

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	Spot valuations (NZ\$)				
Expected share price return					12.3%	1. DCF				
Net dividend yield					4.7%	2. Market multiple				
Estimated 12-month return					16.9%	3. Dividend yield				
Key WACC assumptions						DCF valuation summary (NZ\$m)				
Risk free rate						Total firm value	4,329			
Equity beta						(Net debt)/cash	(1,320)			
WACC						Less: Capitalised operating leases				
Terminal growth						Value of equity	3,010			
Profit and Loss Account (NZ\$m)					Valuation Ratios	2019A	2020A	2021E	2022E	2023E
Sales revenue					EV/EBITDA (x)	11.8	12.3	10.8	11.4	13.4
Normalised EBITDA					EV/EBIT (x)	26.0	30.1	23.0	28.1	43.5
Depreciation and amortisation					PE (x)	19.2	20.2	16.7	16.6	20.7
Normalised EBIT					Price/NTA (x)	1.7	1.8	1.9	2.0	2.1
Net interest					Free cash flow yield (%)	5.3	5.6	8.6	6.7	5.4
Associate income					Net dividend yield (%)	5.7	5.7	4.7	4.7	4.7
Tax					Gross dividend yield (%)	7.4	7.5	6.5	6.4	5.9
Deprecation capex adjustment					Capital Structure	2019A	2020A	2021E	2022E	2023E
Adjusted normalised NPAT					Interest cover EBIT (x)	2.1	1.9	2.8	2.5	1.7
Abnormals/other					Interest cover EBITDA (x)	4.8	5.0	6.1	6.1	5.5
Reported NPAT					Net debt/ND+E (%)	36.6	37.6	35.8	34.5	34.6
Normalised EPS (cps)					Net debt/EBITDA (x)	3.4	3.5	2.8	2.8	3.1
DPS (cps)										
Growth Rates					Key Ratios	2019A	2020A	2021E	2022E	2023E
Revenue (%)					Return on assets (%)	3.4	2.9	4.3	3.7	2.5
EBITDA (%)					Return on equity (%)	3.0	2.6	4.4	3.3	1.6
EBIT (%)					Return on funds employed (%)	3.6	3.2	4.3	3.6	2.5
Normalised NPAT (%)					EBITDA margin (%)	10.8	10.6	12.0	14.1	13.2
Normalised EPS (%)					EBIT margin (%)	4.9	4.3	5.6	5.7	4.1
Ordinary DPS (%)					Capex to sales (%)	2.0	2.1	2.2	2.2	2.5
Capex to depreciation (%)					Capex to depreciation (%)	34	33	35	27	27
Cash Flow (NZ\$m)					Imputation (%)	80	80	100	95	70
EBITDA					Pay-out ratio (%)	109	116	78	77	96
Working capital change					Operating Performance	2019A	2020A	2021E	2022E	2023E
(27.3)					Renewable generation	2,835	2,340	2,754	2,724	2,724
Interest & tax paid					Gas generation	2,586	3,121	2,935	1,511	893
Other					Coal generation	1,410	1,340	1,140	219	219
Operating cash flow					Total GNE generation (GWh)	6,831	6,801	6,829	4,455	3,836
Capital expenditure					GWAP (\$/MWh)	143	114	125	78	79
(Acquisitions)/divestments										
Other					Retail electricity					
0					Electricity customers (000)	499	493	470	441	412
0					MM/SME volumes	4,077	4,111	4,021	3,806	3,571
0					TOU volumes	1,992	2,134	2,113	1,415	948
Funding available/(required)					Total fixed price volumes (GWh)	6,068	6,245	6,134	5,222	4,519
Dividends paid					Average MM usage/cust (kWh/yr)	8,126	8,333	8,315	8,345	8,362
(131.6)					Average FPVW price (\$/MWh)	210	212	210	215	218
Equity raised/(returned)					LWAP (\$/MWh)	139	110	124	75	75
(Increase)/decrease in net debt					LWAP/GWAP	0.97	0.96	0.99	0.95	0.95
32.5					Line losses (%)	5.4	5.6	5.6	5.6	5.6
Balance Sheet (NZ\$m)					Kupe production					
Working capital					Gas production (PJ)	11.8	10.7	11.2	11.8	11.3
Fixed assets					Oil production (k barrels)	472.9	374.3	359.8	497.1	432.6
Intangibles					LPG production (k tonnes)	50.6	46.6	49.3	52.3	50.7
Right of use asset					Kupe EBITDAF (\$m)	109	94	98	113	107
Other assets					Energy EBITDAF (\$m)	260	262	304	261	213
Total funds employed					GNE EBITDAF (\$m)	369	356	402	374	319
Net debt/(cash)										
1,293.1										
Lease liability										
Other liabilities										
Shareholder's funds										
Minority interests										
Total funding sources										

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	3,179	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

Figure 3. Substantial shareholders

Shareholder	Latest Holding
NZ Govt	51.8%

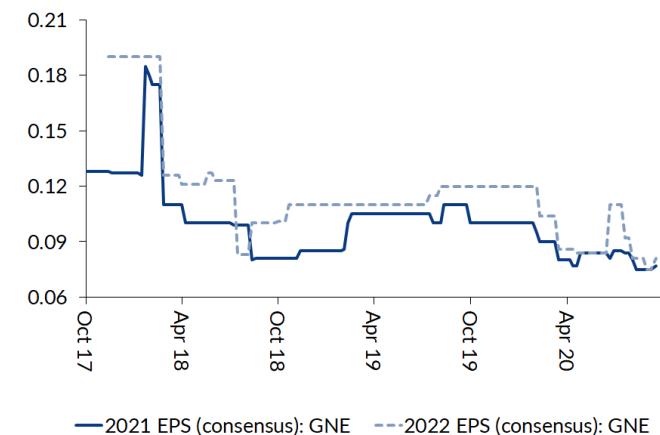
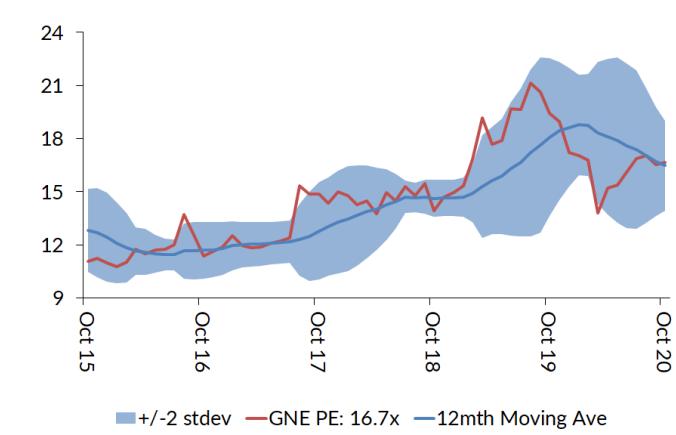
Source: NZX, Forsyth Barr analysis, NOTE: based on SPH notices only

Figure 4. International valuation comparisons

Company (metrics re-weighted to reflect GNE's balance date - June)	Code	Price	Mkt Cap (m)	PE		EV/EBITDA		EV/EBIT		Cash Yld 2022E	
				2021E	2022E	2021E	2022E	2021E	2022E		
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%	
				Compo 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\$)

Figure 6. One year forward PE (x)


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	OUTPERFORM	NEUTRAL	UNDERPERFORM
42.6%	44.4%	13.0%	

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