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NEW ZEALAND EQUITY RESEARCH | UTILITIES | ELECTRICITY GENERATOR/RETAILER
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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
Share price	NZ$3.70
Target price	NZ$3.90
Risk rating	Low
Issued shares	1043.6m
Market cap	NZ$3,861m
Avg daily turnover	572.3k (NZ$1,707k)

Financials: Jun/	20A	21E	22E	23E
NPAT* (NZ$m)	154.3	190.2	223.2	222.6
EPS* (NZc)	14.9	18.1	21.0	20.7
EPS growth* (%)	-5.0	21.8	16.0	-1.4
DPS (NZc)	17.2	17.5	17.7	18.0
Imputation (%)	80	85	100	100

*Based on normalised profits

Valuation (x)	20A	21E	22E	23E
PE	24.9	20.4	17.6	17.9
EV/EBIT	35.0	26.4	23.7	24.2
EV/EBITDA	14.4	12.5	11.6	11.8
Price / NTA	2.2	2.3	2.4	2.5
Cash div yld (%)	4.6	4.7	4.8	4.9
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

12-month target price (NZ$)*	**3.90**
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%

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
Normalised EBITDA	**369.4**	**355.6**	**405.0**	**434.6**	**429.5**
Depreciation and amortisation	(201.7)	(209.8)	(212.7)	(221.7)	(221.2)
Normalised EBIT	**167.7**	**145.8**	**192.2**	**212.9**	**208.3**
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
Adjusted normalised NPAT	**160**	**154**	**190**	**223**	**223**
Abnormals/other	(101)	(108)	(100)	(117)	(116)
Reported NPAT	**59**	**46**	**90**	**106**	**107**
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**
EBITDA	**369.4**	**355.6**	**405.0**	**434.6**	**429.5**
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
Operating cash flow	**234.1**	**245.8**	**299.6**	**325.9**	**306.8**
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**	**205.6**	**264.5**	**243.1**
Dividends paid	(131.6)	(138.4)	(145.6)	(149.6)	(153.5)
Equity raised/(returned)	(1.3)	(0.1)	0	0	0
(Increase)/decrease in net debt	**32.5**	**30.7**	**60.0**	**114.8**	**89.6**

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
Total funds employed	**4,369.7**	**4,291.2**	**4,162.3**	**3,985.9**	**3,829.0**
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
Total funding sources	**4,369.7**	**4,291.2**	**4,162.3**	**3,985.9**	**3,829.0**

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

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
Total GNE generation (GWh)	**6,831**	**6,801**	**7,139**	**6,245**	**5,437**
GWAP ($/MWh)	143	114	145	135	122
Retail electricity					
Electricity customers (000)	499	493	479	477	477
MM/SME volumes	4,077	4,111	4,028	3,972	3,975
TOU volumes	1,992	2,134	2,310	2,322	2,334
Total fixed price volumes (GWh)	**6,068**	**6,245**	**6,338**	**6,294**	**6,308**
Average MM usage/cust (kWh/yr)	8,126	8,333	8,293	8,323	8,340
Average FPVV price ($/MWh)	210	212	212	213	213
LWAP ($/MWh)	139	110	145	130	114
LWAP/GWAP	0.97	0.96	1.00	0.96	0.94
Line losses (%)	5.4	5.7	5.6	5.6	5.6
Kupe production					
Gas production (PJ)	11.8	10.7	10.9	11.8	11.3
Oil production (k barrels)	472.9	374.3	348.9	495.2	430.9
LPG production (k tonnes)	50.6	46.6	47.8	52.1	50.5
Kupe EBITDAF ($m)	109	94	94	111	105
Energy EBITDAF ($m)	260	262	311	324	324
GNE EBITDAF ($m)	**369**	**356**	**405**	**434**	**429**

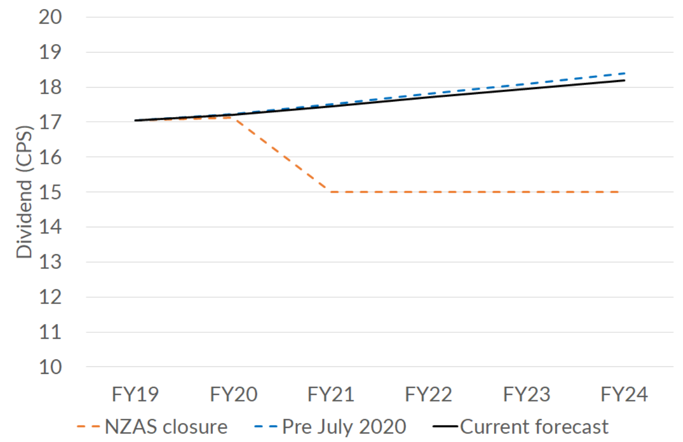
Summary forecast changes

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%
EBITDAF	**404**	**405**	**0.3%**	**386**	**435**	**12.5%**	**319**	**430**	**34.6%**
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%
NPAT	**90**	**90**	**0.5%**	**74**	**106**	**43.2%**	**30**	**107**	**262.4%**
Normalised NPAT	**90**	**90**	**0.5%**	**74**	**106**	**43.2%**	**30**	**107**	**262.4%**
Earnings (cps)	8.6	8.6	0.4%	7.0	10.0	42.7%	2.8	10.0	260.2%
Dividend (cps)	**14.0**	**17.5**	**24.6%**	**14.0**	**17.7**	**26.4%**	**14.0**	**18.0**	**28.2%**
Generation (GWh)	6,829	7,139	4.5%	4,455	6,245	40.2%	3,836	5,437	41.7%
FPVV 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%

