

Tilt Renewables

OUTPERFORM

Dreaming of a White Christmas – 1H20 Result Review

Whilst the 1H20 result was a strong one, with EBITDAF up +7% on the pcp and +A\$8m on our forecast, the potential sale of Snowtown II at MacArthur type prices provides material near-term upside. If Snowtown II were to sell at A\$4.2m/MW, like 50% of MacArthur has, we estimate that would add more than +70cps to TLT. However, the strategic review process is ongoing and so it would be premature to bank such a gain. We have increased our target price +20cps to \$3.00 and retain our OUTPERFORM rating.

What's changed?

- **Earnings:** FY20 EBITDAF increased +A\$7m to A\$135m
- **Target Price:** Increased +20cps to \$3.00
- **Rating:** OUTPERFORM retained

MacArthur sale suggests material valuation upside

50% of the 420MW MacArthur wind farm is reported to have been sold to AMP Capital for A\$880m, which equates to a transaction multiple of A\$4.2m/MW. If the 270MW Snowtown II wind farm was to sell at the same multiple, that would equate to a sales price of more than A\$1.1b. Our Snowtown II valuation is ~A\$700m, based on a 7.25% cost of capital. Assets like MacArthur and Snowtown II are currently being priced like a bond, with both wind farms having long-term offtake contracts. Low interest rates mean that our valuation should be comfortably exceeded, with every A\$100m in excess of A\$700m equating to +NZ23cps.

TLT has indicated that it expects to be able to update the market by the end of 2019. However, TLT is not a forced seller, and so a sale is not guaranteed. Nevertheless, 2019 could be TLT's white Christmas.

1H20 result ahead of expectations on stronger prices and lower costs

TLT's 1H20 EBITDAF result was A\$71m, +A\$4m up on the pcp and +A\$8m higher than our forecast. The main driver of the strong result was above average Australian generation volumes and firm Australian electricity prices. Normalised NPAT of A\$19m was +A\$15m higher than the pcp, with lower interest costs. TLT has altered its dividend policy to allow no dividend payments whilst it constructs Waipipi and Dundonnell. It has accordingly not paid an interim dividend (as expected). TLT noted Dundonnell is on schedule, with construction at Waipipi due to commence imminently.

FY20 earnings upgrade ahead of TLT guidance

TLT has upgraded FY20 EBITDAF guidance ~+A\$4m to between A\$127m and A\$132m. We have lifted our FY20 EBITDAF forecast +A\$7m to A\$135m, slightly ahead of the guidance range. Based on historic seasonality, we believe TLT has been conservative with its guidance.

Investment View

Our rating is OUTPERFORM. TLT offers exposure to renewable energy developments, particularly in Australia. It has a strong pipeline and excellent development track record. In addition, the low interest rate environment is attractive for low cost funding.

NZX Code	TLT
Share price	NZ\$2.85
Target price	NZ\$3.00
Risk rating	Low
Issued shares	469.5m
Market cap	NZ\$1,338m
Average daily turnover	35.2k (NZ\$84k)

Share Price Performance



Financials: March	19A	20E	21E	22E
NPAT* (NZ\$m)	75.1	91.9	114.3	122.2
EPS* (NZc)	16.0	19.6	24.4	26.0
EPS growth* (%)	-2.2	22.2	24.5	6.9
DPS (NZc)	1.1	0.0	0.0	0.0
Imputation (%)	0	0	0	0

Valuation (x)	19A	20E	21E	22E
EV/EBITDA	12.8	13.3	11.3	10.3
EV/EBIT	33.6	32.0	22.8	23.8
PE	17.8	14.6	11.7	10.9
Price / NTA	4.9	4.8	4.8	n/a
Cash dividend yield (%)	0.4	0.0	0.0	0.0
Gross dividend yield (%)	0.4	0.0	0.0	0.0

*Historic and forecast numbers based on underlying profits

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Tilt Renewables Limited (TLT)

