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NEW ZEALAND EQUITY RESEARCH | UTILITIES | ELECTRICITY GENERATOR/RETAILER
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Genesis Energy
Fast FY21 Finish Foiled

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OUTPERFORM

After a very strong 1H21, 3Q21 was significantly more challenging with Genesis Energy (GNE) unable to capitalise on the high wholesale electricity prices despite running its Rankine Units hard. GNE was slightly short generation during 3Q21. We have trimmed our FY21 EBITDAF forecast -NZ$5m to NZ$414m, slightly below GNE's guidance range. Whilst we have trimmed GNE's target price -10cps (-2.6%) to NZ$3.75 we retain our OUTPERFORM rating as GNE offers good value and an attractive dividend.

NZX Code	GNE
Share price	NZ$3.45
Target price	NZ$3.75
Risk rating	Low
Issued shares	1043.6m
Market cap	NZ$3,600m
Avg daily turnover	502.0k (NZ$1,595k)

Financials: Jun/	20A	21E	22E	23E
NPAT* (NZ$m)	154.3	205.4	230.6	224.1
EPS* (NZc)	14.9	19.7	22.1	21.5
EPS growth* (%)	-5.0	32.3	12.3	-2.8
DPS (NZc)	17.2	17.4	17.6	17.9
Imputation (%)	80	80	90	90
*Based on normalised profits				

Valuation (x)	20A	21E	22E	23E
PE	23.2	17.5	15.6	16.1
EV/EBIT	33.2	22.8	21.2	22.0
EV/EBITDA	13.6	11.6	11.0	11.3
Price / NTA	2.1	2.4	2.5	2.6
Cash div yld (%)	5.0	5.0	5.1	5.2
Gross div yld (%)	6.5	6.6	6.9	7.0

What's changed?

- **Earnings:** FY21/FY22/FY23 EBITDAF reduced -NZ$5m/-NZ$7m/-NZ$11m to NZ$414m/NZ$434m/NZ$424m respectively
- **Target price:** Reduced -10cps (-2.6%) to NZ$3.75/share

Challenging 3Q21 after strong 1H21

An unexpected Kupe outage coinciding with very low North Island hydro generation and market making losses impacted 3Q21. In addition, the ongoing gas supply issues have reduced GNE's ability to run its gas-fired Unit 5. After a strong 1H21, 3Q21 has proved very challenging and even though it has been running its third Rankine Unit, GNE ended up slightly short generation in 3Q21. In the current market, it is necessary to be long generation for a strong earnings performance.

The retail performance was generally solid, although it was softer than earlier quarters, with the electricity and gas netback increases lower than prior quarters and the LPG netback falling -10%. With GNE holding off retail price increases, we expect the electricity netback to flatline or slightly decline in coming quarters.

Forecast changes reflect difficult 3Q21, softer than expected retail outlook

Short-term earnings have been negatively affected by the 3Q21 challenges. We have reduced our FY21 EBITDAF forecast -NZ$5m to NZ$414m. Our revised forecast is slightly below GNE's FY21 NZ$415m to NZ$425m guidance range. We estimate the earnings effects of the 3Q21 difficulties is greater than NZ$10m but barring other unforeseen issues, GNE should be able to claw back some of the lost earnings in 4Q21.

Our FY22 and FY23 forecasts are also down, due to a lower (-1.6%) retail electricity price assumption (GNE has not increased retail electricity prices in 2021), a reduction (-5.6%) in commercial volumes indicating GNE has backed off that market slightly and an increase (+10%) in coal costs.

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Genesis Energy Limited (GNE)

Priced as at 20 Apr 2021 (NZ$)	**3.45**

12-month target price (NZ$)*	**3.75**
Expected share price return	8.7%
Net dividend yield	5.1%
Estimated 12-month return	13.8%

Spot valuations (NZ$)	
1. DCF	3.60
2. Market multiple	3.56
3. Dividend yield	3.71

Key WACC assumptions	
Risk free rate	2.30%
Equity beta	0.84
WACC	5.5%
Terminal growth	1.5%

DCF valuation summary (NZ$m)	
Total firm value	5,026
(Net debt)/cash	(1,271)
Less: Capitalised operating leases	
Value of equity	3,754

