

Genesis Energy

Upgrading on NZAS Upside Potential

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OUTPERFORM

We are upgrading our Genesis Energy (GNE) rating to OUTPERFORM from NEUTRAL as there is an increasing chance NZAS will remain open for longer, making GNE's dividend very attractive in a low interest rate environment. Whilst our forecasts assume NZAS closes in August 2021, if NZAS remains open for longer, we expect GNE to deliver a fully imputed FY21 dividend of ~17.5cps, which equates to a gross dividend yield of 8.1%. Factoring in a 50% chance of NZAS staying open (which is conservative vs. what the electricity futures market is implying) has been the driver for our +38cps (+13%) target price increase to NZ\$3.38/share.

NZX Code	GNE	Financials: Jun/	20A	21E	22E	23E	Valuation (x)	20A	21E	22E	23E
Share price	NZ\$3.01	NPAT* (NZ\$m)	154.3	188.8	192.3	155.4	PE	20.2	16.7	16.6	20.7
Target price	NZ\$3.38	EPS* (NZc)	14.9	18.0	18.2	14.6	EV/EBIT	30.1	23.0	28.1	43.5
Risk rating	Low	EPS growth* (%)	-5.0	21.1	0.9	-19.9	EV/EBITDA	12.3	10.8	11.4	13.4
Issued shares	1043.6m	DPS (NZc)	17.2	14.0	14.0	14.0	Price / NTA	1.8	1.9	2.0	2.1
Market cap	NZ\$3,141m	Imputation (%)	80	100	95	70	Cash div yld (%)	5.7	4.7	4.7	4.7
Avg daily turnover	547.1k (NZ\$1,612k)	*Based on normalised profits					Gross div yld (%)	7.5	6.5	6.4	5.9

Current long-term forecasts reflect NZAS closing in August 2021, but electricity market is confident of an extension

The electricity market is increasingly confident that NZAS will remain open beyond August 2021. We estimate that the ASX electricity futures market is pricing in a 75% to 85% chance NZAS will remain open in FY22 and 50% to 60% chance in FY23. The loss of swaption revenue, being slightly long gas (albeit not as much as 2010s), retail price competition and high gearing if NZAS were to close resulted in our 14cps dividend forecast. If NZAS remains open, those downside risks are alleviated, enabling GNE to maintain its current policy to grow dividends at (or above) inflation. Factoring in a 50% chance of NZAS staying open has been the main driver of our +38cps (+13%) target price increase. GNE is good value at current levels and we upgrade to OUTPERFORM. Assuming NZAS remains open and GNE trades on a gross dividend yield similar to what it did in mid-2019, a share price above NZ\$3.50 appears likely.

Positive start to FY21 with dry conditions resulting increased thermal generation

1Q21 has generally been positive for GNE. Whilst North Island hydro generation was below average, the country as a whole had below average hydro generation, requiring GNE to run its thermal plant harder. A lift in our FY21 generation assumption and firming wholesale electricity prices has lifted our FY21 EBITDAF forecast +NZ\$5m to NZ\$403m. Our FY22 and beyond forecasts are unchanged as we await the fate of NZAS.

Genesis Energy Limited (GNE)

Priced as at 06 Oct 2020 (NZ\$)

3.01

12-month target price (NZ\$)*	3.38
Expected share price return	12.3%
Net dividend yield	4.7%
Estimated 12-month return	16.9%

Spot valuations (NZ\$)	
1. DCF	2.88
2. Market multiple	2.89
3. Dividend yield	3.07

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	4,329
(Net debt)/cash	(1,320)
Less: Capitalised operating leases	
Value of equity	3,010