Priced as at 31 Oct 2019: NZ\$2.85

March year end

Forsyth Barr valuation		Valuation Ratios					2018A	2019A	2020E	2021E	2022E
Valuation methodology	Mix of market multiple (33%) and DCF (67%)	EV/EBITDA (x)	17.3	12.8	13.3	11.3	10.3				
		EV/EBIT (x)	67.3	33.6	32.0	22.8	23.8				
12-month target price (NZ\$)*	3.00	Spot valuations (NZ\$)	PE (x)	17.4	17.8	14.6	11.7	10.9			
Expected share price return	5.3%	1. DCF	2.72	Price/NTA (x)	n/a	4.9	4.8	4.8			
Net dividend yield	0.0%	2. Multiple	3.10	Free cash flow yield (%)	3.5	6.0	4.1	10.8	11.9		
Estimated 12-month return	5.3%	3. n/a	n/a	Net dividend yield (%)	1.2	0.4	0.0	0.0	0.0		
				Gross dividend yield (%)	1.2	0.4	0.0	0.0	0.0		
Key WACC assumptions		DCF valuation summary (NZ\$m)		Imputation (%)	0	0	0	0	0		
Risk free rate	2.0%	Total firm value	1,711	Pay-out ratio (%)	20	7	0	0	0		
Equity beta	0.94	(Net debt)/cash	(433)								
WACC	7.3%	Value of equity	1,277	Capital Structure	2018A	2019A	2020E	2021E	2022E		
Terminal growth	1.5%	Shares (m)	469	Interest cover EBIT (x)	0.9	1.7	6.1	4.8	3.4		
				Interest cover EBITDA (x)	3.5	4.5	14.7	9.7	7.8		
Profit and Loss Account (A\$m)	2018A	2019A	2020E	2021E	2022E	Net debt/ND+E (%)	53.8	36.0	52.1	57.9	52.1
Sales revenue	158	193	200	255	288	Net debt/EBITDA (x)	5.7	2.7	5.3	5.6	4.2
Normalised EBITDA	104	135	135	172	191						
Depreciation and amortisation	(77)	(84)	(79)	(87)	(108)	Key Ratios	2018A	2019A	2020E	2021E	2022E
Normalised EBIT	27	51	56	86	83	Return on assets (%)	2.0	3.3	3.6	4.5	4.6
Net interest	(29)	(30)	(9)	(18)	(25)	Return on equity (%)	9.3	10.7	13.1	15.0	15.3
Other	26	(2)	(10)	-	-	Return on funds employed (%)	1.7	3.5	2.9	3.6	3.8
Tax	(7)	(7)	(10)	(20)	(17)	EBITDA margin (%)	65.7	69.7	67.5	67.6	66.2
Depreciation capex adjustment	49	57	52	58	73	EBIT margin (%)	16.9	26.5	28.1	33.6	28.6
Normalised NPAT	47	70	86	106	114	Capex to sales (%)	52.9	47.0	193.4	159.4	2.4
Abnormals/other	(30)	(58)	(59)	(58)	(73)	Capex to depreciation (%)	108	109	490	469	6
Reported NPAT	17	12	27	48	41						
Normalised EPS (cps)	15.1	14.9	18.4	22.5	24.2	Operating Performance	2018A	2019A	2020E	2021E	2022E
DPS (cps)	3.1	1.1	-	-	-	Australia installed capacity (MW)	386	440	440	776	776