Profit and Loss Account (NZ$m)	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
Sales revenue	3,410.0	3,354.5	3,941.5	3,775.8	3,406.8
Normalised EBITDA	**369.4**	**355.6**	**414.2**	**434.0**	**424.3**
Depreciation and amortisation	(201.7)	(209.8)	(203.0)	(208.0)	(206.4)
Normalised EBIT	**167.7**	**145.8**	**211.2**	**226.0**	**217.8**
Net interest	(77)	(71)	(59)	(56)	(54)
Associate income	0	0	0	0	0
Tax	(26)	(22)	(44)	(48)	(46)
Deprecation capex adjustment	96	101	97	108	106
Adjusted normalised NPAT	**160**	**154**	**205**	**231**	**224**
Abnormals/other	(101)	(108)	(104)	(108)	(106)
Reported NPAT	**59**	**46**	**101**	**123**	**118**
Normalised EPS (cps)	15.7	14.9	19.7	22.1	21.5
DPS (cps)	17.1	17.2	17.4	17.6	17.9

Valuation Ratios	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
EV/EBITDA (x)	13.0	13.6	11.6	11.0	11.3
EV/EBIT (x)	28.7	33.2	22.8	21.2	22.0
PE (x)	22.0	23.2	17.5	15.6	16.1
Price/NTA (x)	2.0	2.1	2.4	2.5	2.6
Free cash flow yield (%)	4.6	4.9	6.8	7.6	6.8
Net dividend yield (%)	4.9	5.0	5.0	5.1	5.2
Gross dividend yield (%)	6.5	6.5	6.6	6.9	7.0

Capital Structure	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
Interest cover EBIT (x)	2.1	1.9	3.4	4.1	4.0
Interest cover EBITDA (x)	4.8	5.0	7.1	7.8	7.9
Net debt/ND+E (%)	36.6	37.6	39.3	38.3	37.9
Net debt/EBITDA (x)	3.4	3.5	2.9	2.5	2.5

Growth Rates	**2019A**	**2020A**	**2021A**	**2022A**	**2023A**
Revenue (%)	48.0	-1.6	17.5	-4.2	-9.8
EBITDA (%)	2.5	-3.7	16.5	4.8	-2.2
EBIT (%)	8.3	-13.1	44.8	7.0	-3.6
Normalised NPAT (%)	24.6	-3.8	33.1	12.3	-2.8
Normalised EPS (%)	22.7	-5.0	32.3	12.3	-2.8
Ordinary DPS (%)	0.9	0.9	0.9	1.4	1.4

Key Ratios	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
Return on assets (%)	3.4	2.9	4.6	5.5	5.5
Return on equity (%)	3.0	2.6	5.9	6.9	6.9
Return on funds employed (%)	3.6	3.2	5.0	5.6	5.7
EBITDA margin (%)	10.8	10.6	10.5	11.5	12.5
EBIT margin (%)	4.9	4.3	5.4	6.0	6.4
Capex to sales (%)	2.0	2.1	2.4	1.6	1.8
Capex to depreciation (%)	34	33	47	29	30
Imputation (%)	80	80	80	90	90
Pay-out ratio (%)	109	116	88	80	83

Cash Flow (NZ$m)	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
EBITDA	**369.4**	**355.6**	**414.2**	**434.0**	**424.3**
Working capital change	(27.3)	21.8	16.7	15.6	(2.9)
Interest & tax paid	(123.1)	(119.2)	(82.7)	(117.5)	(116.1)
Other	15.1	(12.4)	(9.1)	0	0
Operating cash flow	**234.1**	**245.8**	**339.2**	**332.1**	**305.3**
Capital expenditure	(68.5)	(69.0)	(94.8)	(59.9)	(62.1)
(Acquisitions)/divestments	(0.2)	(7.6)	(3.9)	0	0
Other	0	0	0	0	0
Funding available/(required)	**165.4**	**169.2**	**240.5**	**272.2**	**243.2**
Dividends paid	(131.6)	(138.4)	(162.3)	(182.6)	(185.2)
Equity raised/(returned)	(1.3)	(0.1)	(0.4)	0	0
(Increase)/decrease in net debt	**32.5**	**30.7**	**88.8**	**89.5**	**57.9**

