FORSYTH BARR

Tilt Renewables

OUTPERFORM

It's a White Christmas

In another example that the market for quality infrastructure is white hot, Tilt Renewables (TLT) has sold its Snowtown 2 wind farm for A$1,073m. After transaction costs, the sale price is ~+A$350m (~+NZ$0.78/share) more than our DCF valuation. The materially higher sale price has resulted in us lifting our target price +70cps to NZ$3.70.

What's changed?

- **Earnings:** FY20 EBITDAF lowered -A$12m to A$123m
- **Target Price:** Increased +70cps to NZ$3.70
- **Rating:** OUTPERFORM rating retained

Snowtown II sale provides an early white Christmas

TLT has sold its 270MW Snowtown 2 (ST2) wind farm to Palisade Investment Partners and First State Super, with completion expected before the end of 2019. The deal metrics are impressive. The headline sales price of A$1,073m equates to almost A$4m/MW. That compares to development costs typically less than A$2m/MW. The reason for the high sales price is the very attractive offtake agreement with Origin Energy. TLT is selling the equity in the ST2 operations and net proceeds (after transaction costs) are expected to be A$455m (~NZ$1.00/share).

Big Christmas present for TLT (and its owners)

TLT has provided a big Christmas present to its owners. We estimate that TLT will have surplus capital of ~A$565m (~NZ$1.25/share) following the completion of the transaction. In addition to the net sale proceeds, TLT is effectively ungeared. As at 30 September, net debt (excluding restricted cash and leases) was A$615m–A$611m which was attached to ST2 following the project financing. Assuming (conservatively) a net debt to EBITDAF ratio of 2.5x on the earnings of the current operating wind farms and after adjusting for the unfunded portion of Waipipi, we estimate that TLT could comfortably borrow a further A$110m. When added to the net sale proceeds from ST2 of A$455m that totals A$565m.

The question becomes: how much cash will TLT's majority owner, Infratil (IFT) ask for? Whilst TLT has a significant development pipeline, its near-term focus is building two wind farms. It has no significant immediate need for cash (that we're aware of). It is conceivable that IFT could ask for upwards of A$500m (~NZ$1.10/share).

Future earnings downgrades

A little over 50% of TLT's EBITDAF came from ST2 (TLT has indicated ~A$68m per annum). The sale will make a significant dent in TLT's earnings outlook and it has downgraded its FY20 EBITDAF guidance range -$A10m to A$118m–A$122m. We have made similar adjustments to our forecasts.

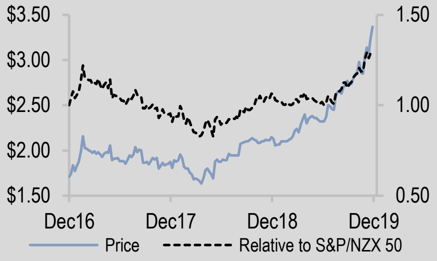
With the ST2 sales price materially ahead of our ST2 DCF value, we have upgraded our target price +70cps to NZ$3.70. Whilst the share price rallied +22cps on the news of the ST2 sale, we believe there is more to go, particularly given the surplus capital in TLT and we reiterate our OUTPERFORM rating.

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$3.37
Target price	NZ$3.70
Risk rating	Low
Issued shares	469.5m
Market cap	NZ$1,582m
Average daily turnover	37.2k (NZ$93k)

Share Price Performance



Financials: March	19A	20E	21E	22E
NPAT* (NZ$m)	75.1	83.3	64.9	64.5
EPS* (NZc)	16.0	17.7	13.8	13.7
EPS growth* (%)	-2.2	10.8	-22.0	-0.7
DPS (NZc)	1.1	0.0	0.0	0.0
Imputation (%)	0	0	0	0

Valuation (x)	19A	20E	21E	22E
EV/EBITDA	14.5	12.1	11.3	9.8
EV/EBIT	38.1	2.9	19.3	27.0
PE	21.1	19.0	24.4	24.5
Price / NTA	5.8	5.7	5.7	n/a
Cash dividend yield (%)	0.3	0.0	0.0	0.0
Gross dividend yield (%)	0.3	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 05 Dec 2019: NZ$3.37 March year end

Forsyth Barr valuation			
Valuation methodology	Mix of market multiple (33%) and DCF (67%)		
12-month target price (NZ$)*	**3.70**	**Spot valuations (NZ$)**	
Expected share price return	9.8%	1. DCF	3.46
Net dividend yield	0.0%	2. Multiple	3.72
Estimated 12-month return	9.8%	3. n/a	n/a
Key WACC assumptions		**DCF valuation summary (NZ$m)**	
Risk free rate	2.0%	Total firm value	2,042
Equity beta	0.94	(Net debt)/cash	(419)
WACC	7.3%	Value of equity	1,623
Terminal growth	1.5%	Shares (m)	469

