

# Electricity Sector

## Crunching the Clean Energy ETF Numbers

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We estimate the required ETF selling in Contact Energy (CEN) and Meridian Energy (MEL) is 72m shares (9.3% of free float) and 100m shares (7.9% of free float) respectively due to S&P's proposed changes to its Global Clean Energy Index (GCE Index) rules. The iShares ETFs tracking the GCE Index will have to sell ~84% of their current holdings. It is difficult to ascertain how prepared the market is for the CEN and MEL GCE Index weighting change, but on balance, there is likely to be more selling pressure on both names in the short-term. Our CEN rating is OUTPERFORM as we see good value at the current share price. In contrast our MEL rating is UNDERPERFORM as its valuation metrics are stretched, although they could improve further.

**Figure 1. Estimated selling in CEN and MEL**

	Current ETF holding	S&P 4 March proposal	Movement	% of free float
CEN GCE Index weighting	4.04%	0.66%	-3.38%	
MEL GCE Index weighting	4.46%	0.74%	-3.73%	
CEN ETF shares (m)	86.6	14.2	(72.4)	9.3%
MEL ETF shares (m)	119.8	19.8	(100.0)	7.9%

Source: S&amp;P, iShares, Forsyth Barr analysis

### Trading volumes will dictate future weightings

We calculate that CEN will be 0.66% of the revised GCE Index and MEL 0.74%. Under S&P's proposed GCE Index rules, this is the maximum weighting CEN and MEL can have due their relatively low liquidity. On a free float market cap basis (exposure score adjusted), MEL and CEN rank 15th and 20th respectively, but their liquidity ranking is 53rd and 56th out of 67 stocks.

### Increased confidence in estimate following S&P release of likely GCE Index constituents

Friday, 19 March is the date S&P will use to calculate the rebalance and was also the closing date for submissions on its most recent rule change proposals. S&P has provided a list of GCE Index constituents under the proposed 4 March rules assuming those rules were in place during the October 2020 rebalance. Our estimated CEN and MEL weighting changes are based on market data as of 19 March, assume S&P's 4 March proposed rule changes will be implemented and assume GCE Index constituents will be the same as the October 2020 list. Factors that could impact on the weighting change calculation include:

1. Additional companies meeting the criteria over the past six months, lifting the constituent count above 67 and further diluting CEN/MEL weightings
2. Additional ETF buying over the coming month (selling is also possible, but GCE Index ETF flows have generally been positive)
3. S&P adopting different rules to that proposed on 4 March

Possible differences to our calculations are biased towards more selling being required (due to additional constituents and ETF buying), but we would be surprised if the selling required was materially greater than the amount indicated.

### Key dates from here

S&P's latest consultation document indicates it will inform clients of GCE Index changes on Friday, 2 April. The close of market Friday, 16 April remains the date when GCE Index changes will take effect — i.e. when GCE Index ETFs will have to sell CEN and MEL.

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