						NZ installed capacity (MW)	197	197	197	197	330
Growth Rates	2018A	2019A	2020E	2021E	2022E	TLT installed capacity (MW)	583	637	637	973	1,106
Revenue (%)	n/a	n/a	n/a	n/a	n/a	Australia wind generation (GWh)	1,225	1,395	1,405	2,209	2,653
EBITDA (%)	-46.6	91.7	9.7	52.6	-3.7	NZ wind generation (GWh)	571	658	665	672	1,119
EBIT (%)	n/a	n/a	n/a	n/a	n/a	TLT wind generation (GWh)	1,796	2,053	2,071	2,881	3,772
Normalised NPAT (%)	3.9	-52.3	>100	79.1	-14.7						
Normalised EPS (%)	-41.9	-47.5	-100.0	n/a	n/a	Price assumptions	2018A	2019A	2020E	2021E	2022E
DPS (%)	n/a	n/a	n/a	n/a	n/a	Australia REC price (A\$/MWh)	83	78	55	25	12
						SA wholesale price (A\$/MWh)	69	87	89	77	61
Cash Flow (A\$m)	2018A	2019A	2020E	2021E	2022E	VIC wholesale price (A\$/MWh)		105	110	91	71
EBITDA	104	135	135	172	191	Australia PPA price (A\$/MWh)	98	94	94	82	76
Working capital change	(19)	1	(3)	(7)	2	NZ PPA price (NZ\$/MWh)	65	65	64	65	66
Interest & tax paid	(42)	(42)	(23)	(15)	(26)	Australia spot sales (GWh)	23	155	353	668	535
Other	14	(9)	(47)	-	-	Australia PPA sales (GWh)	1,202	1,239	1,052	1,541	2,118
Operating cash flow	57	85	61	151	167	Australia spot revenue (A\$m)	3	34	60	88	56
Capital expenditure	(84)	(91)	(387)	(406)	(7)	Australia PPA revenue (A\$m)	118	117	99	126	162
(Acquisitions)/divestments	-	-	-	-	-	Australia revenue (A\$m)	122	151	159	214	218
Other	-	-	-	-	-	NZ revenue (A\$m)	36	42	41	41	70
Funding available/(required)	(27)	(6)	(326)	(255)	160						
Dividends paid	(11)	(11)	-	-	-	Australia EBITDAF (A\$m)	82	109	111	148	145
Equity raised/(returned)	-	260	(0)	-	-	NZ EBITDAF (A\$m)	22	25	24	24	46
Increase/(decrease) in net debt	38	(243)	327	255	(160)						
Balance Sheet (NZ\$m)	2018A	2019A	2020E	2021E	2022E						
Working capital	18	14	18	25	24						
Fixed assets	1,171	1,067	1,493	1,813	1,712						
Intangibles	1	1	1	1	1						
Other assets	101	114	74	74	74						
Total funds employed	1,290	1,196	1,586	1,913	1,810						
Net debt/(cash)	593	369	714	970	810						
Other non current liabilities	186	171	214	238	254						
Shareholder's funds	510	656	657	705	746						
Minority interests	-	-	-	-	-						
Total funding sources	1,290	1,196	1,586	1,913	1,810						