Profit and Loss Account (NZ\$m)	2019A	2020A	2021E	2022E	2023E
Sales revenue	3,410.0	3,354.5	3,345.0	2,657.7	2,421.6
Normalised EBITDA	369.4	355.6	402.4	373.8	319.6
Depreciation and amortisation	(201.7)	(209.8)	(213.9)	(221.9)	(221.4)
Normalised EBIT	167.7	145.8	188.5	151.9	98.2
Net interest	(77)	(71)	(66)	(62)	(58)
Associate income	0	0	0	0	0
Tax	(26)	(22)	(34)	(25)	(11)
Deprecation capex adjustment	96	101	101	127	126
Adjusted normalised NPAT	160	154	189	192	155
Abnormals/other	(101)	(108)	(101)	(127)	(126)
Reported NPAT	59	46	88	65	29
Normalised EPS (cps)	15.7	14.9	18.0	18.2	14.6
DPS (cps)	17.1	17.2	14.0	14.0	14.0

Growth Rates	2019A	2020A	2021A	2022A	2023A
Revenue (%)	48.0	-1.6	-0.3	-20.5	-8.9
EBITDA (%)	2.5	-3.7	13.2	-7.1	-14.5
EBIT (%)	8.3	-13.1	29.3	-19.4	-35.4
Normalised NPAT (%)	24.6	-3.8	22.4	1.8	-19.2
Normalised EPS (%)	22.7	-5.0	21.1	0.9	-19.9
Ordinary DPS (%)	0.9	0.9	-18.6	0.0	0.0

Cash Flow (NZ\$m)	2019A	2020A	2021E	2022E	2023E
EBITDA	369.4	355.6	402.4	373.8	319.6
Working capital change	(27.3)	21.8	56.1	0.4	1.5
Interest & tax paid	(123.1)	(119.2)	(114.3)	(105.5)	(89.9)
Other	15.1	(12.4)	0	0	0
Operating cash flow	234.1	245.8	344.3	268.7	231.2
Capital expenditure	(68.5)	(69.0)	(74.0)	(59.5)	(60.7)
(Acquisitions)/divestments	(0.2)	(7.6)	0	0	0
Other	0	0	0	0	0
Funding available/(required)	165.4	169.2	270.3	209.2	170.5
Dividends paid	(131.6)	(138.4)	(131.7)	(118.8)	(119.9)
Equity raised/(returned)	(1.3)	(0.1)	0	0	0
(Increase)/decrease in net debt	32.5	30.7	138.6	90.4	50.6

Balance Sheet (NZ\$m)	2019A	2020A	2021E	2022E	2023E
Working capital	111.8	99.4	43.3	42.9	41.4
Fixed assets	3,773.1	3,675.1	3,557.3	3,400.9	3,249.0
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
Total funds employed	4,369.7	4,291.2	4,115.1	3,954.4	3,795.1
Net debt/(cash)	1,293.1	1,334.9	1,216.3	1,127.9	1,080.3
Lease liability	0	0	0	0	0
Other liabilities	931.6	886.5	872.6	854.2	833.3
Shareholder's funds	2,145.0	2,068.0	2,024.4	1,970.5	1,879.7
Minority interests	0	1.8	1.8	1.8	1.8
Total funding sources	4,369.7	4,291.2	4,115.1	3,954.4	3,795.1

Valuation Ratios	2019A	2020A	2021E	2022E	2023E
EV/EBITDA (x)	11.8	12.3	10.8	11.4	13.4
EV/EBIT (x)	26.0	30.1	23.0	28.1	43.5
PE (x)	19.2	20.2	16.7	16.6	20.7
Price/NTA (x)	1.7	1.8	1.9	2.0	2.1
Free cash flow yield (%)	5.3	5.6	8.6	6.7	5.4
Net dividend yield (%)	5.7	5.7	4.7	4.7	4.7
Gross dividend yield (%)	7.4	7.5	6.5	6.4	5.9

Capital Structure	2019A	2020A	2021E	2022E	2023E
Interest cover EBIT (x)	2.1	1.9	2.8	2.5	1.7
Interest cover EBITDA (x)	4.8	5.0	6.1	6.1	5.5
Net debt/ND+E (%)	36.6	37.6	35.8	34.5	34.6
Net debt/EBITDA (x)	3.4	3.5	2.8	2.8	3.1