Profit and Loss Account (A$m)	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
Sales revenue	158	193	186	169	198
Normalised EBITDA	**104**	**135**	**125**	**103**	**117**
Depreciation and amortisation	(77)	(84)	(56)	(43)	(74)
Normalised EBIT	**27**	**51**	**68**	**60**	**42**
Net interest	(29)	(30)	(9)	(10)	(26)
Other	26	(2)	(10)	-	-
Tax	(7)	(7)	(14)	(15)	(5)
Deprecation capex adjustment	49	57	36	26	49
Normalised NPAT	**47**	**70**	**79**	**61**	**60**
Abnormals/other	(30)	(58)	413	(26)	(49)
Reported NPAT	**17**	**12**	**491**	**35**	**12**
Normalised EPS (cps)	15.1	14.9	16.7	13.0	12.9
DPS (cps)	3.1	1.1	-	-	-

Growth Rates	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
Revenue (%)	n/a	n/a	n/a	n/a	n/a
EBITDA (%)	-46.6	91.7	33.2	-12.1	-29.2
EBIT (%)	n/a	n/a	n/a	n/a	n/a
Normalised NPAT (%)	3.9	-52.3	>100	-92.9	-66.5
Normalised EPS (%)	-41.9	-47.5	-100.0	n/a	n/a
DPS (%)	n/a	n/a	n/a	n/a	n/a

Cash Flow (A$m)	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
EBITDA	**104**	**135**	**125**	**103**	**117**
Working capital change	(19)	1	(0)	(1)	2
Interest & tax paid	(42)	(42)	(23)	3	(12)
Other	14	(9)	(47)	-	-
Operating cash flow	**57**	**85**	**55**	**105**	**107**
Capital expenditure	(84)	(91)	(387)	(406)	(7)
(Acquisitions)/divestments	-	-	1,056	-	-
Other	-	-	-	-	-
Funding available/(required)	**(27)**	**(6)**	**724**	**(302)**	**100**
Dividends paid	(11)	(11)	-	-	-
Equity raised/(returned)	(0)	260	(1)	-	-
Increase/(decrease) in net debt	**38**	**(243)**	**(723)**	**302**	**(100)**

Balance Sheet (NZ$m)	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
Working capital	18	14	15	16	15
Fixed assets	1,171	1,067	916	1,280	1,212
Intangibles	1	1	1	1	1
Other assets	101	114	74	74	74
Total funds employed	**1,290**	**1,196**	**1,005**	**1,370**	**1,301**
Net debt/(cash)	593	369	(335)	(33)	(133)
Other non current liabilities	186	171	219	247	265
Shareholder's funds	510	656	1,122	1,157	1,169
Minority interests	-	-	-	-	-
Total funding sources	**1,290**	**1,196**	**1,005**	**1,370**	**1,301**

Valuation Ratios	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
EV/EBITDA (x)	19.5	14.5	12.1	11.3	9.8
EV/EBIT (x)	75.7	38.1	2.9	19.3	27.0
PE (x)	20.6	21.1	19.0	24.4	24.5
Price/NTA (x)	n/a	5.8	5.7	5.7	5.7
Free cash flow yield (%)	3.0	5.1	3.1	6.2	6.3
Net dividend yield (%)	1.0	0.3	0.0	0.0	0.0
Gross dividend yield (%)	1.0	0.3	0.0	0.0	0.0
Imputation (%)	0	0	0	0	0
Pay-out ratio (%)	20	7	0	0	0

Capital Structure	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
Interest cover EBIT (x)	0.9	1.7	57.5	5.9	1.6
Interest cover EBITDA (x)	3.5	4.5	13.7	10.0	4.5
Net debt/ND+E (%)	53.8	36.0	-42.6	-3.0	-12.8
Net debt/EBITDA (x)	5.7	2.7	n/a	n/a	n/a

Key Ratios	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
Return on assets (%)	2.0	3.3	25.7	2.5	1.8
Return on equity (%)	9.3	10.7	7.0	5.3	5.2
Return on funds employed (%)	1.7	3.5	6.2	3.8	2.9
EBITDA margin (%)	65.7	69.7	67.1	60.8	59.0
EBIT margin (%)	16.9	26.5	282.1	35.6	21.4
Capex to sales (%)	52.9	47.0	208.4	240.8	3.5
Capex to depreciation (%)	108	109	686	956	9

