

Genesis Energy

Repowering – Investor Day 2020 Take-Outs

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OUTPERFORM

Genesis Energy's (GNE) key 2020 Investor Day announcement was its commitment to reducing carbon emissions consistent with limiting warming to 1.5°C, meaning it will ramp up replacement of baseload thermal generation with renewable energy. Whilst its coal units will likely be in use for the next decade, it is a positive step, and along with the sale of Kupe will see GNE's environmental credentials improve. On the earnings front, GNE's FY24 EBITDAF target is ~NZ\$445m, consistent with our pre NZAS-closing forecast. We retain our OUTPERFORM rating – GNE offers better value than several of its peers and its intention to reduce carbon emissions will only help.

NZX Code	GNE	Financials: Jun/	20A	21E	22E	23E	Valuation (x)	20A	21E	22E	23E
Share price	NZ\$3.46	NPAT* (NZ\$m)	154.3	189.8	191.1	145.1	PE	23.3	19.1	19.2	25.5
Target price	NZ\$3.38	EPS* (NZc)	14.9	18.1	18.1	13.6	EV/EBIT	33.3	25.1	28.7	48.3
Risk rating	Low	EPS growth* (%)	-5.0	21.7	-0.2	-24.7	EV/EBITDA	13.7	11.9	12.3	14.8
Issued shares	1043.6m	DPS (NZc)	17.2	14.0	14.0	14.0	Price / NTA	2.1	2.2	2.2	2.4
Market cap	NZ\$3,611m	Imputation (%)	80	100	100	70	Cash div yld (%)	5.0	4.0	4.0	4.0
Avg daily turnover	569.8k (NZ\$1,682k)	*Based on normalised profits					Gross div yld (%)	6.5	5.6	5.6	5.1

FY24 earnings goal in line with expectations (assuming NZAS stays)

GNE has indicated a target of growing EBITDAF +NZ\$45m from FY21 to FY24, NZ\$15m from retail and NZ\$30m from its wholesale division. Assuming an FY21 NZ\$400m starting point, FY24 NZ\$445m EBITDAF target is consistent with our pre NZAS-closure-announcement forecast of NZ\$443m. Most of the growth comes from legacy gas contracts rolling off in FY22. GNE's expected dividend path is more of the same - ~1% growth (or 0.15 to 0.25cps).

Repowering with renewables the theme for the 2020s

GNE reiterated its message from its FY20 result presentation – by 2030 it will replace 2,650GWh of baseload thermal generation with renewable electricity, most of it likely to be contracted. All other things being equal, if GNE can achieve that goal then 81% of GNE's generation will be renewable – similar to Contact Energy (CEN). NZ will be 93% renewable. The new information today is GNE's commitment to reducing carbon emissions to the +1.5°C global warming path by 2025. That means GNE needs to contract or build 1,800GWh of new renewable generation (which is 68% of the 2030 goal), with Waipipi contributing 450GWh of that. GNE has previously talked to supporting Tauhara and a solar project, but we estimate another two projects will be required to achieve the 1,800GWh goal. To that end, GNE has recently received expressions of interest to supply renewable energy from new projects totalling 7,500GWh of potential renewable energy (wind/solar/geothermal) – none of the projects were from the other big three generator/retailers. Whilst the project quality is unknown, it again highlights New Zealand's raw renewable energy resources and raises further questions on the sustainability of current wholesale electricity prices.

Retail goals more of the same – data/technology project to lift capex

GNE's three core FY24 retail goals are to; reduce absolute churn -2% by continuing to improve and enhance retail products to improve the customer experience, thus create more loyalty; focus on SME to increase volumes +7% (GNE has tried this in the past, so, in effect this is a second attempt); grow LPG volumes +35%. The latter two goals, if successful, are better than our current expectations, although the earnings uplift is small. GNE has also indicated it is undertaking a retail data/billing/sales project which will likely result in capex tracking higher than FY21 (and higher than our current forecasts).

Genesis Energy Limited (GNE)

Priced as at 09 Dec 2020 (NZ\$)

3.46
12-month target price (NZ\$)*
3.38

Expected share price return

-2.3%

Net dividend yield

4.0%

Estimated 12-month return

1.7%

Spot valuations (NZ\$)

1. DCF

2.90

2. Market multiple

2.98

3. Dividend yield

3.11

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

4,350

(Net debt)/cash

(1,320)

Less: Capitalised operating leases

Value of equity

3,031

Profit and Loss Account (NZ\$m)