Key Ratios	2019A	2020A	2021E	2022E	2023E
Return on assets (%)	3.4	2.9	4.3	3.7	2.5
Return on equity (%)	3.0	2.6	4.4	3.3	1.6
Return on funds employed (%)	3.6	3.2	4.3	3.6	2.5
EBITDA margin (%)	10.8	10.6	12.0	14.1	13.2
EBIT margin (%)	4.9	4.3	5.6	5.7	4.1
Capex to sales (%)	2.0	2.1	2.2	2.2	2.5
Capex to depreciation (%)	34	33	35	27	27
Imputation (%)	80	80	100	95	70
Pay-out ratio (%)	109	116	78	77	96

Operating Performance	2019A	2020A	2021E	2022E	2023E
Renewable generation	2,835	2,340	2,754	2,724	2,724
Gas generation	2,586	3,121	2,935	1,511	893
Coal generation	1,410	1,340	1,140	219	219
Total GNE generation (GWh)	6,831	6,801	6,829	4,455	3,836
GWAP (\$/MWh)	143	114	125	78	79

Retail electricity	2019A	2020A	2021E	2022E	2023E
Electricity customers (000)	499	493	470	441	412
MM/SME volumes	4,077	4,111	4,021	3,806	3,571
TOU volumes	1,992	2,134	2,113	1,415	948
Total fixed price volumes (GWh)	6,068	6,245	6,134	5,222	4,519
Average MM usage/cust (kWh/yr)	8,126	8,333	8,315	8,345	8,362
Average FPVW price (\$/MWh)	210	212	210	215	218
LWAP (\$/MWh)	139	110	124	75	75
LWAP/GWAP	0.97	0.96	0.99	0.95	0.95
Line losses (%)	5.4	5.6	5.6	5.6	5.6

Kupe production	2019A	2020A	2021E	2022E	2023E
Gas production (PJ)	11.8	10.7	11.2	11.8	11.3
Oil production (k barrels)	472.9	374.3	359.8	497.1	432.6
LPG production (k tonnes)	50.6	46.6	49.3	52.3	50.7

Kupe EBITDAF (\$m)	2019A	2020A	2021E	2022E	2023E
Kupe EBITDAF (\$m)	109	94	98	113	107
Energy EBITDAF (\$m)	260	262	304	261	213
GNE EBITDAF (\$m)	369	356	402	374	319

Summary forecast changes

Figure 1. Summary forecast changes

	FY21	FY21	Diff	FY22	FY22	Diff	FY23	FY23	Diff
	Old	New	% Chg	Old	New	% Chg	Old	New	% Chg
Sales revenue	3,179	3,345	5.2%	2,658	2,658	0.0%	2,422	2,422	0.0%
EBITDAF	398	402	1.2%	374	374	-0.1%	320	320	-0.1%
EBIT	184	189	2.6%	152	152	-0.3%	99	98	-0.4%
Pre-tax profit	118	122	4.1%	90	90	-0.1%	41	40	-0.4%
NPAT	85	88	4.1%	65	65	-0.1%	29	29	-0.4%
Earnings (cps)	8.0	8.4	4.4%	6.1	6.1	0.5%	2.7	2.7	0.5%
Dividend (cps)	14.0	14.0	0.0%	14.0	14.0	0.0%	14.0	14.0	0.0%
Generation (GWh)	6,635	6,829	2.9%	4,455	4,455	0.0%	3,836	3,836	0.0%
FPVV sales (GWh)	6,134	6,134	0.0%	5,222	5,222	0.0%	4,519	4,519	0.0%
Customer numbers (000)	470	470	0.0%	441	441	0.0%	412	412	0.0%
GWAP (\$/MWh)	\$103.0	\$125.4	21.8%	\$78.4	\$78.4	0.0%	\$78.9	\$78.9	0.0%
LWAP/GWAP	0.986	0.987	0.0%	0.951	0.952	0.1%	0.944	0.945	0.1%

Source: Forsyth Barr analysis

Figure 2. Price performance


Source: Forsyth Barr analysis

Figure 3. Substantial shareholders

Shareholder	Latest Holding
NZ Govt	51.8%

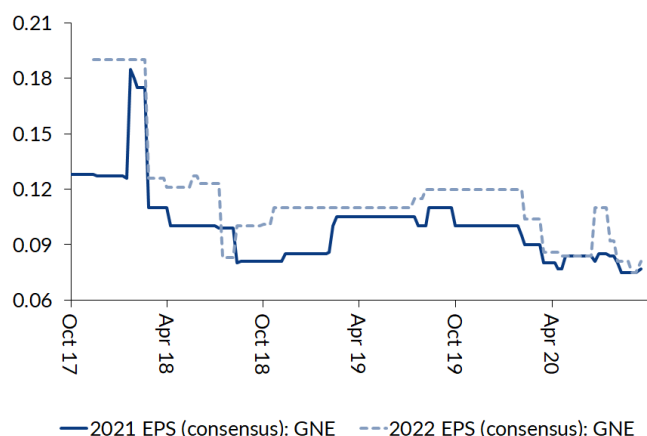
Source: NZX, Forsyth Barr analysis, NOTE: based on SPH notices only

Figure 4. International valuation comparisons

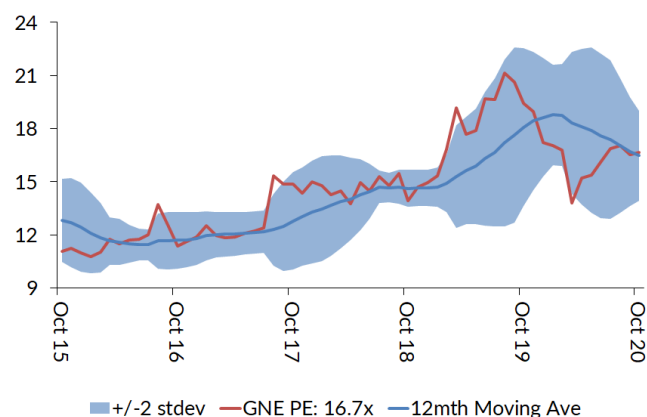
Company	Code	Price	Mkt Cap (m)	PE 2021E	PE 2022E	EV/EBITDA 2021E	EV/EBITDA 2022E	EV/EBIT 2021E	EV/EBIT 2022E	Cash Yld 2022E
(metrics re-weighted to reflect GNE's balance date - June)										
Genesis Energy	GNE NZ	NZ\$3.01	NZ\$3,141	16.7x	16.6x	10.9x	11.7x	23.3x	28.9x	4.7%
CONTACT ENERGY *	CEN NZ	NZ\$6.93	NZ\$4,977	20.1x	24.8x	13.0x	15.1x	28.6x	35.7x	4.6%
MERIDIAN ENERGY *	MEL NZ	NZ\$4.97	NZ\$12,736	27.3x	33.2x	18.0x	21.4x	29.2x	39.2x	3.4%
MERCURY *	MCY NZ	NZ\$5.15	NZ\$7,016	25.8x	28.4x	16.0x	16.5x	28.1x	30.7x	3.3%
TRUSTPOWER *	TPW NZ	NZ\$7.16	NZ\$2,241	25.5x	25.8x	15.0x	15.1x	20.0x	20.2x	4.2%
AGL ENERGY	AGL AT	A\$13.50	A\$8,411	13.7x	16.5x	6.2x	6.8x	10.6x	12.7x	5.9%
ORIGIN ENERGY	ORG AT	A\$4.26	A\$7,503	18.8x	12.4x	5.4x	4.9x	19.2x	14.2x	5.5%
Compco Average:				21.9x	23.5x	12.3x	13.3x	22.6x	25.5x	4.5%
GNE Relative:				-24%	-30%	-11%	-12%	3%	13%	3%

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 5. Consensus EPS momentum (NZ\$)


Source: Forsyth Barr analysis

Figure 6. One year forward PE (x)


Source: Forsyth Barr analysis

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OUTPERFORM	NEUTRAL	UNDERPERFORM
42.6%	44.4%	13.0%

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