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

MacArthur vs. Snowtown II

Snowtown II compares favourably to the MacArthur wind farm on several metrics. The strong offtake agreements mean these assets are being priced like bonds. Therefore the terms of the purchase power agreements (PPA) will be critical to the relative attractiveness of the assets and consequently the sales price.

Figure 1. Table Subheading

	MacArthur	Snowtown II	Comment
Size (MW)	420	270	MacArthur is a larger wind farm, but the sale was for only 50% of the wind farm
Average GWh	1,250	922	Snowtown II has the better wind resource, which should be favourable for any sale price
Capacity factor	34%	39%	
PPA length	19 years	16 years	Whilst we do not know the offtake prices, Snowtown II's PPA price is reputedly one of the highest
Sale/implied price (A\$m)	880	1131	MacArthur sales price implies a sale price above A\$1.1b
Sale price (A\$m/MW)	4.2	4.2	

Source: AFR, TLT, Forsyth Barr analysis

1H20 result summary

Figure 2. Summary result analysis

	1H19 A\$m	1H20 A\$m	Forsyth		Diff \$m	Commentary
			Diff % chg	Barr A\$m		
Australia revenue	73	82	13%	76	5	Includes full half of production from Salt Creek. Volumes and prices up
NZ revenue	24	22	-10%	22	(0)	Generation volumes down -8% the main issue
Total Revenue	97	103	7%	98	5	
Operating costs	(30)	(32)	8%	(34)	2	Increase in opex due to higher generation volumes, but lower than f'cast
Australia EBITDAF	52	57	10%	52	5	Australia continues to be the source of most of TLT's earnings
NZ EBITDAF	15	14	-4%	12	2	
EBITDAF	67	71	7%	64	8	
Depreciation & amortisation	(44)	(40)	-10%	(39)	(0)	
EBIT	23	32	39%	25	7	
Fair value gain/(loss)	7	(10)		0	(10)	
Interest costs	(15)	(6)	-60%	(9)	3	Interest costs down due to equity raising and A\$7m fx gain
Pre-tax profit	15	16		16	(0)	
Tax expense	(6)	(4)	-34%	(5)	1	
Reported NPAT	8	12	40%	11	0	
Normalised NPAT	4	19		11	7	
EPS (\$A)	0.8	4.0		2.4	1.6	
DPS (\$A)	1.6	0.0	-100%	0.0	0.0	No dividend as expected, and same as final FY19 dividend
Australia generation (GWh)	712	734	3%	713	21	Slightly above average Australian generation volumes, plus Salt Creek
NZ generation (GWh)	358	328	-8%	321	7	Below average volumes, but came in slightly ahead of forecast
Total generation (GWh)	1,070	1,062	-1%	1,034	28	
Australian sales price (A\$/MWh)	102	111	9%	107	4	Strong wholesale prices aided by Snowtown II having no PPA in 1H20
NZ sales price (A\$/MWh)	67	66	-1%	69	(3)	
Weighted avg price (A\$/MWh)	90	97	8%	95	2	

Source: TLT, Forsyth Barr analysis

Forecast changes

Figure 3. Forecast changes

	FY20	FY20		FY21	FY21		FY22	FY22	
	Old	New		Old	New		Old	New	
	A\$m	A\$m	% Chg	A\$m	A\$m	% Chg	A\$m	A\$m	% Chg
Australia revenue	153	159	4%	213	214	0%	219	218	0%
NZ revenue	42	41	-1%	43	41	-4%	73	70	-4%
Total Revenue	194	200	3%	256	255	0%	292	288	-1%
Operating costs	(67)	(65)	-2%	(85)	(82)	-3%	(101)	(98)	-4%
Australia EBITDAF	105	111	6%	148	148	0%	146	145	0%
NZ EBITDAF	23	24	6%	24	24	3%	45	46	2%
EBITDAF	128	135	6%	171	172	1%	191	191	0%
Depreciation & amortisation	(78)	(79)	1%	(86)	(87)	1%	(108)	(108)	1%
EBIT	50	56	12%	85	86	1%	83	83	0%
Fair value gain/(loss) & other	0	(10)		0	0		0	0	
Interest costs	(18)	(9)	-50%	(34)	(18)	-48%	(43)	(25)	-43%
Pre-tax profit	32	37	16%	51	68	33%	39	58	47%
Tax expense	(9)	(10)	9%	(15)	(20)	33%	(12)	(17)	47%
Reported NPAT	22	27	19%	36	48	33%	28	41	47%
Normalised NPAT	22	34	50%	36	48	33%	28	41	47%
EPS	4.8	7.2	50%	7.7	10.2	33%	5.9	8.7	47%
DPS	0.00	0.00		0.00	0.00		0.00	0.00	
Australia generation (GWh)	1,385	1,405	2%	2,209	2,209	0%	2,653	2,653	0%
NZ generation (GWh)	658	665	1%	672	672	0%	1,119	1,119	0%
Total generation (GWh)	2,043	2,071	1%	2,881	2,881	0%	3,772	3,772	0%
Australian sales price (A\$/MWh)	110	113	3%	96	97	0%	83	82	0%
NZ sales price (A\$/MWh)	64	62	-3%	64	61	-4%	65	63	-4%
Weighted avg price (A\$/MWh)	95	97	2%	89	88	0%	77	76	-1%

Source: Forsyth Barr analysis

Investment summary

Our rating is **OUTPERFORM**. TLT offers exposure to renewable energy developments, particularly in Australia. It has a strong pipeline and excellent development track record. In addition, the low interest rate environment is attractive for low cost funding.

Business quality

- **Strong development pipeline:** TLT has a large portfolio of renewable energy development options, predominantly in Australia. Most of the options are wind, but also include solar, pumped hydro, and batteries. The total pipeline is over 3,000MW.
- **Excellent development track record:** TLT's development track record is very good, with projects typically coming in on time and at/below budget. It has also demonstrated an ability to attract strong offtake partners.

Earnings and cash flow outlook

- **Long-term growth from new developments:** TLT's earnings outlook is positive as its wind farm developments come to fruition. However, LGC prices are falling which will temper near-term earnings growth.
- **Mix of fixed prices and wholesale price exposure:** Most of TLT's developments have long-term fixed price offtake agreements, providing a reliable earnings stream. However, it also has some (~20%) long-term exposure to wholesale electricity prices in Australia, which we view as positive in a tightening market.

Company description

Tilt Renewables (TLT) is a pure play Australasian wind farm owner, operator and developer. Its core operational assets are Tararua 1, 2 & 3 and Mahinerangi in New Zealand (197MW), and Snowtown 1 & 2 and Salt Creek in Australia (440MW), producing ~2,100GWh per annum. TLT is developing a 336MW wind farm, Dundonnell in Victoria and a 130MW wind farm, Waipipi in Taranaki. The New Zealand wind farms have a life-of-wind-farm power purchase agreement with Trustpower (TPW). Snowtown sells ~71% of its generation to Origin Energy (ORG). It has several development sites in both New Zealand and Australia totalling ~3,000MW. TLT is also exploring solar, pumped hydro and battery development options.

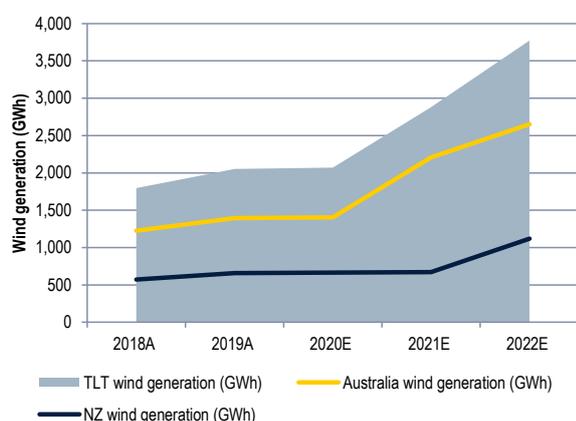
Financial structure

- **Limited spare balance sheet capacity:** TLT has two wind farms under construction and has no financial capacity to develop additional wind farms at this stage. TLT is looking to sell its Snowtown II wind farm which would ease those capital constraints.

Risk factors

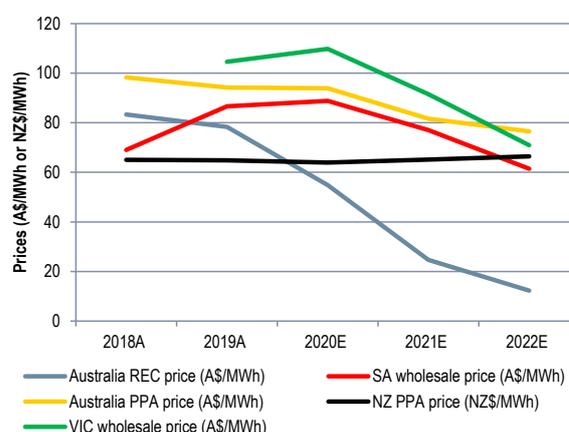
- **Competing developers with low cost of capital requirements:** The power purchase agreement (PPA) market at present is well below A\$60/MWh, with the low end of the range partly driven by low return requirements. TLT could be outbid if low return expectations become the norm, limiting the value upside from new developments.
- **Regulatory uncertainty:** Whilst renewable electricity generation is going to be a core part of Australia decarbonising its economy, there is significant policy uncertainty. In addition, electricity prices are a politically sensitive topic, adding to the uncertainty.

Figure 4. Generation volumes



Source: TLT, Forsyth Barr analysis

Figure 5. Electricity sales price



Source: TLT, Forsyth Barr analysis

Figure 6. Substantial Shareholders

Shareholder	Latest Holding
Infratil	65.3%
Mercury NZ Ltd	20.0%

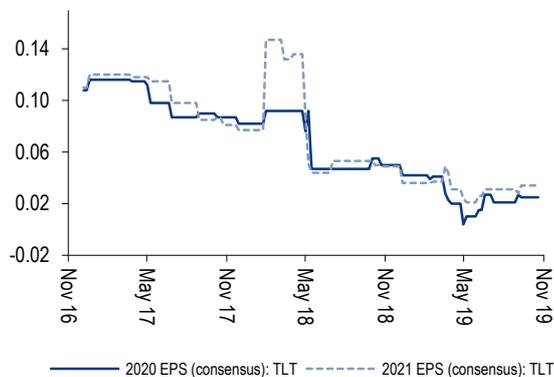
Source: NZX, Forsyth Barr analysis, NOTE: based on SSH notices only

Figure 7. International Compcos

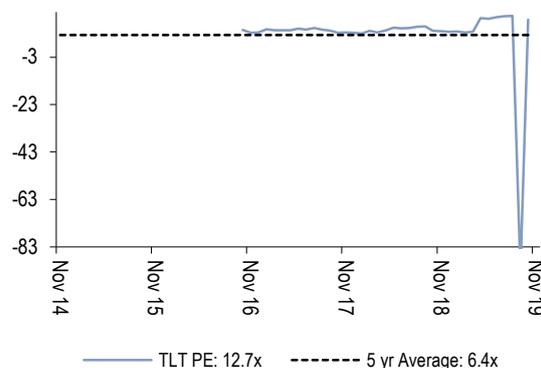
Company	Code	Price	Mkt Cap (m)	PE		EV/EBITDA		EV/EBIT		Cash D/Yld	
				2020E	2021E	2020E	2021E	2020E	2021E	2020E	2021E
Tilt Renewables	TLT NZ	NZ\$2.85	NZ\$1,338	14.6x	11.7x	12.0x	9.3x	28.8x	18.6x	0.0%	
Trustpower *	TPW NZ	NZ\$8.35	NZ\$2,613	24.8x	24.1x	15.1x	14.7x	19.0x	18.4x	4.2%	
Contact Energy *	CEN NZ	NZ\$7.48	NZ\$5,369	20.9x	20.5x	13.2x	13.0x	22.9x	22.3x	5.3%	
Genesis Energy *	GNE NZ	NZ\$3.22	NZ\$3,296	20.9x	17.9x	12.2x	11.3x	28.2x	24.6x	5.5%	
Meridian Energy *	MEL NZ	NZ\$4.65	NZ\$11,918	24.8x	26.5x	16.2x	17.1x	25.5x	28.0x	4.7%	
Mercury *	MCY NZ	NZ\$5.04	NZ\$6,859	28.0x	25.6x	15.6x	15.2x	25.7x	24.8x	3.2%	
Infigen Energy	IFN AT	A\$0.65	A\$625	14.2x	17.4x	7.0x	7.6x	11.1x	13.1x	3.0%	
Compcos Average:				22.3x	22.0x	13.2x	13.1x	22.1x	21.9x	4.3%	
TLT Relative:				-35%	-47%	-9%	-30%	+30%	-15%	-100%	

EV = Current Market Cap + Actual Net Debt

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

Figure 8. Consensus EPS Momentum


Source: Forsyth Barr analysis, Bloomberg

Figure 9. 12 Month Forward PE


Source: Forsyth Barr analysis

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