95
Adjusted normalised NPAT	**256**	**239**	**248**	**274**	**285**
Abnormals/other	(7)	118	(71)	(95)	(95)
Reported NPAT	**249**	**357**	**177**	**179**	**190**
Normalised EPS (cps)	18.8	17.6	18.3	20.1	20.9
DPS (cps)	15.1	15.5	15.8	16.2	21.9

Growth Rates	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
Revenue (%)	12.6	11.2	-1.9	-7.9	-2.9
EBITDA (%)	8.2	-10.8	2.2	1.6	4.1
EBIT (%)	7.9	-17.7	4.4	1.4	5.7
Normalised NPAT (%)	1.8	-6.5	3.9	10.2	4.1
Normalised EPS (%)	2.9	-6.4	3.9	10.2	4.1
Ordinary DPS (%)	3.4	2.6	1.9	2.5	35.2

Cash Flow (NZ$m)	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
EBITDA	**566**	**505**	**516**	**525**	**546**
Working capital change	4	2	52	(61)	(3)
Interest & tax paid	(192)	(148)	(158)	(160)	(165)
Other	(4)	(33)	-	-	-
Operating cash flow	**374**	**326**	**410**	**303**	**378**
Capital expenditure	(127)	(122)	(301)	(111)	(80)
(Acquisitions)/divestments	(139)	215	-	-	-
Other	6	5	1	1	1
Funding available/(required)	**114**	**424**	**110**	**193**	**298**
Dividends paid	(273)	(208)	(212)	(218)	(225)
Equity raised/(returned)	(55)	7	-	-	-
Increase/(decrease) in net debt	**214**	**(223)**	**102**	**25**	**(74)**

Balance Sheet (NZ$m)	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
Working capital	63	63	11	72	75
Fixed assets	5,370	5,528	5,629	5,539	5,410
Intangibles	85	62	59	57	55
Other assets	385	521	523	526	529
Total funds employed	**5,903**	**6,174**	**6,223**	**6,194**	**6,069**
Net debt/(cash)	1,264	1,096	1,198	1,223	1,149
Other non current liabilities	1,306	1,498	1,480	1,464	1,448
Shareholder's funds	3,333	3,580	3,545	3,506	3,472
Minority interests	-	-	-	-	-
Total funding sources	**5,903**	**6,174**	**6,223**	**6,194**	**6,069**

Valuation Ratios	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
EV/EBITDA (x)	13.3	14.7	14.2	14.1	13.6
EV/EBIT (x)	20.5	24.6	23.3	23.2	21.9
PE (x)	25.5	27.3	26.2	23.8	22.9
Price/NTA (x)	2.0	1.9	1.9	1.9	1.9
Free cash flow yield (%)	3.8	3.1	1.7	2.9	4.6
Net dividend yield (%)	3.2	3.2	3.3	3.4	4.6
Gross dividend yield (%)	4.4	4.5	4.6	4.7	6.1
Imputation (%)	100	100	100	100	85
Pay-out ratio (%)	80	88	87	81	105

Capital Structure	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
Interest cover EBIT (x)	4.7	6.7	4.8	4.7	4.8
Interest cover EBITDA (x)	6.2	6.7	7.8	7.7	7.7
Net debt/ND+E (%)	27.8	23.7	25.5	26.1	25.1
Net debt/EBITDA (x)	2.2	2.2	2.3	2.3	2.1

Key Ratios	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
Return on assets (%)	7.1	7.8	4.8	4.9	5.3
Return on equity (%)	6.0	4.6	5.1	5.2	5.5
Return on funds employed (%)	5.8	4.7	4.8	4.9	5.3
EBITDA margin (%)	31.5	25.3	26.3	29.0	31.1
EBIT margin (%)	20.4	15.1	16.1	17.7	19.3
Capex to sales (%)	7.1	6.1	15.3	6.2	4.6
Capex to depreciation (%)	69	67	158	57	40

Operating Statistics	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
Hydro	4,947	4,006	4,088	4,016	4,016
Geothermal	2,757	2,894	2,810	2,829	2,829
Wind	-	-	-	181	469
Total MCY Generation (GWh)	**7,704**	**6,900**	**6,898**	**7,026**	**7,314**
GWAP ($/MWh)	86.3	138.7	131.6	104.8	93.0
Electricity customers (000)	388	373	354	351	347
MM volumes	3,278	3,182	2,972	2,908	2,885
TOU volumes	1,200	1,319	1,526	1,616	1,624
Total Fixed Price volumes (GWh)	**4,478**	**4,501**	**4,498**	**4,524**	**4,509**
Spot Sales	891	780	731	734	738
Net CFD's	2,110	1,624	1,563	1,563	1,563
Total Sales (GWh)	**7,479**	**6,905**	**6,791**	**6,821**	**6,810**
Average usage per cust (MWh/yr)	11.4	11.8	12.5	12.8	12.9
LWAP ($/MWh)	91.6	144.2	137.7	110.0	98.0
LWAP/GWAP	1.06	1.04	1.05	1.05	1.05
Average FPVV price ($/MWh)	112.5	113.4	114.3	116.4	118.4
Line losses (%)	5.6	5.1	5.4	5.3	5.3
Retail gas customers (000)	48	47	46	46	47
Retail gas volumes (PJ)	1.1	1.1	1.0	1.0	1.0
Gas volume/cust (GJ/yr)	22.5	22.5	22.5	22.5	22.5
Energy margin ($m)	730	667	700	706	735
Operating costs ($m)	(205)	(199)	(203)	(202)	(208)
Other revenue ($m)	41	37	19	20	20
MCY EBITDAF ($m)	**566**	**505**	**516**	**525**	**546**

* Forsyth Barr target prices reflect valuation rolled forward at cost of equity less the next 12-months dividend

Investment summary

Our rating is NEUTRAL. MCY is a strong operator in the sector with well-positioned generation assets. Whilst its near-term dividend yield is the lowest in the sector, we expect that to improve following the completion of its Turitea windfarm in 2021. Overall we see MCY as fairly valued.

Business quality

- **Low risk, modest growth industry:** Electricity demand is relatively inelastic and is expected to grow slowly in the future. The industry is well positioned to benefit from New Zealand decarbonising transport and industrial processes.
- **Strong generation position:** Most of the value within the electricity sector lies within the generation assets. MCY is the largest North Island generator and its hydro generation is particularly suited to meeting electricity demand peaks.
- **Track record:** MCY has a strong development track record, having built a geothermal generation portfolio in the past 15 years and is now expanding into wind.

Earnings and cash flow outlook

- **Earnings growth after FY20:** MCY's move into a development phase will drive earnings growth after FY20. The new wind farm development at Turitea is likely to add ~$30m (~+6%) per annum to underlying EBITDAF.
- **Operating cash flow strong but development restarting:** MCY has a strong track record of returning surplus cash to shareholders; however, with new generation under development, capital returns above the ordinary dividend are less likely.

Financial structure

- **Balance sheet:** MCY's balance sheet has reasonable headroom (particularly after including treasury shares acquired in past buy-backs). Its Tilt Renewables investment and decision to build new generation means there is no surplus capital for the next few years.

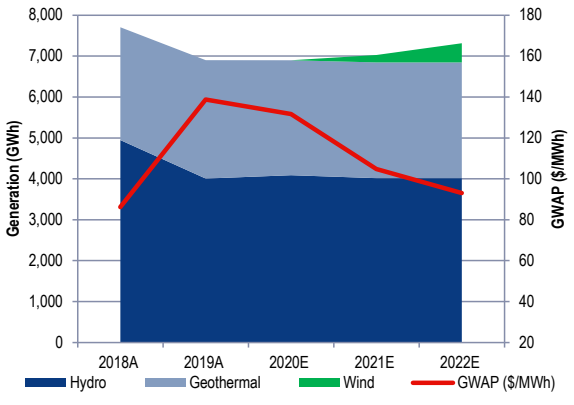
Key risks

- **Political/regulatory:** The 2014 election and recent Electricity Price Review (EPR) highlighted the political/regulatory risks inherent in the sector. Whilst the EPR gave the sector a thumbs up in most areas, the political risk is unlikely to ever disappear.
- **NZAS risk:** NZAS has indicated it is undertaking a strategic review, raising the possibility it may close. In our view, the smelter is unlikely to close (less than 10% chance) and the downside risks are fully factored into the share price.
- **Rising bond yields:** In recent years MCY has traded in line with bond yields. A lift in interest rates is likely to see MCY trade lower, although in our view interest rates are likely to remain low for the foreseeable future.

Company description

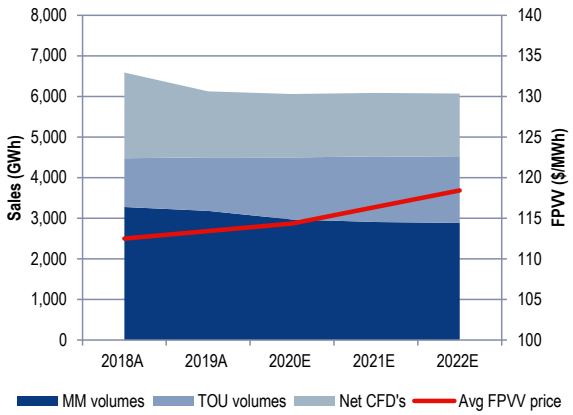
MCY is one of New Zealand's large electricity generator/retailers. It is a 100% renewable generator producing ~6,800GWh of electricity from its North Island based Waikato River hydro power station and geothermal power stations. MCY is developing its first wind farm which is expected to produce ~470GWh per annum and be commissioned in FY21. Its retail brands, Mercury, Bosco Connect, GLOBUG and Tiny Mighty Power retail electricity and gas to around 430,000 customers. GLOBUG is an innovative prepay product. MCY also owns 20% of Tilt Renewables (TLT) and a small solar installation business.

Figure 18. Generation volumes and average price received



Source: MCY, Forsyth Barr analysis

Figure 19. Sales volumes and average price received



Source: MCY, Forsyth Barr analysis

Meridian Energy

NEUTRAL

Aluminium Smelts Share Price

The negative reaction to the NZAS strategic review has been greatest for Meridian Energy (MEL), we believe unjustifiably so and are upgrading our rating to NEUTRAL. MEL's share price has fallen -15% in the two weeks following the NZAS announcement, the most of any electricity stock. Whilst we believe the share price reaction is an overreaction, in our view MEL was previously the most expensive electricity stock, hence, it has only moved back into fair value territory.

What's changed?

- **Earnings:** FY20/FY21 EBITDAF -$4m/-$17m to $816m/$752m
- **Target Price:** Reduced -14cps (-3.3%) to $4.11
- **Rating:** Upgraded to NEUTRAL

MEL's best case scenario is dropping NZAS's electricity price

Whilst MEL has no intention of "taking one for the team", we suspect the team is unwilling to play ball (with the probable exception of Contact Energy). With MEL likely to be the most impacted generator/retailer (in the short-term at least) we expect it will offer NZAS a reduced electricity price — albeit well short of what NZAS probably wants. We have built in a -$3/MWh lower electricity price from FY21 onwards, which equates to ~$13m per annum.

If NZAS were to close, the short-term impacts on MEL would predominantly be reduced generation volumes at lower prices until transmission constraints are removed in the lower South Island. However, the transmission work is unlikely to be completed until 2024 (assuming NZAS closure in 2021). Long-term MEL is better placed as its low cost generation means it will not have to close any generation plant and it should receive a higher electricity price for its generation than what it has been receiving from NZAS. We have lowered our target price -14cps (-3.3%, NZAS closure risk weighting of 20%) to account for the risks associated with NZAS closing.

Development and dividend implications

Whilst NZAS closure risk overhangs MEL it is hard to see the Board signing off on a new wind farm development. That said, with MEL unable to build during winter and financial close not expected to 2020 at the earliest, we do not expect a material delay if NZAS decides to stay.

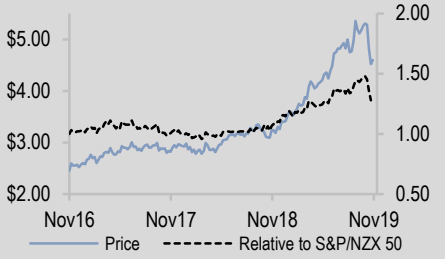
The other implication for MEL is: what will it do after the special dividend ends following the 1H22 result? We had been expecting MEL to update the market on its thinking at the 1H20 result. The wind farm development was MEL's ticket to possibly maintaining the current total dividend of ~21.5cps. However, with the NZAS strategic review not expected to be completed until March 2020, MEL will probably defer its capital management update.

Investment View

Our rating is NEUTRAL. MEL has been the strongest electricity performer in recent years and its low cost generation assets provides it with a strong defensive position. Its dividend yield is attractive, although we expect that will fall in FY22 when the current capital management programme ends.

NZX Code	MEL
Share price	NZ$4.60
Target price	NZ$4.11
Risk rating	Low
Issued shares	2563.0m
Market cap	NZ$11,790m
Average daily turnover	1,449k (NZ$6,174k)

Share Price Performance



Financials: June	19A	20E	21E	22E
NPAT* (NZ$m)	481.3	477.2	426.9	434.0
EPS* (NZc)	18.8	18.6	16.7	16.9
EPS growth* (%)	33.4	-0.8	-10.5	1.6
DPS (NZc)	21.3	21.5	21.6	20.4
Imputation (%)	66	65	65	70

Valuation (x)	19A	20E	21E	22E
EV/EBITDA	15.8	16.2	17.7	17.3
EV/EBIT	23.5	26.1	29.5	28.2
PE	24.5	24.7	27.6	27.2
Price / NTA	2.2	2.3	2.4	n/a
Cash dividend yield (%)	4.6	4.7	4.7	4.4
Gross dividend yield (%)	5.8	5.8	5.9	5.6

*Historic and forecast numbers based on underlying profits

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Meridian Energy Limited (MEL) Priced as at 06 Nov 2019: NZ$4.60 June year end

Forsyth Barr valuation			
Valuation methodology		Mix of market multiple and DCF	
12-month target price (NZ$)*	**4.11**	**Spot valuations (NZ$)**	
Expected share price return	-10.7%	1. DCF	3.73
Net dividend yield	4.7%	2. Market multiple	4.18
Estimated 12-month return	-6.0%	3. Dividend yield	4.48
Key WACC assumptions		**DCF valuation summary (NZ$m)**	
Risk free rate	2.00%	Total firm value	11,316
Equity beta	0.84	(Net debt)/cash	(1,761)
WACC	6.7%	Value of equity	9,555
Terminal growth	1.5%	Shares (m)	2,563

Profit and Loss Account (NZ$m)	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
Sales revenue	3,297	4,104	3,725	3,490	3,411
Normalised EBITDA	**666**	**838**	**816**	**752**	**767**
Depreciation and amortisation	(268)	(276)	(309)	(302)	(296)
Normalised EBIT	**398**	**562**	**507**	**450**	**470**
Net interest	(81)	(83)	(81)	(83)	(87)
Associate income & other	(19)	(14)	(17)	(19)	(19)
Tax	(95)	(133)	(114)	(97)	(102)
Minority interests	-	-	-	-	-
Reported NPAT	**203**	**332**	**294**	**250**	**263**
Abnormals/other	158	149	183	177	171
Adjusted normalised NPAT	**361**	**481**	**477**	**427**	**434**
Adjusted normalised EPS (cps)	14.1	18.8	18.6	16.7	16.9
DPS (cps)	19.2	21.3	21.5	21.6	20.4

Growth Rates	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
Revenue (%)	16.7	24.5	-9.2	-6.3	-2.3
EBITDA (%)	1.4	25.8	-2.6	-7.9	2.0
EBIT (%)	1.3	41.2	-9.8	-11.3	4.6
Normalised NPAT (%)	-3.1	33.4	-0.8	-10.5	1.6
Normalised EPS (%)	-3.1	33.4	-0.8	-10.5	1.6
DPS (%)	1.5	10.9	0.9	0.8	-5.7

Cash Flow (NZ$m)	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
EBITDA	**666**	**838**	**816**	**752**	**767**
Working capital change	(34)	(36)	7	13	16
Interest & tax paid	(186)	(200)	(237)	(222)	(231)
Other	(19)	33	(17)	(19)	(19)
Operating cash flow	**427**	**635**	**569**	**523**	**533**
Capital expenditure	(247)	(69)	(75)	(76)	(58)
(Acquisitions)/divestments	23	-	-	-	-
Other	-	-	-	-	-
Funding available/(required)	**203**	**566**	**494**	**447**	**475**
Dividends paid	(486)	(500)	(550)	(555)	(557)
Equity raised/(returned)	(2)	(2)	-	-	-
Increase/(decrease) in net debt	**285**	**(64)**	**56**	**108**	**82**

Balance Sheet (NZ$m)	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
Working capital	(17)	(24)	(14)	(7)	(4)
Fixed assets	7,941	8,825	8,599	8,377	8,139
Intangibles	60	59	51	47	47
Other assets	291	383	366	347	328
Total funds employed	**8,275**	**9,243**	**9,002**	**8,764**	**8,510**
Net debt/(cash)	1,461	1,424	1,480	1,588	1,670
Other non current liabilities	1,991	2,362	2,321	2,280	2,238
Shareholder's funds	4,823	5,457	5,201	4,897	4,602
Minority interests	-	-	-	-	-
Total funding sources	**8,275**	**9,243**	**9,002**	**8,764**	**8,510**

Valuation Ratios	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
EV/EBITDA (x)	19.7	15.8	16.2	17.7	17.3
EV/EBIT (x)	32.9	23.5	26.1	29.5	28.2
PE (x)	32.7	24.5	24.7	27.6	27.2
Price/NTA (x)	2.5	2.2	2.3	2.4	2.6
Free cash flow yield (%)	1.5	4.8	4.2	3.8	4.0
Net dividend yield (%)	4.2	4.6	4.7	4.7	4.4
Gross dividend yield (%)	5.3	5.8	5.8	5.9	5.6
Imputation (%)	68	66	65	65	70
Pay-out ratio (%)	136	113	115	130	121

Capital Structure	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
Interest cover EBIT (x)	4.7	6.6	6.0	5.2	5.2
Interest cover EBITDA (x)	8.2	10.1	10.0	9.0	8.8
Net debt/ND+E (%)	23.2	20.7	22.1	24.5	26.6
Net debt/EBITDA (x)	2.2	1.7	1.8	2.1	2.2

Key Ratios	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
Return on assets (%)	4.4	5.7	5.2	4.7	5.1
Return on equity (%)	4.3	6.1	5.7	5.1	5.7
Return on funds employed (%)	4.6	5.9	5.5	5.0	5.4
EBITDA margin (%)	20.2	20.4	21.9	21.5	22.5
EBIT margin (%)	12.1	13.7	13.6	12.9	13.8
Capex to sales (%)	7.5	1.7	2.0	2.2	1.7
Capex to depreciation (%)	100	28	27	27	21

Operating Statistics	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
Hydro generation	11,266	12,326	11,967	11,701	11,701
Wind generation	1,263	1,244	1,470	1,474	1,474
Total NZ generation (GWh)	**12,528**	**13,570**	**13,436**	**13,175**	**13,175**
GWAP ($/MWh)	83.0	123.3	114.0	96.4	85.8
Overseas generation (GWh)	581	730	725	800	800
Overseas GWAP ($/MWh) (NZD)	151	100	137	105	96
Overseas customer numbers (000)	97	110	127	143	153
Powershop customers (000)	66	74	80	82	83
Meridian branded customers (000)	225	228	235	240	245
NZ electricity customers (000)	**291**	**302**	**315**	**321**	**328**
Average usage per cust (MWh/yr)	13.5	13.2	12.9	12.9	12.9
Mass market volumes	3,824	3,901	3,989	4,094	4,180
Time of use volumes	2,157	2,338	2,721	2,742	2,764
Total fixed price volumes (GWh)	**5,981**	**6,239**	**6,710**	**6,836**	**6,944**
NZAS sales	5,011	5,310	5,464	5,449	5,449
Sell CFDs	2,278	2,239	1,967	1,967	1,967
Buy CFDs	-2,222	-1,965	-1,938	-1,740	-1,740
Total Sales (GWh)	**11,047**	**11,823**	**12,202**	**12,511**	**12,619**
Average FPVV price ($/MWh)	105.2	104.8	106.8	108.3	109.5
LWAP ($/MWh)	88	132	123	104	93
LWAP/GWAP	1.06	1.07	1.08	1.07	1.08
Lines losses (%)	5.3	5.9	5.5	5.5	5.5
New Zealand Energy Margin ($m)	944	1,108	1,077	1,001	1,004
Overseas Energy Margin ($m)	86	118	118	114	114
Meridian Energy Margin ($m)	**1,030**	**1,226**	**1,195**	**1,116**	**1,118**

* Forsyth Barr target prices reflect valuation rolled forward at cost of equity less the next 12-months dividend

Summary forecast changes

Figure 20. Summary forecast changes

	FY20 Old	FY20 New	% Chg	FY21 Old	FY21 New	% Chg	FY22 Old	FY22 New	% Chg
NZ Energy Margin	1,080	1,077	-0.3%	1,019	1,001	-1.7%	1,023	1,004	-1.9%
Australia Energy Margin	118	118	0.0%	114	114	0.0%	114	114	0.0%
EBITDAF	**820**	**816**	**-0.4%**	**769**	**752**	**-2.3%**	**786**	**767**	**-2.5%**
EBIT	510	507	-0.6%	467	450	-3.7%	490	470	-4.0%
Pre-tax profit	412	409	-0.8%	365	347	-4.9%	385	365	-5.3%
NPAT	**297**	**294**	**-0.8%**	**263**	**250**	**-4.9%**	**277**	**263**	**-5.3%**
Dividend (cps)	21.6	21.5	-0.3%	21.8	21.6	-0.6%	20.9	20.4	-2.5%
NZ Generation (GWh)	13,436	13,436	0.0%	13,175	13,175	0.0%	13,175	13,175	0.0%
FPVV sales (GWh)	6,710	6,710	0.0%	6,836	6,836	0.0%	6,944	6,944	0.0%
Customer numbers (000)	315	315	0.0%	321	321	0.0%	328	328	0.0%
GWAP ($/MWh)	$115.4	$114.0	-1.2%	$99.2	$96.4	-2.8%	$90.7	$85.8	-5.4%

Source: Forsyth Barr analysis

Investment summary

Our rating is NEUTRAL. MEL has been the strongest electricity performer in recent years and its low cost generation assets provides it with a strong defensive position. Its dividend yield is attractive, although we expect that will fall in FY22 when the current capital management programme ends.

Business quality

- **Low risk, modest growth industry:** Electricity demand is inelastic and the industry is well positioned to benefit from NZ electrifying transport and industrial processes.
- **Strong generation position:** Most of the value within the electricity sector lies within the generation assets. MEL is the largest generator in New Zealand, producing ~32% of New Zealand's electricity requirements and controls ~50% of New Zealand's hydro storage. It is also the lowest cost generator.
- **Track record:** Since listing in 2014, MEL has demonstrated an ability to unlock value and has lifted operating earnings +25%.

Earnings and cash flow outlook

- **More modest growth after FY19:** We expect earnings growth to slow after the stellar FY19 year (although early indications are positive for FY20). We expect transmission benefits to be offset by a gradually declining wholesale electricity price.
- **Cash flow strong in near-term:** Limited electricity demand growth means capital expenditure is limited, resulting in strong free cash flows.

Financial structure

- **Balance sheet:** Management recognises that surplus cash is better with shareholders. MEL currently has spare capacity on its balance sheet and hence it has in place a capital management plan that is gradually lifting gearing.
- **Dividends:** MEL's strong free cash flow enables it to pay high dividends, which are currently elevated due to the capital management plan.

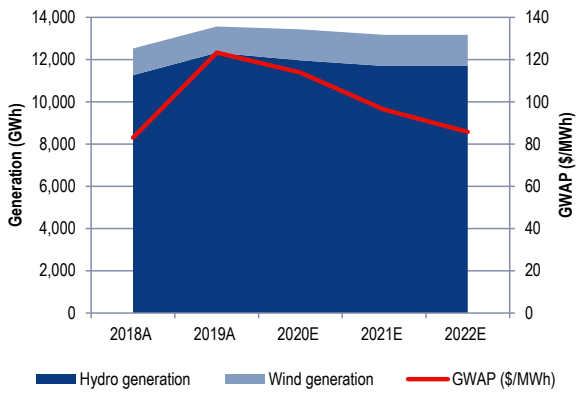
Key risks

- **Political/regulatory:** The 2014 election and recent Electricity Price Review (EPR) highlighted the political/regulatory risks inherent in the sector. Whilst the EPR gave the sector a thumbs up in most areas, the political risk is unlikely to ever disappear.
- **NZAS risk:** NZAS has indicated it is undertaking a strategic review, raising the possibility it may close. In our view, the smelter is unlikely to close (less than 10% chance) and the downside risks are fully factored into the share price.
- **Rising bond yields:** In recent years MEL has traded in line with bond yields. A lift in interest rates is likely to see MEL trade lower.

Company description

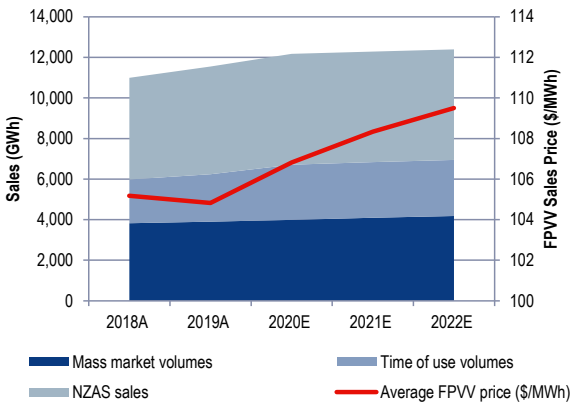
Meridian is New Zealand's largest electricity generator/retailer. It produces ~11,500GWh of electricity from its South Island hydro power stations and ~1,500GWh from its predominantly North Island wind farms. MEL's retail brands, Meridian and Powershop retail electricity to around 290,000 customers. MEL also has an international presence in Australia owning two wind farms and has launched its Powershop retail brand in Victoria and NSW. MEL's largest customer is New Zealand's largest power user, the Tiwai Point aluminium smelter which consumes ~13% of New Zealand's power and ~40% of MEL's output.

Figure 21. Generation volumes and average price received



Source: MEL, Forsyth Barr analysis

Figure 22. Sales volumes and average selling price



Source: MEL, Forsyth Barr analysis