Operating Performance	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
Renewable generation	2,835	2,340	2,511	2,724	2,724
Gas generation	2,586	3,121	2,649	2,553	2,114
Coal generation	1,410	1,340	2,606	1,318	767
Total GNE generation (GWh)	**6,831**	**6,801**	**7,766**	**6,596**	**5,606**
GWAP ($/MWh)	143	114	186	194	148
Retail electricity					
Electricity customers (000)	499	493	481	479	479
MM/SME volumes	4,077	4,111	3,989	3,939	3,941
TOU volumes	1,992	2,134	2,308	2,273	2,284
Total fixed price volumes (GWh)	**6,068**	**6,245**	**6,297**	**6,211**	**6,225**
Average MM usage/cust (kWh/yr)	8,126	8,272	8,184	8,214	8,230
Average FPVV price ($/MWh)	210	212	211	211	214
LWAP ($/MWh)	139	110	185	186	139
LWAP/GWAP	0.97	0.96	0.99	0.96	0.94
Line losses (%)	5.4	5.7	5.4	5.4	5.4
Kupe production					
Gas production (PJ)	11.8	10.7	10.9	11.7	11.2
Oil production (k barrels)	472.9	374.3	326.7	428.5	372.9
LPG production (k tonnes)	50.6	46.6	47.0	49.1	46.3
Kupe EBITDAF ($m)	109	94	100	113	101
Energy EBITDAF ($m)	260	262	314	321	323
GNE EBITDAF ($m)	**369**	**356**	**414**	**434**	**424**

Balance Sheet (NZ$m)	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
Working capital	111.8	99.4	83.9	68.2	71.1
Fixed assets	3,773.1	3,675.1	3,329.1	3,190.0	3,055.2
Intangibles	364.0	353.4	349.1	340.2	330.6
Right of use asset	0	0	0	0	0
Other assets	120.8	163.3	212.4	212.4	212.4
Total funds employed	**4,369.7**	**4,291.2**	**3,974.5**	**3,810.8**	**3,669.3**
Net debt/(cash)	1,293.1	1,334.9	1,246.8	1,157.2	1,099.3
Lease liability	0	0	0	0	0
Other liabilities	931.6	886.5	888.1	874.1	857.8
Shareholder's funds	2,145.0	2,068.0	1,839.5	1,779.5	1,712.2
Minority interests	0	1.8	0	0	0
Total funding sources	**4,369.7**	**4,291.2**	**3,974.5**	**3,810.8**	**3,669.3**

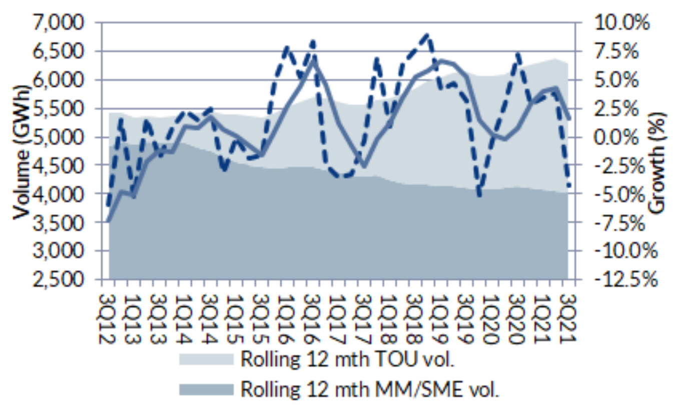
Summary 3Q21 operating statistics and forecast changes

Figure 1. 3Q21 operating statistics

	3Q20	3Q21	% Chg	Comments
Retail electricity sales (GWh)				
Mass market (MM)	587	568	-3.2%	Decline in line with reduced customer numbers
Small, medium enterprises (SME)	285	273	-4.2%	Further decline in SME sales. This is an area GNE wants to grow
Commerical and industrial (C&I)	598	566	-5.4%	A reversal of recent trends — past 4 quarters have seen 10%+ growth
Total fixed price variable volume (FPVV)	**1,470**	**1,407**	**-4.3%**	
Electricity customer numbers (000)	494.2	484.1	-2.1%	Gradual decline in customer numbers continued
Electricity customer additions (000)	(3.2)	(3.1)		
MM & SME sales/customer (MWh/customer)	1.76	1.73	-1.5%	
MM sales price ($/MWh)	$275.4	$270.5	-1.8%	First decline in mass market sales price since 4Q18
SME sales price ($/MWh)	$217.6	$219.0	0.6%	Only modest SME and C&I price growth
C&I average selling price ($/MWh)	$133.1	$133.5	0.3%	
Weighted average FPVV selling price ($/MWh)	**$206.3**	**$205.4**	**-0.5%**	
Electricity netback ($/MWh)	**$108.5**	**$114.3**	**5.3%**	**Strong netback result. 3Q21 is last quarter of lower lines charge benefit**
LWAP ($/MWh)	$79.3	$218.0	175%	
Retail gas sales (PJ)				
Mass market (incl SME)	0.6	0.6	0.0%	
C&I gas sales	0.8	0.8	0.0%	
Total gas sales	**1.4**	**1.4**	**0.0%**	**Flat volumes**
Gas customer numbers (000)	105.0	105.7	0.6%	
Gas consumption/customer (GJ)	5.7	5.7	-0.3%	
Retail gas price ($/GJ)	$34.5	$34.5	0.0%	Flat pricing
Gas netback ($/GJ)	**$10.6**	**$11.3**	**6.6%**	**Good increase in netback continues**
Retail LPG sales (tonnes)				
Bottled sales	3,250	3,102	-4.6%	
Other bulk & SME sales	5,653	4,942	-12.6%	
Total retail LPG sales	**8,903**	**8,044**	**-9.6%**	**Moderate decline in LPG volumes, but LPG sales volumes can be lumpy**
LPG connections (000)	72.2	78.3	8.5%	Good connection growth continues
LPG connection additions	0.8	1.4	74.7%	
LPG consumption/connections (kg)	45.3	40.0	-11.7%	
LPG netback ($/tonne)	**$1,009**	**$907**	**-10.1%**	**Surprising fall in LPG netback given recent strength**
Generation (GWh)				
Hydro	419	483	15%	SI hydro slightly above average (but well above 3Q20), NI hydro generation well below average (-24%) and down on 3Q20
Coal - Rankine Units	400	868	117%	Big increase in coal usage due to generally dry conditions in 3Q21
Gas - Rankine units	133	10	-92%	Gas not used in Rankines due to lack of availability of gas
Gas - Units 5 & 6	676	595	-12%	Kupe outage and lack of gas availability reduced Unit 5 generation
Wind	5	4	-20%	
Total generation	**1,633**	**1,960**	**20%**	
GWAP ($/MWh)	$87.0	$211.9	144%	Elevated wholesale electricity prices at present
LWAP/GWAP	91.1%	102.9%	13%	Higher on avg, thermal plant running/short-generation during Kupe outage
Portfolio fuel cost ($/MWh)	$61.6	$64.6	5%	Increase in costs due to coal-fired generation. Expect further increases.
Kupe sales and production				
Oil production (barrels)	100,636	73,000	-27%	Ongoing field declines and constrained whilst Kupe work continues
Oil sales (barrels)	156,471	81,000	-48%	Big sales in 3Q20 — oil sales can be lumpy
Gas sales (PJ)	2.9	2.4	-17%	
LPG sales (000 tonnes)	12,157	10,600	-13%	
Barrels of oil equivalent - sales	733,435	563,178	-23%	
Barrels of oil equivalent - production	680,386	554,308	-19%	

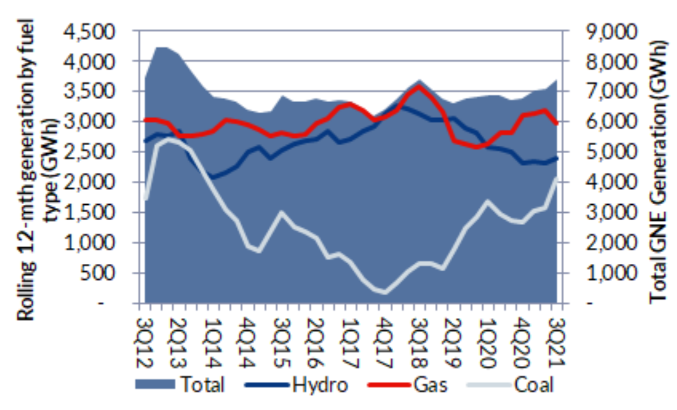
Source: GNE, Forsyth Barr analysis

Figure 2. Electricity sales volumes



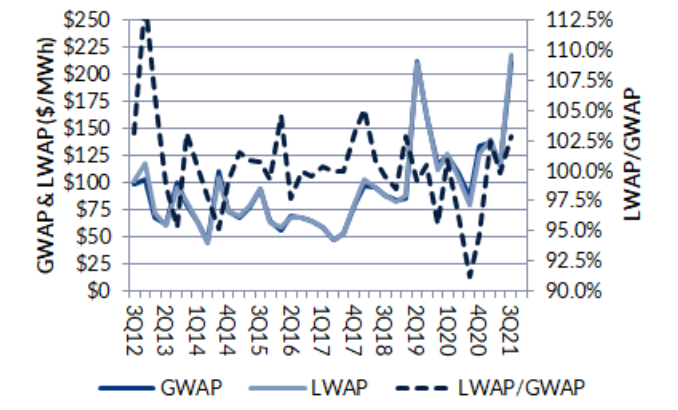
Source: GNE, Forsyth Barr analysis

Figure 3. Generation volumes



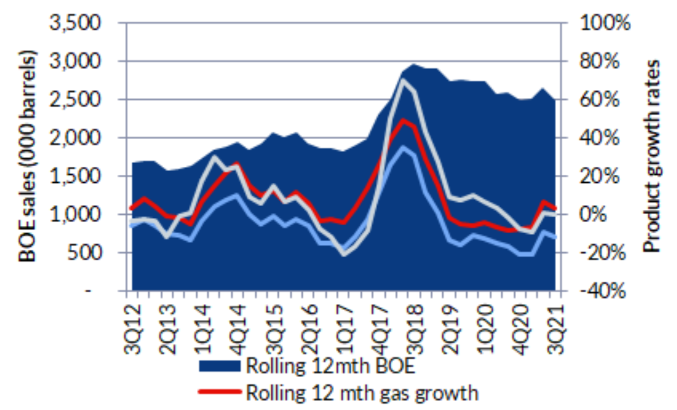
Source: GNE, Forsyth Barr analysis

Figure 4. LWAP/GWAP ratio



Source: GNE, Forsyth Barr analysis

Figure 5. Kupe production



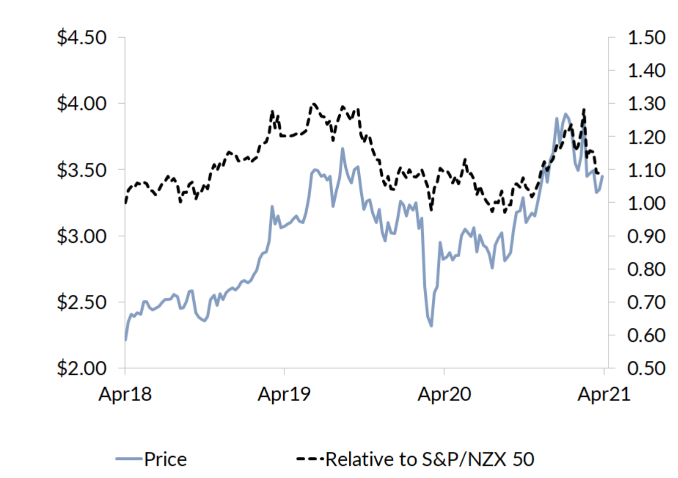
Source: GNE, Forsyth Barr analysis

Figure 6. Forecast changes

	FY21 Old	FY21 New	Diff % Chg	FY22 Old	FY22 New	Diff % Chg	FY23 Old	FY23 New	Diff % Chg
Sales revenue	3,791	3,942	4.0%	3,621	3,776	4.3%	3,458	3,407	-1.5%
EBITDAF	**419**	**414**	**-1.2%**	**441**	**434**	**-1.6%**	**435**	**424**	**-2.4%**
EBIT	205	200	-2.1%	231	226	-2.2%	226	218	-3.7%
Pre-tax profit	146	142	-2.9%	175	170	-2.8%	173	164	-5.0%
NPAT	**105**	**101**	**-2.9%**	**126**	**123**	**-2.8%**	**124**	**118**	**-5.0%**
Normalised NPAT	**112**	**109**	**-2.7%**	**126**	**123**	**-2.8%**	**124**	**118**	**-5.0%**
Earnings (cps)	10.7	10.4	-2.7%	12.1	11.7	-2.8%	11.9	11.3	-5.0%
Dividend (cps)	17.4	17.4	0.0%	17.6	17.6	0.0%	17.9	17.9	0.0%
Generation (GWh)	7,347	7,766	5.7%	6,417	6,596	2.8%	5,606	5,606	0.0%
FPVV sales (GWh)	6,433	6,297	-2.1%	6,396	6,211	-2.9%	6,411	6,225	-2.9%
Customer numbers (000)	481	481	0.0%	479	479	0.0%	479	479	0.0%
GWAP ($/MWh)	$163.7	$185.7	13.5%	$164.2	$194.3	18.4%	$147.6	$147.5	-0.1%
LWAP/GWAP	0.994	0.994	0.0%	0.962	0.957	-0.5%	0.938	0.940	0.1%

Source: Forsyth Barr analysis

Figure 7. Price performance



Source: Forsyth Barr analysis

Figure 8. Substantial shareholders

Shareholder	Latest Holding
NZ Govt	51.8%

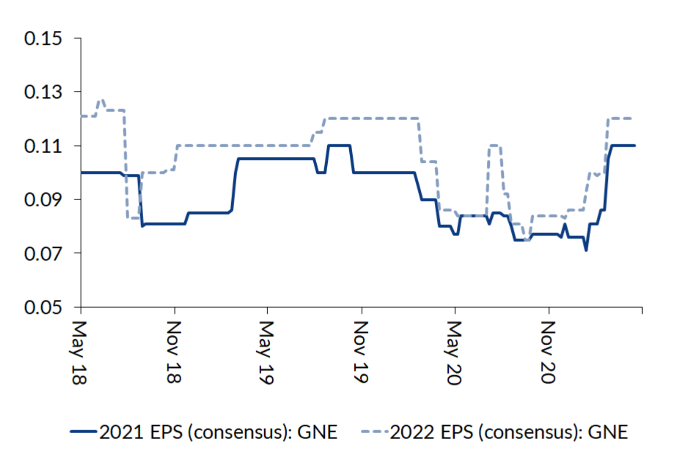
Source: NZX, Forsyth Barr analysis, NOTE: based on SPH notices only

Figure 9. 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$3.45**	**NZ$3,600**	**17.5x**	**15.6x**	**11.7x**	**11.2x**	**23.0x**	**21.4x**	**5.1%**
CONTACT ENERGY *	CEN NZ	NZ$7.75	NZ$6,015	21.4x	20.2x	14.2x	13.7x	26.6x	25.0x	4.7%
MERIDIAN ENERGY *	MEL NZ	NZ$5.89	NZ$15,094	39.4x	36.4x	24.2x	22.8x	43.6x	39.2x	2.9%
MERCURY *	MCY NZ	NZ$6.82	NZ$9,291	32.0x	26.8x	20.4x	16.5x	34.5x	27.0x	3.2%
TRUSTPOWER *	TPW NZ	NZ$8.77	NZ$2,745	32.1x	27.9x	17.2x	15.5x	22.4x	19.8x	3.9%
AGL ENERGY	AGL AT	A$9.25	A$5,763	10.9x	16.0x	5.1x	6.0x	9.2x	12.3x	6.1%
ORIGIN ENERGY	ORG AT	A$4.19	A$7,379	27.6x	15.0x	6.0x	5.5x	26.8x	20.5x	5.2%
			Compco Average:	**27.2x**	**23.7x**	**14.5x**	**13.3x**	**27.2x**	**24.0x**	**4.3%**
EV = Current Market Cap + Actual Net Debt			**GNE Relative:**	**-36%**	**-34%**	**-19%**	**-16%**	**-16%**	**-11%**	**18%**

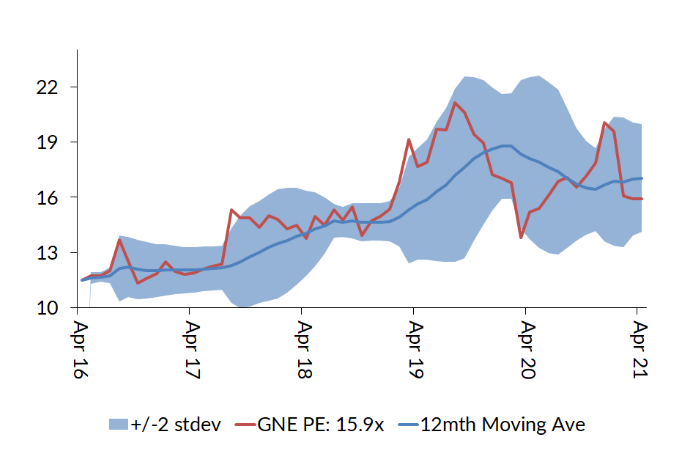
Source: *Forsyth Barr analysis, Bloomberg Consensus, Compco metrics re-weighted to reflect headline (GNE) companies fiscal year end

Figure 10. Consensus EPS momentum (NZ$)



Source: Forsyth Barr analysis

Figure 11. One year forward PE (x)



Source: Forsyth Barr analysis

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