Operating Performance	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
Australia installed capacity (MW)	386	440	305	506	506
NZ installed capacity (MW)	197	197	197	197	330
TLT installed capacity (MW)	**583**	**637**	**502**	**703**	**836**
Australia wind generation (GWh)	1,225	1,395	1,208	1,350	1,771
NZ wind generation (GWh)	571	658	665	672	1,119
TLT wind generation (GWh)	**1,796**	**2,053**	**1,874**	**2,022**	**2,890**
Price assumptions					
Australia REC price (A$/MWh)	83	78	55	25	12
SA wholesale price (A$/MWh)	69	87	89	77	61
VIC wholesale price (A$/MWh)		105	110	91	71
Australia PPA price (A$/MWh)	98	94	93	58	58
NZ PPA price (NZ$/MWh)	65	65	64	65	66
Australia spot sales (GWh)	23	155	428	657	524
Australia PPA sales (GWh)	1,202	1,239	780	693	1,247
Australia spot revenue (A$m)	3	34	72	87	56
Australia PPA revenue (A$m)	118	117	72	40	72
Australia revenue (A$m)	122	151	144	127	128
NZ revenue (A$m)	36	42	42	42	70
Australia EBITDAF (A$m)	82	109	100	78	71
NZ EBITDAF (A$m)	22	25	25	25	46

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

Forecast changes

Figure 1. Forecast changes

	FY20 Old A$m	FY20 New A$m	% Chg	FY21 Old A$m	FY21 New A$m	% Chg	FY22 Old A$m	FY22 New A$m	% Chg
Australia revenue	159	144	-9%	214	127	-41%	218	128	-42%
NZ revenue	41	42	1%	41	42	2%	70	70	0%
Total Revenue	**200**	**186**	**-7%**	**255**	**169**	**-34%**	**288**	**198**	**-31%**
Operating costs	(65)	(61)	-6%	(82)	(66)	-20%	(98)	(81)	-17%
Australia EBITDAF	111	100	-10%	148	78	-47%	145	71	-51%
NZ EBITDAF	24	25	0%	24	25	2%	46	46	1%
EBITDAF	**135**	**125**	**-8%**	**172**	**103**	**-41%**	**191**	**117**	**-39%**
Depreciation & amortisation	(79)	(56)	-29%	(87)	(43)	-51%	(108)	(74)	-31%
EBIT	**56**	**68**	**21%**	**86**	**60**	**-30%**	**83**	**42**	**-49%**
Fair value gain/(loss) & other	(10)	446		0	0		0	0	
Interest costs	(9)	(9)	-1%	(18)	(10)	-42%	(25)	(26)	5%
Pre-tax profit	**37**	**505**	**>100%**	**68**	**50**	**-27%**	**58**	**17**	**-71%**
Tax expense	(10)	(14)	35%	(20)	(15)	-27%	(17)	(5)	-71%
Reported NPAT	**27**	**491**	**>100%**	**48**	**35**	**-27%**	**41**	**12**	**-71%**
Normalised NPAT	**34**	**42**	**25%**	**48**	**35**	**-27%**	**41**	**12**	**-71%**
EPS	7.2	9.0	25%	10.2	7.5	-27%	8.7	2.5	-71%
DPS	0.00	0.00		0.00	0.00		0.00	0.00	
Australia generation (GWh)	1,405	1,208	-14%	2,209	1,350	-39%	2,653	1,771	-33%
NZ generation (GWh)	665	665	0%	672	672	0%	1,119	1,119	0%
Total generation (GWh)	**2,071**	**1,874**	**-10%**	**2,881**	**2,022**	**-30%**	**3,772**	**2,890**	**-23%**
Australian sales price (A$/MWh)	113	119	6%	97	94	-3%	82	72	-12%
NZ sales price (A$/MWh)	62	62	1%	61	63	2%	63	63	0%
Weighted avg price (A$/MWh)	**97**	**99**	**3%**	**88**	**83**	**-6%**	**76**	**69**	**-10%**

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.

Financial structure

- **Strong balance sheet following sale of Snowtown 2:** We estimate that TLT has surplus capital of more than A$550m following the successful sale of its Snowtown 2 wind farm. However, we expect much of that will be returned to shareholders.

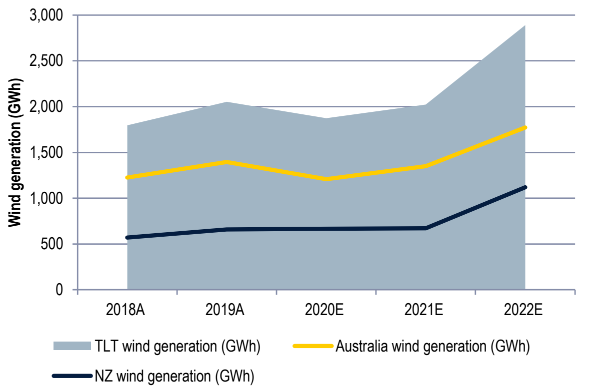
Risk factors

- **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.

Company description

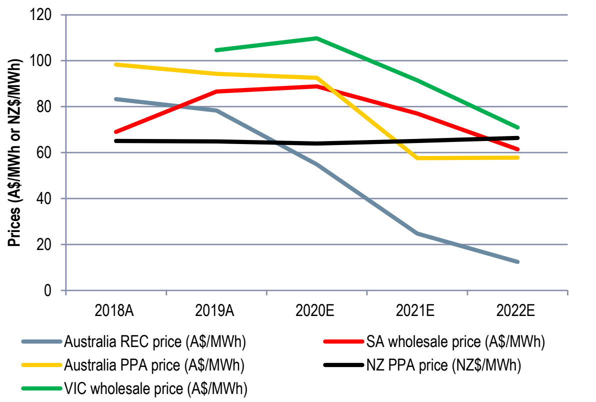
Tilt Renewables (TLT) is a pure play Australasian wind farm owner, operator and developer. Its core operational assets are Tararua 1, 2 & 3 and Mahinerangi in New Zealand (197MW), and Snowtown 1 & 2 and Salt Creek in Australia (440MW), producing ~2,100GWh per annum. TLT is developing a 336MW wind farm, 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.

Figure 2. Generation volumes



Source: Forsyth Barr analysis

Figure 3. Pricing assumptions



Source: Forsyth Barr analysis

Figure 4. Substantial Shareholders

Shareholder	Latest Holding
Infratil	65.3%
Mercury NZ Ltd	20.0%

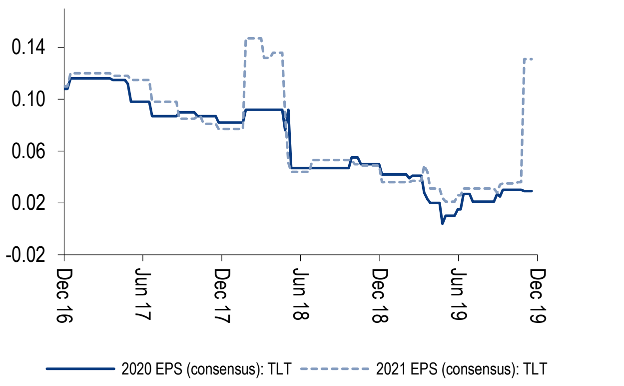
Source: NZX, Forsyth Barr analysis, NOTE: based on SSH notices only

Figure 5. International Compcos

Company	Code	Price	Mkt Cap	PE		EV/EBITDA		EV/EBIT		Cash D/Yld
(metrics re-weighted to reflect TLT's balance date - March)			(m)	2020E	2021E	2020E	2021E	2020E	2021E	2021E
Tilt Renewables	**TLT NZ**	**NZ$3.37**	**NZ$1,582**	**19.0x**	**24.4x**	**14.9x**	**18.1x**	**3.5x**	**30.9x**	**0.0%**
Trustpower *	TPW NZ	NZ$7.21	NZ$2,257	23.6x	22.1x	13.9x	13.4x	17.2x	16.6x	4.7%
Contact Energy *	CEN NZ	NZ$7.19	NZ$5,161	20.1x	20.1x	12.8x	12.7x	22.2x	22.0x	5.5%
Genesis Energy *	GNE NZ	NZ$3.09	NZ$3,181	20.2x	17.1x	12.0x	11.0x	27.7x	23.8x	5.7%
Meridian Energy *	MEL NZ	NZ$4.96	NZ$12,712	26.6x	29.0x	17.2x	18.4x	27.2x	30.6x	4.4%
Mercury *	MCY NZ	NZ$4.78	NZ$6,512	26.4x	24.2x	14.8x	14.5x	24.4x	23.7x	3.4%
Infigen Energy	IFN AT	A$0.63	A$606	14.2x	17.8x	7.0x	7.6x	11.1x	13.2x	3.1%
			Compco Average:	**21.9x**	**21.7x**	**12.9x**	**12.9x**	**21.7x**	**21.6x**	**4.4%**
EV = