

# Electricity Sector

## Return of the Smelter

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Rio Tinto's (RIO) decision to extend the life of NZAS to at least 31 December 2024 is a significant positive for the sector and all of our medium-term earnings, dividend forecasts and target prices have increased. With Meridian Energy (MEL) providing the bulk of the discounted power, it has the least upside. Genesis Energy (GNE) is the greatest beneficiary, with the largest earnings, dividend and target price (up +15% to NZ\$3.90) increases. It is also our preferred electricity sector stock, being the only one with an OUTPERFORM rating as we are downgrading our Contact Energy (CEN) rating to NEUTRAL following its recent strong share price performance.

### Forecasts, dividends and target prices increase, one rating downgrade

All of our medium-term earnings forecast increase as we roll back NZAS closure implications from our forecasts. In the medium-term, the biggest winner is GNE. All of our dividend forecasts are also increasing, with GNE, Mercury (MCY) and Trustpower (TPW) back to pre-July 2020 trajectories. CEN's FY21 dividend forecast of 36cps reflects lower short-term earnings due to the electricity price discount it is providing NZAS. Similarly, MEL's FY21 ordinary dividend forecast of 17.0cps is flat on FY20 and we no longer assume a special dividend. It is worth noting that RIO's decision means there is more certainty around electricity sector dividend forecasts than there has been for ~15 months. GNE has the greatest target price increase (+15%). MEL (+3%) and CEN (+6%) have the smallest increases due to the electricity price discount. We are downgrading CEN's rating to NEUTRAL due to its share price surging +NZ\$1.55 (+19%) over the past month.

### Factors driving the forecast changes

The main factors driving our forecast changes are:

- MEL and CEN discounted electricity offer, which impacts FY21 to FY24 earnings (negative)
- Generation changes; South Island generation no longer constrained and thermal generation continues at the current level
- Retail price increases instead of retail price decreases - current wholesale electricity prices (both spot and futures) remain elevated
- Generation development to commence - CEN will build its 150MW geothermal project and MEL its ~170MW wind project

### What may happen after 2024

The electricity deal ends on 31 December 2024 (refer to our note Four More Years for the details). However, we expect Rio Tinto (RIO) will try to extend the deal beyond 2024, no doubt on current terms. One of MEL's (and CEN's) key tasks is to find additional, preferably lower South Island electricity demand. This will improve MEL's negotiating position and minimise the downside effects if NZAS does close. It is difficult to make a call now on what will happen after 2024, and as usual with NZAS, there are several different scenarios. We believe there is a good chance NZAS will remain open beyond 2024, with environmentally friendly aluminium becoming increasingly important (and this is our base assumption).

Figure 1. Summary company valuation metrics and changes

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Company	Price	Target	Target	Rating	FY21 Metrics			EBITDAF	Summary changes				
		Price	Return		EV/EBITDA	PE	Gr Yld	NZ\$m	EBITDAF	Target Price	Rating		
CEN	\$9.55	\$9.10	-0.9%	NEUTRAL	17.3	28.4	4.6%	456	-\$7m	-1.6%	+\$0.50	+6%	▼
GNE	\$3.70	\$3.90	10.1%	OUTPERFORM	15.0	27.1	6.3%	405	+\$1m	0.3%	+\$0.52	+15%	-
MCY	\$6.92	\$5.85	-12.9%	UNDERPERFORM	20.7	34.9	3.4%	511	+\$9m	1.8%	+\$0.48	+9%	-
MEL	\$7.87	\$5.55	-27.3%	UNDERPERFORM	30.0	48.4	2.8%	715	-\$56m	-6.6%	+\$0.05	+1%	-
TPW	\$8.78	\$8.10	-3.9%	NEUTRAL	18.1	33.9	5.4%	189	-\$4m	-1.9%	+\$0.60	+8%	-

Source: Forsyth Barr analysis

## Forecast, dividend and target price changes

We have increased the target prices for all for all of the electricity stocks. Target prices are based on a combination of DCF (40%), dividend yield (40%) and market multiple (20%) valuation metrics. GNE has the biggest target price increase as it had (1) the greatest long-term exposure to retail price competition if NZAS had closed, (2) would have been modestly long gas (for a couple of years) and (3) has the biggest dividend forecast increase. It is now our preferred stock in the electricity sector.

MEL and CEN have the smallest target price increases as they are providing the discounted electricity price to NZAS. We are downgrading CEN to NEUTRAL from OUTPERFORM given its recent share price performance (+NZ\$1.55, +19% in the past month).

**Figure 2. Sector valuation metrics**

Company	Code	Price	Target Price	Target Return	Rating	Mkt Cap \$m	EBITDAF (x)		EBITDAF - capex (x)	
							FY21	FY22	FY21	FY22
Contact Energy	CEN	\$9.55	\$9.10	-0.9%	NEUTRAL	6,833	17.3	17.2	20.6	20.5
Genesis Energy (excl Kupe)	GNE	\$3.70	\$3.90	10.1%	OUTPERFORM	3,488	15.0	14.4	17.9	17.0
Mercury	MCY	\$6.92	\$5.85	-12.9%	UNDERPERFORM	9,417	20.7	18.8	24.3	21.8
Meridian Energy	MEL	\$7.87	\$5.65	-26.1%	UNDERPERFORM	20,171	30.4	29.3	33.2	31.9
Trustpower	TPW	\$8.78	\$8.10	-3.9%	NEUTRAL	2,748	18.1	16.2	20.8	18.3
<b>Sector average</b>							<b>19.7</b>	<b>18.6</b>	<b>22.8</b>	<b>21.4</b>
Genesis Energy (incl Kupe)	GNE	\$3.70	\$3.90	10.1%	OUTPERFORM	3,861	12.6	11.8	14.6	13.5

Source: IRESS, Forsyth Barr analysis

**Figure 3. Sector valuation metrics continued**

Company	PE (x)		Adjusted PE (x)		Cash Div Yield		Gross Div Yield		Free Cash Flow Yield	
	FY21	FY22	FY21	FY22	FY21	FY22	FY21	FY22	FY21	FY22
Contact Energy	61.0	54.5	28.4	28.5	3.8%	3.8%	4.6%	4.4%	3.5%	1.9%
Genesis Energy (excl Kupe)	89.1	58.7	27.1	23.3	3.5%	3.5%	4.7%	4.9%	0.9%	1.5%
Mercury	57.7	51.7	34.9	32.0	2.5%	2.7%	3.4%	3.7%	1.0%	2.1%
Meridian Energy	88.1	86.9	49.5	49.1	2.1%	2.2%	2.7%	2.8%	1.8%	0.8%
Trustpower	41.2	34.5	33.9	28.9	3.9%	3.9%	5.4%	5.4%	3.4%	3.4%
<b>Sector average</b>	<b>64.8</b>	<b>54.8</b>	<b>33.9</b>	<b>31.3</b>	<b>3.2%</b>	<b>3.2%</b>	<b>4.2%</b>	<b>4.2%</b>	<b>2.1%</b>	<b>1.9%</b>
Genesis Energy (incl Kupe)	50.4	37.4	20.3	17.3	4.7%	4.8%	6.3%	6.6%	5.3%	6.8%

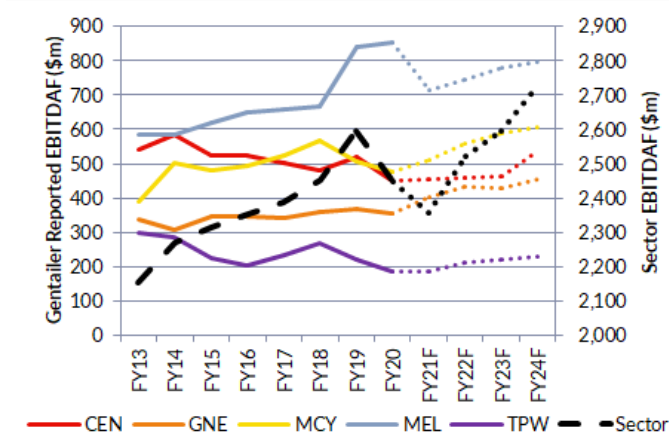
Source: IRESS, Forsyth Barr analysis

## Key assumptions underpinning our forecast changes

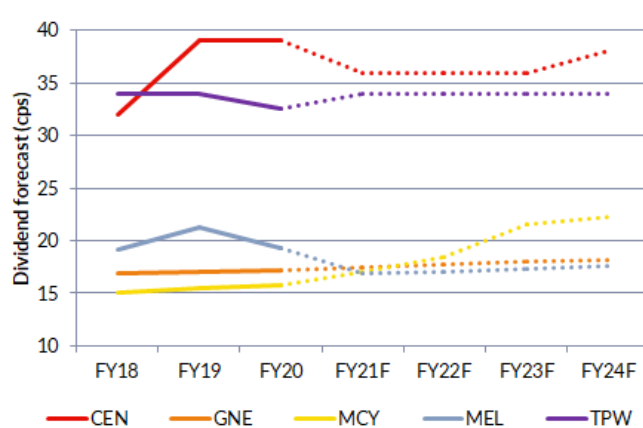
The key assumptions underpinning our forecast changes are:

- NZAS operates at 572MW, at an assumed electricity price of NZ\$35/MWh. MEL holds the contract with NZAS, but is supported by CEN for 17% of the load
- Reversing changes we made to our forecasts after RIO announced it was closing NZAS in August 2021
  - MEL and CEN are able to generate fully from their lower South Island hydro stations
  - There is no retail price war - we now assume moderate retail price increases in the coming 18 months due to current high wholesale electricity prices, as opposed to the retail price reductions we had assumed if NZAS closed
  - New build that was deferred gets the go ahead. In particular we assume:
    - CEN starts construction of a 150MW geothermal plant at Tauhara, with the 27-month build being completed in June 2023
    - MEL starts construction of its ~170MW Harapaki wind farm, completion in June 2023, in time for winter 2023 to help replace the GNE swaption contract
    - We are not concerned about overbuild in the sector. There is currently ~4TWh of baseload thermal generation, and all new generation under construction (Turitea wind, Waipipi wind and Ngawha geothermal) plus Tauhara and Harapaki totals 3.3TWh. In addition, the current wholesale electricity market is sending a strong signal more generation is required
  - Thermal generation reverts to historic levels, albeit it reduces in the coming years due to new generation. We assume; (1) TCC closes in September 2023 (after Tauhara is built), (2) Unit 5 at Huntly takes a peaking/back-up role and (3) the coal/gas Rankine units generate less, but continue their back-up role. In total we assume thermal generation declines ~2TWh (~30%) in the period to June 2025 - the exact amount will depend on the level of electricity demand growth over the next four years (which we assume is ~0.6% per annum)

- Current wholesale electricity market conditions are tight, which has resulted in spot (NZ\$157/MWh in the past week at Otahuhu) and ASX futures wholesale electricity prices (2022 Otahuhu forward price is NZ\$120/MWh) to firm:
  - Hydro storage volumes are below average in the South Island and in need of a top up. As of 14 January, New Zealand hydro storage was 78% of average, with South Island storage 71% of average
  - Gas production continues to be challenging, reducing dry year back up

**Figure 4. Sector/company EBITDAF trajectory**


Source: Company reports, Forsyth Barr analysis

**Figure 5. Revised dividend forecasts**


Source: Forsyth Barr analysis

**Figure 6. EBITDAF forecast changes**

New	FY20	FY21F	FY22F	FY23F	FY24F	NZ\$m change	FY21F	FY22F	FY23F	FY24F
CEN	451	456	459	463	535	CEN	(7)	62	45	86
GNE	356	405	435	430	455	GNE	1	48	110	123
MCY	476	511	561	590	605	MCY	9	66	99	103
MEL	855	715	742	759	802	MEL	(51)	72	120	140
TPW	186	189	211	220	228	TPW	(4)	21	36	42
<b>Total</b>	<b>2,324</b>	<b>2,276</b>	<b>2,408</b>	<b>2,483</b>	<b>2,622</b>	<b>Total</b>	<b>(51)</b>	<b>269</b>	<b>410</b>	<b>494</b>

Old	FY20	FY21F	FY22F	FY23F	FY24F	% change	FY21F	FY22F	FY23F	FY24F
CEN	451	463	397	417	450	CEN	-2%	16%	11%	19%
GNE	356	404	386	319	332	GNE	0%	12%	35%	37%
MCY	476	501	495	491	502	MCY	2%	13%	20%	20%
MEL	855	765	670	639	662	MEL	-7%	11%	19%	21%
TPW	186	192	190	184	186	TPW	-2%	11%	19%	23%
<b>Total</b>	<b>2,324</b>	<b>2,326</b>	<b>2,137</b>	<b>2,051</b>	<b>2,133</b>	<b>Total</b>	<b>-2%</b>	<b>12%</b>	<b>21%</b>	<b>23%</b>

Source: Forsyth Barr analysis

**Figure 7. Dividend forecast changes**

New	FY20	FY21F	FY22F	FY23F	FY24F	cps change	FY21F	FY22F	FY23F	FY24F
CEN	39.0	36.0	36.0	36.0	38.0	CEN	4.0	4.0	4.0	4.0
GNE	17.2	17.5	17.7	18.0	18.2	GNE	3.5	3.7	4.0	4.2
MCY	15.8	17.0	18.5	21.5	22.3	MCY	0.0	1.5	3.5	3.8
MEL	19.3	16.9	17.2	17.4	17.9	MEL	0.0	0.2	0.5	1.0
TPW	32.5	34.0	34.0	34.0	34.0	TPW	2.0	4.0	4.0	3.5

Old	FY20	FY21F	FY22F	FY23F	FY24F	% change	FY21F	FY22F	FY23F	FY24F
CEN	39.0	32.0	32.0	32.0	34.0	CEN	13%	13%	13%	12%
GNE	17.2	14.0	14.0	14.0	14.0	GNE	25%	26%	28%	30%
MCY	15.8	17.0	17.0	18.0	18.5	MCY	0%	9%	19%	21%
MEL	19.3	16.9	16.9	16.9	16.9	MEL	0%	2%	3%	6%
TPW	32.5	32.0	30.0	30.0	30.5	TPW	6%	13%	13%	11%

Source: Forsyth Barr analysis

# Contact Energy

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### NEUTRAL

Following Contact Energy's (CEN) +19% share price increase over the past month, we are downgrading our rating to NEUTRAL from OUTPERFORM. The announcement that NZAS is remaining open for longer is good news for our medium-term earnings and dividend forecasts. Our FY22 and FY23 EBITDAF forecast has increased +16% and +11% respectively, with our FY21, FY22 and FY23 dividend forecast increasing +13%. However, the +NZ\$0.50 (+5.8%) increase in our target price to NZ\$9.10 is insufficient to prevent the rating downgrade.

NZX Code	CEN	Financials: Jun/	20A	21E	22E	23E	Valuation (x)	20A	21E	22E	23E
Share price	NZ\$9.55	NPAT* (NZ\$m)	248.5	240.8	240.1	234.4	PE	27.5	28.4	28.5	29.2
Target price	NZ\$9.10	EPS* (NZc)	34.7	33.6	33.5	32.8	EV/EBIT	34.0	39.0	35.3	32.7
Risk rating	Low	EPS growth* (%)	-10.4	-3.1	-0.3	-2.4	EV/EBITDA	17.4	17.3	17.3	17.1
Issued shares	715.5m	DPS (NZc)	39.0	36.0	36.0	36.0	Price / NTA	3.1	3.3	3.5	3.8
Market cap	NZ\$6,833m	Imputation (%)	64	55	45	70	Cash div yld (%)	4.1	3.8	3.8	3.8
Avg daily turnover	1,331k (NZ\$9,356k)	*Based on normalised profits					Gross div yld (%)	5.1	4.6	4.4	4.8

#### What's changed?

- **Earnings (EBITDAF):** FY21 -\$7m (-2%) to NZ\$456m, FY22 +\$62m (+16%) to NZ\$459m, FY23 +\$45m (+11%) to NZ\$463m
- **Dividend:** FY21, FY22 and FY23 all increased +4cps (+13%) to 36cps
- **Target price:** Increased +NZ\$0.50 (+5.8%) to NZ\$9.10
- **Rating:** Downgraded to NEUTRAL from OUTPERFORM

#### Short-term earnings decrease, but better medium-term outlook

CEN is one of the two companies providing discounted electricity to NZAS. With the new electricity price taking effect immediately (14 January), we are lowering our FY21 EBITDAF forecast -NZ\$7m to NZ\$456m. We anticipate earnings to remain around this level until after Tauhara is built, with modest retail price increases (reflecting current wholesale electricity prices) offsetting the first full year of the low NZAS electricity contract in FY22.

We expect CEN will provide first time FY21 dividend guidance at its February 1H21 result. After RIO announced it was closing NZAS, CEN decided against providing FY21 dividend guidance. We are forecasting a FY21 dividend of 36cps, -3cps lower than its FY20 dividend, but +6cps better than we had forecast if NZAS were to close in August 2021. The lower electricity price provided to NZAS equates to lost earnings of ~2cps, however, we believe CEN will be more conservative, particularly given upcoming capital projects.

#### Tauhara likely to get the go ahead

With NZAS confirming it will remain open until at least 31 December 2024, we believe that will provide CEN with enough certainty to push the go button. It has already signed a construction contract, which has a further ~6 months remaining on the option to start construction. Assuming the project starts in April, Tauhara should be operational ~June 2023.

At this stage we do not believe CEN will raise equity to fund the NZ\$600m, 150MW power plant. It has reasonable debt headroom and the ability to issue a ~NZ\$500m hybrid bond that is treated 50% as equity by S&P will ensure its credit metrics remain comfortable. We estimate the FY24 (the first year including Tauhara earnings) net debt/EBITDA ratio will be ~2.4x post-construction, well below the 2.8x metric required to maintain its credit rating.

Contact Energy Limited (CEN)

Priced as at 15 Jan 2021 (NZ\$)

9.55

**12-month target price (NZ\$)\***

9.10

Expected share price return

-4.7%

Net dividend yield

3.8%

Estimated 12-month return

-0.9%

**Key WACC assumptions**

Risk free rate

1.30%

Equity beta

0.84

WACC

5.0%

Terminal growth

1.5%

**Spot valuations (NZ\$)**

1. DCF

9.08

2. Market multiples

8.48

3. Dividend yield

9.02

**DCF valuation summary (NZ\$m)**

Total firm value

7,694

(Net debt)/cash

(1,201)

Less: Capitalised operating leases

Value of equity

6,494

Profit and Loss Account (NZ\$m)	2019A	2020A	2021E	2022E	2023E
Sales revenue	2,519.0	2,073.0	2,169.0	2,248.2	2,187.4
<b>Normalised EBITDA</b>	<b>518.0</b>	<b>451.0</b>	<b>456.1</b>	<b>458.5</b>	<b>462.6</b>
Depreciation and amortisation	(205.0)	(220.0)	(253.9)	(234.4)	(220.6)
<b>Normalised EBIT</b>	<b>313.0</b>	<b>231.0</b>	<b>202.2</b>	<b>224.2</b>	<b>242.1</b>
Net interest	(70.0)	(55.0)	(58.6)	(65.1)	(75.9)
Depreciation capex adjustment	102	120	137	126	115
Tax	(72.0)	(46.0)	(40.2)	(44.5)	(46.5)
Minority interests	0	0	0	0	0
<b>Adjusted normalised NPAT</b>	<b>277.5</b>	<b>248.5</b>	<b>240.8</b>	<b>240.1</b>	<b>234.4</b>
Abnormals/other	67	(124)	(137)	(126)	(115)
<b>Reported NPAT</b>	<b>345.0</b>	<b>125.0</b>	<b>103.4</b>	<b>114.5</b>	<b>119.6</b>
Normalised EPS (cps)	38.8	34.7	33.6	33.5	32.8
DPS (cps)	39.0	39.0	36.0	36.0	36.0

Valuation Ratios	2019A	2020A	2021E	2022E	2023E
EV/EBITDA (x)	15.6	17.4	17.3	17.3	17.1
EV/EBIT (x)	25.7	34.0	39.0	35.3	32.7
PE (x)	24.6	27.5	28.4	28.5	29.2
Price/NTA (x)	2.9	3.1	3.3	3.5	3.8
Free cash flow yield (%)	4.9	3.5	3.5	1.9	-1.2
Net dividend yield (%)	4.1	4.1	3.8	3.8	3.8
Gross dividend yield (%)	5.1	5.1	4.6	4.4	4.8

Growth Rates	2019A	2020A	2021A	2022A	2023A
Revenue (%)	10.7	-17.7	4.6	3.6	-2.7
EBITDA (%)	8.1	-12.9	1.1	0.5	0.9
EBIT (%)	18.6	-26.2	-12.5	10.8	8.0
Normalised NPAT (%)	21.4	-10.4	-3.1	-0.3	-2.4
Normalised EPS (%)	21.4	-10.4	-3.1	-0.3	-2.4
Ordinary DPS (%)	21.9	0.0	-7.7	0.0	0.0

Capital Structure	2019A	2020A	2021E	2022E	2023E
Interest cover EBIT (x)	4.9	4.8	3.7	3.7	3.4
Interest cover EBITDA (x)	7.4	8.2	7.8	7.0	6.1
Net debt/ND+E (%)	26.2	28.3	30.5	33.9	41.1
Net debt/EBITDA (x)	1.9	2.3	2.4	2.6	3.3

Cash Flow (NZ\$m)	2019A	2020A	2021E	2022E	2023E
<b>EBITDA</b>	<b>518.0</b>	<b>451.0</b>	<b>456.1</b>	<b>458.5</b>	<b>462.6</b>
Working capital change	(20.0)	(24.0)	(4.0)	19.9	19.4
Interest & tax paid	(111.0)	(118.0)	(127.9)	(94.8)	(130.7)
Other	14.0	32.0	0	0	0
<b>Operating cash flow</b>	<b>401.0</b>	<b>341.0</b>	<b>324.2</b>	<b>383.6</b>	<b>351.3</b>
Capital expenditure	(63.0)	(100.0)	(85.0)	(257.0)	(433.1)
(Acquisitions)/divestments	382.0	(6.0)	0	0	0
Other	0	0	0	0	0
<b>Funding available/(required)</b>	<b>720.0</b>	<b>235.0</b>	<b>239.2</b>	<b>126.6</b>	<b>(81.8)</b>
Dividends paid	(251.0)	(280.0)	(279.1)	(257.7)	(257.7)
Equity raised/(returned)	0	0	0	0	0
<b>(Increase)/decrease in net debt</b>	<b>469.0</b>	<b>(45.0)</b>	<b>(39.9)</b>	<b>(131.0)</b>	<b>(339.5)</b>

Key Ratios	2019A	2020A	2021E	2022E	2023E
Return on assets (%)	9.8	4.6	4.3	4.7	4.9
Return on equity (%)	6.3	4.9	4.2	4.9	5.4
Return on funds employed (%)	9.3	4.4	4.1	4.5	4.6
EBITDA margin (%)	20.6	21.8	21.0	20.4	21.2
EBIT margin (%)	12.4	11.1	9.3	10.0	11.1
Capex to sales (%)	2.5	4.8	3.9	11.4	19.8
Capex to depreciation (%)	31	45	33	110	196
Imputation (%)	64	64	55	45	70
Pay-out ratio (%)	101	112	107	107	110

Balance Sheet (NZ\$m)	2019A	2020A	2021E	2022E	2023E
Working capital	(3.0)	19.0	21.0	(0.9)	(22.3)
Fixed assets	4,097.0	3,999.0	3,833.1	3,858.7	4,074.3
Intangibles	425.0	406.0	406.0	406.0	406.0
Right of use asset	29.0	27.0	27.0	27.0	27.0
Other assets	132.0	173.0	173.0	173.0	173.0
<b>Total funds employed</b>	<b>4,680.0</b>	<b>4,624.0</b>	<b>4,460.1</b>	<b>4,463.8</b>	<b>4,657.9</b>
Net debt/(cash)	990.0	1,036.0	1,075.9	1,207.0	1,546.5
Lease liability	25.0	22.0	22.0	22.0	22.0
Other liabilities	883.0	940.0	907.5	883.8	872.1
Shareholder's funds	2,782.0	2,626.0	2,454.7	2,351.0	2,217.4
Minority interests	0	0	0	0	0
<b>Total funding sources</b>	<b>4,680.0</b>	<b>4,624.0</b>	<b>4,460.1</b>	<b>4,463.8</b>	<b>4,657.9</b>

Operating Performance	2019A	2020A	2021E	2022E	2023E
Hydro generation (GWh)	4,232	3,752	3,837	3,887	3,887
Geothermal generation (GWh)	3,257	3,331	3,139	3,324	3,455
Thermal generation (GWh)	1,422	1,360	1,279	1,138	977
<b>Total Generation (GWh)</b>	<b>8,911</b>	<b>8,443</b>	<b>8,255</b>	<b>8,348</b>	<b>8,319</b>
GWAP (\$/MWh)	129	100	119	124	105
Gas consumed (PJ)	13.9	13.2	12.2	10.8	9.3
Gas price (\$/GJ)	7.1	6.8	6.9	7.0	5.9
Retail electricity volumes (GWh)	6,554	5,694	5,587	5,661	5,993
Electricity customers (000)	411	418	409	409	409
Average usage/customer (MWh)	8.6	8.5	8.5	8.5	8.6
Average retail price (\$/MWh)	191	199	200	203	206
LWAP (\$/MWh)	136	108	129	136	115
LWAP/GWAP	1.06	1.08	1.08	1.10	1.09
Retail gas volumes (PJ)	3.1	3.0	3.0	3.0	3.0
Gas customers (000)	67	65	65	65	65
Average gas sales price (\$/GJ)	23.6	24.5	25.4	25.8	24.8

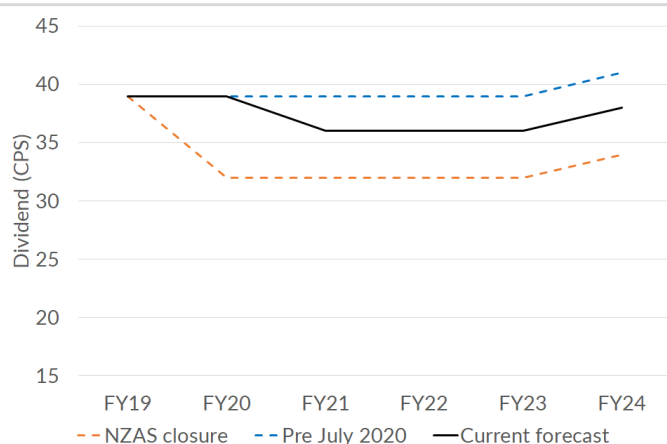
## Summary forecast changes

Figure 1. Summary forecast changes

	FY21			FY22			FY23		
	Old	New	% chg	Old	New	% chg	Old	New	% chg
Revenue	2,068	2,169	4.9%	1,693	2,248	32.8%	1,662	2,187	31.6%
<b>EBITDAF</b>	<b>463</b>	<b>456</b>	<b>-1.6%</b>	<b>397</b>	<b>459</b>	<b>15.5%</b>	<b>417</b>	<b>463</b>	<b>10.9%</b>
EBIT	210	202	-3.8%	168	224	33.2%	207	242	17.2%
Reported NPAT	110	103	-5.8%	79	115	45.9%	109	120	10.0%
Normalised NPAT	110	103	-5.8%	79	115	45.9%	109	120	10.0%
Adjusted NPAT	247	241	-2.4%	200	240	20.1%	217	234	8.3%
EPS	34.5	33.6	-2.4%	27.9	33.6	20.1%	30.3	32.8	8.3%
<b>DPS</b>	<b>32.0</b>	<b>36.0</b>	<b>12.5%</b>	<b>32.0</b>	<b>36.0</b>	<b>12.5%</b>	<b>32.0</b>	<b>36.0</b>	<b>12.5%</b>
Generation (GWh)	8,527	8,255	-3.2%	6,804	8,348	22.7%	7,463	8,319	11.5%
Electricity Wholesale Price (\$/MWh)	\$99.4	\$119.2	19.9%	\$64.7	\$124.4	92.1%	\$58.8	\$105.0	78.6%
Retail Demand (GWh)	5,615	5,587	-0.5%	5,561	5,661	1.8%	5,395	5,993	11.1%

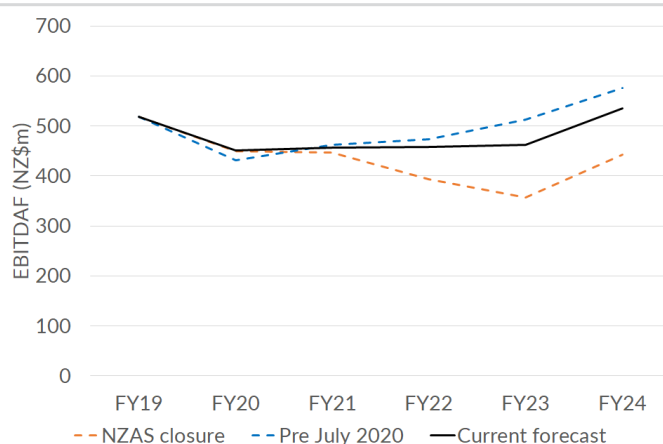
Source: Forsyth Barr analysis

Figure 2. Changes to forecast dividends

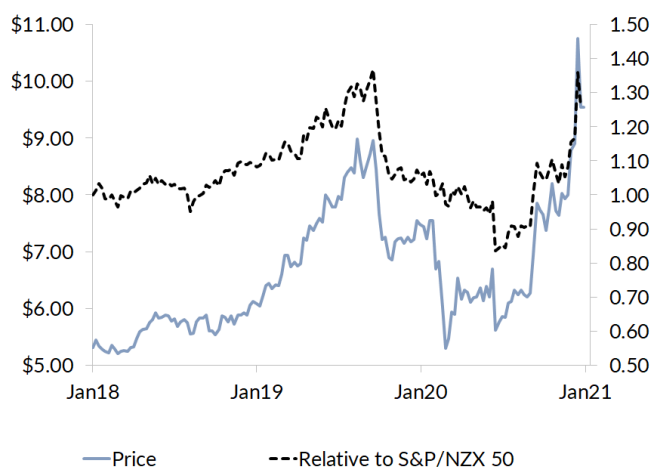


Source: Forsyth Barr analysis

Figure 3. Changes to forecast EBITDAF



Source: Forsyth Barr analysis

**Figure 4. Price performance**


Source: Forsyth Barr analysis

**Figure 5. Substantial shareholders**

Shareholder	Latest Holding
BlackRock Investment Management	13.3%

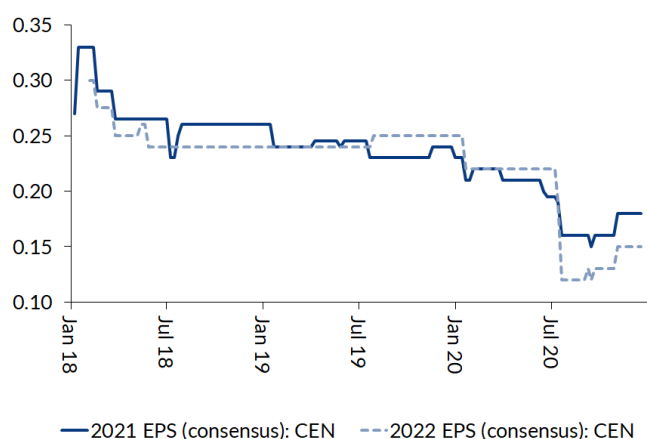
Source: NZX, Forsyth Barr analysis, NOTE: based on SPH notices only

**Figure 6. International valuation comparisons**

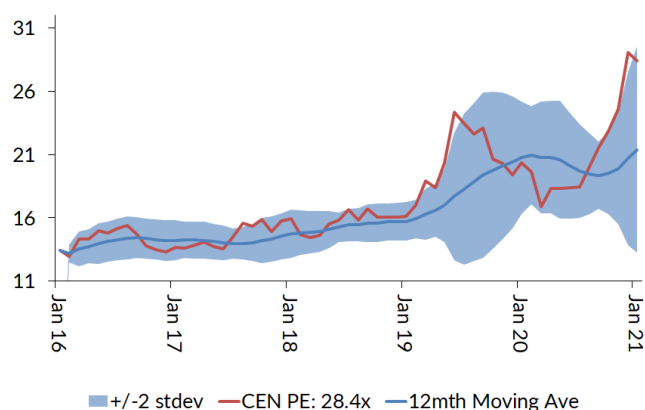
Company	Code	Price	Mkt Cap (m)	PE 2021E 2022E	EV/EBITDA 2021E 2022E	EV/EBIT 2021E 2022E	Cash Yld 2022E
(metrics re-weighted to reflect CEN's balance date - June)							
Contact Energy	CEN NZ	NZ\$9.55	NZ\$6,833	28.4x 28.5x	17.3x 17.2x	38.9x 35.1x	3.8%
GENESIS ENERGY *	GNE NZ	NZ\$3.78	NZ\$3,945	20.9x 20.9x	12.9x 13.4x	27.2x 31.5x	3.7%
MERIDIAN ENERGY *	MEL NZ	NZ\$8.42	NZ\$21,577	48.4x >50x	30.1x 34.3x	50.1x 62.2x	2.0%
MERCURY *	MCY NZ	NZ\$7.08	NZ\$9,645	36.6x 39.1x	21.5x 21.8x	38.6x 40.7x	2.4%
TRUSTPOWER *	TPW NZ	NZ\$8.56	NZ\$2,679	32.5x 34.3x	17.2x 17.5x	22.5x 23.2x	3.5%
AGL ENERGY	AGLAT	A\$12.23	A\$7,620	13.8x 19.4x	6.0x 7.1x	10.9x 14.8x	5.0%
ORIGIN ENERGY	ORG AT	A\$5.11	A\$9,000	22.6x 16.1x	6.4x 5.7x	23.3x 19.6x	4.8%
Compco Average:				29.1x 25.9x	15.7x 16.6x	28.8x 32.0x	3.6%
CEN Relative:				-3% 10%	10% 3%	35% 10%	5%

EV = Current Market Cap + Actual Net Debt

Source: \*Forsyth Barr analysis, Bloomberg Consensus, Compco metrics re-weighted to reflect headline (CEN) companies fiscal year end

**Figure 7. Consensus EPS momentum (NZ\$)**


Source: Forsyth Barr analysis

**Figure 8. One year forward PE (x)**


Source: Forsyth Barr analysis



# Genesis Energy

## Return of the Smelter

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### OUTPERFORM

Genesis Energy (GNE) has the greatest increases in earnings, dividends and target price due to NZAS remaining open until at least 31 December 2024. GNE will no longer face intense retail price pressure, will no longer be long gas and it can more easily transition away from thermal generation. Our FY22 and FY23 EBITDAF forecasts are up +12% and +35% respectively, our dividend forecasts are up at least +25% and we have lifted our target price +NZ\$0.52 (+15.4%) to NZ\$3.90. GNE is the only electricity stock on an OUTPERFORM rating.

NZX Code	GNE	Financials: Jun/	20A	21E	22E	23E	Valuation (x)	20A	21E	22E	23E
Share price	NZ\$3.70	NPAT* (NZ\$m)	154.3	190.2	223.2	222.6	PE	24.9	20.4	17.6	17.9
Target price	NZ\$3.90	EPS* (NZc)	14.9	18.1	21.0	20.7	EV/EBIT	35.0	26.4	23.7	24.2
Risk rating	Low	EPS growth* (%)	-5.0	21.8	16.0	-1.4	EV/EBITDA	14.4	12.5	11.6	11.8
Issued shares	1043.6m	DPS (NZc)	17.2	17.5	17.7	18.0	Price / NTA	2.2	2.3	2.4	2.5
Market cap	NZ\$3,861m	Imputation (%)	80	85	100	100	Cash div yld (%)	4.6	4.7	4.8	4.9
Avg daily turnover	572.3k (NZ\$1,707k)	*Based on normalised profits					Gross div yld (%)	6.1	6.3	6.6	6.7

#### What's changed?

- **Earnings (EBITDAF):** FY21 +\$1m (+0%) to NZ\$405m, FY22 +\$48m (+12%) to NZ\$435m, FY23 +\$110m (+35%) to NZ\$430m
- **Dividend:** FY21 +3.5cps (+25%) to 17.5cps, FY22 +3.7cps (+26%) to 17.7cps, FY23 +4.0cps (+28%) to 18.0cps
- **Target price:** Increased +NZ\$0.52 (+15.4%) to NZ\$3.90

#### GNE sees the largest earnings / dividend increases

In our view GNE is the main benefactor from NZAS remaining open until at least 31 December 2024. It has the largest mass market retail customer base which will no longer be targeted by Meridian Energy (MEL) and was long gas (until the Kupe contract ends in 2024). These are no longer issues, hence the material forecast uplift. In addition, GNE has high gearing, hence the decline in earnings if NZAS were to close would have significantly impacted its ability to pay a dividend. That decline now reverses, and we assume GNE's dividend continues its gradual inflation increase above the FY20 17.2cps.

#### Thermal generation reduction less pronounced

One of the advantages of NZAS remaining open for longer is it enables GNE to control the transition away from its thermal fuels. We expect the coal/gas Rankine units to get used less as new renewable energy is built and for Unit 5 to move into more of a peaking/back-up role (similar to the role TCC plays now). To that end we anticipate that GNE will contract for a portion of Contact Energy's (CEN) Tauhara geothermal project. In time we expect GNE's moves to reduce thermal generation will enhance its ESG credentials, which will also be supportive of its share price.



## Genesis Energy Limited (GNE)

Priced as at 15 Jan 2021 (NZ\$) **3.70**

<b>12-month target price (NZ\$)*</b>	<b>3.90</b>
Expected share price return	5.4%
Net dividend yield	4.8%
Estimated 12-month return	10.2%

### Key WACC assumptions

Risk free rate	1.30%
Equity beta	0.84
WACC	5.1%
Terminal growth	1.5%

### Spot valuations (NZ\$)

1. DCF	3.81
2. Market multiple	3.72
3. Dividend yield	3.93

### DCF valuation summary (NZ\$m)

Total firm value	5,296
(Net debt)/cash	(1,320)
Less: Capitalised operating leases	
Value of equity	3,977

Profit and Loss Account (NZ\$m)	2019A	2020A	2021E	2022E	2023E
Sales revenue	3,410.0	3,354.5	3,586.6	3,385.6	3,220.2
<b>Normalised EBITDA</b>	<b>369.4</b>	<b>355.6</b>	<b>405.0</b>	<b>434.6</b>	<b>429.5</b>
Depreciation and amortisation	(201.7)	(209.8)	(212.7)	(221.7)	(221.2)
<b>Normalised EBIT</b>	<b>167.7</b>	<b>145.8</b>	<b>192.2</b>	<b>212.9</b>	<b>208.3</b>
Net interest	(77)	(71)	(67)	(65)	(60)
Associate income	0	0	0	0	0
Tax	(26)	(22)	(35)	(41)	(42)
Deprecation capex adjustment	96	101	100	117	116
<b>Adjusted normalised NPAT</b>	<b>160</b>	<b>154</b>	<b>190</b>	<b>223</b>	<b>223</b>
Abnormals/other	(101)	(108)	(100)	(117)	(116)
<b>Reported NPAT</b>	<b>59</b>	<b>46</b>	<b>90</b>	<b>106</b>	<b>107</b>
Normalised EPS (cps)	15.7	14.9	18.1	21.0	20.7
DPS (cps)	17.1	17.2	17.5	17.7	18.0

Growth Rates	2019A	2020A	2021A	2022A	2023A
Revenue (%)	48.0	-1.6	6.9	-5.6	-4.9
EBITDA (%)	2.5	-3.7	13.9	7.3	-1.2
EBIT (%)	8.3	-13.1	31.9	10.7	-2.2
Normalised NPAT (%)	24.6	-3.8	23.3	17.4	-0.3
Normalised EPS (%)	22.7	-5.0	21.8	16.0	-1.4
Ordinary DPS (%)	0.9	0.9	1.5	1.4	1.4

Cash Flow (NZ\$m)	2019A	2020A	2021E	2022E	2023E
<b>EBITDA</b>	<b>369.4</b>	<b>355.6</b>	<b>405.0</b>	<b>434.6</b>	<b>429.5</b>
Working capital change	(27.3)	21.8	10.1	16.3	(0.7)
Interest & tax paid	(123.1)	(119.2)	(115.5)	(124.9)	(122.1)
Other	15.1	(12.4)	0	0	0
<b>Operating cash flow</b>	<b>234.1</b>	<b>245.8</b>	<b>299.6</b>	<b>325.9</b>	<b>306.8</b>
Capital expenditure	(68.5)	(69.0)	(94.0)	(61.5)	(63.7)
(Acquisitions)/divestments	(0.2)	(7.6)	0	0	0
Other	0	0	0	0	0
<b>Funding available/(required)</b>	<b>165.4</b>	<b>169.2</b>	<b>205.6</b>	<b>264.5</b>	<b>243.1</b>
Dividends paid	(131.6)	(138.4)	(145.6)	(149.6)	(153.5)
Equity raised/(returned)	(1.3)	(0.1)	0	0	0
<b>(Increase)/decrease in net debt</b>	<b>32.5</b>	<b>30.7</b>	<b>60.0</b>	<b>114.8</b>	<b>89.6</b>

Balance Sheet (NZ\$m)	2019A	2020A	2021E	2022E	2023E
Working capital	111.8	99.4	89.3	73.0	73.7
Fixed assets	3,773.1	3,675.1	3,558.6	3,402.3	3,250.7
Intangibles	364.0	353.4	356.1	352.1	346.3
Right of use asset	0	0	0	0	0
Other assets	120.8	163.3	158.4	158.4	158.4
<b>Total funds employed</b>	<b>4,369.7</b>	<b>4,291.2</b>	<b>4,162.3</b>	<b>3,985.9</b>	<b>3,829.0</b>
Net debt/(cash)	1,293.1	1,334.9	1,274.9	1,160.0	1,070.5
Lease liability	0	0	0	0	0
Other liabilities	931.6	886.5	873.0	854.6	833.7
Shareholder's funds	2,145.0	2,068.0	2,012.7	1,969.5	1,923.0
Minority interests	0	1.8	1.8	1.8	1.8
<b>Total funding sources</b>	<b>4,369.7</b>	<b>4,291.2</b>	<b>4,162.3</b>	<b>3,985.9</b>	<b>3,829.0</b>

Valuation Ratios	2019A	2020A	2021E	2022E	2023E
EV/EBITDA (x)	13.7	14.4	12.5	11.6	11.8
EV/EBIT (x)	30.2	35.0	26.4	23.7	24.2
PE (x)	23.6	24.9	20.4	17.6	17.9
Price/NTA (x)	2.1	2.2	2.3	2.4	2.5
Free cash flow yield (%)	4.3	4.6	5.3	6.8	6.3
Net dividend yield (%)	4.6	4.6	4.7	4.8	4.9
Gross dividend yield (%)	6.0	6.1	6.3	6.6	6.7

Capital Structure	2019A	2020A	2021E	2022E	2023E
Interest cover EBIT (x)	2.1	1.9	2.9	3.3	3.5
Interest cover EBITDA (x)	4.8	5.0	6.1	6.7	7.2
Net debt/ND+E (%)	36.6	37.6	37.1	35.2	33.8
Net debt/EBITDA (x)	3.4	3.5	2.9	2.5	2.3

Key Ratios	2019A	2020A	2021E	2022E	2023E
Return on assets (%)	3.4	2.9	4.3	5.0	5.1
Return on equity (%)	3.0	2.6	4.5	5.4	5.6
Return on funds employed (%)	3.6	3.2	4.3	5.0	5.2
EBITDA margin (%)	10.8	10.6	11.3	12.8	13.3
EBIT margin (%)	4.9	4.3	5.4	6.3	6.5
Capex to sales (%)	2.0	2.1	2.6	1.8	2.0
Capex to depreciation (%)	34	33	44	28	29
Imputation (%)	80	80	85	100	100
Pay-out ratio (%)	109	116	96	84	87

Operating Performance	2019A	2020A	2021E	2022E	2023E
Renewable generation	2,835	2,340	2,737	2,724	2,724
Gas generation	2,586	3,121	2,780	2,381	1,946
Coal generation	1,410	1,340	1,621	1,139	767
<b>Total GNE generation (GWh)</b>	<b>6,831</b>	<b>6,801</b>	<b>7,139</b>	<b>6,245</b>	<b>5,437</b>
GWAP (\$/MWh)	143	114	145	135	122

Retail electricity	2019A	2020A	2021E	2022E	2023E
Electricity customers (000)	499	493	479	477	477
MM/SME volumes	4,077	4,111	4,028	3,972	3,975
TOU volumes	1,992	2,134	2,310	2,322	2,334
<b>Total fixed price volumes (GWh)</b>	<b>6,068</b>	<b>6,245</b>	<b>6,338</b>	<b>6,294</b>	<b>6,308</b>
Average MM usage/cust (kWh/yr)	8,126	8,333	8,293	8,323	8,340
Average FPVW price (\$/MWh)	210	212	212	213	213
LWAP (\$/MWh)	139	110	145	130	114
LWAP/GWAP	0.97	0.96	1.00	0.96	0.94
Line losses (%)	5.4	5.7	5.6	5.6	5.6

Kupe production	2019A	2020A	2021E	2022E	2023E
Gas production (PJ)	11.8	10.7	10.9	11.8	11.3
Oil production (k barrels)	472.9	374.3	348.9	495.2	430.9
LPG production (k tonnes)	50.6	46.6	47.8	52.1	50.5

Kupe EBITDAF (\$m)	109	94	94	111	105
Energy EBITDAF (\$m)	260	262	311	324	324
<b>GNE EBITDAF (\$m)</b>	<b>369</b>	<b>356</b>	<b>405</b>	<b>434</b>	<b>429</b>

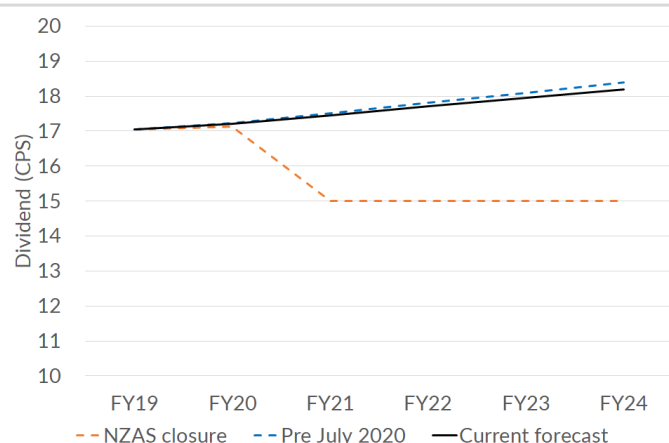
## Summary forecast changes

Figure 1. Summary forecast changes

	FY21 Old	FY21 New	Diff % Chg	FY22 Old	FY22 New	Diff % Chg	FY23 Old	FY23 New	Diff % Chg
Sales revenue	3,415	3,587	5.0%	2,693	3,386	25.7%	2,435	3,220	32.2%
<b>EBITDAF</b>	<b>404</b>	<b>405</b>	<b>0.3%</b>	<b>386</b>	<b>435</b>	<b>12.5%</b>	<b>319</b>	<b>430</b>	<b>34.6%</b>
EBIT	191	192	0.7%	165	213	29.3%	98	208	112.5%
Pre-tax profit	125	125	0.5%	103	148	43.2%	41	149	262.4%
<b>NPAT</b>	<b>90</b>	<b>90</b>	<b>0.5%</b>	<b>74</b>	<b>106</b>	<b>43.2%</b>	<b>30</b>	<b>107</b>	<b>262.4%</b>
<b>Normalised NPAT</b>	<b>90</b>	<b>90</b>	<b>0.5%</b>	<b>74</b>	<b>106</b>	<b>43.2%</b>	<b>30</b>	<b>107</b>	<b>262.4%</b>
Earnings (cps)	8.6	8.6	0.4%	7.0	10.0	42.7%	2.8	10.0	260.2%
<b>Dividend (cps)</b>	<b>14.0</b>	<b>17.5</b>	<b>24.6%</b>	<b>14.0</b>	<b>17.7</b>	<b>26.4%</b>	<b>14.0</b>	<b>18.0</b>	<b>28.2%</b>
Generation (GWh)	6,829	7,139	4.5%	4,455	6,245	40.2%	3,836	5,437	41.7%
FPV sales (GWh)	6,321	6,338	0.3%	5,344	6,294	17.8%	4,598	6,308	37.2%
Customer numbers (000)	470	479	1.9%	441	477	8.0%	412	477	15.7%
GWAP (\$/MWh)	\$125.4	\$145.5	16.0%	\$78.4	\$135.5	72.9%	\$78.9	\$122.0	54.6%
LWAP/GWAP	0.997	0.995	-0.2%	0.952	0.960	0.8%	0.945	0.938	-0.8%

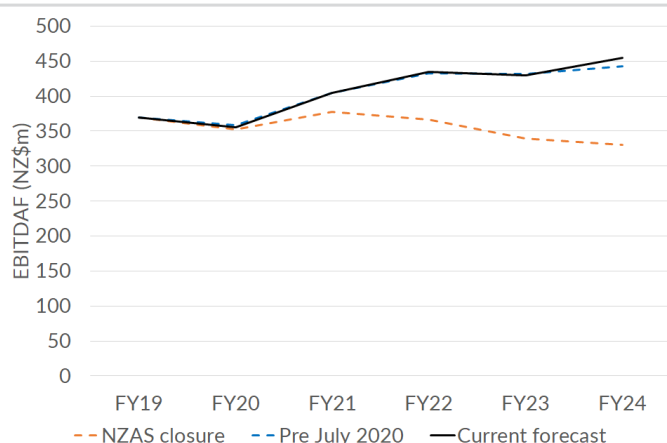
Source: Forsyth Barr analysis

Figure 2. Changes to forecast dividends

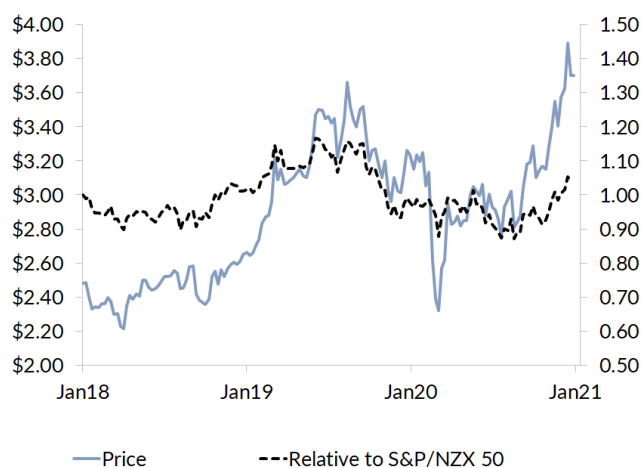


Source: Forsyth Barr analysis

Figure 3. Changes to forecast EBITDAF



Source: Forsyth Barr analysis

**Figure 4. Price performance**


Source: Forsyth Barr analysis

**Figure 5. Substantial shareholders**

Shareholder	Latest Holding
NZ Govt	51.8%

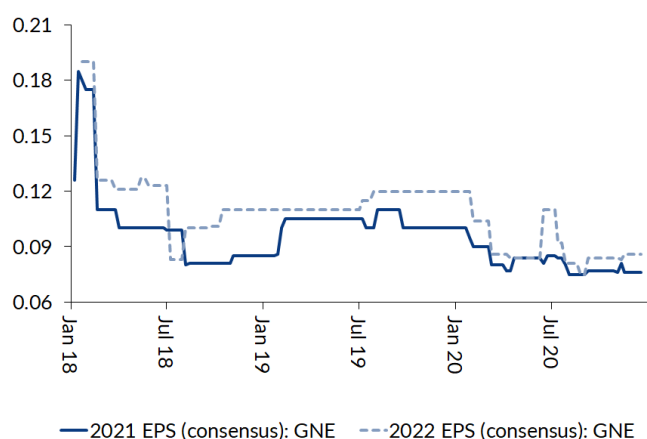
Source: NZX, Forsyth Barr analysis, NOTE: based on SPH notices only

**Figure 6. International valuation comparisons**

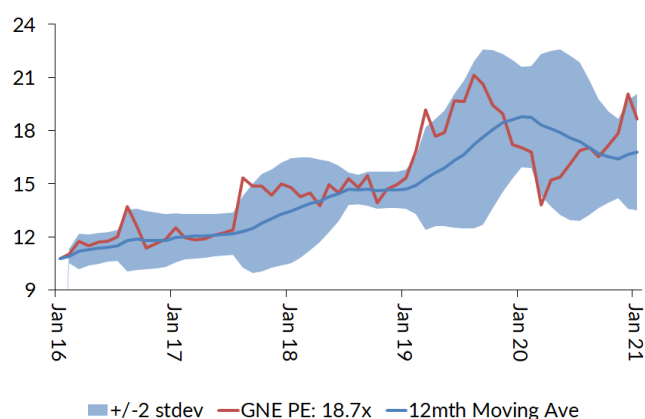
Company	Code	Price	Mkt Cap (m)	PE 2021E 2022E	EV/EBITDA 2021E 2022E	EV/EBIT 2021E 2022E	Cash Yld 2022E
(metrics re-weighted to reflect GNE's balance date - June)							
Genesis Energy	GNE NZ	NZ\$3.70	NZ\$3,861	20.4x 17.6x	12.6x 11.8x	26.6x 24.0x	4.8%
CONTACT ENERGY *	CEN NZ	NZ\$10.04	NZ\$7,214	29.8x 29.9x	18.1x 18.0x	40.8x 36.8x	3.6%
MERIDIAN ENERGY *	MEL NZ	NZ\$8.42	NZ\$21,577	48.4x >50x	30.1x 34.3x	50.1x 62.2x	2.0%
MERCURY *	MCY NZ	NZ\$7.08	NZ\$9,645	36.6x 39.1x	21.5x 21.8x	38.6x 40.7x	2.4%
TRUSTPOWER *	TPW NZ	NZ\$8.56	NZ\$2,679	32.5x 34.3x	17.2x 17.5x	22.5x 23.2x	3.5%
AGL ENERGY	AGL AT	A\$12.23	A\$7,620	13.8x 19.4x	6.0x 7.1x	10.9x 14.8x	5.0%
ORIGIN ENERGY	ORG AT	A\$5.11	A\$9,000	22.6x 16.1x	6.4x 5.7x	23.3x 19.6x	4.8%
Compco Average:				30.6x 27.7x	16.6x 17.4x	31.0x 32.9x	3.6%
GNE Relative:				-33% -37%	-24% -32%	-14% -27%	35%

EV = Current Market Cap + Actual Net Debt

Source: \*Forsyth Barr analysis, Bloomberg Consensus, Compco metrics re-weighted to reflect headline (GNE) companies fiscal year end

**Figure 7. Consensus EPS momentum (NZ\$)**


Source: Forsyth Barr analysis

**Figure 8. One year forward PE (x)**


Source: Forsyth Barr analysis

# Meridian Energy

## Return of the Smelter

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### UNDERPERFORM

Whilst Meridian Energy (MEL) holds the electricity contract with NZAS, it is not the main beneficiary of NZAS remaining open as it will be receiving materially less for its electricity. The estimated NZ\$83m per annum discount MEL is providing NZAS has impacted on our FY21 EBITDAF forecast. However, the medium-term outlook is better and the sizable EBITDAF increases enable modest (+2%-3%) dividend increases in FY22 and FY23. Our target price increase is +NZ\$0.05 (+0.9%) to NZ\$5.55 and MEL continues to trade as the most expensive electricity stock on the market. Our rating is UNDERPERFORM.

NZX Code	MEL	Financials: Jun/	20A	21E	22E	23E	Valuation (x)	20A	21E	22E	23E
Share price	NZ\$7.78	NPAT* (NZ\$m)	510.3	404.0	411.1	425.1	PE	39.0	49.3	48.5	46.9
Target price	NZ\$5.55	EPS* (NZc)	19.9	15.8	16.0	16.6	EV/EBIT	39.5	53.0	49.4	47.7
Risk rating	Low	EPS growth* (%)	5.9	-20.8	1.8	3.4	EV/EBITDA	25.1	30.2	29.1	28.4
Issued shares	2563.0m	DPS (NZc)	19.3	16.9	17.2	17.4	Price / NTA	4.0	4.1	4.3	4.5
Market cap	NZ\$19,927m	Imputation (%)	75	75	75	80	Cash div yld (%)	2.5	2.2	2.2	2.2
Avg daily turnover	1,982k (NZ\$10,754k)	*Based on normalised profits					Gross div yld (%)	3.2	2.8	2.9	2.9

#### What's changed?

- **Earnings (EBITDAF):** FY21 -\$51m (-7%) to NZ\$715m, FY22 +\$72m (+11%) to NZ\$742m, FY23 +\$121m (+19%) to NZ\$759m
- **Dividend:** FY21 unchanged at 16.9cps, FY22 +0.3cps (+2%) to 17.2cps, FY23 +0.5cps (+3%) to 17.4cps
- **Target price:** Increased +NZ\$0.05 (+0.9%) to NZ\$5.55

#### Short-term FY21 downgrade, upside longer term as Manapouri generation continues to have a home

MEL is providing the bulk of the discounted power to NZAS from 14 January 2021 onwards. We estimate the FY21 impact is ~NZ\$38m, with the slightly higher decline due to the dry conditions being experienced in the South Island at present. However, like all of the electricity stocks, we are lifting our medium-term forecasts. The main factors benefitting MEL are the ability to sell all of its Manapouri generation which will no longer be trapped in the lower South Island and higher retail prices.

#### More dividend clarity at 1H21 result, but we do not expect a resumption of special dividends

MEL has indicated it will provide more clarity around its dividend at the 1H21 result in February 2021. It has already ceased its special dividend and we do not expect a resumption of the special dividend. With MEL's ordinary dividend already elevated due to the extraordinary FY20 financial result, there is little scope to increase its dividend, hence our forecast changes in FY22 and beyond, whilst positive, are modest compared to the rest of the sector.

#### Harapaki wind farm development likely to go ahead

Prior to RIO making its shock closure announcement, MEL had been progressing a potential 170MW wind farm development in Hawkes Bay. Given time on the resource consent is running out, high wholesale electricity prices, the benefits it will provide to MEL's retail operations in the North Island and swaption replacement discussions we expect MEL to push go on the project. We assume it will be completed in mid-2023.

## Meridian Energy Limited (MEL)

Priced as at 18 Jan 2021 (NZ\$)

7.78

<b>12-month target price (NZ\$)*</b>	<b>5.55</b>
Expected share price return	-28.7%
Net dividend yield	2.2%
Estimated 12-month return	-26.5%

<b>Spot valuations (NZ\$)</b>	
1. DCF	5.07
2. Market multiple	5.37
3. Dividend yield	5.69

<b>Key WACC assumptions</b>	
Risk free rate	1.30%
Equity beta	0.81
WACC	5.1%
Terminal growth	1.5%

<b>DCF valuation summary (NZ\$m)</b>	
Total firm value	14,894
(Net debt)/cash	(1,903)
Less: Capitalised operating leases	
Value of equity	12,991

<b>Profit and Loss Account (NZ\$m)</b>	<b>2019A</b>	<b>2020A</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>
Sales revenue	4,104.0	4,102.0	4,038.0	3,895.7	3,653.1
<b>Normalised EBITDA</b>	<b>838.0</b>	<b>855.0</b>	<b>714.7</b>	<b>741.7</b>	<b>759.4</b>
Depreciation and amortisation	(276.0)	(312.0)	(308.1)	(304.7)	(307.1)
<b>Normalised EBIT</b>	<b>562.0</b>	<b>543.0</b>	<b>406.7</b>	<b>437.0</b>	<b>452.3</b>
Net interest	(83.0)	(84.0)	(79.2)	(80.4)	(89.5)
Associate income & other	(7.0)	(219.0)	(22.0)	(24.0)	(12.0)
Tax	(133.0)	(63.0)	(85.5)	(93.1)	(98.2)
Minority interests	0	0	0	0	0
<b>Reported NPAT</b>	<b>339.0</b>	<b>177.0</b>	<b>219.9</b>	<b>239.5</b>	<b>252.6</b>
Abnormals/other	143.0	333.3	184.1	171.6	172.5
<b>Adjusted normalised NPAT</b>	<b>482.0</b>	<b>510.3</b>	<b>404.0</b>	<b>411.1</b>	<b>425.1</b>
Normalised EPS (cps)	18.8	19.9	15.8	16.0	16.6
DPS (cps)	21.3	19.3	16.9	17.2	17.4

<b>Valuation Ratios</b>	<b>2019A</b>	<b>2020A</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>
EV/EBITDA (x)	25.5	25.1	30.2	29.1	28.4
EV/EBIT (x)	38.0	39.5	53.0	49.4	47.7
PE (x)	41.4	39.1	49.4	48.5	46.9
Price/NTA (x)	3.7	4.0	4.1	4.3	4.5
Free cash flow yield (%)	2.8	2.7	2.0	1.6	1.1
Net dividend yield (%)	2.7	2.5	2.2	2.2	2.2
Gross dividend yield (%)	3.4	3.2	2.8	2.9	2.9

<b>Capital Structure</b>	<b>2019A</b>	<b>2020A</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>
Interest cover EBIT (x)	6.7	3.9	4.9	5.1	4.9
Interest cover EBITDA (x)	10.1	10.2	9.0	9.2	8.5
Net debt/ND+E (%)	76.9	96.6	110.5	125.3	138.4
Net debt/EBITDA (x)	1.7	1.9	2.3	2.4	2.6

<b>Growth Rates</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>
Revenue (%)	24.5	0.0	-1.6	-3.5	-6.2
EBITDA (%)	25.8	2.0	-16.4	3.8	2.4
EBIT (%)	41.2	-3.4	-25.1	7.5	3.5
Normalised NPAT (%)	33.6	5.9	-20.8	1.8	3.4
Normalised EPS (%)	33.6	5.9	-20.8	1.8	3.4
Ordinary DPS (%)	10.9	-9.2	-12.6	1.8	1.4

<b>Key Ratios</b>	<b>2019A</b>	<b>2020A</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>
Return on assets (%)	5.7	3.4	4.1	4.5	4.8
Return on equity (%)	6.1	6.3	4.5	4.9	5.5
Return on funds employed (%)	5.9	5.8	4.5	4.9	5.0
EBITDA margin (%)	20.4	20.8	17.7	19.0	20.8
EBIT margin (%)	13.7	13.2	10.1	11.2	12.4
Capex to sales (%)	1.7	1.5	1.9	5.2	8.4
Capex to depreciation (%)	28	22	27	73	108
Imputation (%)	66	75	75	75	80
Pay-out ratio (%)	113	97	107	107	105

<b>Cash Flow (NZ\$m)</b>	<b>2019A</b>	<b>2020A</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>
<b>EBITDA</b>	<b>838.0</b>	<b>855.0</b>	<b>714.7</b>	<b>741.7</b>	<b>759.4</b>
Working capital change	(36.0)	49.0	(1.4)	17.8	13.3
Interest & tax paid	(200.0)	(251.0)	(208.4)	(217.6)	(229.5)
Other	33.0	(48.0)	(22.0)	(24.0)	(12.0)
<b>Operating cash flow</b>	<b>635.0</b>	<b>605.0</b>	<b>483.0</b>	<b>517.9</b>	<b>531.2</b>
Capital expenditure	(69.0)	(63.0)	(75.4)	(204.4)	(305.4)
Acquisitions/divestments	0	(2.0)	0	0	0
Other	0	0	0	0	0
<b>Funding available/(required)</b>	<b>566.0</b>	<b>540.0</b>	<b>407.5</b>	<b>313.5</b>	<b>225.7</b>
Dividends paid	(500.0)	(546.0)	(433.1)	(440.7)	(447.0)
Equity raised/(returned)	(2.0)	(2.0)	0	0	0
<b>(Increase)/decrease in net debt</b>	<b>64.0</b>	<b>(8.0)</b>	<b>(25.6)</b>	<b>(127.2)</b>	<b>(221.3)</b>

<b>Operating Performance</b>	<b>2019A</b>	<b>2020A</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>
Hydro generation	12,326	12,758	11,448	11,701	11,701
Wind generation	1,244	1,466	1,447	1,430	1,500
<b>Total NZ generation (GWh)</b>	<b>13,570</b>	<b>14,224</b>	<b>12,895</b>	<b>13,131</b>	<b>13,200</b>
GWAP (\$/MWh)	123	89	128	119	100
Overseas generation (GWh)	730	642	750	810	810
Overseas GWAP (\$/MWh) (NZD)	269	381	304	315	331
Overseas customer numbers (000)	110	136	149	162	170

<b>Balance Sheet (NZ\$m)</b>	<b>2019A</b>	<b>2020A</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>
Working capital	(24.0)	(64.0)	(40.6)	(34.5)	(35.7)
Fixed assets	8,825.0	8,594.0	8,366.0	8,266.8	8,264.8
Intangibles	59.0	65.0	60.4	59.2	59.6
Right of use asset	0	0	0	0	0
Other assets	383.0	441.0	419.0	395.0	383.0
<b>Total funds employed</b>	<b>9,243.0</b>	<b>9,036.0</b>	<b>8,804.7</b>	<b>8,686.5</b>	<b>8,671.6</b>
Net debt/(cash)	1,424.0	1,616.0	1,641.6	1,768.7	1,990.1
Lease liability	0	0	0	0	0
Other liabilities	2,362.0	2,337.0	2,293.3	2,249.2	2,207.4
Shareholder's funds	5,457.0	5,083.0	4,869.8	4,668.6	4,474.1
Minority interests	0	0	0	0	0
<b>Total funding sources</b>	<b>9,243.0</b>	<b>9,036.0</b>	<b>8,804.7</b>	<b>8,686.5</b>	<b>8,671.6</b>

NZ electricity customers (000)	302	324	333	333	333
Average usage per cust (MWh/yr)	13.2	13.9	14.3	14.2	14.2
Mass market volumes	3,901	4,342	4,711	4,739	4,743
Time of use volumes	2,338	3,034	3,389	3,406	3,423
<b>Total fixed price volumes (GWh)</b>	<b>6,239</b>	<b>7,376</b>	<b>8,100</b>	<b>8,145</b>	<b>8,166</b>
NZAS sales	5,310	5,431	5,011	5,011	5,011
Sell CFDs	2,239	2,527	2,000	1,600	1,600
Buy CFDs	(1,965)	(2,731)	(3,139)	(2,500)	(2,250)
<b>Total Sales (GWh)</b>	<b>11,823</b>	<b>12,603</b>	<b>11,972</b>	<b>12,255</b>	<b>12,527</b>
Average FPV price (\$/MWh)	105	108	113	115	115
LWAP (\$/MWh)	132	95	138	124	106
LWAP/GWAP	1.07	1.06	1.08	1.05	1.06
Lines losses (%)	5.9	4.8	5.6	5.5	5.5

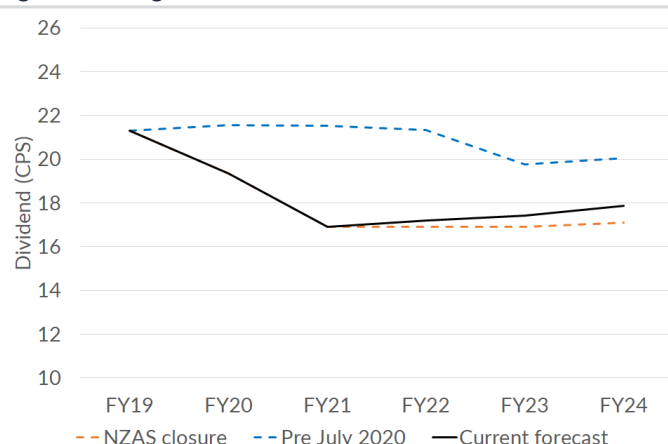
## Summary forecast changes

Figure 1. Summary forecast changes

NZ\$m	FY21			FY22			FY23		
	Old	New	% Chg	Old	New	% Chg	Old	New	% Chg
NZ Energy Margin	1,021	972	-5%	908	976	8%	890	1,001	12%
Australia Energy Margin	110	104	-5%	114	111	-3%	113	112	-1%
<b>EBITDAF</b>	<b>765</b>	<b>715</b>	<b>-7%</b>	<b>670</b>	<b>742</b>	<b>11%</b>	<b>639</b>	<b>759</b>	<b>19%</b>
EBIT	457	407	-11%	366	437	19%	338	452	34%
Pre-tax profit	356	305	-14%	274	333	21%	253	351	39%
<b>NPAT</b>	<b>256</b>	<b>220</b>	<b>-14%</b>	<b>197</b>	<b>239</b>	<b>21%</b>	<b>182</b>	<b>253</b>	<b>39%</b>
Normalised NPAT	256	220	-14%	197	231	17%	182	244	34%
FY dividend (cps)	16.9	16.9	0%	16.9	17.2	2%	16.9	17.4	3%
NZ Generation (GWh)	13,328	12,895	-3%	12,030	13,131	9%	12,543	13,200	5%
FPV sales (GWh)	8,233	8,100	-2%	9,165	8,145	-11%	9,930	8,166	-18%
Customer numbers (000)	349	333	-5%	380	333	-12%	407	333	-18%
GWAP (\$/MWh)	\$93.1	\$127.6	37%	\$55.0	\$119.0	116%	\$45.1	\$99.8	121%

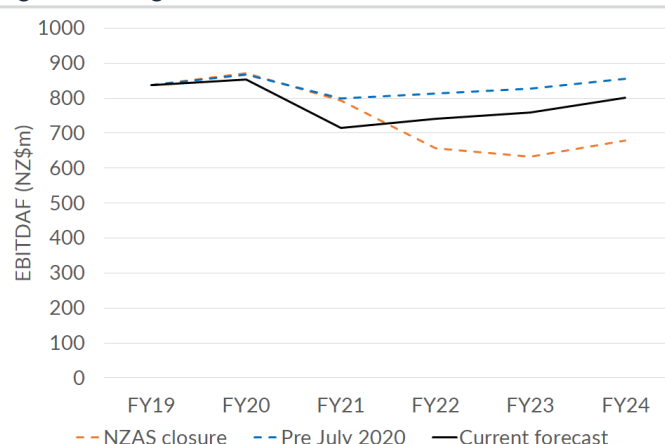
Source: Forsyth Barr analysis

Figure 2. Changes to forecast dividends

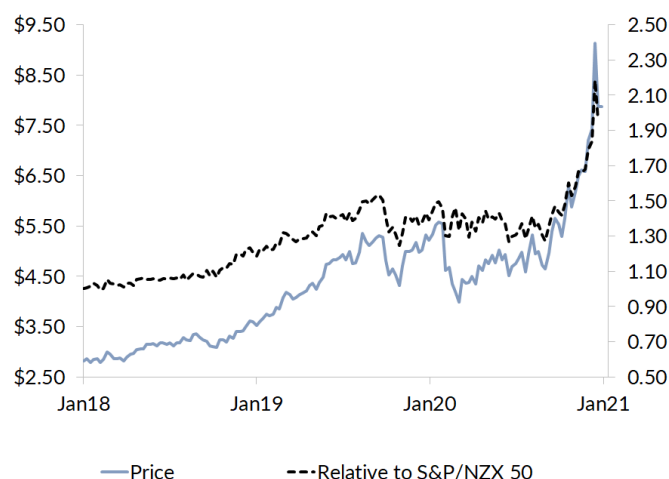


Source: Forsyth Barr analysis

Figure 3. Changes to forecast EBITDAF



Source: Forsyth Barr analysis

**Figure 4. Price performance**


Source: Forsyth Barr analysis

**Figure 5. Substantial shareholders**

Shareholder	Latest Holding
NZ Govt	51.0%
BlackRock Investment Management	6.1%

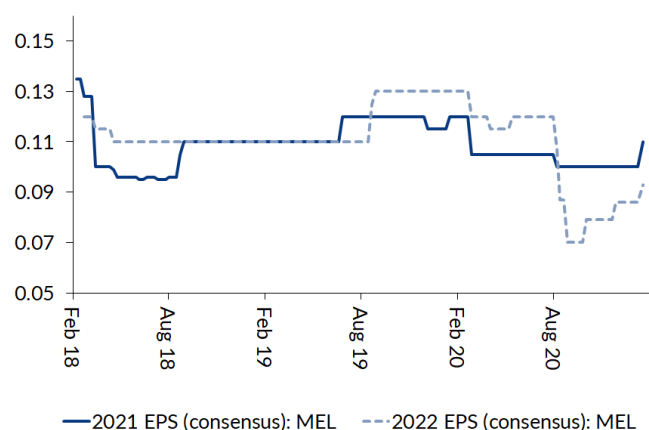
Source: NZX, Forsyth Barr analysis, NOTE: based on SPH notices only

**Figure 6. International valuation comparisons**

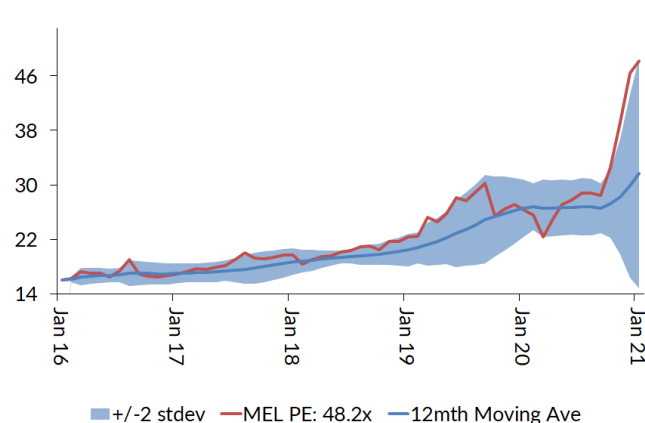
Company	Code	Price	Mkt Cap (m)	PE 2021E	PE 2022E	EV/EBITDA 2021E	EV/EBITDA 2022E	EV/EBIT 2021E	EV/EBIT 2022E	Cash Yld 2022E
(metrics re-weighted to reflect MEL's balance date - June)										
Meridian Energy	MEL NZ	NZ\$7.78	NZ\$19,927	49.3x	48.5x	30.1x	29.0x	53.0x	49.3x	2.2%
CONTACT ENERGY *	CEN NZ	NZ\$9.55	NZ\$6,862	28.4x	28.5x	17.3x	17.2x	39.1x	35.2x	3.8%
GENESIS ENERGY *	GNE NZ	NZ\$3.70	NZ\$3,861	20.4x	17.6x	12.6x	11.8x	26.6x	24.0x	4.8%
MERCURY *	MCY NZ	NZ\$6.92	NZ\$9,427	34.9x	32.0x	20.7x	18.9x	36.6x	31.9x	2.7%
TRUSTPOWER *	TPW NZ	NZ\$8.78	NZ\$2,748	32.7x	28.6x	17.4x	15.8x	22.7x	20.2x	3.9%
AGL ENERGY	AGLAT	A\$12.00	A\$7,476	13.7x	19.3x	6.0x	7.0x	10.7x	14.6x	5.1%
INFIGEN ENERGY	IFNAT	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
ORIGIN ENERGY	ORG AT	A\$5.13	A\$9,035	22.5x	15.9x	6.4x	5.8x	23.4x	19.6x	4.8%
Compco Average:				25.4x	23.6x	13.4x	12.7x	26.5x	24.2x	4.2%
MEL Relative:				94%	105%	125%	128%	100%	103%	-47%

EV = Current Market Cap + Actual Net Debt

Source: \*Forsyth Barr analysis, Bloomberg Consensus, Compco metrics re-weighted to reflect headline (MEL) companies fiscal year end

**Figure 7. Consensus EPS momentum (NZ\$)**


Source: Forsyth Barr analysis

**Figure 8. One year forward PE (x)**


Source: Forsyth Barr analysis



# Mercury

## Return of the Smelter

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### UNDERPERFORM

We are upgrading Mercury's (MCY) forecasts materially following the announcement that NZAS will remain open to at least 31 December 2024. NZAS remaining open removes the key downside risk for MCY of a drop in retail prices in reaction to lower wholesale electricity prices. Our medium-term forecast increases are significant, FY22 EBITDAF up +13% and FY23 up +20%. That has flowed through to our dividend forecast (up +9% and +20% in FY22 and FY23 respectively) and our target price, up +NZ\$0.48 (+9%) to NZ\$5.85. However, MCY's share price performance has been very strong in recent months, with continued ETF-related inflows, hence there is no change to our UNDERPERFORM rating.

NZX Code	MCY	Financials: Jun/	20A	21E	22E	23E	Valuation (x)	20A	21E	22E	23E
Share price	NZ\$6.92	NPAT* (NZ\$m)	236.1	269.7	294.4	310.3	PE	39.9	34.9	32.0	30.3
Target price	NZ\$5.85	EPS* (NZc)	17.3	19.8	21.6	22.8	EV/EBIT	36.5	35.7	31.3	29.1
Risk rating	Low	EPS growth* (%)	-1.2	14.2	9.2	5.4	EV/EBITDA	21.5	20.2	18.5	17.6
Issued shares	1360.9m	DPS (NZc)	15.8	17.0	18.5	21.6	Price / NTA	2.6	2.6	2.6	2.7
Market cap	NZ\$9,417m	Imputation (%)	100	100	95	85	Cash div yld (%)	2.3	2.5	2.7	3.1
Avg daily turnover	765.5k (NZ\$3,909k)	*Based on normalised profits					Gross div yld (%)	3.2	3.4	3.7	4.2

#### What's changed?

- **Earnings (EBITDAF):** FY21 +\$9m (+2%) to NZ\$511m, FY22 +\$66m (+13%) to NZ\$561m, FY23 +\$99m (+20%) to NZ\$590m
- **Dividend:** FY21 unchanged at 17.0cps (as per guidance), FY22 +1.5cps (+9%) to 18.5cps, FY23 +3.6cps (+20%) to 21.6cps
- **Target price:** Increased +NZ\$0.48 (+8.9%) to NZ\$5.85

#### MCY benefits from no retail price war and firm wholesale electricity prices

MCY's only exposure to NZAS closing was the indirect effects of lower wholesale electricity prices flowing into retail prices. That downside risk is no longer there and with wholesale electricity prices remaining high (the 2022 Otahuhu futures price is above NZ\$120/MWh), retail prices are more likely to increase. As a result, there are material increases in our earnings and dividend forecasts. The strong EBITDAF growth in FY22 and FY23 is due to the commissioning of MCY's Turitea wind farm, likely into a period of firm wholesale electricity prices. It is the completion of this wind farm that will enable MCY to grow its dividend faster than its peers in FY22 and FY23.

#### Improved hydro generation and higher wholesale electricity prices lift FY21 EBITDAF forecast as well

In addition to the improved medium-term outlook, we have also increased our FY21 EBITDAF forecast above MCY's guidance to NZ\$511m to due better short-term hydro conditions. December 2022 hydro generation volumes were ~+70GWh (~+23%) above average and its Lake Taupo hydro storage lake is ~+50GWh above average. It helps that wholesale electricity prices are firm, with South Island hydro generation below average and gas production issues continuing to impact the gas-fired thermal generators.

## Mercury NZ Limited (MCY)

Priced as at 15 Jan 2021 (NZ\$)

6.92

### 12-month target price (NZ\$)\*

5.85

Expected share price return	-15.5%
Net dividend yield	2.6%
Estimated 12-month return	-12.9%

### Spot valuations (NZ\$)

1. DCF	5.46
2. Market multiple	5.43
3. Dividend yield	5.99

### Key WACC assumptions

Risk free rate	1.30%
Equity beta	0.84
WACC	5.1%
Terminal growth	1.5%

### DCF valuation summary (NZ\$m)

Total firm value	8,712
(Net debt)/cash	(1,277)
Less: Capitalised operating leases	
Value of equity	7,435

Profit and Loss Account (NZ\$m)	2019A	2020A	2021E	2022E	2023E	Valuation Ratios	2019A	2020A	2021E	2022E	2023E
Sales revenue	2,000.0	1,750.0	1,971.8	2,002.5	1,973.1	EV/EBITDA (x)	20.4	21.5	20.2	18.5	17.6
<b>Normalised EBITDA</b>	<b>505.0</b>	<b>476.0</b>	<b>510.6</b>	<b>560.7</b>	<b>590.5</b>	EV/EBIT (x)	34.2	36.5	35.7	31.3	29.1
Depreciation and amortisation	(204.0)	(214.0)	(223.0)	(230.8)	(236.2)	PE (x)	39.4	39.9	34.9	32.0	30.3
<b>Normalised EBIT</b>	<b>301.0</b>	<b>262.0</b>	<b>287.6</b>	<b>329.9</b>	<b>354.3</b>	Price/NTA (x)	2.7	2.6	2.6	2.6	2.7
Net interest	(75.0)	(54.0)	(54.5)	(61.2)	(65.0)	Free cash flow yield (%)	2.5	1.4	1.0	2.1	3.5
Associate income	1.0	18.0	1.3	1.7	1.9	Net dividend yield (%)	2.2	2.3	2.5	2.7	3.1
Tax	(73.0)	(41.0)	(67.6)	(77.7)	(83.6)	Gross dividend yield (%)	3.1	3.2	3.4	3.7	4.2
Depreciation capex adj	77.8	72.0	103.0	101.7	102.6						
<b>Adjusted normalised NPAT</b>	<b>239.0</b>	<b>236.1</b>	<b>269.7</b>	<b>294.4</b>	<b>310.3</b>	<b>Capital Structure</b>	<b>2019A</b>	<b>2020A</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>
Abnormals/other	118.0	(29.1)	(103.0)	(101.7)	(102.6)	Interest cover EBIT (x)	6.7	5.6	5.3	5.4	5.5
<b>Reported NPAT</b>	<b>357.0</b>	<b>207.0</b>	<b>166.7</b>	<b>192.7</b>	<b>207.7</b>	Interest cover EBITDA (x)	6.7	8.8	9.4	9.2	9.1
Normalised EPS (cps)	17.6	17.3	19.8	21.6	22.8	Net debt/ND+E (%)	61.8	63.2	66.6	68.9	71.1
DPS (cps)	15.5	15.8	17.0	18.5	21.6	Net debt/EBITDA (x)	2.2	2.4	2.4	2.3	2.1
<b>Growth Rates</b>	<b>2019A</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023A</b>	<b>Key Ratios</b>	<b>2019A</b>	<b>2020A</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>
Revenue (%)	11.2	-12.5	12.7	1.6	-1.5	Return on assets (%)	7.8	4.4	4.2	4.9	5.3
EBITDA (%)	-10.8	-5.7	7.3	9.8	5.3	Return on equity (%)	4.6	4.4	4.5	5.3	5.8
EBIT (%)	-17.7	-7.3	3.2	14.8	7.4	Return on funds employed (%)	4.7	3.9	4.2	4.8	5.3
Normalised NPAT (%)	-6.5	-1.2	14.2	9.2	5.4	EBITDA margin (%)	25.3	27.2	25.9	28.0	29.9
Normalised EPS (%)	-6.4	-1.2	14.2	9.2	5.4	EBIT margin (%)	15.1	16.0	14.6	16.6	18.1
Ordinary DPS (%)	2.6	1.9	7.6	8.8	16.8	Capex to sales (%)	6.1	12.7	12.7	8.1	4.7
						Capex to depreciation (%)	67	120	127	79	44
<b>Cash Flow (NZ\$m)</b>	<b>2019A</b>	<b>2020A</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>	Imputation (%)	100	100	100	95	85
<b>EBITDA</b>	<b>505.0</b>	<b>476.0</b>	<b>510.6</b>	<b>560.7</b>	<b>590.5</b>	Pay-out ratio (%)	88	91	86	86	95
Working capital change	2.0	92.0	(24.2)	(45.1)	(11.4)						
Interest & tax paid	(148.0)	(136.0)	(146.1)	(153.1)	(159.5)	<b>Operating Performance</b>	<b>2019A</b>	<b>2020A</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>
Other	2.0	(76.0)	0	0	0	Hydro	4,006	3,708	3,805	4,016	4,016
<b>Operating cash flow</b>	<b>361.0</b>	<b>356.0</b>	<b>340.2</b>	<b>362.4</b>	<b>419.6</b>	Geothermal	2,894	2,812	2,839	2,839	2,839
Capital expenditure	(122.0)	(223.0)	(250.2)	(162.3)	(93.6)	Wind	0	0	52	494	838
(Acquisitions)/divestments	215.0	0	54.5	0	0	<b>Total MCY Generation (GWh)</b>	<b>6,900</b>	<b>6,520</b>	<b>6,696</b>	<b>7,349</b>	<b>7,694</b>
Other	12.0	4.0	(2.4)	(2.6)	(2.9)	GWAP (\$/MWh)	139	110	142	130	112
<b>Funding available/(required)</b>	<b>466.0</b>	<b>137.0</b>	<b>142.2</b>	<b>197.5</b>	<b>323.1</b>	<b>Electricity sales</b>					
Dividends paid	(208.0)	(214.0)	(220.5)	(236.8)	(281.7)	Electricity customers (000)	373	348	343	349	356
Equity raised/(returned)	0	0	0	0	0	MM volumes	3,182	2,892	2,778	2,799	2,857
<b>(Increase)/decrease in net debt</b>	<b>258.0</b>	<b>(77.0)</b>	<b>(78.3)</b>	<b>(39.3)</b>	<b>41.4</b>	TOU volumes	1,319	1,469	1,602	1,750	1,894
						<b>Total Fixed Price volumes (GWh)</b>	<b>4,501</b>	<b>4,361</b>	<b>4,380</b>	<b>4,549</b>	<b>4,751</b>
<b>Balance Sheet (NZ\$m)</b>	<b>2019A</b>	<b>2020A</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>	Spot Sales	780	746	750	753	757
Working capital	63.0	(14.0)	10.2	55.4	66.8	Net CFD's	1,665	1,266	1,703	1,794	1,794
Fixed assets	5,528.0	5,898.0	5,935.3	5,872.5	5,730.9	<b>Total Sales (GWh)</b>	<b>6,946</b>	<b>6,373</b>	<b>6,833</b>	<b>7,096</b>	<b>7,302</b>
Intangibles	62.0	55.0	50.9	48.8	48.0	Average usage per cust (MWh/yr)	11.8	12.2	12.7	13.1	13.5
Right of use asset	0	0	0	0	0	LWAP (\$/MWh)	145	115	149	137	119
Other assets	521.0	587.0	536.1	540.5	545.3	LWAP/GWAP	1.04	1.05	1.05	1.06	1.06
<b>Total funds employed</b>	<b>6,174.0</b>	<b>6,526.0</b>	<b>6,532.5</b>	<b>6,517.1</b>	<b>6,390.9</b>	Average FPV price (\$/MWh)	113	118	123	126	127
Net debt/(cash)	1,096.0	1,149.0	1,227.3	1,266.5	1,225.2	Line losses (%)	5.1	4.9	5.2	5.1	5.2
Lease liability	0	0	0	0	0						
Other liabilities	1,498.0	1,575.0	1,557.0	1,546.4	1,535.6	Energy margin (\$m)	667	652	688	742	774
Shareholder's funds	3,580.0	3,802.0	3,748.2	3,704.1	3,630.1	Operating costs (\$m)	(199)	(190)	(192)	(195)	(199)
Minority interests	0	0	0	0	0	Other revenue (\$m)	37	14	14	14	15
<b>Total funding sources</b>	<b>6,174.0</b>	<b>6,526.0</b>	<b>6,532.5</b>	<b>6,517.1</b>	<b>6,390.9</b>	<b>MCY EBITDAF (\$m)</b>	<b>505</b>	<b>476</b>	<b>511</b>	<b>561</b>	<b>590</b>

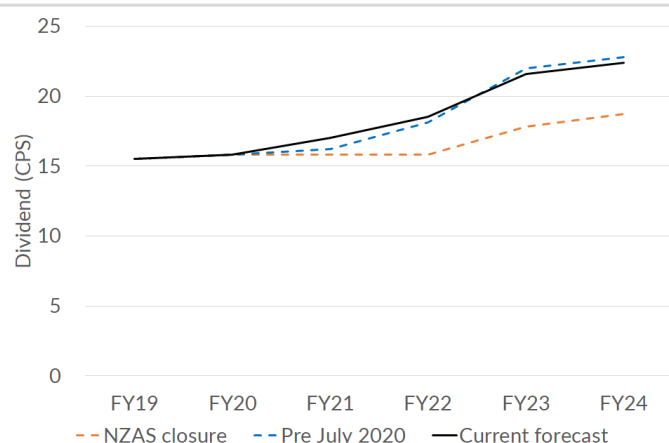
## Summary forecast changes

Figure 1. Summary forecast changes

	FY21 Old	FY21 New	% Chg	FY22 Old	FY22 New	% Chg	FY22 Old	FY22 New	% Chg
Sales revenue	1,828	1,956	7.0%	1,592	1,986	24.7%	1,622	1,956	20.6%
Energy margin	679	688	1.3%	675	742	9.8%	675	774	14.7%
<b>EBITDAF</b>	<b>501</b>	<b>511</b>	<b>1.8%</b>	<b>495</b>	<b>561</b>	<b>13.4%</b>	<b>491</b>	<b>590</b>	<b>20.2%</b>
EBIT	280	289	3.3%	270	336	24.5%	257	356	38.6%
Pre-tax profit	225	234	4.1%	208	275	31.9%	190	291	53.3%
<b>NPAT</b>	<b>160</b>	<b>167</b>	<b>4.1%</b>	<b>149</b>	<b>197</b>	<b>32.1%</b>	<b>135</b>	<b>208</b>	<b>54.1%</b>
<b>Normalised NPAT</b>	<b>160</b>	<b>167</b>	<b>4.1%</b>	<b>145</b>	<b>193</b>	<b>33.1%</b>	<b>135</b>	<b>208</b>	<b>54.1%</b>
Dividend (cps)	17.0	17.0	0.0%	17.0	18.5	8.8%	18.0	21.6	20.0%
Generation (GWh)	6,632	6,696	1.0%	7,399	7,349	-0.7%	7,695	7,694	0.0%
FPV sales (GWh)	4,380	4,380	0.0%	4,549	4,549	0.0%	4,751	4,751	0.0%
Customer numbers (000)	343	343	0.0%	349	349	0.0%	356	356	0.0%
GWAP (\$/MWh)	\$121.4	\$142.2	17.2%	\$74.3	\$130.0	75.0%	\$73.2	\$111.8	52.8%
LWAP/GWAP	1.046	1.048	0.2%	1.052	1.057	0.4%	1.062	1.061	-0.1%

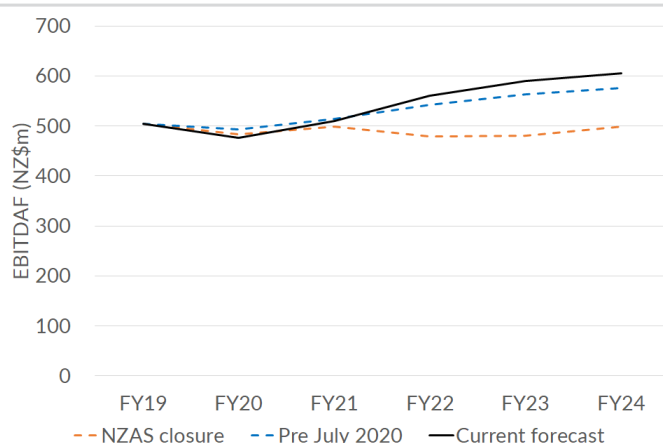
Source: Forsyth Barr analysis

Figure 2. Changes to forecast dividends

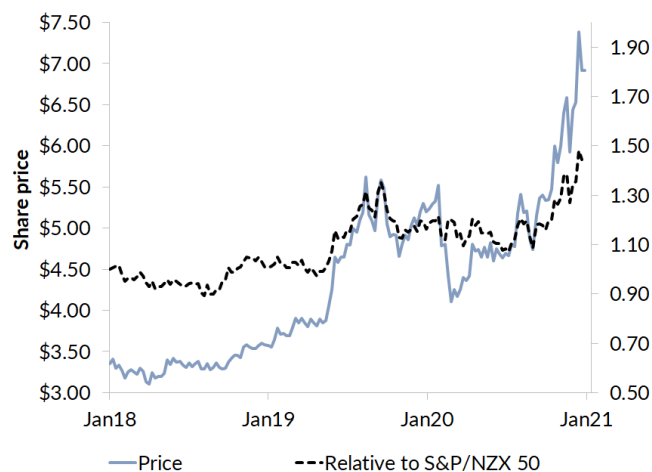


Source: Forsyth Barr analysis

Figure 3. Changes to forecast EBITDAF



Source: Forsyth Barr analysis

**Figure 4. Price performance**


Source: Forsyth Barr analysis

**Figure 5. Substantial shareholders**

Shareholder	Latest Holding
NZ Govt	52.6%

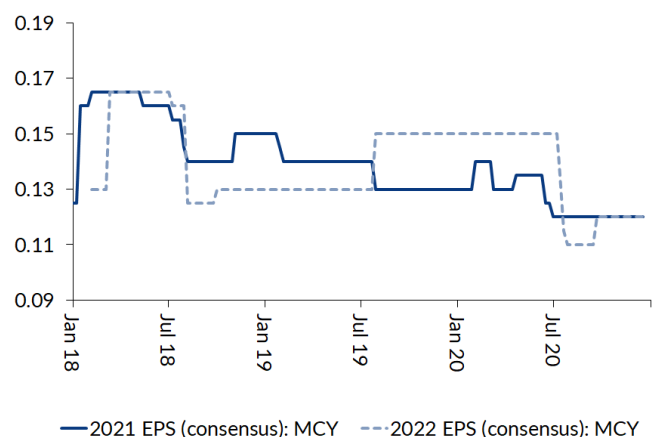
Source: NZX, Forsyth Barr analysis, NOTE: based on SPH notices only

**Figure 6. International valuation comparisons**

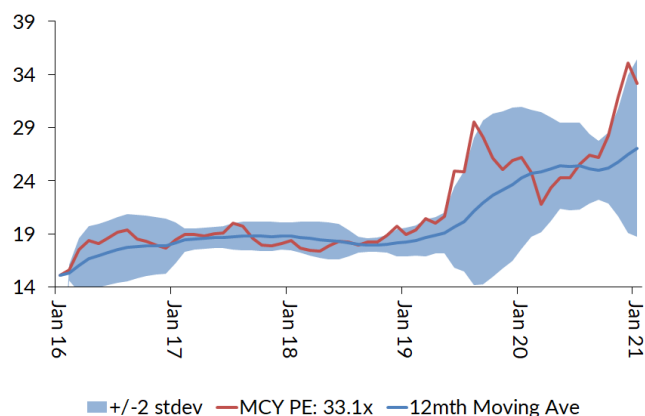
Company	Code	Price	Mkt Cap (m)	PE 2021E 2022E	EV/EBITDA 2021E 2022E	EV/EBIT 2021E 2022E	Cash Yld 2022E
(metrics re-weighted to reflect MCY's balance date - June)							
Mercury	MCY NZ	NZ\$6.92	NZ\$9,417	34.9x 32.0x	20.7x 18.8x	36.6x 31.9x	2.7%
CONTACT ENERGY *	CEN NZ	NZ\$10.04	NZ\$7,214	29.8x 29.9x	18.1x 18.0x	40.8x 36.8x	3.6%
GENESIS ENERGY *	GNE NZ	NZ\$3.78	NZ\$3,945	20.9x 18.0x	12.8x 11.9x	27.0x 24.4x	4.7%
MERIDIAN ENERGY *	MEL NZ	NZ\$8.42	NZ\$21,577	48.4x >50x	30.1x 34.3x	50.1x 62.2x	2.0%
TRUSTPOWER *	TPW NZ	NZ\$8.56	NZ\$2,679	32.5x 34.3x	17.2x 17.5x	22.5x 23.2x	3.5%
AGL ENERGY	AGL AT	A\$12.23	A\$7,620	13.8x 19.4x	6.0x 7.1x	10.9x 14.8x	5.0%
ORIGIN ENERGY	ORG AT	A\$5.11	A\$9,000	22.6x 16.1x	6.4x 5.7x	23.3x 19.6x	4.8%
Compco Average:				28.0x 23.5x	15.1x 15.8x	29.1x 30.2x	3.9%
MCY Relative:				25% 36%	37% 20%	26% 6%	-32%

EV = Current Market Cap + Actual Net Debt

Source: \*Forsyth Barr analysis, Bloomberg Consensus, Compco metrics re-weighted to reflect headline (MCY) companies fiscal year end

**Figure 7. Consensus EPS momentum (NZ\$)**


Source: Forsyth Barr analysis

**Figure 8. One year forward PE (x)**


Source: Forsyth Barr analysis

# Trustpower

## Return of the Smelter

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### NEUTRAL

We are upgrading Trustpower's (TPW) forecasts materially following the announcement that NZAS will remain open to at least 31 December 2024. TPW's main downside risk from NZAS closing was a drop in retail prices in reaction to lower wholesale electricity prices - that will no longer occur. Our medium-term forecast increases are significant, FY22 EBITDAF up +11% and FY23 up +19%. That has flowed through to our dividend forecast which are up a similar level (up +6%, +13% and +13% in FY21, FY22 and FY23 respectively) and our target price, up +NZ\$0.60 (+8%) to NZ\$8.10.

NZX Code	TPW	Financials: Mar/	20A	21E	22E	23E	Valuation (x)	20A	21E	22E	23E
Share price	NZ\$8.78	NPAT* (NZ\$m)	74.2	81.2	95.2	100.7	PE	37.2	34.0	29.0	27.4
Target price	NZ\$8.10	EPS* (NZc)	23.6	25.8	30.3	32.1	EV/EBIT	23.4	24.0	21.1	20.0
Risk rating	Low	EPS growth* (%)	-36.4	9.4	17.3	5.8	EV/EBITDA	18.1	18.2	16.4	15.8
Issued shares	313.0m	DPS (NZc)	32.5	34.0	34.0	34.0	Price / NTA	2.6	2.7	2.7	2.7
Market cap	NZ\$2,748m	Imputation (%)	100	100	100	100	Cash div yld (%)	3.7	3.9	3.9	3.9
Avg daily turnover	52.2k (NZ\$367k)	*Based on normalised profits					Gross div yld (%)	5.1	5.4	5.4	5.4

#### What's changed?

- **Earnings (EBITDAF):** FY21 -\$4m (-2%) to NZ\$189m, FY22 +\$21m (+11%) to NZ\$211m, FY23 +\$36m (+19%) to NZ\$220m
- **Dividend:** FY21 +2.0cps (+6%) to 34cps, FY22 +4.0cps (+13%) to 34cps, FY23 +4.0cps (+13%) to 34cps
- **Target price:** Increased +NZ\$0.60 (+8%) to NZ\$8.10

#### Material increase to medium-term forecasts

TPW's main exposure to NZAS closing was the indirect effects of lower wholesale electricity prices flowing into retail prices. That downside risk is no longer there and with wholesale electricity prices remaining high (the 2022 Otahuhu futures price is above NZ\$120/MWh), retail prices are more likely to increase than decrease. As a result, there are material increases in our earnings and dividend forecasts. Our FY22 and FY23 EBITDAF forecasts are up +NZ\$21m and +NZ\$36m to NZ\$211m and NZ\$220m respectively. We also forecast a flat 34cps dividend for the foreseeable future, this is +2.0cps higher than our old FY21 forecast and +4.0cps higher than our old FY22 forecast.

#### Modest decrease to FY21 EBITDAF due to low hydro generation volumes

Whilst the medium-term outlook has improved materially, we have trimmed our FY21 EBITDAF forecast -NZ\$4m (-2%) to NZ\$189m due to continued low hydro sequences.

## Trustpower Ltd (TPW)

Priced as at 15 Jan 2021 (NZ\$)

8.78

### 12-month target price (NZ\$)\*

8.10

Expected share price return

-7.7%

Net dividend yield

3.9%

Estimated 12-month return

-3.9%

### Spot valuations (NZ\$)

1. DCF

7.70

2. Market multiples

7.77

3. Dividend Yield

8.19

### Key WACC assumptions

Risk free rate

1.30%

Equity beta

0.84

WACC

5.2%

Terminal growth

1.5%

### DCF valuation summary (NZ\$m)

Total firm value

3,088

(Net debt)/cash

(662)

Less: Capitalised operating leases

Value of equity

2,410

Profit and Loss Account (NZ\$m)	2019A	2020A	2021E	2022E	2023E	Valuation Ratios	2019A	2020A	2021E	2022E	2023E
Sales revenue	1,030.1	989.9	941.2	969.8	960.2	EV/EBITDA (x)	14.7	18.1	18.2	16.4	15.8
<b>Normalised EBITDA</b>	<b>222.2</b>	<b>186.5</b>	<b>188.8</b>	<b>210.9</b>	<b>219.7</b>	EV/EBIT (x)	18.7	23.4	24.0	21.1	20.0
Depreciation and amortisation	(47.2)	(42.6)	(45.1)	(46.4)	(46.6)	PE (x)	23.7	37.2	34.0	29.0	27.4
<b>Normalised EBIT</b>	<b>175</b>	<b>144</b>	<b>144</b>	<b>165</b>	<b>173</b>	Price/NTA (x)	2.3	2.6	2.7	2.7	2.7
Net interest	(28)	(32)	(30)	(29)	(29)	Free cash flow yield (%)	3.2	2.8	3.4	3.4	3.8
Depreciation capex adjustment	19	(2)	3	0	(0)	Net dividend yield (%)	8.4	3.7	3.9	3.9	3.9
Tax	(45)	(32)	(33)	(38)	(40)	Gross dividend yield (%)	10.2	5.1	5.4	5.4	5.4
Minority interests	(2)	(3)	(2)	(3)	(3)						
<b>Normalised NPAT</b>	<b>117</b>	<b>74</b>	<b>81</b>	<b>95</b>	<b>101</b>	<b>Capital Structure</b>	<b>2019A</b>	<b>2020A</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>
Abnormals/other/depn adj	(26)	21	(21)	(0)	0	Interest cover EBIT (x)	6.8	4.9	5.2	6.2	6.4
<b>Reported NPAT</b>	<b>91</b>	<b>95</b>	<b>60</b>	<b>95</b>	<b>101</b>	Interest cover EBITDA (x)	7.9	5.9	6.3	7.3	7.5
Normalised EPS (cps)	37.1	23.6	25.8	30.3	32.1	Net debt/ND+E (%)	58.6	64.8	69.4	70.9	71.6
DPS (cps)	74.0	32.5	34.0	34.0	34.0	Net debt/EBITDA (x)	2.5	3.3	3.5	3.3	3.2
Growth Rates	2019A	2020A	2021A	2022A	2023A	Key Ratios	2019A	2020A	2021E	2022E	2023E
Revenue (%)	5.2	-3.9	-4.9	3.0	-1.0	Return on assets (%)	7.2	8.0	5.5	7.6	8.0
EBITDA (%)	-17.6	-16.1	1.3	11.7	4.2	Return on equity (%)	9.7	6.9	7.9	9.4	10.0
EBIT (%)	-21.6	-17.8	-0.1	14.5	5.2	Return on funds employed (%)	7.2	5.6	6.4	6.8	7.1
Normalised NPAT (%)	-17.3	-36.4	9.4	17.3	5.8	EBITDA margin (%)	21.6	18.8	20.1	21.8	22.9
Normalised EPS (%)	-17.3	-36.4	9.4	17.3	5.8	EBIT margin (%)	17.0	14.5	15.3	17.0	18.0
Ordinary DPS (%)	0.0	-4.4	4.6	0.0	0.0	Capex to sales (%)	3.0	4.5	3.7	4.0	4.1
						Capex to depreciation (%)	98	142	107	119	120
						Imputation (%)	55	100	100	100	100
						Pay-out ratio (%)	199	138	132	112	106
Cash Flow (NZ\$m)	2019A	2020A	2021E	2022E	2023E	Operating Performance	2019A	2020A	2021E	2022E	2023E
<b>EBITDA</b>	<b>222.2</b>	<b>186.5</b>	<b>188.8</b>	<b>210.9</b>	<b>219.7</b>	NZ electricity revenue	861	804	760	783	766
Working capital change	(47.1)	1.7	(15.2)	(13.5)	(9.1)	Gas revenue	29	30	31	32	34
Interest & tax paid	(74.8)	(77.1)	(68.9)	(65.0)	(68.0)	Telecommunication revenue	88	98	99	102	107
Other	20.0	10.9	23.2	1.3	1.3	Other revenue	52	58	51	52	53
<b>Operating cash flow</b>	<b>120.3</b>	<b>121.9</b>	<b>128.0</b>	<b>133.7</b>	<b>143.9</b>	<b>Total revenue</b>	<b>1,030</b>	<b>990</b>	<b>941</b>	<b>970</b>	<b>960</b>
Capital expenditure	(31.1)	(44.7)	(34.8)	(39.0)	(39.7)	Generation (GWh)	1,995	1,758	1,681	1,918	1,939
(Acquisitions)/divestments	8.1	20.2	0	0	0	NZ GWAP (\$/MWh)	125	107	130	131	104
Other	0	(6.8)	(8.7)	(8.7)	(8.7)						
<b>Funding available/(required)</b>	<b>97.3</b>	<b>90.6</b>	<b>84.5</b>	<b>86.0</b>	<b>95.5</b>	Mass market sales (GWh)	1,845	1,817	1,834	1,792	1,786
Dividends paid	(190.4)	(156.7)	(103.4)	(106.4)	(106.4)	TOU sales (GWh)	880	826	536	587	590
Equity raised/(returned)	(1)	(1)	0	0	0	Spot sales (GWh)	1,021	972	866	933	937
<b>(Increase)/decrease in net debt</b>	<b>(94.5)</b>	<b>(67.4)</b>	<b>(18.9)</b>	<b>(20.4)</b>	<b>(10.9)</b>	<b>Total Sales (GWh)</b>	<b>3,746</b>	<b>3,615</b>	<b>3,235</b>	<b>3,312</b>	<b>3,313</b>
						LWAP (\$/MWh)	131	109	132	136	108
						LWAP/GWAP	1.04	1.02	1.02	1.04	1.04
Balance Sheet (NZ\$m)	2019A	2020A	2021E	2022E	2023E	Electricity customers (000)	267	266	262	260	259
Working capital	(0.3)	(8.2)	25.1	29.3	31.0	Usage/customer (MWh)	6.8	6.8	7.0	6.9	6.9
Fixed assets	1,924.7	1,836.4	1,835.6	1,835.7	1,835.9	Revenue/MWh sold (\$)	230	222	235	236	231
Intangibles	37.0	38.7	37.8	37.6	37.9	Gas customers (000)	39	41	43	43	44
Right of use asset	0	35.5	37.1	37.1	37.1	Volume/customer (GJ)	26.5	24.9	25.9	25.9	25.9
Other assets	114.8	100.2	111.2	120.6	128.0	Telco customers (000)	96	104	109	113	116
<b>Total funds employed</b>	<b>2,076.2</b>	<b>2,002.6</b>	<b>2,046.8</b>	<b>2,060.3</b>	<b>2,069.9</b>	Revenue/customer (\$)	963	983	978	988	998
Net debt/(cash)	557.4	616.7	667.0	687.4	698.3						
Lease liability	0	36.1	38.2	38.2	38.2						
Other liabilities	269.8	249.8	270.0	271.9	273.4						
Shareholder's funds	1,224.4	1,076.2	1,046.9	1,035.6	1,030.2						
Minority interests	24.6	23.8	24.7	27.2	29.8						
<b>Total funding sources</b>	<b>2,076.2</b>	<b>2,002.6</b>	<b>2,046.8</b>	<b>2,060.3</b>	<b>2,069.9</b>						

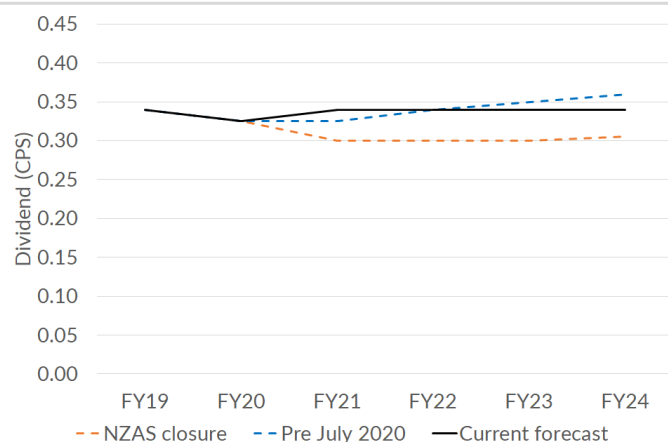
## Summary forecast changes

Figure 1. Summary forecast changes

	FY21 Old	FY21 New	Chg	FY22 Old	FY22 New	Chg	FY23 Old	FY23 New	Chg
	\$m	\$m	%	\$m	\$m	%	\$m	\$m	%
Revenue	927	941	1.5%	880	970	10.2%	859	960	11.8%
<b>EBITDAF</b>	<b>192</b>	<b>189</b>	<b>-1.9%</b>	<b>190</b>	<b>211</b>	<b>11.2%</b>	<b>184</b>	<b>220</b>	<b>19.5%</b>
EBIT	147	144	-2.5%	143	165	14.8%	137	173	26.1%
NPAT	65	62	-4.0%	82	98	18.7%	78	104	33.6%
Normalised Profit	82	79	-3.2%	80	95	19.2%	75	101	34.7%
<b>DPS</b>	<b>32.0</b>	<b>34.0</b>	<b>6.3%</b>	<b>30.0</b>	<b>34.0</b>	<b>13.3%</b>	<b>30.0</b>	<b>34.0</b>	<b>13.3%</b>
Generation volumes (GWh)	1,702	1,681	-1.2%	1,918	1,918	0.0%	1,939	1,939	0.0%
Generation sales price (\$/MWh)	\$120.8	\$129.8	7.4%	\$75.9	\$131.0	72.7%	\$61.5	\$104.0	69.1%
Retail sales (GWh)	2,369	2,369	0.0%	2,375	2,379	0.2%	2,363	2,376	0.6%

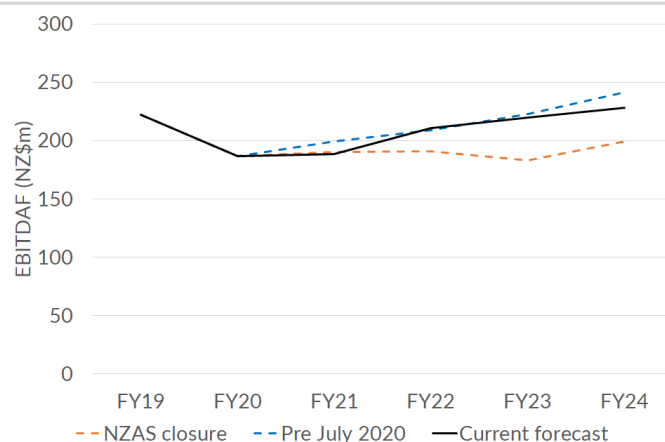
Source: Forsyth Barr analysis

Figure 2. Changes to forecast dividends



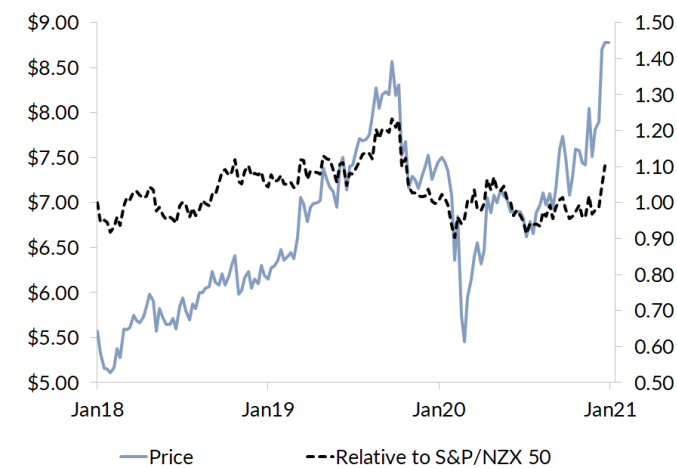
Source: Forsyth Barr analysis

Figure 3. Changes to forecast EBITDAF



Source: Forsyth Barr analysis



**Figure 4. Price performance**


Source: Forsyth Barr analysis

**Figure 5. Substantial shareholders**

Shareholder	Latest Holding
Infratil	51.0%
TECT Holdings	26.8%

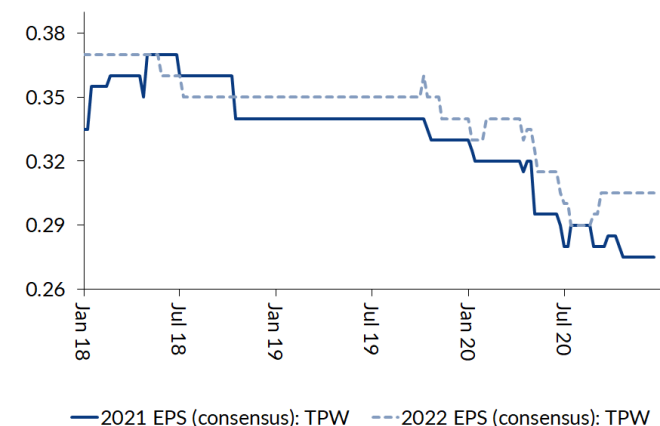
Source: NZX, Forsyth Barr analysis, NOTE: based on SPH notices only

**Figure 6. International valuation comparisons**

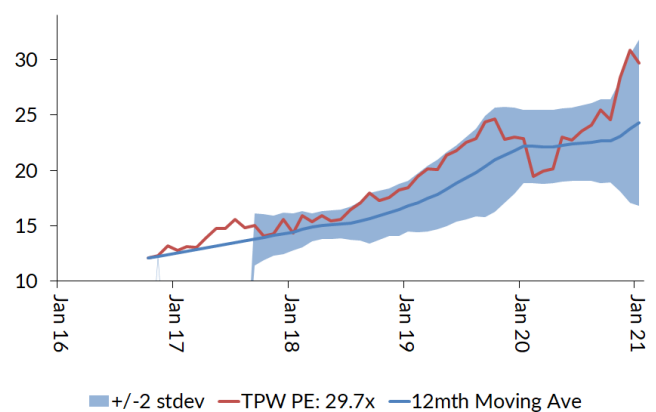
Company	Code	Price	Mkt Cap (m)	PE 2021E 2022E	EV/EBITDA 2021E 2022E	EV/EBIT 2021E 2022E	Cash Yld 2022E
(metrics re-weighted to reflect TPW's balance date - March)							
Trustpower	TPW NZ	NZ\$8.78	NZ\$2,748	34.0x 29.0x	17.8x 16.0x	23.4x 20.5x	3.9%
CONTACT ENERGY *	CEN NZ	NZ\$10.04	NZ\$7,214	29.6x 29.9x	18.1x 18.0x	39.5x 37.8x	3.6%
GENESIS ENERGY *	GNE NZ	NZ\$3.78	NZ\$3,945	22.0x 18.7x	13.3x 12.2x	29.2x 25.0x	4.7%
MERIDIAN ENERGY *	MEL NZ	NZ\$8.42	NZ\$21,577	>50x >50x	31.1x 31.5x	53.4x 54.3x	2.0%
MERCURY *	MCY NZ	NZ\$7.08	NZ\$9,645	37.0x 33.5x	21.5x 19.7x	37.7x 33.8x	2.6%
AGL ENERGY	AGLAT	A\$12.23	A\$7,620	12.3x 18.0x	5.7x 6.8x	9.8x 13.8x	5.6%
ORIGIN ENERGY	ORG AT	A\$5.11	A\$9,000	44.1x 17.7x	24.9x 5.9x	6.9x 20.5x	4.5%
Compco Average:				29.0x 23.6x	19.1x 15.7x	29.4x 30.9x	3.8%
TPW Relative:				17% 23%	-7% 2%	-20% -34%	1%

EV = Current Market Cap + Actual Net Debt

Source: \*Forsyth Barr analysis, Bloomberg Consensus, Compco metrics re-weighted to reflect headline (TPW) companies fiscal year end

**Figure 7. Consensus EPS momentum (NZ\$)**


Source: Forsyth Barr analysis

**Figure 8. One year forward PE (x)**


Source: Forsyth Barr analysis

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