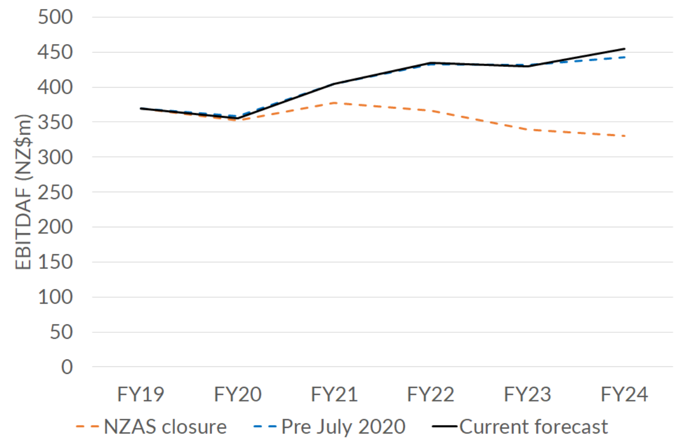
Source: Forsyth Barr analysis

Figure 2. Changes to forecast dividends



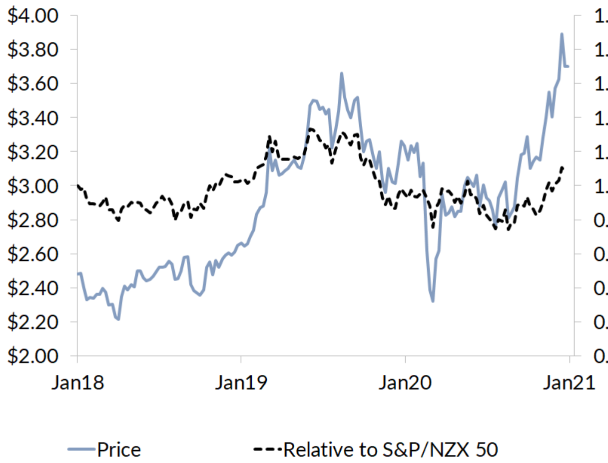
Source: Forsyth Barr analysis

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%

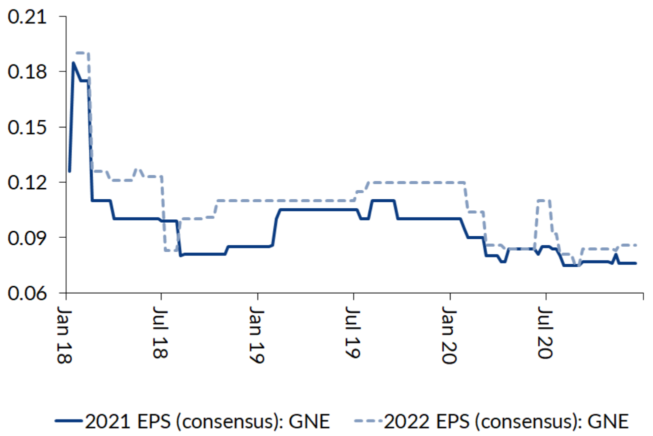
Source: NZX, Forsyth Barr analysis, NOTE: based on SPH notices only

Figure 6. International valuation comparisons

Company	Code	Price	Mkt Cap	PE		EV/EBITDA		EV/EBIT		Cash Yld
(metrics re-weighted to reflect GNE's balance date - June)			(m)	2021E	2022E	2021E	2022E	2021E	2022E	2022E
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%**
EV = Current Market Cap + Actual Net Debt			**GNE Relative:**	**-33%**	**-37%**	**-24%**	**-32%**	**-14%**	**-27%**	**35%**

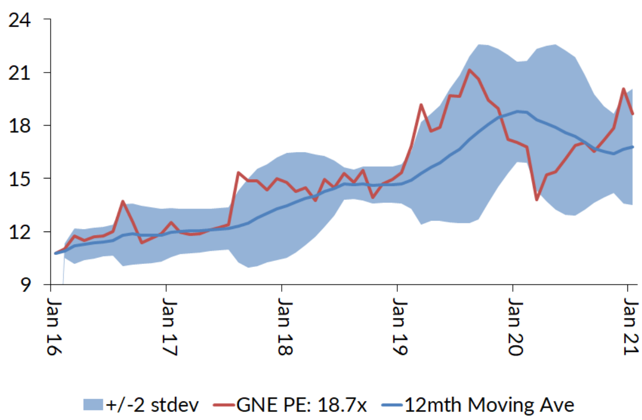
Source: *Forsyth Barr analysis, Bloomberg Consensus, Compco metrics re-weighted to reflect headline (GNE) companies fiscal year end

Figure 7. Consensus EPS momentum (NZ$)



Source: Forsyth Barr analysis

Figure 8. One year forward PE (x)



Source: Forsyth Barr analysis

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