

Power Points

All I Want for Xmas is a Decision on NZAS — December 2020

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There has been no swift post-election negotiation between Rio Tinto (RIO) and the government, and so the electricity sector remains on tenterhooks awaiting the NZAS final decision. That said, we understand that there is increasing hope a decision will be made before Christmas. Our preferred electricity sector stocks, Contact Energy (CEN) and Genesis Energy (GNE) will benefit the most if NZAS remains open. In the meantime, the electricity sector has continued its strong run, in particular Meridian Energy (MEL) and Mercury (MCY). Having downgraded MEL mid-November, we are now downgrading MCY to UNDERPERFORM for similar reasons. Both are expensive relative to their peers, their premiums unjustifiably high and if NZAS remains open both have limited to no upside.

Figure 1. Summary company valuation metric

Company	Price	Target price	Target return	Rating	FY21			
					EV/EBITDA	PE	Gross Yld	EBITDAF
CEN	\$7.91	\$8.60	12.8%	OUTPERFORM	14.5	22.9	4.9%	463
GNE	\$3.34	\$3.38	5.4%	OUTPERFORM	13.9	24.5	5.8%	404
MCY	\$6.41	\$5.37	-13.6%	UNDERPERFORM	19.7	33.2	3.7%	501
MEL	\$6.59	\$5.50	-14.0%	UNDERPERFORM	24.0	37.9	3.3%	771
TLT	\$3.90	\$4.00	2.6%	NEUTRAL	20.9	28.8	0.0%	77
TPW	\$7.47	\$7.50	4.6%	NEUTRAL	15.6	27.9	5.9%	192

Source: IRESS, Forsyth Barr analysis

NZAS negotiations continue under a backdrop of strong operating conditions

There has been limited news on NZAS negotiations, other than that they are taking place and we understand that there is a desire to reach a conclusion prior to Christmas. We maintain our view that NZAS is more likely to stay open for longer, however, all outcomes are possible. With aluminium prices very strong (the aluminium/alumina spread has been higher only 6% of the time in the past decade), it would not surprise us if RIO reverses its decision, or at least tries to retain the option to stay open. Our target prices reflect a 50% chance NZAS remains open beyond August 2021, however, our FY21 (and beyond) dividend forecast continues to assume a hard close. The main beneficiaries if NZAS remains open will be GNE and CEN. MEL will be providing a significant proportion of the electricity price discount if NZAS remains open, hence, FY22 and beyond earnings will be lower than the FY19 to FY21 period, regardless of the final NZAS decision.

Electricity valuation metrics stretched further in November

All of the electricity stocks performed well during November, in particular MEL (up +24.3%) and MCY (up +19.8%). However, fundamentals do not appear to be driving the most recent lift in share prices — there has been no positive sector related news and interest rates actually rose in November. MEL and MCY, in particular, appear to be benefiting from positive ETF fund flows. Whilst MCY and MEL are quality companies, there is limited to no upside if NZAS stays open and we see better value elsewhere.

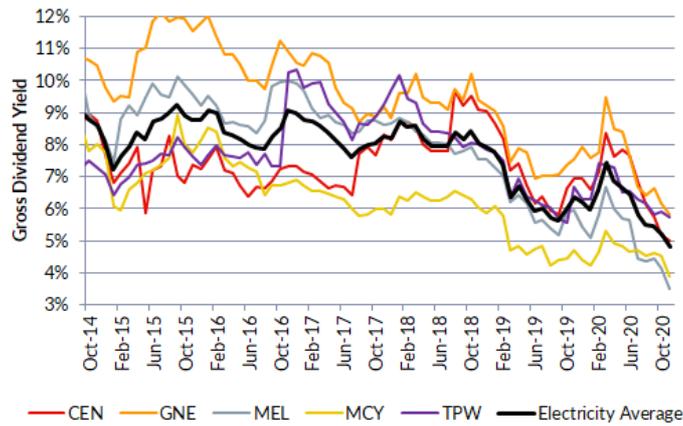
South Island hydro storage declines and falling Pohokura gas production lift ASX futures prices

Whilst wholesale electricity prices softened slightly in November, (Otago averaged NZ\$104/MWh, -19% lower than October) falling South Island hydro storage (NZ hydro storage is currently 97% of average) and Pohokura gas production concerns have lifted ASX futures prices. Long-dated Otago forward prices are at near record levels of NZ\$105/MWh and are the highest since RIO announced its strategic review in October 2019. November 2020 electricity demand was down -0.4% on the pcp (flat after adjusting for NZAS electricity demand changes).

Dividend yields continue to get squeezed

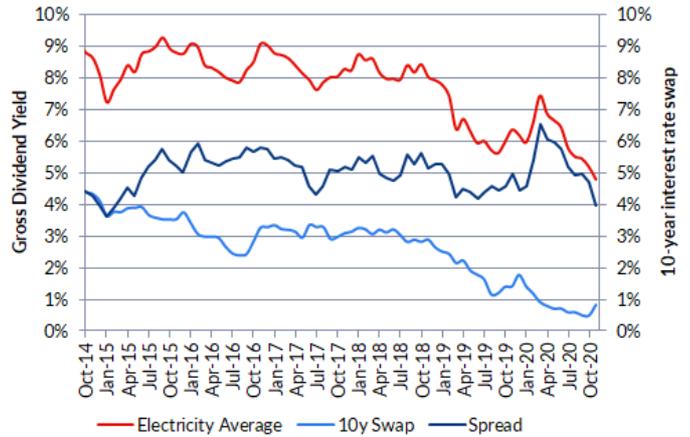
Electricity sector valuations are continuing to get stretched which shows up clearly in the spread between the sector average gross dividend yield and the 10-year swap rate falling below 4.0% for the first time. Despite the 10-year swap rate lifting +34 basis points to 0.83%, the average electricity sector gross dividend yield fell -0.4%.

Figure 2. Electricity sector yields



Source: Forsyth Barr analysis

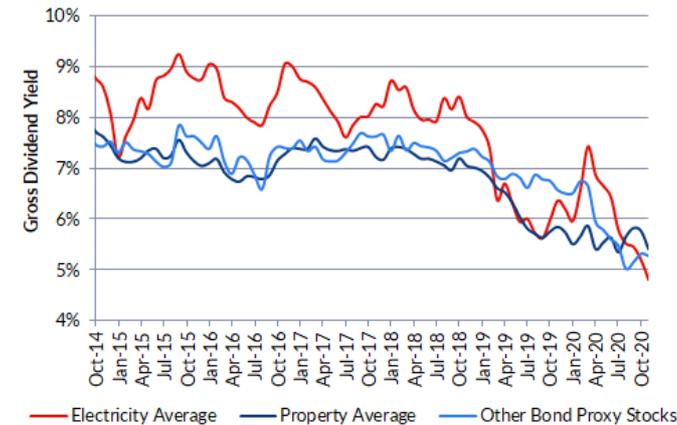
Figure 3. Electricity sector yield vs. 10 year swap rate



Source: Forsyth Barr analysis

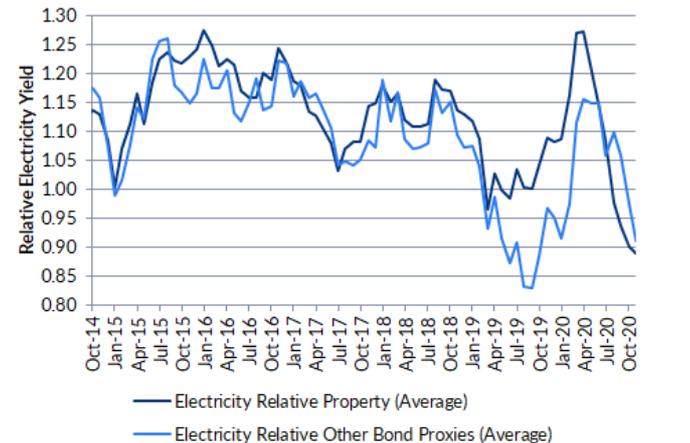
Relative to property stocks and other yield focussed stocks, electricity is now the most expensive, with MEL and MCY being a key driver of the lower average yield.

Figure 4. Electricity yields vs. property and other bond proxies



Source: Forsyth Barr analysis

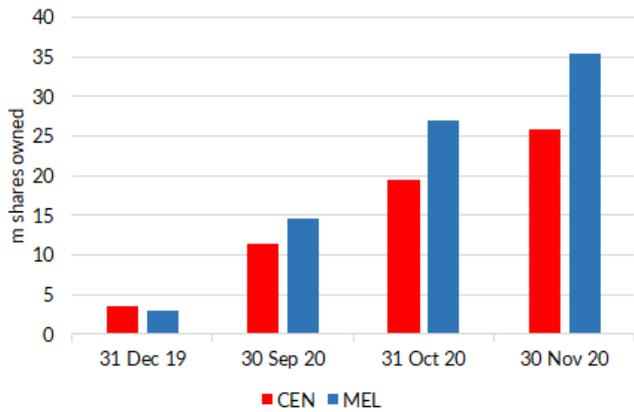
Figure 5. Relative yields



Source: Forsyth Barr analysis

ETF influence

A factor driving the share price increases appears to be the increasing influence of ETF funds. For example, the Blackrock iShares Global Clean Energy ETF has been a large buyer of MEL and CEN over the past year, as investors are increasingly attracted to these types of funds. This particular fund now owns 3.6% of CEN and 1.4% of MEL. When the ETF fund flows may ease is unknown but the electricity valuations (and MEL in particular) are being stretched as a result.

Figure 6. Blackrock iShares Global Clean Energy ETF NZ holding


Source: Blackrock, Forsyth Barr analysis

Figure 7. Cash dividend and dividend yields under NZAS scenario

	NZAS closed		NZAS extended	
	FY21	FY22	FY21	FY22
Cash dividend (NZcps)				
CEN	32.0	32.0	36.0	36.0
GNE	14.0	14.0	17.4	17.6
MCY	17.0	17.0	17.0	18.0
MEL	16.9	16.9	16.9	17.1
TPW	32.0	30.0	34.0	34.0
Cash dividend yields				
CEN	4.0%	4.0%	4.5%	4.5%
GNE	4.2%	4.2%	5.2%	5.3%
MCY	2.8%	2.8%	2.8%	2.9%
MEL	2.6%	2.6%	2.6%	2.6%
TPW	4.3%	4.0%	4.6%	4.6%

Source: Forsyth Barr analysis

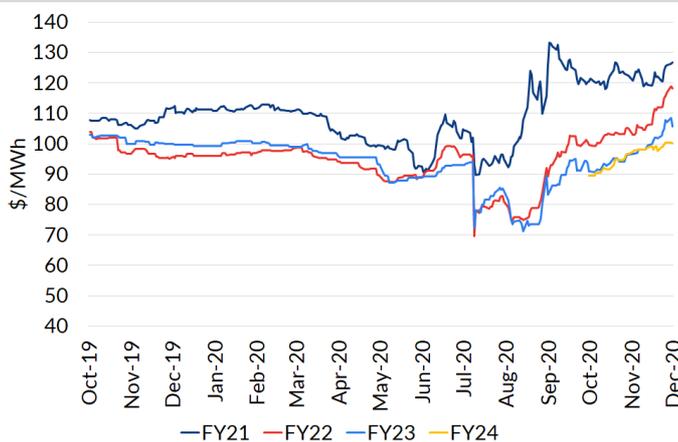
Getting closer to a final decision

There appears to be momentum at present in discussions between Rio Tinto (RIO) and the government, with a desire for a final decision pre-Christmas. In our view, all outcomes are still possible: from closure in August 2021, to an extended closure period, to NZAS reinstating the old contract at a lower price. Given current aluminium market performance, we suspect RIO will be keen to retain an option to stay open if it extends the closure date. Our electricity sector forecasts assume NZAS closes at the end of August 2021, although our target prices (conservatively) assume a 50% chance NZAS remains open for longer.

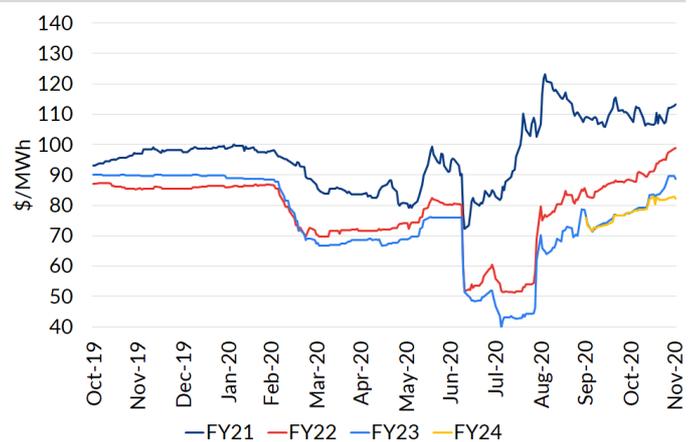
Share market appears to be pricing in NZAS staying open, ASX futures are less certain

In the past month MEL and MCY have hit all-time highs and GNE has hit 12-month highs. All electricity stocks are trading well ahead of pre-July 2020 closure announcement prices, suggesting, all other things being equal, that the market thinks NZAS will remain open for longer. However, we still see some upside for the likes of CEN and GNE in particular if NZAS does stay open, as those stocks have the greatest dividend upside if NZAS stays open. In contrast, we see no upside for MEL, as it will be funding a large proportion of the discounted electricity price.

ASX futures indicate the electricity sector is less certain. Whilst futures prices have lifted across all years over the past month (which prima facie indicates a higher chance of NZAS staying open), the spread between North Island (Otahuhu) and South Island (Benmore) prices remain. We believe the reason ASX futures prices have firmed has more to do with falling gas production at Pohokura than a lower chance that NZAS will close in 2021.

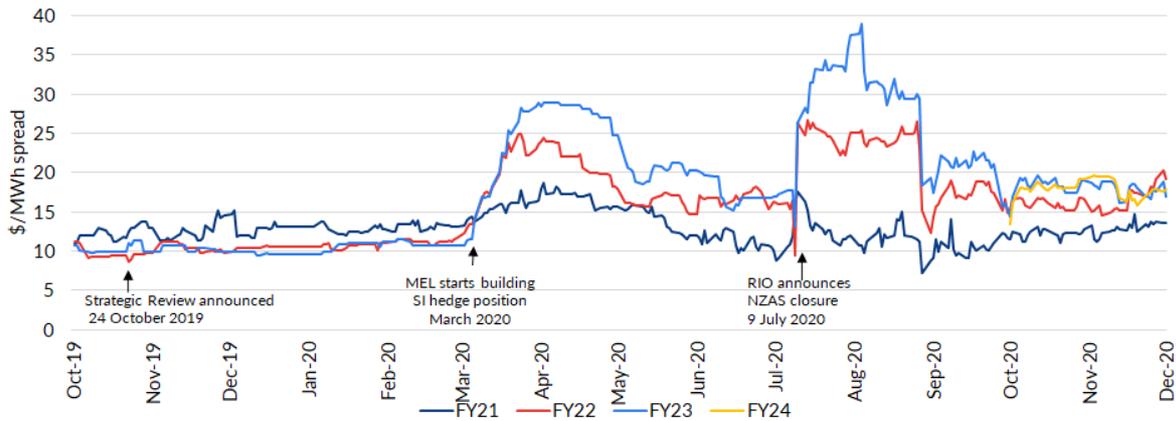
Figure 8. OTA futures prices


Source: IRESS, Forsyth Barr analysis

Figure 9. BEN futures prices


Source: IRESS, Forsyth Barr analysis

Figure 10. OTA - BEN futures price spread



Source: IRESS, Forsyth Barr analysis

Recent aluminium price movements positive, NZAS appears very profitable at present

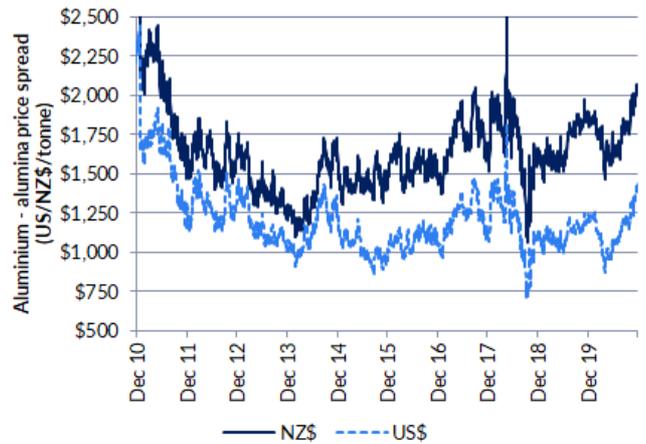
We are not sure how important the aluminium market outlook is in RIO’s final decision, but the signs are positive if the outlook is important. The NZD aluminium price has risen another ~NZ\$100/tonne over the past month to ~NZ\$2,850/tonne. The important spread between aluminium and alumina has also increased, up ~+NZ\$140/tonne to NZ\$2,065/tonne. Looking over the past decade – the aluminium/alumina spread has been higher than the current spread only 6% of the time and most of that was in late 2010/early 2011, with the only other period a week in April 2018.