	2019A	2020A	2021E	2022E	2023E
Sales revenue	3,410.0	3,354.5	3,414.6	2,693.5	2,435.4
Normalised EBITDA	369.4	355.6	403.6	386.4	319.2
Depreciation and amortisation	(201.7)	(209.8)	(212.7)	(221.7)	(221.2)
Normalised EBIT	167.7	145.8	190.9	164.7	98.0
Net interest	(77)	(71)	(66)	(62)	(57)
Associate income	0	0	0	0	0
Tax	(26)	(22)	(35)	(29)	(11)
Depreciation capex adjustment	96	101	100	117	116
Adjusted normalised NPAT	160	154	190	191	145
Abnormals/other	(101)	(108)	(100)	(117)	(116)
Reported NPAT	59	46	90	74	30
Normalised EPS (cps)	15.7	14.9	18.1	18.1	13.6
DPS (cps)	17.1	17.2	14.0	14.0	14.0

Growth Rates

	2019A	2020A	2021A	2022A	2023A
Revenue (%)	48.0	-1.6	1.8	-21.1	-9.6
EBITDA (%)	2.5	-3.7	13.5	-4.3	-17.4
EBIT (%)	8.3	-13.1	30.9	-13.7	-40.5
Normalised NPAT (%)	24.6	-3.8	23.0	0.7	-24.1
Normalised EPS (%)	22.7	-5.0	21.7	-0.2	-24.7
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	403.6	386.4	319.2
Working capital change	(27.3)	21.8	60.6	0.2	1.7
Interest & tax paid	(123.1)	(119.2)	(114.6)	(108.8)	(89.3)
Other	15.1	(12.4)	0	0	0
Operating cash flow	234.1	245.8	349.7	277.8	231.6
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
Funding available/(required)	165.4	169.2	255.7	216.3	167.9
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	124.0	97.5	48.0

Balance Sheet (NZ\$m)

	2019A	2020A	2021E	2022E	2023E
Working capital	111.8	99.4	38.8	38.6	36.9
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
Total funds employed	4,369.7	4,291.2	4,111.8	3,951.4	3,792.2
Net debt/(cash)	1,293.1	1,334.9	1,210.9	1,113.4	1,065.4
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	2,026.2	1,981.7	1,891.3
Minority interests	0	1.8	1.8	1.8	1.8
Total funding sources	4,369.7	4,291.2	4,111.8	3,951.4	3,792.2

Valuation Ratios

	2019A	2020A	2021E	2022E	2023E
EV/EBITDA (x)	13.1	13.7	11.9	12.3	14.8
EV/EBIT (x)	28.8	33.3	25.1	28.7	48.3
PE (x)	22.1	23.3	19.1	19.2	25.4
Price/NTA (x)	2.0	2.1	2.2	2.2	2.4
Free cash flow yield (%)	4.6	4.9	7.1	6.0	4.6
Net dividend yield (%)	4.9	5.0	4.0	4.0	4.0
Gross dividend yield (%)	6.5	6.5	5.6	5.6	5.1

Capital Structure

	2019A	2020A	2021E	2022E	2023E
Interest cover EBIT (x)	2.1	1.9	2.9	2.7	1.7
Interest cover EBITDA (x)	4.8	5.0	6.1	6.3	5.6
Net debt/ND+E (%)	36.6	37.6	35.7	34.1	34.1
Net debt/EBITDA (x)	3.4	3.5	2.8	2.7	3.1

Key Ratios

	2019A	2020A	2021E	2022E	2023E
Return on assets (%)	3.4	2.9	4.4	4.0	2.5
Return on equity (%)	3.0	2.6	4.4	3.8	1.6
Return on funds employed (%)	3.6	3.2	4.4	3.9	2.5
EBITDA margin (%)	10.8	10.6	11.8	14.3	13.1
EBIT margin (%)	4.9	4.3	5.6	6.1	4.0
Capex to sales (%)	2.0	2.1	2.8	2.3	2.6
Capex to depreciation (%)	34	33	44	28	29
Imputation (%)	80	80	100	100	70
Pay-out ratio (%)	109	116	77	78	103

Operating Performance

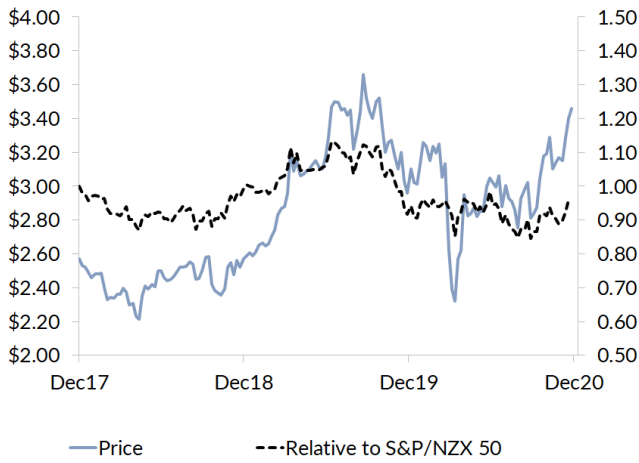
	2019A	2020A	2021E	2022E	2023E
Renewable generation	2,835	2,340	2,754	2,724	2,724
Gas generation	2,586	3,121	2,780	1,511	893
Coal generation	1,410	1,340	1,295	219	219
Total GNE generation (GWh)	6,831	6,801	6,829	4,455	3,836
GWAP (\$/MWh)	143	114	125	78	79

Retail electricity

	2019A	2020A	2021E	2022E	2023E
Electricity customers (000)	499	493	470	441	412
MM/SME volumes	4,077	4,111	4,011	3,796	3,561
TOU volumes	1,992	2,134	2,310	1,548	1,037
Total fixed price volumes (GWh)	6,068	6,245	6,321	5,344	4,598
Average MM usage/cust (kWh/yr)	8,126	8,333	8,293	8,323	8,340
Average FPV price (\$/MWh)	210	212	212	213	216
LWAP (\$/MWh)	139	110	125	75	75
LWAP/GWAP	0.97	0.96	1.00	0.95	0.95
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	95	112	106
Energy EBITDAF (\$m)	260	262	309	274	213
GNE EBITDAF (\$m)	369	356	403	386	319

Figure 1. Price performance


Source: Forsyth Barr analysis

Figure 2. Substantial shareholders

Shareholder	Latest Holding
NZ Govt	51.8%

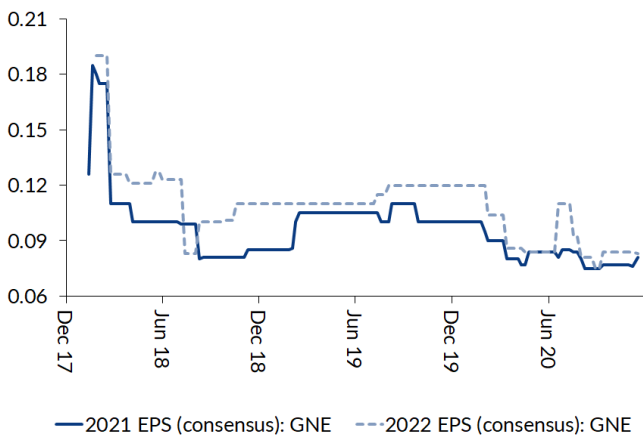
Source: NZX, Forsyth Barr analysis, NOTE: based on SPH notices only

Figure 3. International valuation comparisons

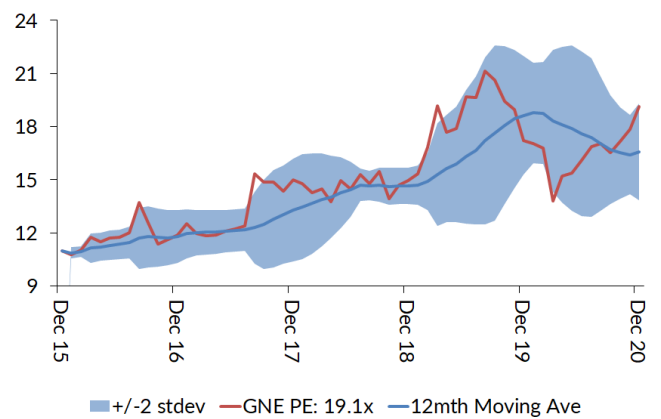
Company	Code	Price	Mkt Cap (m)	PE		EV/EBITDA		EV/EBIT		Cash Yld 2022E
				2021E	2022E	2021E	2022E	2021E	2022E	
Genesis Energy	GNE NZ	NZ\$3.46	NZ\$3,611	19.1x	19.2x	12.0x	12.6x	25.4x	29.5x	4.0%
CONTACT ENERGY *	CEN NZ	NZ\$7.87	NZ\$5,655	22.8x	28.2x	14.4x	16.9x	31.8x	39.8x	4.1%
MERIDIAN ENERGY *	MEL NZ	NZ\$6.74	NZ\$17,272	38.7x	45.1x	24.5x	27.9x	40.8x	50.6x	2.5%
MERCURY *	MCY NZ	NZ\$6.47	NZ\$8,814	33.5x	35.7x	19.9x	20.1x	35.6x	37.5x	2.6%
TRUSTPOWER *	TPW NZ	NZ\$7.50	NZ\$2,347	28.5x	30.0x	15.5x	15.7x	20.3x	20.9x	4.0%
AGL ENERGY	AGLAT	A\$13.37	A\$8,330	13.5x	16.8x	6.1x	6.9x	10.6x	13.0x	5.8%
ORIGIN ENERGY	ORG AT	A\$5.27	A\$9,282	23.3x	16.1x	6.4x	5.8x	23.2x	18.0x	4.5%
Compcop Average:				26.7x	28.7x	14.5x	15.6x	27.1x	30.0x	3.9%
GNE Relative:				-28%	-33%	-17%	-19%	-6%	-2%	3%

EV = Current Market Cap + Actual Net Debt

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

Figure 4. Consensus EPS momentum (NZ\$)


Source: Forsyth Barr analysis

Figure 5. One year forward PE (x)


Source: Forsyth Barr analysis

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