Figure 11. Aluminium price



Source: IRESS, Bloomberg, Forsyth Barr analysis

Figure 12. Aluminium – alumina price spread



Source: IRESS, Bloomberg, Forsyth Barr analysis

Our estimate of NZAS profitability shows a similar story. Even without lower electricity prices, NZAS is earning almost NZ\$400/tonne (EBITDA less capex) for the first time in more than two years. Every NZ\$35m discount on electricity NZAS receives (assuming RIO decides to stay open for longer) will add another NZ\$100/tonne.

Norske Hydro re-opens a potline last used 10 years ago

Interestingly, in a move that is the complete opposite to RIO, Norske Hydro announced last week that it has recommenced operation of its Hydro Husnes B line which suspended operations following the GFC in 2009. In restarting the renewable energy backed potline (production of ~100k/tonnes per annum, or 30% of NZAS production), Norske Hydro cited:

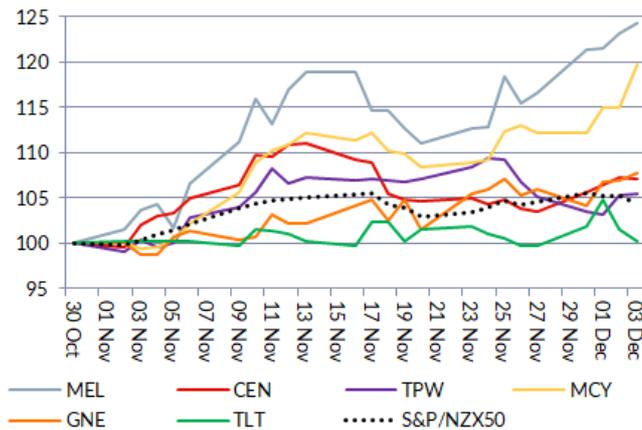
- Improved aluminium outlook generally
- Increasing need for renewable electricity sourced aluminium

Norske Hydro invested ~ NZ\$230m in new technology and made the final investment decision to restart the potline in March 2019 when the aluminium alumina spread was more than -NZ\$400m (-25%) lower than it is currently. Our take-out is that RIO’s decision to close NZAS was to do with factors other than NZAS economics.

Share market performance: November 2020

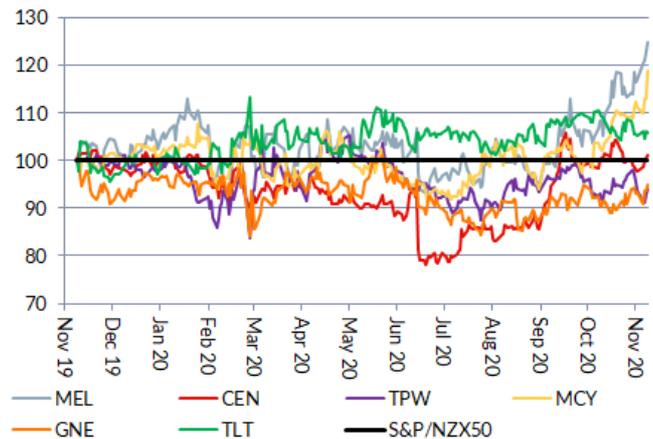
November was a strong month for electricity stocks, however, the New Zealand listed markets similarly strong month reduced some stocks out performance. MEL had the best month, up +24.3% from 30 October to 3 December, and MCY had a good month up +19.8% over the same period. TLT had the worst month, finishing largely flat over the period (+0.3%), under performing the S&P/NZX50C index which was up +4.5%. CEN, GNE and TPW were up +7.2%, +7.7% and +5.5% respectively.

Figure 13. Stock performance vs. S&P/NZX50C



Source: Thomson Reuters, Forsyth Barr analysis

Figure 14. 12 month performance relative to S&P/NZX50C



Source: Thomson Reuters, Forsyth Barr analysis

Market multiples and target returns

- Our electricity target prices are based on a combination of our DCF valuation (30%), market multiples (30%) and gross dividend yield (40%). We focus on year two earnings to avoid short-term hydrological conditions impacting the multiples. Whilst we continue to like the long-term outlook for the sector, we are conscious of increasing risks. Our preferred stocks are CEN and GNE (OUTPERFORM), whilst we rate TLT and TPW NEUTRAL and MEL and MCY UNDERPERFORM

Figure 15. EBITDAF multiples

Company	Code	Price	Target	Target	Rating	Mkt Cap \$m	EBITDAF (x)		EBITDAF - capex (x)	
			Price	Return			FY21	FY22	FY21	FY22
Contact Energy	CEN	\$7.91	\$8.60	12.8%	OUTPERFORM	5,660	14.5	16.9	17.2	20.8
Genesis Energy (excl Kupe)	GNE	\$3.34	\$3.38	5.4%	OUTPERFORM	3,134	13.9	15.7	16.6	19.2
Mercury	MCY	\$6.41	\$5.37	-13.6%	UNDERPERFORM	8,723	19.7	20.0	23.2	23.5
Meridian Energy	MEL	\$6.59	\$5.50	-14.0%	UNDERPERFORM	16,890	24.0	27.4	26.0	30.0
Trustpower	TPW	\$7.47	\$7.50	4.6%	NEUTRAL	2,338	15.6	15.8	17.9	18.2
Sector average							17.2	18.7	19.9	22.0
Tilt Renewables	TLT	\$3.90	\$4.00	2.6%	NEUTRAL	1,467	20.9	15.0	24.0	16.5
Genesis Energy (incl Kupe)	GNE	\$3.34	\$3.38	5.4%	OUTPERFORM	3,486	11.7	12.2	13.6	14.3

Source: IRESS, Forsyth Barr analysis

Figure 16. PE multiples and dividend yields

Company	PE (x)		Adjusted PE (x)		Cash Div Yield		Gross Div Yield		Free Cash Flow Yield	
	FY21	FY22	FY21	FY22	FY21	FY22	FY21	FY22	FY21	FY22
Contact Energy	47.8	63.4	22.9	28.3	4.0%	4.0%	4.9%	4.8%	5.1%	5.1%
Genesis Energy (excl Kupe)	81.4	118.8	24.5	26.9	3.1%	2.8%	4.4%	4.0%	2.3%	1.3%
Mercury	55.7	64.9	33.2	35.4	2.7%	2.7%	3.7%	3.6%	0.8%	1.8%
Meridian Energy	63.1	81.3	37.9	44.1	2.6%	2.6%	3.3%	3.3%	2.5%	1.9%
Trustpower	33.7	36.3	27.9	29.3	4.3%	4.0%	5.9%	5.6%	4.3%	3.8%
Sector average	54.1	67.9	28.8	32.2	3.3%	3.2%	4.4%	4.3%	3.0%	2.8%
Tilt Renewables	77.5	n/a	28.8	25.1	0.0%	0.0%	0.0%	0.0%	1.4%	5.9%
Genesis Energy (incl Kupe)	45.7	49.0	18.4	18.2	4.2%	4.2%	5.8%	5.8%	7.3%	6.2%

Source: IRESS, Forsyth Barr analysis

Note: In calculating the GNE excl Kupe multiples, the value of Kupe is assumed to be \$225m. Debt and interest has been apportioned 5% to Kupe and 95% to Energy (in line with EV proportion) and dividend in line with adjusted NPAT.

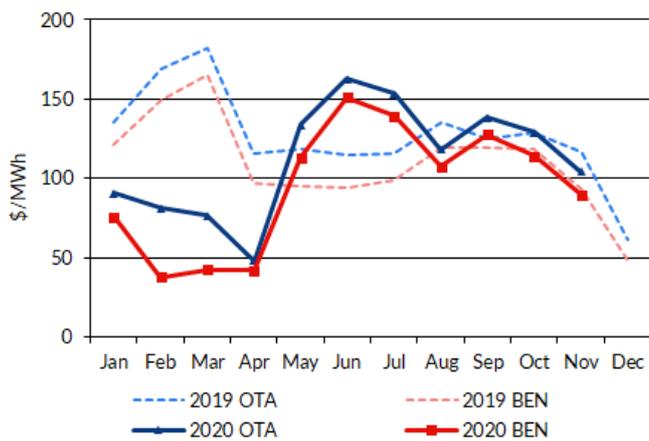
Wholesale electricity market: November 2020

Spot wholesale electricity prices and ASX futures

Wholesale prices down

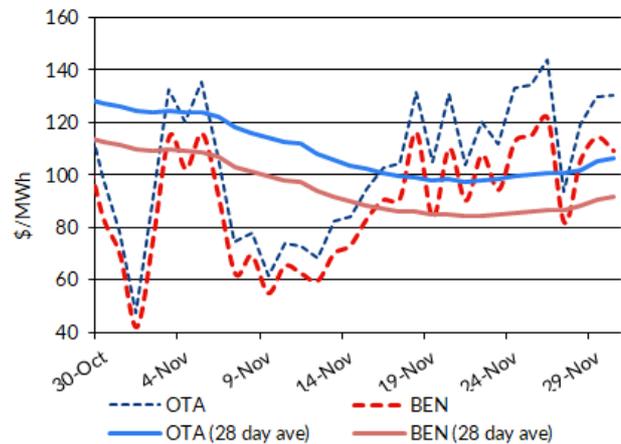
- Benmore (BEN) wholesale electricity prices averaged \$90/MWh in November 2020, down -21% on the pcp and -4% on the prior month. Otahuhu (OTA) prices also fell, down -20% on the pcp and -11% on the prior month to average \$104/MWh in November.
- The price gap between the North Island (OTA) and South Island (BEN) was \$14/MWh in November, down slightly from October 2020.
- Volatility in wholesale electricity prices reduced in November, with daily OTA prices fluctuating between \$48/MWh and \$144/MWh, while BEN daily prices were between \$42/MWh and \$121/MWh throughout the month.

Figure 17. Average monthly wholesale electricity prices



Source: NZX Energy, Forsyth Barr analysis

Figure 18. Average daily wholesale electricity prices

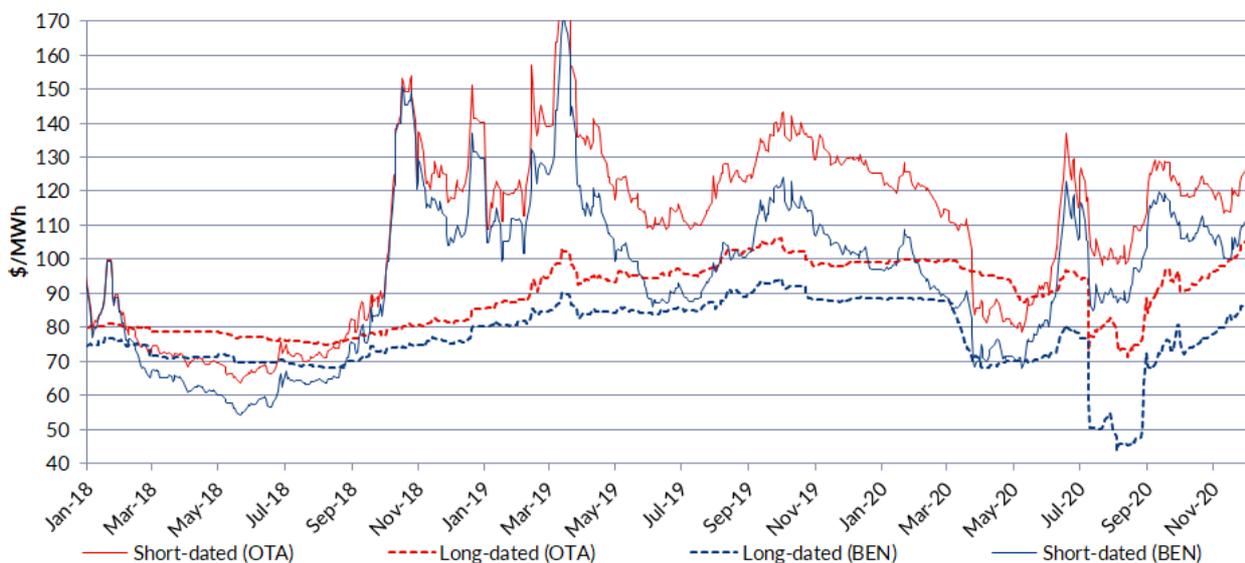


Source: NZX Energy, Forsyth Barr analysis

Futures all up in November

- Long-dated BEN futures were up +11% in November, sitting at \$86/MWh, whilst long-dated OTA futures are nearing record highs, up +10% over the period to sit at \$105/MWh. Futures have been increasing for the past two months, with growing concerns about Pohokura likely the main cause.
- Short-dated BEN and OTA futures were also up in November, up +4% and +5% to end the month at \$111/MWh and \$126/MWh respectively.

Figure 19. ASX futures prices (last three years)



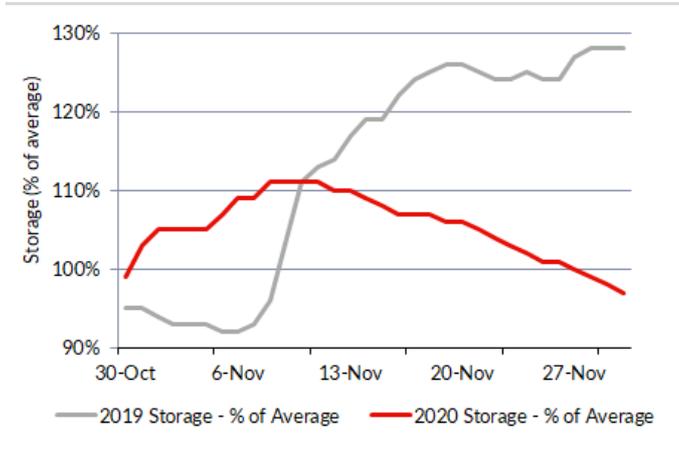
Source: Electricity Authority, Forsyth Barr analysis

Hydro storage volumes

Hydro levels slip slightly

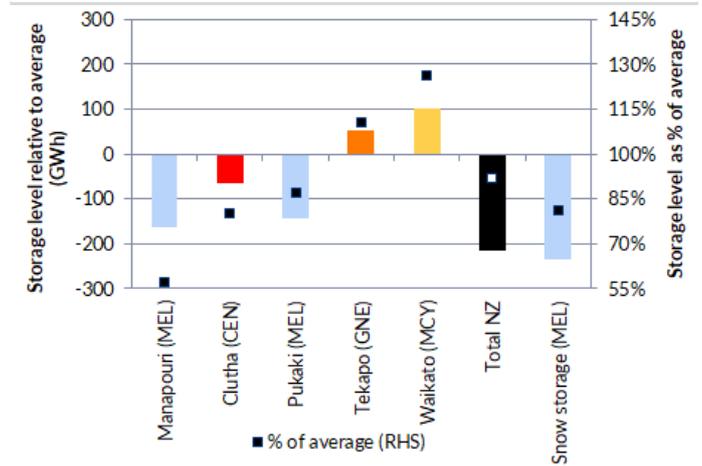
- Hydro lake storage levels have fallen to 92% of average as of 2 December, down from 105% at the start of the month. MCY's Taupo storage lake is the highest at 126% of average as a result of high inflows through the month. MEL's Manapouri is the lowest at 57% of average.
- CEN's decline is due to low uncontrolled storage, Lake Hawea (which is controlled) is well above average for this time of year.
- MEL's estimate of its current snow storage is 1,065GWh, ~-235GWh below average for this time of year.

Figure 20. Average lake storage levels



Source: NZX Energy, Forsyth Barr analysis

Figure 21. Key storage lake levels relative to avg (as at 3 Dec)



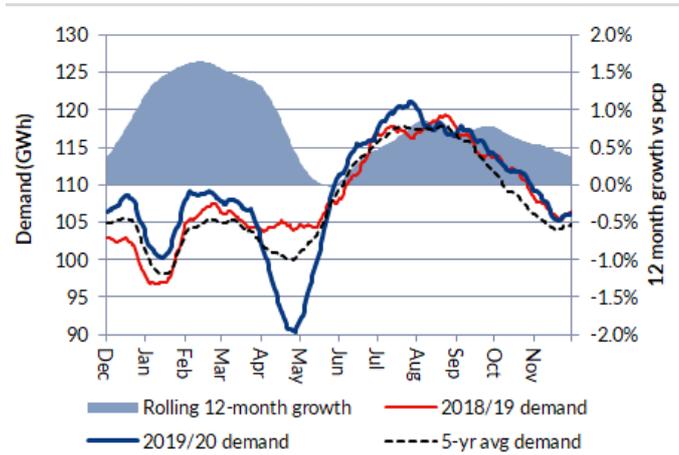
Source: EnergyLink, MEL, Forsyth Barr analysis

Demand and generation analysis

Demand flat on prior year

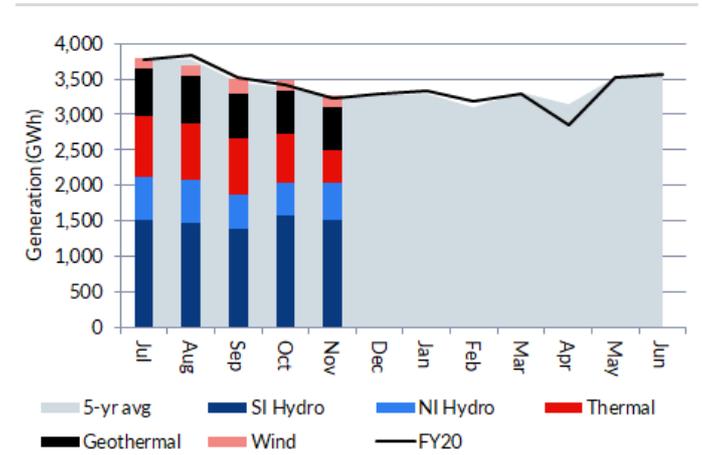
- New Zealand electricity demand averaged 105.8GWh/day in November, largely flat (-0.4%) on the pcp despite temperatures being -4% below that of 2019 and NZAS demand reducing. Tiwai demand decreased by -4.1% on the pcp as Potline 4 remains suspended.
- Total New Zealand generation of 3,235GWh in November 2020 was almost exactly the same as the pcp. However, thermal generation was up +33% on the pcp whilst South Island hydro was down -8% on a strong November 2019.
- Compared to last month, thermal generation decreased by -30% as a result of the seasonal decline in demand.

Figure 22. Rolling 28-day avg demand & rolling 12-m growth



Source: NZX energy, Forsyth Barr analysis

Figure 23. NZ generation (by technology) – fiscal year to June



Source: NZX energy, Forsyth Barr analysis

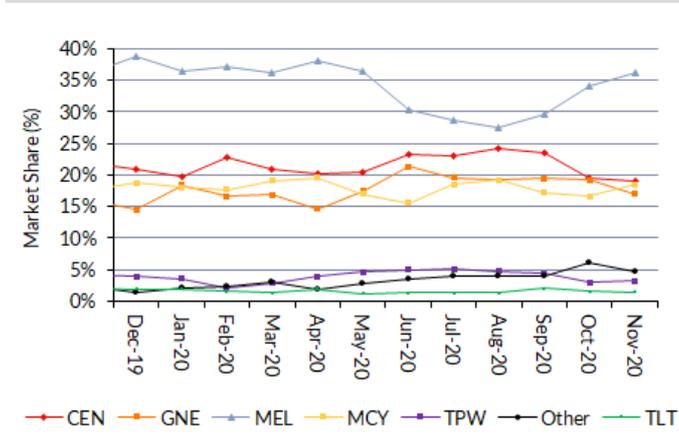
Generation market share – MEL continues to gain

- MEL gained +2.1% market share in November 2020 compared to the prior month, to reach 36.3% of generation. MCY and TPW also gained +1.9% and +0.2% to reach 18.5% and 3.1% respectively. GNE lost -2.3% whilst CEN and TLT lost -0.3% and -0.1% to have 16.9%, 19.1% and 1.4% of market share respectively.

CEN – Thermal generation down on November average

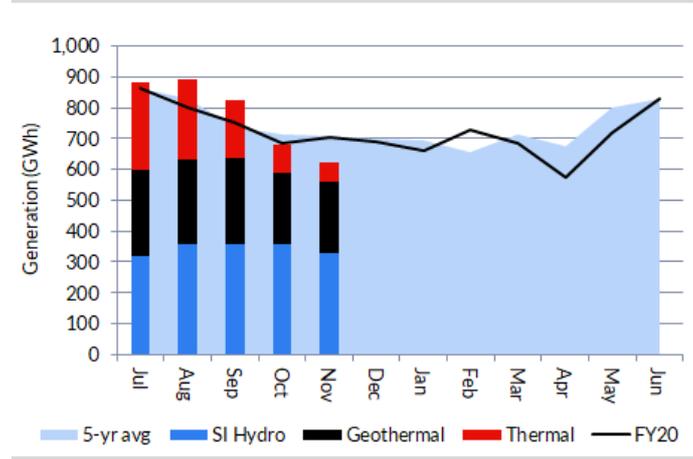
- Total CEN generation was 622GWh in November 2020, an -8.2% decrease from the prior month, and an -11.2% decrease on the pcp. Both hydro and thermal generation were below average for November, with CEN's Stratford Peaker and TCC thermal plants generating -66% and -81% less than average respectively and its Clutha hydro generation down -4% on average and -20% on the pcp. The reduced hydro generation comes in part as a result of transmission work in the lower South Island. Geothermal generation also remained below average as the Te Mihi plant underwent maintenance in October and November.

Figure 24. Monthly generation market share



Source: EnergyLink, Forsyth Barr analysis

Figure 25. CEN monthly generation mix (current, pcp & 5y avg)



Source: EnergyLink, Forsyth Barr analysis

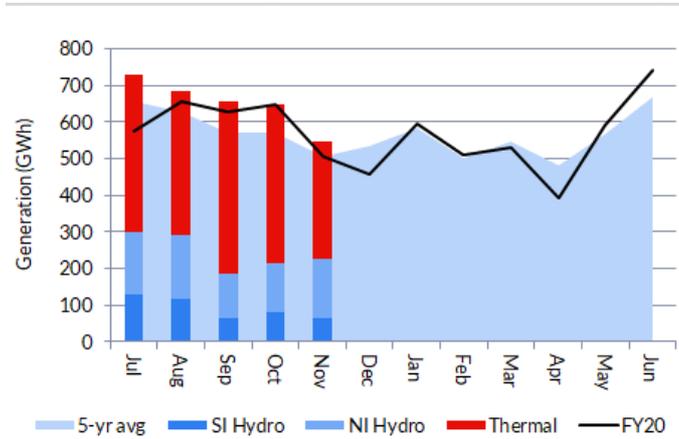
GNE – Strong North Island hydro generation

- GNE generation was down -15% on the prior month (average daily generation) to total 551GWh in November 2020. GNE's North Island hydro plants generated +17% more than average for November whilst GNE's South Island hydro (Tekapo) was down -25% compared to average and -48% below the pcp. GNE's Unit 5 generation is down as a result of annual maintenance checks, however, it is above average for November due to a smaller maintenance downtime than prior years.

MCY – Solid November

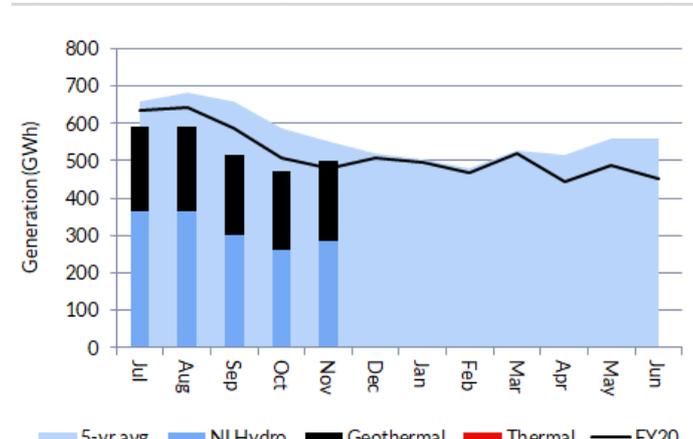
- MCY's November average daily generation of 20GWh was up +7% on the prior month and +6% on the pcp. MCY's Waikato hydro scheme generated -17% less than average (-25GWh) despite improving hydro storage levels, indicating MCY is likely holding back water. Apart from Mokai which was down -11%, all geothermal plants generated more than average for November.

Figure 26. GNE monthly generation mix (current, pcp & 5y avg)



Source: EnergyLink, Forsyth Barr analysis

Figure 27. MCY monthly generation mix (current, pcp & 5y avg)



Source: EnergyLink, Forsyth Barr analysis

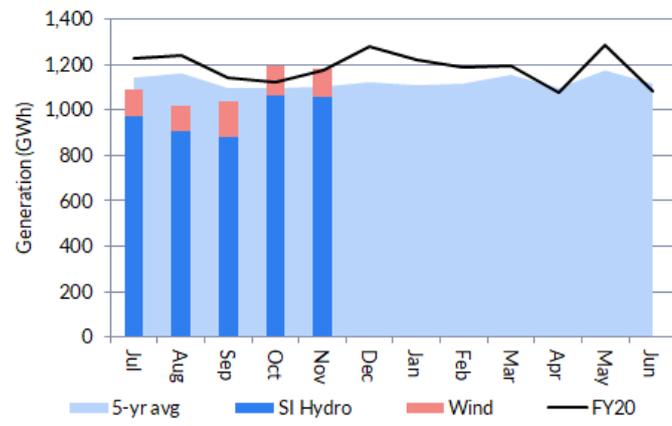
MEL – Another good month for Waitaki

- MEL generation of 1,180GWh was up +7% on average for November and +1% on the pcp. MEL's Waitaki and Manapouri hydro systems generated +10% and +5% more than average respectively, whilst wind generation was flat at ~126GWh.
- MEL's hydro storage has declined in November due to MEL running its hydro plant harder, Manapouri hydro storage declined to currently be at +57% of average whilst Pukaki storage dropped to 87% of average.

TPW – North island hydro up on prior year

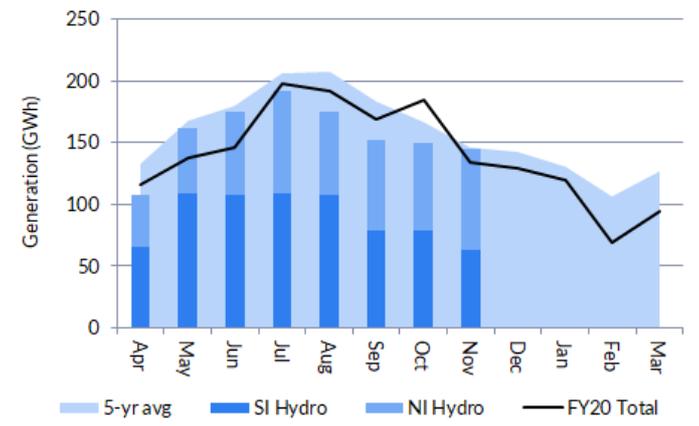
- We estimate that TPW generation was 145GWh in November, up +9% on the pcp. The increase in generation came from TPW's North Island hydro plants which generated +24% more than the pcp, in particular the Patea hydro generation of 14GWh was double that of last year. South Island hydro generation declined by -6% on the pcp.

Figure 28. MEL monthly generation mix (current, pcp & 5y avg)



Source: EnergyLink, Forsyth Barr analysis

Figure 29. TPW monthly generation mix (current, pcp & 5y avg)



Source: EnergyLink, Forsyth Barr analysis

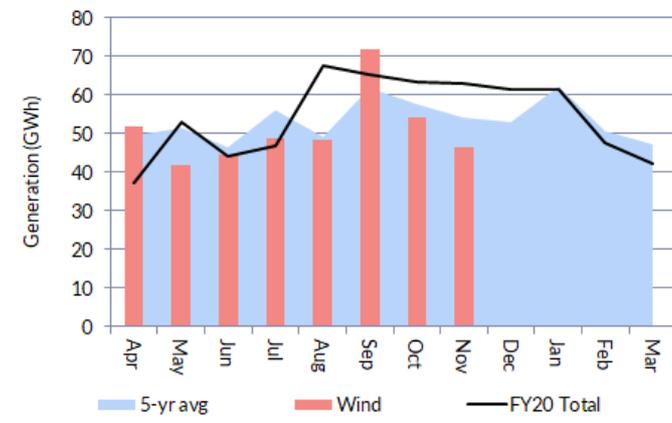
TLT – Weaker wind month

- Our estimate of TLT's NZ generation is 47GWh, an average daily generation decrease of -11% compared to October 2020 and -29% below the pcp.

Generation prices – Decline in GWAPs in November

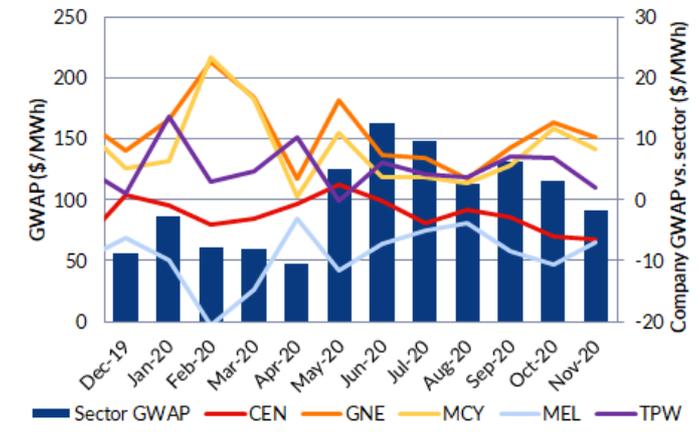
- The average generation weighted average price (GWAP) was \$91/MWh in November, down -10% from October. GNE had the highest GWAP at \$102/MWh, whilst both CEN and MEL received the lowest GWAP over the month of \$85/MWh. CEN was impacted by lower South Island transmission work more so than MEL due to a higher percentage of its generation being South of Benmore. TPW and MCY received \$94/MWh and \$100/MWh respectively.

Figure 30. TLT monthly generation mix (current, pcp & 5y avg)



Source: EnergyLink, Forsyth Barr analysis

Figure 31. Avg generation weighted average price (GWAP)



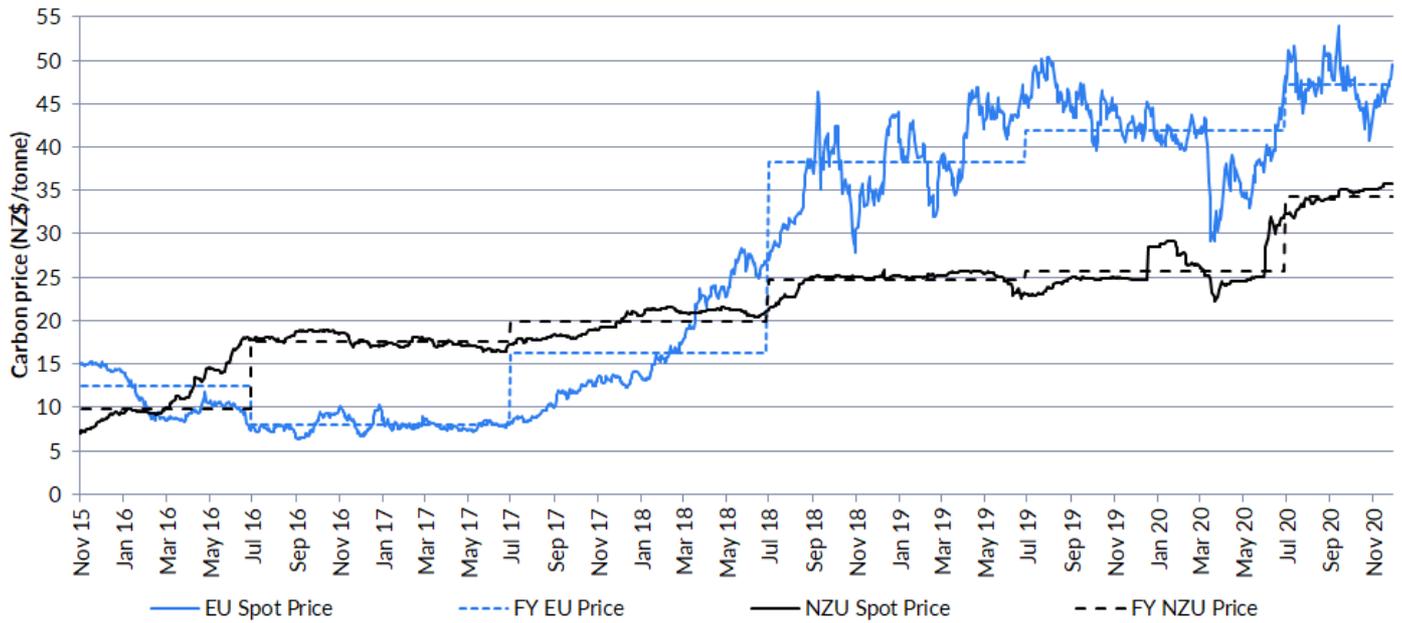
Source: EnergyLink, Forsyth Barr analysis

Carbon prices

NZ carbon prices – Units set a new record high

- NZ carbon units ended November at \$35.8/unit, the highest unit price recorded, and above the new Fixed Price Option (FPO) of \$35 that was raised from \$25 in June 2020.
- EU carbon units were €29.1/unit (~NZ\$49.5/unit) at the end of November, a +23% increase from the €23.7/unit (~NZ\$41.8/unit) price recorded at the end of October.

Figure 32. Price of carbon (NZ\$/tonne)



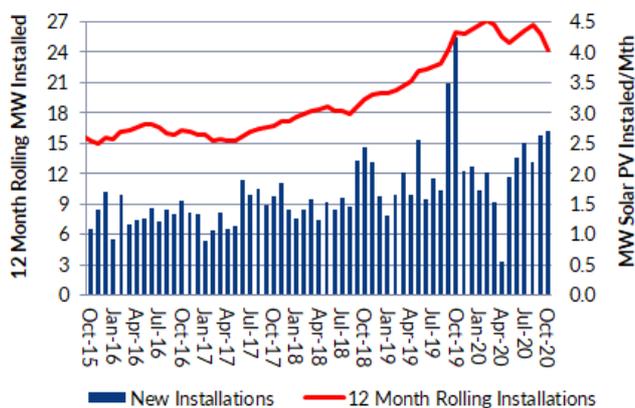
Source: Bloomberg, Forsyth Barr analysis

Solar PV installations

Rate of installation flat

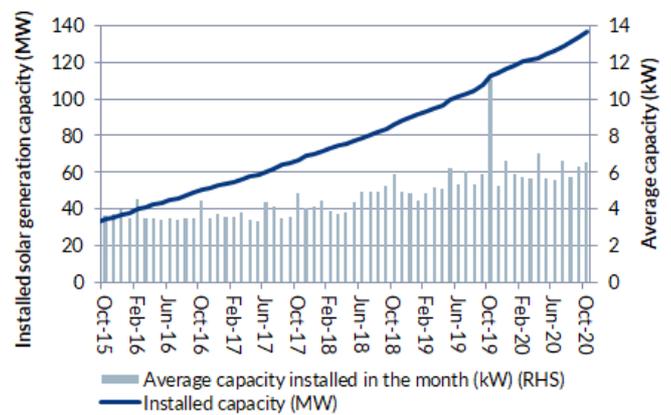
- There was 2.69MW of new solar capacity installed in October 2020, with 406 new connections. This is flat on the prior month, however, the rolling 12-month installations has declined due to the cycling of a record October 2019. Total installed capacity is now ~137MW with 29,579 solar ICPs.

Figure 33. Solar PV capacity installed



Source: Electricity Authority, Forsyth Barr analysis

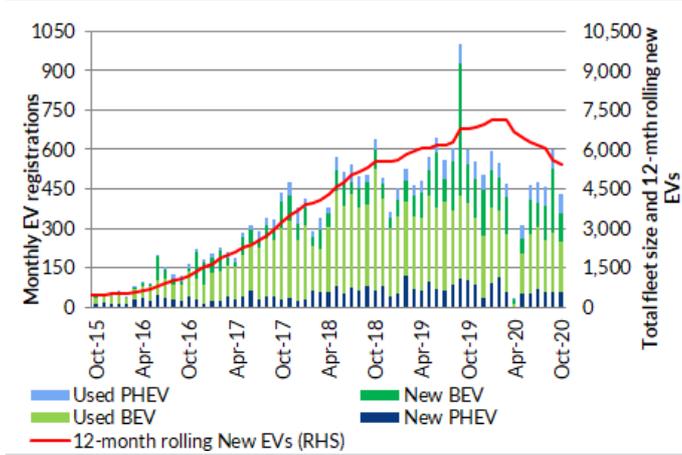
Figure 34. Average size of system and total capacity installed



Source: Electricity Authority, Forsyth Barr analysis

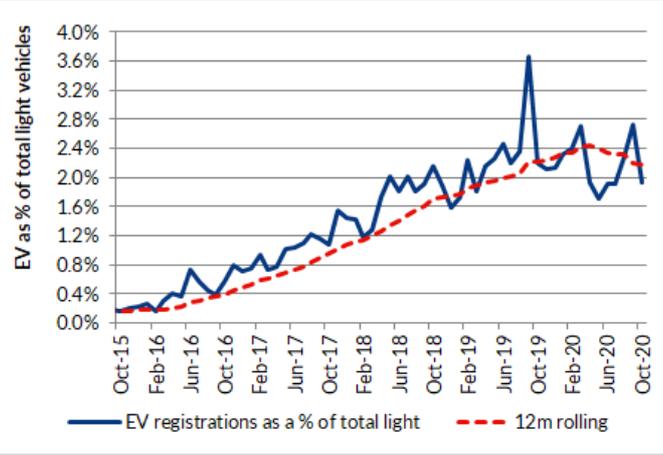
Electric vehicle (EV) registrations

Figure 35. EV registrations



Source: Ministry of Transport, Forsyth Barr analysis

Figure 36. EV registrations % of total light vehicle registrations

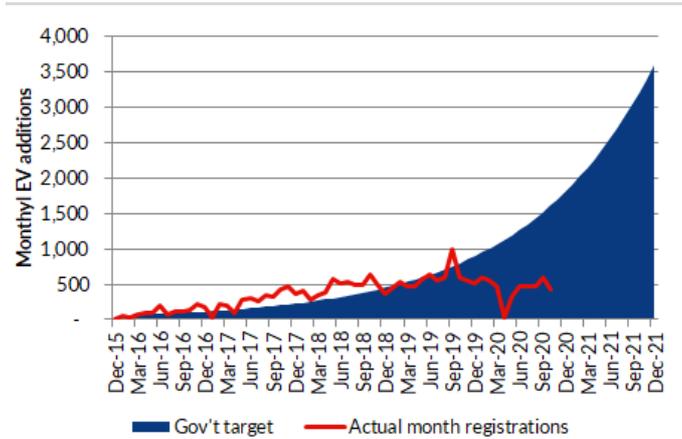


Source: Ministry of Transport, Forsyth Barr analysis

EV registrations down from strong September

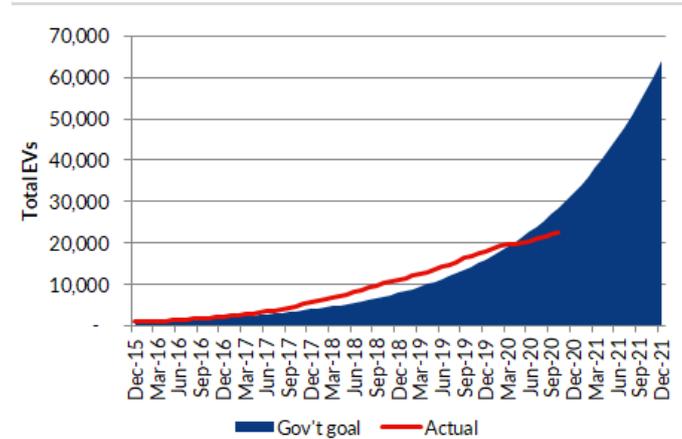
- There were 429 EVs registered in October 2020, of which 164 were new. The number of EVs registered fell from September which saw 602 registrations, and is also down on pre COVID-19 levels. The total number of EVs registered is 22,503, -6,006 below the government target number of EVs to have been registered by now. Monthly EV registrations have averaged ~500 per month since May 2018.
- New EVs made up ~1.4% of total new light vehicles registered in October 2020, down from 2.8% in October 2020. However, the number of used EVs registered per used light vehicle was slightly better at 2.5%.
- The government announced on 2 December that government agencies are now required to purchase electric vehicles. There are currently ~16,000 vehicles in the government fleet.

Figure 37. Monthly EV registrations vs. govt target



Source: Ministry of Transport, Forsyth Barr analysis

Figure 38. Total EVs registered vs. govt target



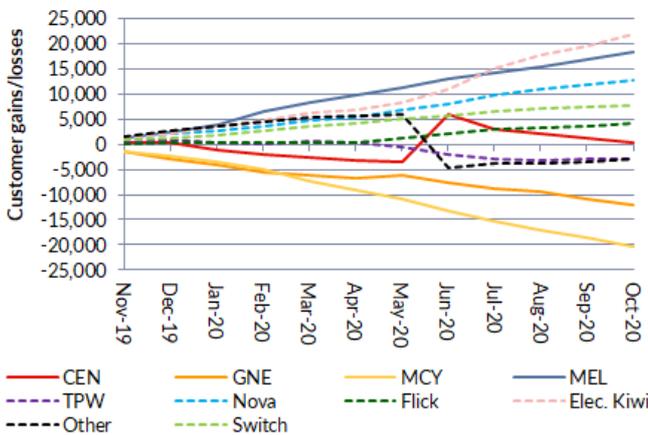
Source: Ministry of Transport, Forsyth Barr analysis

Retail electricity customers

Electric Kiwi growth continues

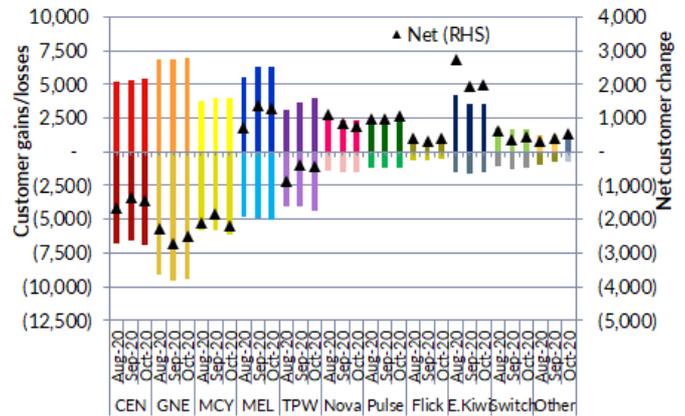
- MEL gained +1,435 customer connections in October 2020, and had the best month of the large generator/retailers. TPW was the only other listed retailer to gain connections, adding +69 over the month. MCY again had the worst month, losing -1,950 customers, whilst CEN and GNE lost -1,120 and -987 respectively. CEN appears to have lost a large chunk of the customers acquired from energyclubnz and over the past 12 months its customer numbers are flat.
- Electric Kiwi gained +2,125 connections and had the best month of all retailers. All other tier 2 retailers also gained connections in October, with Pulse Energy, Flick Electric, Switch Utilities and Nova adding +1,131, +483, +416 and +810 respectively.
- In October MEL gained the most customers (of the listed retailers) through switching (which excludes market growth), gaining +1,268 connections.

Figure 39. Cumulative 12-mth electricity customer gains/losses



Source: EA, Forsyth Barr analysis

Figure 40. Customer switches (excludes market growth)

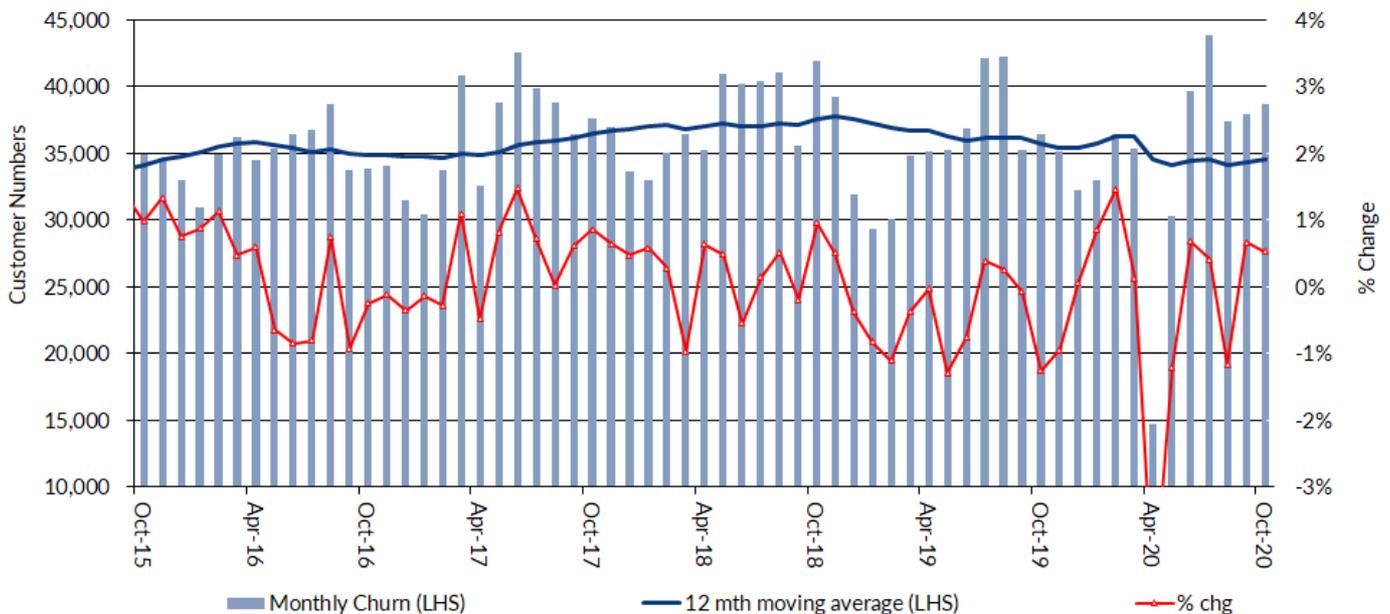


Source: EA, Forsyth Barr analysis

Connection churn

- There were ~38,600 customer switches in October 2020. This is a +2% increase on the prior month and a +6% increase on the pcp. Churn has been steady for the past three months following a high churn month in July 2020 which was boosted by the end of Level 4 lockdown.
- The percentage of switches from traders and moving were unchanged from the prior month at 34% and 66% respectively.

Figure 41. Electricity connection churn



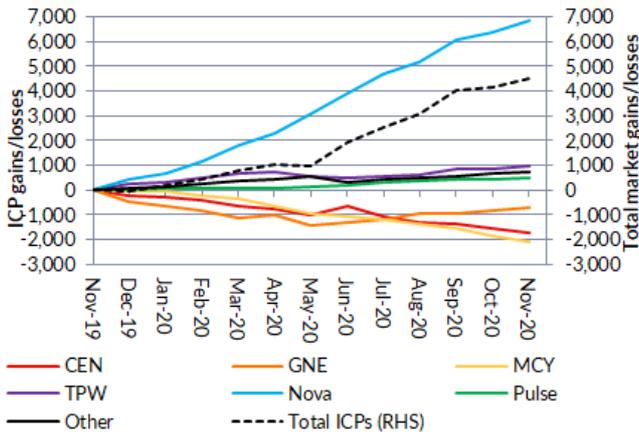
Source: EA, Forsyth Barr analysis

Retail gas customers

Nova continues its run

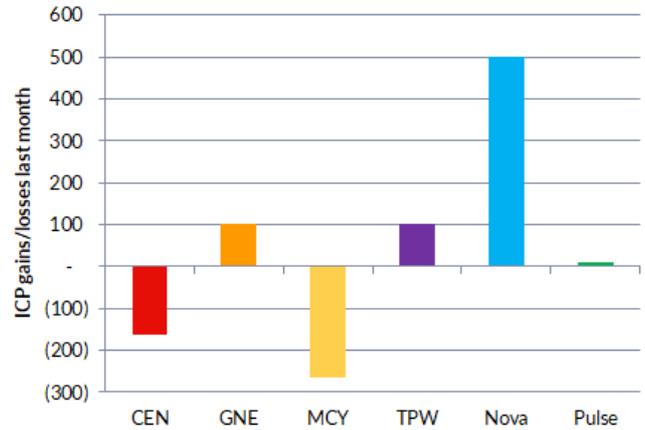
- Nova gained the most gas connections in November 2020, adding +499 over the month. TPW and GNE had the best months of the listed retailers, gaining +102 and +103 connections respectively. MCY had the worst month, losing -265 connections in November, whilst CEN lost -163 over the period.
- In the past 12 months TPW is the only listed retailer to gain connections, adding +955. Nova, however, has added the most overall, gaining +6,859 gas customers since November 2019.

Figure 42. Gas connection gains/losses over the past 12-months



Source: Gas Industry Co, Forsyth Barr analysis

Figure 43. Gas connection gains/losses in November 2020



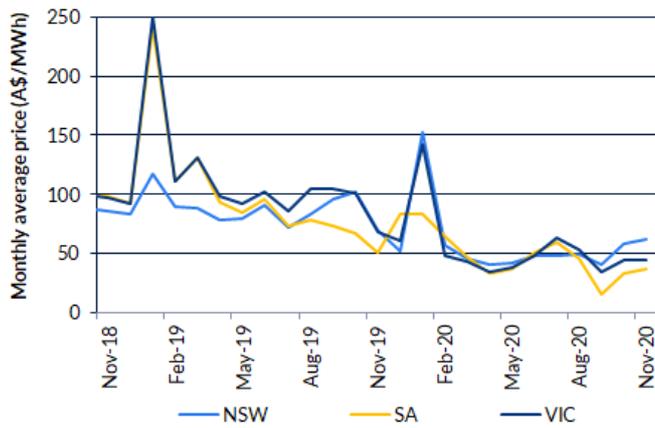
Source: Gas Industry Co, Forsyth Barr analysis

Australian electricity market

Wholesale electricity prices remain down on prior year

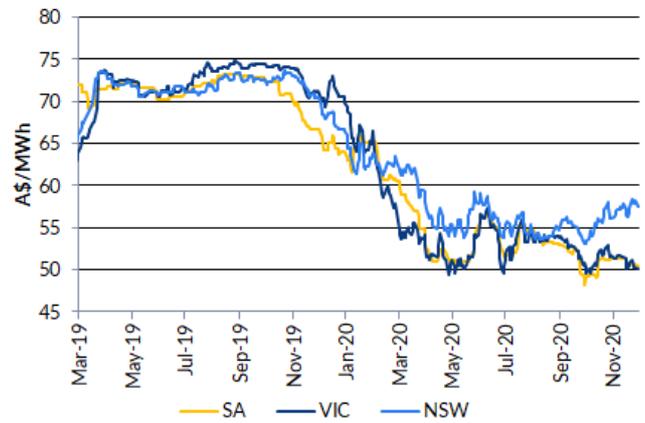
- NSW, VIC and SA prices were all down on the pcp in November. VIC experienced the sharpest decline, down -27% on November 2019 to average A\$50/MWh. SA and NSW were down -26% and -11% on the pcp respectively to average A\$38/MWh and A\$63/MWh.
- 2021 futures were mixed in November. NSW futures increased by +2.6% to end the month at A\$58/MWh, whilst SA and VIC futures were down -1.6% and -3.0% to end the month at A\$51/MWh and A\$50/MWh respectively.

Figure 44. Australian wholesale electricity price (A\$/MWh)



Source: AEMO, Forsyth Barr analysis

Figure 45. Australian 2021 futures prices (A\$/MWh)

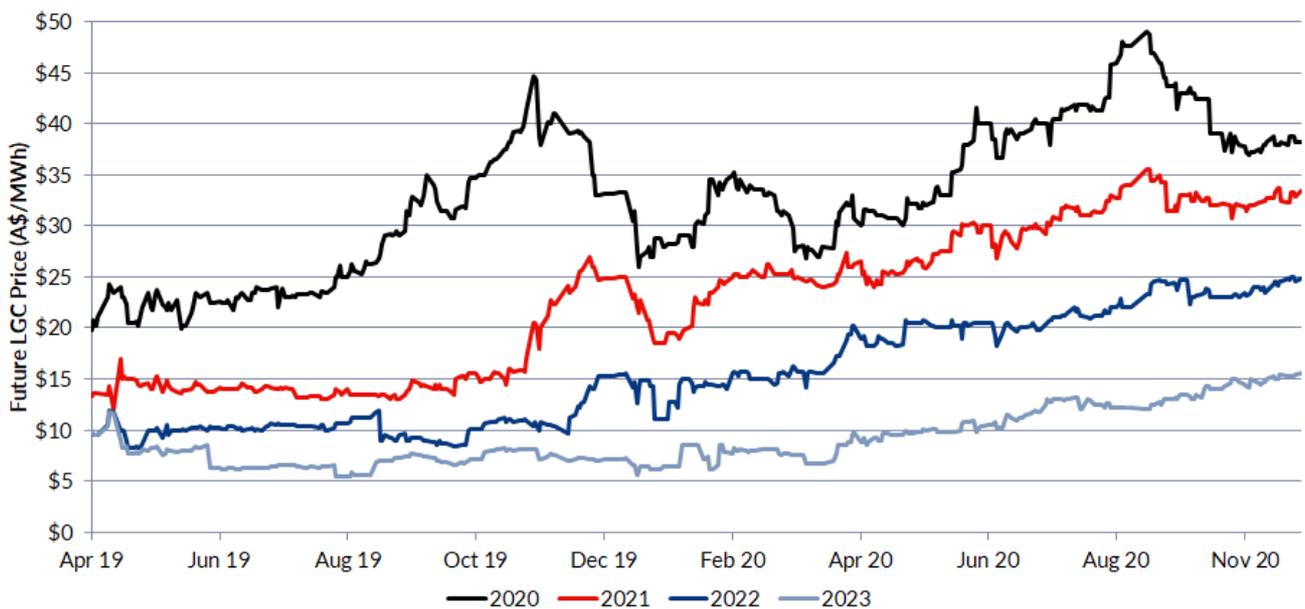


Source: Thomson Reuters, Forsyth Barr analysis

Long-dated renewable energy certificates (LGC) prices rise

- 2020 LGC prices were up +1% from the end of October to the end of November and are currently A\$38.3/MWh. This is broadly flat on the pcp where 2020 LGCs were trading at A\$39.3/MWh.
- 2021 and 2022 LGC prices were up in November, increasing +5% and +6% respectively over the month to sit at A\$33.4/MWh and A\$24.8/MWh.

Figure 46. Renewable energy certificate prices (LGC)



Source: Bloomberg, Forsyth Barr analysis

Key statistics

New Zealand electricity market statistics

Figure 47. Key statistics – New Zealand

	Nov-19	Oct-20	Nov-20	% Chg pcp	% Chg mom
Average Monthly Prices					
OTA avg (\$/MWh)	\$ 116.4	\$ 129.0	\$ 103.9	-10.8%	-19.5%
HAY avg (\$/MWh)	\$ 101.5	\$ 118.1	\$ 93.5	-7.9%	-20.8%
BEN avg (\$/MWh)	\$ 93.5	\$ 113.8	\$ 89.6	-4.1%	-21.3%
Avg Daily Generation (GWh)					
CEN	23.5	21.9	20.7	-11.6%	-5.1%
% of NZ Generation	21.8%	19.4%	19.2%	-11.6%	-1.0%
GNE	17.3	21.6	18.4	6.2%	-15.0%
% of NZ Generation	16.0%	19.2%	17.0%	6.2%	-11.3%
MCY	18.9	18.7	20.1	6.0%	7.3%
% of NZ Generation	17.6%	16.6%	18.6%	6.0%	11.9%
MEL	39.1	38.5	39.3	0.6%	2.3%
% of NZ Generation	36.2%	34.2%	36.5%	0.6%	6.7%
TPW	6.5	5.1	5.0	-24.2%	-2.8%
% of NZ Generation	6.1%	4.5%	4.6%	-24.2%	1.5%
Daily Demand (GWh)					
Demand (excl Tiwai)	92.1	96.3	92.2	0.2%	-4.2%
NZAS demand	14.2	13.5	13.6	-4.1%	0.9%
Total NZ Demand	106.2	109.8	105.8	-0.4%	-3.6%
Hydrology (% of average)					
Average hydro inflows	110%	107%	90%	-18.0%	-15.8%
Average hydro storage	114%	94%	106%	-7.4%	11.9%
Month end hydro storage	128%	103%	97%	-24.2%	-5.8%
ASX futures as at:					
	29-Nov-19	30-Oct-20	30-Nov-20		
Short-dated OTA	\$ 129.7	\$ 120.8	\$ 126.3	-2.7%	4.6%
Long-dated OTA	\$ 98.5	\$ 96.5	\$ 105.4	7.0%	9.2%
Short-dated BEN	\$ 103.0	\$ 107.2	\$ 111.3	8.0%	3.8%
Long-dated BEN	\$ 87.9	\$ 78.0	\$ 86.5	-1.6%	10.9%

Source: NZX Energy, EnergyLink, Thomson Reuters, Forsyth Barr analysis

Australian electricity market statistics

Figure 48. Key statistics Australia

	Nov-19	Oct-20	Nov-20	% Chg pcp	% Chg mom
Average Monthly Prices					
NSW avg (A\$/MWh)	\$ 69.9	\$ 70.0	\$ 62.5	-10.6%	-10.7%
SA avg (A\$/MWh)	\$ 50.9	\$ 38.8	\$ 37.8	-25.7%	-2.5%
VIC avg (A\$/MWh)	\$ 68.0	\$ 53.7	\$ 49.6	-27.1%	-7.6%
Electricity Futures for 2021:					
	30-Nov-19	31-Oct-20	30-Nov-20		
NSW avg (A\$/MWh)	\$ 70.6	\$ 56.0	\$ 57.5	-18.5%	2.6%
SA avg (A\$/MWh)	\$ 66.7	\$ 51.3	\$ 50.5	-24.3%	-1.6%
VIC avg (A\$/MWh)	\$ 71.2	\$ 51.6	\$ 50.1	-29.7%	-3.0%
Spot and Future LGC Prices					
	30-Nov-19	31-Oct-20	30-Nov-20		
2020 (A\$/MWh)	\$ 39.3	\$ 37.8	\$ 38.3	-2.5%	1.3%
2021 (A\$/MWh)	\$ 24.1	\$ 31.9	\$ 33.4	38.6%	4.9%
2022 (A\$/MWh)	\$ 9.6	\$ 23.5	\$ 24.8	158.3%	5.5%

Source: Bloomberg, AEMO, Thomson Reuters, Forsyth Barr analysis

Industry news

Listed sector company news

Contact (CEN)

- CEN announced on 2 December that it will receive -3.7PJ (-26%) less gas from OMV in 2021 than expected. The downgrade is a result of OMV's continued production at its Pohokura gas field and equates to ~390GWh of reduced generation for CEN. CEN now expects to receive 10.6PJ for the year. Earnings should not be impacted unless there is a dry year.
- Rukumoana Schaafhausen will join CEN's board as an independent director in March 2021. Schaafhausen will replace Whaimutu Dewes on the board, and is a commercial and property lawyer as well as being an influential member of her iwi.

Genesis (GNE)

- GNE has announced a strategic review of its 46% ownership stake in the Kupe gas and oil field. GNE indicated that there is likely to be further exploration and drilling at the field, which changes the risk and return profile of the investment. The outcome of the strategic review will determine whether GNE sells or retain its stake, and the results are expected to be announced in mid 2021. We believe a sale is the most likely outcome, assuming a buyer can be found.
- Intellihub, the smart metering company which brought MCY's Metrix metering business, has failed to stop GNE from replacing its smart meters with Advanced Metering Services (AMS) meters (AMS is owned by Vector) after taking the matter to the High Court. GNE has decided to replace ~45,000 Intellihub meters with AMS units, however, Intellihub said this breached an implied contract between the companies. Despite the High Court result, Intellihub plans to pursue a claim against GNE in the Court of Appeal.

Mercury (MCY)

- MCY has indicated that its 222MW Turitea wind farm is still expected to be completed on time despite a landslip sweeping away the road used to transport the blades three months ago. Vestas, the company building the turbines, still hasn't found a solution for the swept away road, however, MCY has said the 33 Northern turbines should be generating by mid 2021 and the 27 Southern turbines by late 2021 as planned.

NZ Windfarms (NWF)

- NWF has provided first time FY21 EBITDAFI guidance of between NZ\$5.7m and NZ\$6.3m. This is down from a record FY20 of NZ\$8.0m, however, would still be the company's second highest earnings result recorded.

Tilt Renewables (TLT)

- TLT's Waipipi wind farm began delivering electricity to the national grid in mid November 2020. The initial start up involved only four turbines, with 31 expected to be commissioned by the end of March 2021. The 133MW wind farm is expected to produce ~455GWh per year once complete. GNE is buying all of the output, including commissioning volumes.
- TLT's 1H21 EBITDAFI of A\$32m was down -55% on 1H20 due to the company's sale of Snowtown 2 in December 2019, as well as declining wholesale electricity prices in Australia. TLT expects both the Waipipi and Dundonnell wind farms to be complete by the end of FY21, with Dundonnell having been delayed due to regulatory issues.

Trustpower (TPW)

- TPW has announced that Matthew van Deventer will fill the General Manager of Technology and Delivery role until a permanent appointment is made in the first half of 2021. Mr van Deventer has led TPW's Technology team for the past six years.
- TPW's 1H21 result was largely in-line with expectations. EBITDAFI of NZ\$110m was +NZ\$3m better than 1H20 despite challenging hydro conditions, with the company saying that North Island hydro conditions were that of a once in a 100 year drought.

Environmental and emerging technology news

- The government announced in its declaration of a climate change emergency that from now on government agencies will be required to purchase electric vehicles in order to "optimise their car fleet", or purchase hybrids where EVs are not practical. There are currently ~16,000 vehicles in the government fleet. The government also announced that the ~200 coal-fired boilers that currently heat state sector buildings and the water in them will be phased out and replaced.

- South Australia has announced it will impose a road-user charge (RUC) on electric vehicles. The RUC will apply to both full battery and plug in hybrids but not standard hybrid cars, with New South Wales and Victoria said to be considering introducing a similar charge.
- The New South Wales Government has announced its plans to attract A\$32b in private investment to facilitate the shift to a renewable energy system. The government aims to help attract 12GW of renewable energy and 2GW of storage, in an effort to replace the states five existing coal-fired power stations, which currently produce ~75% of the state's electricity and are due to close in coming years.
- Hiringa Energy and Firstgas have announced a collaboration agreement to work on key hydrogen projects together. The companies have announced that Firstgas' hydrogen pipeline trial programme and Hiringa's hydrogen refuelling stations are of common interest.
- MEL has said it is in favour of the changes to thermal fuel disclosure guidelines that have been proposed by the Electricity Authority (EA). The changes include four key proposals relating to increased disclosure and further awareness of existing disclosure. A number of tier-2 retailers have also come out in support of the changes, including Electric Kiwi, Ecotricity, Flick and Pulse. However, GNE and the Major Electricity Users Group (MEUG) say that some proposed guidelines create a burden on gas producers and thermal generators and provide no benefit to the market.
- Fonterra is still working on a decarbonising plan for its Stirling cheese factor, however, it is more likely to be biomass rather than electricity used to reduce coal use. Fonterra was initially planning on electrifying the plant but it announced in July that it would instead convert it to biomass. The company is aiming to have net-zero emissions by 2050 which will involve switching a large portion of its plants to renewable energy.

Political/regulatory news

Other political/regulatory news

- National leader Judith Collins has appointed Barbara Kuriger as the Party's energy and resources spokesperson, taking over from Jonathan Young who lost the New Plymouth seat in the election. Kuriger is the MP for Tararua-King Country and has held the seat since 2014.
- The government has launched an NZ\$69m fund to decarbonise process heat. The fund is being administered by Energy Efficiency & Conservation Authority (EECA).
- New Zealand is likely to have ~1,035GWh of new geothermal generation capacity by 2060 according to a new report created for the Ministry of Business Innovation and Employment (MBIE) by Jim Lawless of Lawless Geo-Consulting. This is higher than the 2016 edition of the report which expected 945GWh of capacity, however, Lawless said that the biggest barrier will be regulatory delays and landownership issues.
- The Energy Efficiency and Conservation Authority (EECA) has said that a guideline on high-temperature heat pumps could help industrial process heat shift away from coal boilers. The EECA commissioned Standards New Zealand to develop a specification on the heat pumps in industrial and commercial heating applications to provide best practice guidance to industry and consumers.
- The government has launched an NZ\$69m fund to decarbonise process heat. The EECA will administer the fund, with the first round, which offers a minimum of NZ\$15m, opened on 11 November and the deadline for proposals 14 December. Energy and Resources Minister Megan Woods has said that applicants will need to already have a plan in place to decarbonise their process heat.
- The EA has announced that the undesirable trading situation (UTS) period may be extended an extra 11 days further than initially thought. It has said that the water lost from spilling could have displaced North Island hydro and thermal plant up until 27 December 2019, later than was originally thought. The EA accepted submissions up until 20 November in a supplementary round of consultation and intends to make a final decision in December. MEL has said it is pleased the EA is not looking to fix blame in the supplementary consultation, however, Flick Electric is also happy with the possible extension to the UTS, saying the EA is on path to holding MEL accountable.
- The EA is consulting on a mandatory market making backstop being put in the industry code. The backstop works to bind market makers who fail to meet voluntary requirements to fewer exemptions. The consultation period ends 18 January 2021.
- Transpower is accepting submissions on the benefit-based charges (BBC) in the transmission pricing methodology (TPM). The BBC is intended to allocate the costs associated with benefit-based investments to generation and load customers in proportion with their benefits. Consultation is open until 14 December 2020.

Other industry news

- The Major Electricity Users Group (MEUG) has said that policies aimed at achieving 100% renewable electricity generation by 2030 risk pushing up New Zealand's already high electricity prices. In their briefing paper to incoming ministers, MEUG said that these policies could further erode confidence in the wholesale electricity market and could prompt large companies to exit or curtail operations in New Zealand.

Source: Energy News, Company reports, Forsyth Barr analysis

Contact Energy Limited (CEN)

Priced as at 03 Dec 2020 (NZ\$)						7.91						
12-month target price (NZ\$)*						8.60	Spot valuations (NZ\$)					
Expected share price return						8.7%	1. DCF					8.41
Net dividend yield						4.0%	2. Market multiples					7.91
Estimated 12-month return						12.8%	3. Dividend yield					7.64
Key WACC assumptions						DCF valuation summary (NZ\$m)						
Risk free rate						1.30%	Total firm value					7,220
Equity beta						0.84	(Net debt)/cash					(1,201)
WACC						5.2%	Less: Capitalised operating leases					
Terminal growth						1.5%	Value of equity					6,019
Profit and Loss Account (NZ\$m)						Valuation Ratios						
Sales revenue	2019A	2020A	2021E	2022E	2023E		2019A	2020A	2021E	2022E	2023E	
Normalised EBITDA	2,519.0	2,073.0	2,068.5	1,693.2	1,661.6	EV/EBITDA (x)	13.3	14.8	14.5	16.9	16.1	
Depreciation and amortisation	518.0	451.0	463.3	397.0	417.3	EV/EBIT (x)	22.0	28.9	31.9	39.9	32.5	
Normalised EBIT	(205.0)	(220.0)	(253.1)	(228.7)	(210.8)	PE (x)	20.4	22.8	23.0	28.3	26.1	
Net interest	313.0	231.0	210.2	168.3	206.6	Price/NTA (x)	2.4	2.6	2.8	2.9	3.1	
Depreciation capex adjustment	(70.0)	(55.0)	(57.8)	(59.2)	(55.5)	Free cash flow yield (%)	6.0	4.3	4.7	4.7	4.2	
Tax	102	120	137	121	108	Net dividend yield (%)	4.9	4.9	4.0	4.0	4.0	
Minority interests	(72.0)	(46.0)	(42.7)	(30.5)	(42.3)	Gross dividend yield (%)	6.2	6.2	4.9	4.8	5.3	
Adjusted normalised NPAT	0	0	0	0	0	Capital Structure						
Abnormals/other	277.5	248.5	246.6	200.0	216.5	Interest cover EBIT (x)	4.9	4.8	3.9	3.0	4.0	
Reported NPAT	67	(124)	(137)	(121)	(108)	Interest cover EBITDA (x)	7.4	8.2	8.0	6.7	7.5	
Normalised EPS (cps)	345.0	125.0	109.8	78.5	108.8	Net debt/ND+E (%)	26.2	28.3	29.9	30.2	31.1	
DPS (cps)	38.8	34.7	34.5	27.9	30.2	Net debt/EBITDA (x)	1.9	2.3	2.3	2.6	2.4	
	39.0	39.0	32.0	32.0	32.0	Key Ratios						
Growth Rates						2019A	2020A	2021E	2022E	2023E		
Revenue (%)	10.7	-17.7	-0.2	-18.1	-1.9	Return on assets (%)	9.8	4.6	4.5	3.7	4.8	
EBITDA (%)	8.1	-12.9	2.7	-14.3	5.1	Return on equity (%)	6.3	4.9	4.5	3.3	4.9	
EBIT (%)	18.6	-26.2	-9.0	-19.9	22.7	Return on funds employed (%)	9.3	4.4	4.3	3.6	4.6	
Normalised NPAT (%)	21.4	-10.4	-0.8	-18.9	8.3	EBITDA margin (%)	20.6	21.8	22.4	23.4	25.1	
Normalised EPS (%)	21.4	-10.4	-0.8	-18.9	8.3	EBIT margin (%)	12.4	11.1	10.2	9.9	12.4	
Ordinary DPS (%)	21.9	0.0	-17.9	0.0	0.0	Capex to sales (%)	2.5	4.8	2.9	3.4	3.5	
Cash Flow (NZ\$m)						31	45	24	25	28		
EBITDA	518.0	451.0	463.3	397.0	417.3	Capex to depreciation (%)	64	64	55	50	80	
Working capital change	(20.0)	(24.0)	(8.7)	3.5	(4.6)	Imputation (%)	64	64	55	50	80	
Interest & tax paid	(111.0)	(118.0)	(130.0)	(79.6)	(119.5)	Pay-out ratio (%)	101	112	93	115	106	
Other	14.0	32.0	0	0	0	Operating Performance						
Operating cash flow	401.0	341.0	324.6	320.8	293.2	Hydro generation (GWh)	4,232	3,752	4,018	3,096	3,755	
Capital expenditure	(63.0)	(100.0)	(60.0)	(57.0)	(58.1)	Geothermal generation (GWh)	3,257	3,331	3,070	3,324	3,324	
(Acquisitions)/divestments	382.0	(6.0)	0	0	0	Thermal generation (GWh)	1,422	1,360	1,439	385	385	
Other	0	0	0	0	0	Total Generation (GWh)	8,911	8,443	8,527	6,804	7,463	
Funding available/(required)	720.0	235.0	264.6	263.8	235.1	GWAP (\$/MWh)	129	100	99	65	59	
Dividends paid	(251.0)	(280.0)	(279.1)	(229.0)	(229.0)	Gas consumed (PJ)	13.9	13.2	13.7	3.8	3.8	
Equity raised/(returned)	0	0	0	0	0	Gas price (\$/GJ)	7.1	6.8	6.9	7.0	5.9	
(Increase)/decrease in net debt	469.0	(45.0)	(14.6)	34.8	6.1	Balance Sheet (NZ\$m)						
Working capital	(3.0)	19.0	25.7	20.3	22.9	Retail electricity volumes (GWh)	6,554	5,694	5,615	5,561	5,395	
Fixed assets	4,097.0	3,999.0	3,808.9	3,640.2	3,490.5	Electricity customers (000)	411	418	409	401	393	
Intangibles	425.0	406.0	406.0	406.0	406.0	Average usage/customer (MWh)	8.6	8.5	8.6	8.6	8.6	
Right of use asset	29.0	27.0	27.0	27.0	27.0	Average retail price (\$/MWh)	191	199	201	194	193	
Other assets	132.0	173.0	173.0	173.0	173.0	LWAP (\$/MWh)	136	108	107	72	64	
Total funds employed	4,680.0	4,624.0	4,440.6	4,266.5	4,119.4	LWAP/GWAP	1.06	1.08	1.08	1.11	1.10	
Net debt/(cash)	990.0	1,036.0	1,050.6	1,015.8	1,009.7	Retail gas volumes (PJ)						
Lease liability	25.0	22.0	22.0	22.0	22.0	Gas customers (000)	3.1	3.0	3.0	3.0	3.0	
Other liabilities	883.0	940.0	907.0	878.7	853.6	Average gas sales price (\$/GJ)	23.6	24.5	25.4	25.8	24.8	
Shareholder's funds	2,782.0	2,626.0	2,461.1	2,350.0	2,234.1							
Minority interests	0	0	0	0	0							
Total funding sources	4,680.0	4,624.0	4,440.6	4,266.5	4,119.4							

Genesis Energy Limited (GNE)

Priced as at 03 Dec 2020 (NZ\$)

3.34

12-month target price (NZ\$)*

3.38

Expected share price return

1.2%

Net dividend yield

4.2%

Estimated 12-month return

5.4%

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

4,347

(Net debt)/cash

(1,320)

Less: Capitalised operating leases

Value of equity

3,027

Profit and Loss Account (NZ\$m)	2019A	2020A	2021E	2022E	2023E	Valuation Ratios	2019A	2020A	2021E	2022E	2023E
Sales revenue	3,410.0	3,354.5	3,414.6	2,693.5	2,435.4	EV/EBITDA (x)	12.7	13.3	11.6	11.9	14.4
Normalised EBITDA	369.4	355.6	403.6	386.4	319.2	EV/EBIT (x)	28.0	32.4	24.5	28.0	47.0
Depreciation and amortisation	(201.7)	(209.8)	(212.7)	(221.7)	(221.2)	PE (x)	21.3	22.5	18.5	18.5	24.6
Normalised EBIT	167.7	145.8	190.9	164.7	98.0	Price/NTA (x)	1.9	2.0	2.1	2.2	2.3
Net interest	(77)	(71)	(66)	(62)	(57)	Free cash flow yield (%)	4.8	5.1	7.3	6.2	4.8
Associate income	0	0	0	0	0	Net dividend yield (%)	5.1	5.1	4.2	4.2	4.2
Tax	(26)	(22)	(35)	(29)	(11)	Gross dividend yield (%)	6.7	6.8	5.8	5.8	5.3
Depreciation capex adjustment	96	101	100	117	116						
Adjusted normalised NPAT	160	154	190	191	145	Capital Structure	2019A	2020A	2021E	2022E	2023E
Abnormals/other	(101)	(108)	(100)	(117)	(116)	Interest cover EBIT (x)	2.1	1.9	2.9	2.7	1.7
Reported NPAT	59	46	90	74	30	Interest cover EBITDA (x)	4.8	5.0	6.1	6.3	5.6
Normalised EPS (cps)	15.7	14.9	18.1	18.1	13.6	Net debt/ND+E (%)	36.6	37.6	35.7	34.1	34.1
DPS (cps)	17.1	17.2	14.0	14.0	14.0	Net debt/EBITDA (x)	3.4	3.5	2.8	2.7	3.1
Growth Rates	2019A	2020A	2021A	2022A	2023A	Key Ratios	2019A	2020A	2021E	2022E	2023E
Revenue (%)	48.0	-1.6	1.8	-21.1	-9.6	Return on assets (%)	3.4	2.9	4.4	4.0	2.5
EBITDA (%)	2.5	-3.7	13.5	-4.3	-17.4	Return on equity (%)	3.0	2.6	4.4	3.8	1.6
EBIT (%)	8.3	-13.1	30.9	-13.7	-40.5	Return on funds employed (%)	3.6	3.2	4.4	3.9	2.5
Normalised NPAT (%)	24.6	-3.8	23.0	0.7	-24.1	EBITDA margin (%)	10.8	10.6	11.8	14.3	13.1
Normalised EPS (%)	22.7	-5.0	21.7	-0.2	-24.7	EBIT margin (%)	4.9	4.3	5.6	6.1	4.0
Ordinary DPS (%)	0.9	0.9	-18.6	0.0	0.0	Capex to sales (%)	2.0	2.1	2.8	2.3	2.6
						Capex to depreciation (%)	34	33	44	28	29
Cash Flow (NZ\$m)	2019A	2020A	2021E	2022E	2023E	Imputation (%)	80	80	100	100	70
EBITDA	369.4	355.6	403.6	386.4	319.2	Pay-out ratio (%)	109	116	77	78	103
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)	Operating Performance	2019A	2020A	2021E	2022E	2023E
Other	15.1	(12.4)	0	0	0	Renewable generation	2,835	2,340	2,754	2,724	2,724
Operating cash flow	234.1	245.8	349.7	277.8	231.6	Gas generation	2,586	3,121	2,780	1,511	893
Capital expenditure	(68.5)	(69.0)	(94.0)	(61.5)	(63.7)	Coal generation	1,410	1,340	1,295	219	219
(Acquisitions)/divestments	(0.2)	(7.6)	0	0	0	Total GNE generation (GWh)	6,831	6,801	6,829	4,455	3,836
Other	0	0	0	0	0	GWAP (\$/MWh)	143	114	125	78	79
Funding available/(required)	165.4	169.2	255.7	216.3	167.9	Retail electricity					
Dividends paid	(131.6)	(138.4)	(131.7)	(118.8)	(119.9)	Electricity customers (000)	499	493	470	441	412
Equity raised/(returned)	(1.3)	(0.1)	0	0	0	MM/SME volumes	4,077	4,111	4,011	3,796	3,561
(Increase)/decrease in net debt	32.5	30.7	124.0	97.5	48.0	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
Balance Sheet (NZ\$m)	2019A	2020A	2021E	2022E	2023E	Average MM usage/cust (kWh/yr)	8,126	8,333	8,293	8,323	8,340
Working capital	111.8	99.4	38.8	38.6	36.9	Average FPV price (\$/MWh)	210	212	212	213	216
Fixed assets	3,773.1	3,675.1	3,558.6	3,402.3	3,250.7	LWAP (\$/MWh)	139	110	125	75	75
Intangibles	364.0	353.4	356.1	352.1	346.3	LWAP/GWAP	0.97	0.96	1.00	0.95	0.95
Right of use asset	0	0	0	0	0	Line losses (%)	5.4	5.7	5.6	5.6	5.6
Other assets	120.8	163.3	158.4	158.4	158.4	Kupe production					
Total funds employed	4,369.7	4,291.2	4,111.8	3,951.4	3,792.2	Gas production (PJ)	11.8	10.7	10.9	11.8	11.3
Net debt/(cash)	1,293.1	1,334.9	1,210.9	1,113.4	1,065.4	Oil production (k barrels)	472.9	374.3	348.9	495.2	430.9
Lease liability	0	0	0	0	0	LPG production (k tonnes)	50.6	46.6	47.8	52.1	50.5
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	Kupe EBITDAF (\$m)	109	94	95	112	106
Minority interests	0	1.8	1.8	1.8	1.8	Energy EBITDAF (\$m)	260	262	309	274	213
Total funding sources	4,369.7	4,291.2	4,111.8	3,951.4	3,792.2	GNE EBITDAF (\$m)	369	356	403	386	319

Mercury

Downgrading on Big Uplift

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UNDERPERFORM

We are downgrading Mercury (MCY) to UNDERPERFORM from NEUTRAL. Since the beginning of November MCY's share price has rallied +20% with no news to justify the strong share price performance and outperforming the NZX50C +15.3%. In recent years the main driver of electricity stock share prices has been interest rates. In November the 10-year swap rate lifted +0.34% to 0.83%, collapsing the spread between MCY's gross dividend yield and the 10-year swap rate to less than 3.0% (a new low). Whilst we like the quality of MCY's assets and the industry it operates in, it is expensive and there are better value options in the market.

NZX Code	MCY	Financials: Jun/	20A	21E	22E	23E	Valuation (x)	20A	21E	22E	23E
Share price	NZ\$6.41	NPAT* (NZ\$m)	236.1	263.1	246.6	237.4	PE	37.0	33.2	35.4	36.7
Target price	NZ\$5.37	EPS* (NZc)	17.3	19.3	18.1	17.4	EV/EBIT	34.0	34.4	36.5	37.7
Risk rating	Low	EPS growth* (%)	-1.2	11.4	-6.3	-3.7	EV/EBITDA	20.0	19.2	19.6	19.7
Issued shares	1360.9m	DPS (NZc)	15.8	17.0	17.0	18.0	Price / NTA	2.4	2.4	2.5	2.5
Market cap	NZ\$8,723m	Imputation (%)	100	100	90	80	Cash div yld (%)	2.5	2.7	2.7	2.8
Avg daily turnover	745.8k (NZ\$3,667k)	*Based on normalised profits					Gross div yld (%)	3.4	3.7	3.6	3.7

Mercury NZ Limited (MCY)

Priced as at 03 Dec 2020 (NZ\$)

6.41
12-month target price (NZ\$)*
5.37

Expected share price return	-16.2%
Net dividend yield	2.7%
Estimated 12-month return	-13.6%

Spot valuations (NZ\$)

1. DCF	5.06
2. Market multiple	5.06
3. Dividend yield	5.14

Key WACC assumptions

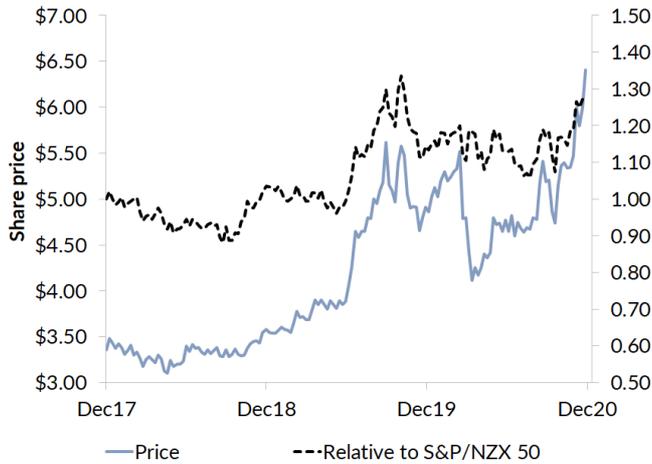
Risk free rate	1.30%
Equity beta	0.84
WACC	5.1%
Terminal growth	1.5%

DCF valuation summary (NZ\$m)

Total firm value	8,163
(Net debt)/cash	(1,277)
Less: Capitalised operating leases	
Value of equity	6,886

Profit and Loss Account (NZ\$m)	2019A	2020A	2021E	2022E	2023E	Valuation Ratios	2019A	2020A	2021E	2022E	2023E
Sales revenue	2,000.0	1,750.0	1,843.8	1,608.9	1,638.7	EV/EBITDA (x)	19.1	20.0	19.2	19.6	19.7
Normalised EBITDA	505.0	476.0	501.4	494.6	491.3	EV/EBIT (x)	31.9	34.0	34.4	36.5	37.7
Depreciation and amortisation	(204.0)	(214.0)	(223.0)	(230.8)	(236.2)	PE (x)	36.5	37.0	33.2	35.4	36.7
Normalised EBIT	301.0	262.0	278.4	263.8	255.1	Price/NTA (x)	2.5	2.4	2.4	2.5	2.5
Net interest	(75.0)	(54.0)	(54.6)	(61.6)	(67.1)	Free cash flow yield (%)	2.7	1.5	0.8	1.8	2.8
Associate income	1.0	18.0	1.3	1.7	1.9	Net dividend yield (%)	2.4	2.5	2.7	2.7	2.8
Tax	(73.0)	(41.0)	(65.0)	(59.1)	(55.2)	Gross dividend yield (%)	3.4	3.4	3.7	3.6	3.7
Depreciation capex adj	77.8	72.0	103.0	101.7	102.6						
Adjusted normalised NPAT	239.0	236.1	263.1	246.6	237.4	Capital Structure	2019A	2020A	2021E	2022E	2023E
Abnormals/other	118.0	(29.1)	(103.0)	(101.7)	(102.6)	Interest cover EBIT (x)	6.7	5.6	5.1	4.3	3.8
Reported NPAT	357.0	207.0	160.1	144.8	134.8	Interest cover EBITDA (x)	6.7	8.8	9.2	8.0	7.3
Normalised EPS (cps)	17.6	17.3	19.3	18.1	17.4	Net debt/ND+E (%)	61.8	63.2	67.2	71.7	75.7
DPS (cps)	15.5	15.8	17.0	17.0	18.0	Net debt/EBITDA (x)	2.2	2.4	2.5	2.7	2.7
Growth Rates	2019A	2020A	2021A	2022A	2023A	Key Ratios	2019A	2020A	2021E	2022E	2023E
Revenue (%)	11.2	-12.5	5.4	-12.7	1.9	Return on assets (%)	7.8	4.4	4.1	3.9	3.9
EBITDA (%)	-10.8	-5.7	5.3	-1.4	-0.7	Return on equity (%)	4.6	4.4	4.4	4.0	3.9
EBIT (%)	-17.7	-7.3	-0.1	-5.1	-3.2	Return on funds employed (%)	4.7	3.9	4.1	3.9	3.8
Normalised NPAT (%)	-6.5	-1.2	11.4	-6.3	-3.7	EBITDA margin (%)	25.3	27.2	27.2	30.7	30.0
Normalised EPS (%)	-6.4	-1.2	11.4	-6.3	-3.7	EBIT margin (%)	15.1	16.0	15.2	16.5	15.7
Ordinary DPS (%)	2.6	1.9	7.6	0.0	5.9	Capex to sales (%)	6.1	12.7	13.6	10.1	5.7
						Capex to depreciation (%)	67	120	127	79	44
						Imputation (%)	100	100	100	90	80
						Pay-out ratio (%)	88	91	88	94	103
Cash Flow (NZ\$m)	2019A	2020A	2021E	2022E	2023E	Operating Performance	2019A	2020A	2021E	2022E	2023E
EBITDA	505.0	476.0	501.4	494.6	491.3	Hydro	4,006	3,708	3,713	4,016	4,016
Working capital change	2.0	92.0	(31.7)	(33.4)	(6.9)	Geothermal	2,894	2,812	2,841	2,841	2,841
Interest & tax paid	(148.0)	(136.0)	(148.4)	(144.6)	(142.2)	Wind	0	0	77	543	838
Other	2.0	(76.0)	0	0	0	Total MCY Generation (GWh)	6,900	6,520	6,632	7,399	7,695
Operating cash flow	361.0	356.0	321.3	316.6	342.2	GWAP (\$/MWh)	139	110	121	74	73
Capital expenditure	(122.0)	(223.0)	(250.2)	(162.3)	(93.6)	Electricity sales					
(Acquisitions)/divestments	215.0	0	54.5	0	0	Electricity customers (000)	373	348	343	349	356
Other	12.0	4.0	(2.4)	(2.6)	(2.9)	MM volumes	3,182	2,892	2,778	2,799	2,857
Funding available/(required)	466.0	137.0	123.3	151.7	245.7	TOU volumes	1,319	1,469	1,602	1,750	1,894
Dividends paid	(208.0)	(214.0)	(220.5)	(231.4)	(235.4)	Total Fixed Price volumes (GWh)	4,501	4,361	4,380	4,549	4,751
Equity raised/(returned)	0	0	0	0	0	Spot Sales	780	746	750	753	757
(Increase)/decrease in net debt	258.0	(77.0)	(97.2)	(79.6)	10.2	Net CFD's	1,665	1,266	1,504	1,504	1,504
						Total Sales (GWh)	6,946	6,373	6,634	6,807	7,012
						Average usage per cust (MWh/yr)	11.8	12.2	12.7	13.1	13.5
						LWAP (\$/MWh)	145	115	127	78	78
						LWAP/GWAP	1.04	1.05	1.05	1.05	1.06
						Average FPV price (\$/MWh)	113	118	119	113	111
						Line losses (%)	5.1	4.9	5.2	5.1	5.2
Balance Sheet (NZ\$m)	2019A	2020A	2021E	2022E	2023E	Energy margin (\$m)	667	652	679	675	675
Working capital	63.0	(14.0)	17.7	51.0	57.9	Operating costs (\$m)	(199)	(190)	(192)	(195)	(199)
Fixed assets	5,528.0	5,898.0	5,935.3	5,872.5	5,730.9	Other revenue (\$m)	37	14	14	14	15
Intangibles	62.0	55.0	50.9	48.8	48.0	MCY EBITDAF (\$m)	505	476	501	495	491
Right of use asset	0	0	0	0	0						
Other assets	521.0	587.0	536.1	540.5	545.3						
Total funds employed	6,174.0	6,526.0	6,539.9	6,512.7	6,382.1						
Net debt/(cash)	1,096.0	1,149.0	1,246.2	1,325.8	1,315.6						
Lease liability	0	0	0	0	0						
Other liabilities	1,498.0	1,575.0	1,552.1	1,531.8	1,512.1						
Shareholder's funds	3,580.0	3,802.0	3,741.6	3,655.1	3,554.4						
Minority interests	0	0	0	0	0						
Total funding sources	6,174.0	6,526.0	6,539.9	6,512.7	6,382.1						

Figure 1. Price performance



Source: Forsyth Barr analysis

Figure 2. Substantial shareholders

Shareholder	Latest Holding
NZ Govt	52.6%

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

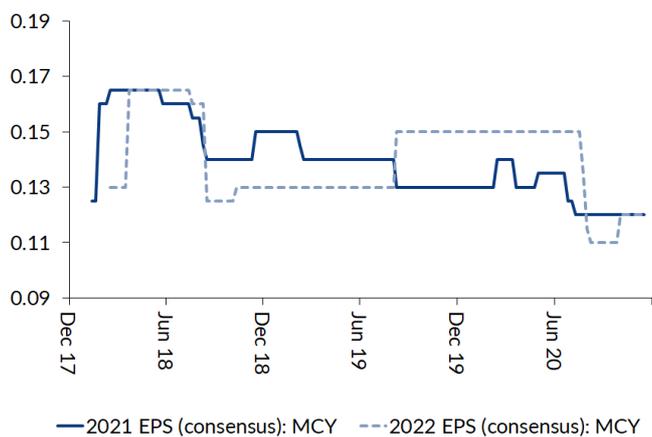
Figure 3. International valuation comparisons

Company	Code	Price	Mkt Cap (m)	PE		EV/EBITDA		EV/EBIT		Cash Yld
				2021E	2022E	2021E	2022E	2021E	2022E	
Mercury	MCY NZ	NZ\$6.41	NZ\$8,723	33.2x	35.4x	19.7x	20.0x	35.3x	37.2x	2.7%
CONTACT ENERGY *	CEN NZ	NZ\$7.86	NZ\$5,648	22.8x	28.1x	14.4x	16.8x	31.8x	39.7x	4.1%
GENESIS ENERGY *	GNE NZ	NZ\$3.31	NZ\$3,454	18.3x	18.3x	11.6x	12.2x	24.6x	28.5x	4.2%
MERIDIAN ENERGY *	MEL NZ	NZ\$6.44	NZ\$16,503	37.0x	43.1x	23.5x	26.8x	39.1x	48.6x	2.6%
TRUSTPOWER *	TPW NZ	NZ\$7.30	NZ\$2,285	27.7x	29.2x	15.1x	15.4x	19.8x	20.5x	4.1%
AGL ENERGY	AGLAT	A\$13.54	A\$8,436	13.7x	17.0x	6.2x	6.9x	10.7x	13.2x	5.8%
ORIGIN ENERGY	ORG AT	A\$5.18	A\$9,123	22.9x	15.8x	6.4x	5.7x	23.0x	17.8x	4.6%
Compcop Average:				23.7x	25.3x	12.9x	14.0x	24.8x	28.0x	4.2%
MCY Relative:				40%	40%	53%	43%	42%	33%	-37%

EV = Current Market Cap + Actual Net Debt

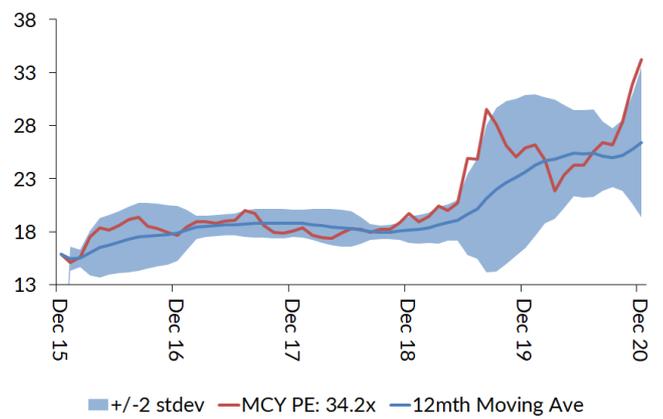
Source: *Forsyth Barr analysis, Bloomberg Consensus, Compcop metrics re-weighted to reflect headline (MCY) companies fiscal year end

Figure 4. Consensus EPS momentum (NZ\$)



Source: Forsyth Barr analysis

Figure 5. One year forward PE (x)



Source: Forsyth Barr analysis

Meridian Energy Limited (MEL)

Priced as at 03 Dec 2020 (NZ\$)

6.59

12-month target price (NZ\$)*						Spot valuations (NZ\$)					
Expected share price return						1. DCF					5.26
Net dividend yield						2. Market multiple					5.07
Estimated 12-month return						3. Dividend yield					5.46
Key WACC assumptions						DCF valuation summary (NZ\$m)					
Risk free rate						Total firm value					15,381
Equity beta						(Net debt)/cash					(1,903)
WACC						Less: Capitalised operating leases					
Terminal growth						Value of equity					13,478
Profit and Loss Account (NZ\$m)						Valuation Ratios					
Sales revenue	2019A	2020A	2021E	2022E	2023E	EV/EBITDA (x)	2019A	2020A	2021E	2022E	2023E
Normalised EBITDA	4,104.0	4,102.0	3,654.4	2,960.2	2,896.9	EV/EBIT (x)	21.9	21.5	24.0	27.4	28.7
Depreciation and amortisation	838.0	855.0	770.9	676.5	645.8	PE (x)	32.6	33.9	40.0	49.7	53.7
Normalised EBIT	(276.0)	(312.0)	(308.1)	(303.6)	(300.6)	Price/NTA (x)	35.0	33.1	37.9	44.1	46.2
Net interest	562.0	543.0	462.9	372.9	345.2	Free cash flow yield (%)	3.1	3.4	3.5	3.7	3.9
Associate income & other	(83.0)	(84.0)	(79.2)	(80.7)	(85.4)	Net dividend yield (%)	3.4	3.2	2.5	1.9	2.2
Tax	(7.0)	(219.0)	(22.0)	(12.0)	0	Gross dividend yield (%)	3.2	2.9	2.6	2.6	2.6
Minority interests	(133.0)	(63.0)	(99.7)	(76.6)	(70.8)		4.1	3.8	3.3	3.3	3.2
Reported NPAT	0	0	0	0	0						
Abnormals/other	339.0	177.0	262.0	203.6	189.0	Capital Structure					
Adjusted normalised NPAT	143.0	333.3	184.1	179.4	176.5	Interest cover EBIT (x)	2019A	2020A	2021E	2022E	2023E
Normalised EPS (cps)	482.0	510.3	446.1	383.1	365.5	Interest cover EBITDA (x)	6.7	3.9	5.6	4.5	4.0
DPS (cps)	143.0	333.3	184.1	179.4	176.5	Net debt/ND+E (%)	10.1	10.2	9.7	8.4	7.6
	482.0	510.3	446.1	383.1	365.5	Net debt/EBITDA (x)	76.9	96.6	107.9	125.7	150.9
	18.8	19.9	17.4	14.9	14.3		1.7	1.9	2.1	2.6	2.8
	21.3	19.3	16.9	16.9	16.9						
						Key Ratios					
						Return on assets (%)	2019A	2020A	2021E	2022E	2023E
						Return on equity (%)	5.7	3.4	4.7	4.0	3.9
						Return on funds employed (%)	6.1	6.3	5.3	4.4	4.3
						EBITDA margin (%)	5.9	5.8	5.1	4.2	4.0
						EBIT margin (%)	20.4	20.8	21.1	22.9	22.3
						Capex to sales (%)	13.7	13.2	12.7	12.6	11.9
						Capex to depreciation (%)	1.7	1.5	2.1	4.7	1.9
						Imputation (%)	28	22	27	50	20
						Pay-out ratio (%)	66	75	75	75	65
							113	97	97	113	118
						Operating Performance					
						Hydro generation	2019A	2020A	2021E	2022E	2023E
						Wind generation	12,326	12,758	11,881	10,600	11,113
						Total NZ generation (GWh)	1,244	1,466	1,447	1,430	1,430
						GWAP (\$/MWh)	13,570	14,224	13,328	12,030	12,543
						Overseas generation (GWh)	123	89	93	55	45
						Overseas GWAP (\$/MWh) (NZD)	730	642	771	810	810
						Overseas customer numbers (000)	269	381	365	376	384
						NZ electricity customers (000)	110	136	159	174	183
						Average usage per cust (MWh/yr)	302	324	349	380	407
						Mass market volumes	13.2	13.9	14.1	14.0	13.9
						Time of use volumes	3,901	4,342	4,766	5,108	5,471
						Total fixed price volumes (GWh)	2,338	3,034	3,467	4,056	4,458
						NZAS sales	6,239	7,376	8,233	9,165	9,930
						Sell CFDs	5,310	5,431	5,011	842	0
						Buy CFDs	2,239	2,527	1,902	2,902	2,792
						Total Sales (GWh)	(1,965)	(2,731)	(2,218)	(1,496)	(1,496)
						Average FPV price (\$/MWh)	11,823	12,603	12,928	11,413	11,226
						LWAP (\$/MWh)	105	108	107	99	94
						LWAP/GWAP	132	95	104	65	56
						Lines losses (%)	1.07	1.06	1.12	1.18	1.25
							5.9	4.8	5.5	5.5	5.5

Trustpower Ltd (TPW)

Priced as at 03 Dec 2020 (NZ\$)						7.47						
12-month target price (NZ\$)*						7.50	Spot valuations (NZ\$)					
Expected share price return						0.4%	1. DCF					7.09
Net dividend yield						4.1%	2. Market multiples					6.95
Estimated 12-month return						4.5%	3. Dividend Yield					7.32
Key WACC assumptions						DCF valuation summary (NZ\$m)						
Risk free rate						1.30%	Total firm value					2,898
Equity beta						0.84	(Net debt)/cash					(662)
WACC						5.4%	Less: Capitalised operating leases					
Terminal growth						1.5%	Value of equity					2,220
Profit and Loss Account (NZ\$m)						Valuation Ratios						
Sales revenue	2019A	2020A	2021E	2022E	2023E	2019A	2020A	2021E	2022E	2023E		
Normalised EBITDA	1,030.1	989.9	926.9	880.3	859.0	EV/EBITDA (x)	12.9	15.9	15.8	16.1	16.6	
Depreciation and amortisation	222.2	186.5	192.4	189.8	183.9	EV/EBIT (x)	16.4	20.6	20.6	21.3	22.3	
Normalised EBIT	(47.2)	(42.6)	(45.1)	(46.4)	(46.6)	PE (x)	20.1	31.6	28.0	29.4	31.4	
Net interest	175	144	147	143	137	Price/NTA (x)	2.0	2.2	2.3	2.3	2.4	
Depreciation capex adjustment	(28)	(32)	(30)	(29)	(29)	Free cash flow yield (%)	3.8	3.3	4.0	3.6	3.6	
Tax	19	(2)	3	0	(0)	Net dividend yield (%)	9.9	4.4	4.3	4.0	4.0	
Minority interests	(45)	(32)	(34)	(32)	(30)	Gross dividend yield (%)	12.0	6.0	5.9	5.6	5.6	
Normalised NPAT	(2)	(3)	(2)	(3)	(3)	Capital Structure						
Abnormals/other/depn adj	117	74	84	80	75	Interest cover EBIT (x)	2019A	2020A	2021E	2022E	2023E	
Reported NPAT	(26)	21	(21)	(0)	0	Interest cover EBITDA (x)	6.8	4.9	5.3	5.4	5.2	
Normalised EPS (cps)	91	95	63	80	75	Net debt/ND+E (%)	7.9	5.9	6.4	6.6	6.3	
DPS (cps)	37.1	23.6	26.7	25.4	23.8	Net debt/EBITDA (x)	58.6	64.8	69.2	70.8	72.7	
	74.0	32.5	32.0	30.0	30.0		2.5	3.3	3.5	3.6	3.8	
Growth Rates						Key Ratios						
Revenue (%)	2019A	2020A	2021A	2022A	2023A	2019A	2020A	2021E	2022E	2023E		
EBITDA (%)	5.2	-3.9	-6.4	-5.0	-2.4	Return on assets (%)	7.2	8.0	5.6	6.7	6.4	
EBIT (%)	-17.6	-16.1	3.2	-1.4	-3.1	Return on equity (%)	9.7	6.9	8.1	7.9	7.5	
Normalised NPAT (%)	-21.6	-17.8	2.4	-2.7	-4.2	Return on funds employed (%)	7.2	5.6	6.5	5.9	5.6	
Normalised EPS (%)	-17.3	-36.4	13.0	-4.7	-6.5	EBITDA margin (%)	21.6	18.8	20.8	21.6	21.4	
Ordinary DPS (%)	-17.3	-36.4	13.0	-4.7	-6.5	EBIT margin (%)	17.0	14.5	15.9	16.3	16.0	
	0.0	-4.4	-1.5	-6.3	0.0	Capex to sales (%)	3.0	4.5	3.8	4.4	4.6	
Cash Flow (NZ\$m)						Operating Performance						
EBITDA	2019A	2020A	2021E	2022E	2023E	2019A	2020A	2021E	2022E	2023E		
Working capital change	222.2	186.5	192.4	189.8	183.9	NZ electricity revenue	861	804	746	694	665	
Interest & tax paid	(47.1)	1.7	(16.3)	(8.0)	(3.6)	Gas revenue	29	30	31	32	34	
Other	(74.8)	(77.1)	(69.9)	(59.2)	(58.2)	Telecommunication revenue	88	98	99	102	108	
Operating cash flow	120.3	121.9	129.5	123.9	123.3	Other revenue	52	58	51	52	53	
Capital expenditure	(31.1)	(44.7)	(34.8)	(39.0)	(39.7)	Total revenue	1,030	990	927	880	859	
(Acquisitions)/divestments	8.1	20.2	0	0	0	Generation (GWh)	1,995	1,758	1,702	1,918	1,939	
Other	0	(6.8)	(8.7)	(8.7)	(8.7)	NZ GWAP (\$/MWh)	125	107	121	76	61	
Funding available/(required)	97.3	90.6	86.0	76.2	74.9	Mass market sales (GWh)	1,845	1,817	1,834	1,788	1,773	
Dividends paid	(190.4)	(156.7)	(103.4)	(93.9)	(93.9)	TOU sales (GWh)	880	826	536	587	590	
Equity raised/(returned)	(1)	(1)	0	0	0	Spot sales (GWh)	1,021	972	866	933	937	
(Increase)/decrease in net debt	(94.5)	(67.4)	(17.4)	(17.7)	(19.0)	Total Sales (GWh)	3,746	3,615	3,235	3,308	3,300	
Balance Sheet (NZ\$m)						Electricity customers (000)						
Working capital	2019A	2020A	2021E	2022E	2023E	2019A	2020A	2021E	2022E	2023E		
Fixed assets	(0.3)	(8.2)	26.3	28.4	27.1	Usage/customer (MWh)	6.8	6.8	7.0	6.9	6.9	
Intangibles	1,924.7	1,836.4	1,835.6	1,835.7	1,835.9	Revenue/MWh sold (\$)	230	222	231	210	201	
Right of use asset	37.0	38.7	37.8	37.6	37.9	Gas customers (000)	39	41	43	43	44	
Other assets	0	35.5	37.1	37.1	37.1	Volume/customer (GJ)	26.5	24.9	25.9	25.9	25.9	
Total funds employed	114.8	100.2	111.2	117.0	122.0	Telco customers (000)	96	104	109	113	116	
Net debt/(cash)	2,076.2	2,002.6	2,048.0	2,055.9	2,060.0	Revenue/customer (\$)	963	983	978	988	998	
Lease liability	557.4	616.7	665.5	683.2	702.1							
Other liabilities	0	36.1	38.2	38.2	38.2							
Shareholder's funds	269.8	249.8	270.0	271.9	273.4							
Minority interests	1,224.4	1,076.2	1,049.5	1,035.4	1,016.5							
Total funding sources	24.6	23.8	24.7	27.2	29.8							

Tilt Renewables Limited (TLT)

Priced as at 03 Dec 2020 (NZ\$)						3.90					
12-month target price (NZ\$)*						4.00	Spot valuations (NZ\$)				
Expected share price return						2.6%	1. DCF	3.66			
Net dividend yield						0.0%	2. Multiple	3.82			
Estimated 12-month return						2.6%	3. n/a	n/a			
Key WACC assumptions						DCF valuation summary (NZ\$m)					
Risk free rate						1.30%	Total firm value	1,533			
Equity beta						0.86	(Net debt)/cash	(157)			
WACC						5.5%	Less: Capitalised operating leases				
Terminal growth						1.5%	Value of equity	1,376			
Profit and Loss Account (A\$m)						Valuation Ratios					
Sales revenue	2019A	2020A	2021E	2022E	2023E	2019A	2020A	2021E	2022E	2023E	
Normalised EBITDA	193.3	170.2	135.2	183.2	183.1	EV/EBITDA (x)	18.5	16.1	24.8	21.6	22.2
Depreciation and amortisation	(83.6)	(72.5)	(52.0)	(91.3)	(88.7)	EV/EBIT (x)	48.7	42.1	84.2	>100x	>100x
Normalised EBIT	51.2	45.0	21.7	11.4	12.5	PE (x)	24.8	36.8	27.8	23.8	23.3
Net interest	(30.1)	(46.2)	(13.1)	(16.8)	(12.5)	Price/NTA (x)	2.7	1.5	1.4	1.4	1.4
Other	(2.0)	(8.5)	9.7	0	0	Free cash flow yield (%)	5.5	3.0	1.4	5.9	6.0
Tax	(6.9)	(4.7)	(12.3)	1.6	0.0	Net dividend yield (%)	0.3	0.0	0.0	0.0	0.0
Depreciation capex adjustment	55.4	46.9	27.0	59.5	57.5	Gross dividend yield (%)	0.3	0.0	0.0	0.0	0.0
Normalised NPAT	69.0	47.4	48.6	55.7	57.5	Capital Structure					
Abnormals/other	(56.8)	431.1	(20.3)	(59.5)	(57.5)	Interest cover EBIT (x)	1.7	1.0	1.7	0.7	1.0
Reported NPAT	12.2	478.4	28.4	(3.8)	(0.0)	Interest cover EBITDA (x)	4.5	2.5	5.6	6.1	8.1
Normalised EPS (cps)	14.7	10.1	12.9	14.8	15.3	Net debt/ND+E (%)	34.6	-54.6	17.2	10.8	3.3
DPS (cps)	1.1	0	0	0	0	Net debt/EBITDA (x)	2.6	n/a	2.7	1.1	0.3
Growth Rates						Key Ratios					
Revenue (%)	2019A	2020A	2021E	2022E	2023E	2019A	2020A	2021E	2022E	2023E	
EBITDA (%)	22.4	-11.9	-20.6	35.5	0.0	Return on assets (%)	3.3	2.6	1.2	0.7	0.8
EBIT (%)	29.9	-12.8	-37.3	39.4	-1.5	Return on equity (%)	10.5	4.0	5.1	5.9	6.1
Normalised NPAT (%)	91.4	-12.2	-51.8	-47.4	9.3	Return on funds employed (%)	3.6	4.2	1.3	0.8	0.9
Normalised EPS (%)	49.0	-31.3	2.7	14.5	3.2	EBITDA margin (%)	69.7	69.0	54.5	56.1	55.3
Ordinary DPS (%)	-0.6	-31.3	28.2	14.5	3.2	EBIT margin (%)	26.5	26.4	16.0	6.2	6.8
Cash Flow (A\$m)						Operating Performance					
EBITDA	2019A	2020A	2021E	2022E	2023E	2019A	2020A	2021E	2022E	2023E	
Working capital change	134.8	117.5	73.7	102.8	101.2	Australia installed capacity (MW)	440	170	506	506	506
Interest & tax paid	0.6	39.8	(67.9)	(11.0)	(8.0)	NZ installed capacity (MW)	197	197	246	330	330
Other	(41.7)	(57.8)	(7.2)	2.3	1.7	TLT installed capacity (MW)	637	367	752	836	836
Operating cash flow	85.0	50.2	34.5	94.0	94.9	Australia wind generation (GWh)	1,395	1,170	1,242	1,771	1,771
Capital expenditure	(90.8)	(322.9)	(386.8)	(7.0)	(7.1)	NZ wind generation (GWh)	658	664	747	1,119	1,119
(Acquisitions)/divestments	0	455.0	0	0	0	TLT wind generation (GWh)	2,053	1,834	1,989	2,890	2,890
Other	0	(3.9)	(5.5)	(5.5)	(5.5)	Price assumptions					
Funding available/(required)	(5.8)	178.3	(357.8)	81.5	82.3	Australia REC price (A\$/MWh)	78.3	65.2	26.6	24.7	20.7
Dividends paid	(10.6)	0	0	0	0	SA wholesale price (A\$/MWh)	81.0	56.0	39.2	45.3	44.1
Equity raised/(returned)	259.9	(1.1)	(257.5)	0	0	VIC wholesale price (A\$/MWh)		85.8	57.4	55.7	50.7
(Increase)/decrease in net debt	243.5	177.3	(615.4)	81.5	82.3	Australia PPA price (A\$/MWh)	94.8	94.5	56.7	57.8	58.9
Balance Sheet (A\$m)						NZ PPA price (NZ\$/MWh)					
Working capital	2019A	2020A	2021E	2022E	2023E	2019A	2020A	2021E	2022E	2023E	
Fixed assets	14.3	(38.3)	11.5	14.3	14.0	Australia spot sales (GWh)	155	365	750	458	458
Intangibles	1,066.7	1,000.7	1,201.2	1,125.7	1,053.1	Australia PPA sales (GWh)	1,239	805	491	1,313	1,313
Right of use asset	0.5	0.5	0.5	0.5	0.5	Australia spot revenue (A\$m)	34	53	36	22	21
Other assets	0	13.4	124.5	124.5	124.5	Australia PPA revenue (A\$m)	117	76	28	76	77
Total funds employed	114.3	9.0	115.6	115.6	115.6	Australia revenue (A\$m)	151	129	88	113	111
Net debt/(cash)	1,195.9	985.2	1,453.3	1,380.7	1,307.7	NZ revenue (A\$m)	42	42	47	70	72
Lease liability	346.4	(417.9)	196.4	114.9	32.7	Australia EBITDAF (A\$m)	109	93	46	57	54
Other liabilities	22.9	125.5	129.2	129.2	129.2	NZ EBITDAF (A\$m)	25	24	28	46	47
Shareholder's funds	170.6	94.3	179.6	192.2	201.5						
Minority interests	656.0	1,183.3	948.2	944.4	944.4						
Total funding sources	0	0	0	0	0						

* Forsyth Barr target prices reflect valuation rolled forward at cost of equity less the next 12-months dividend

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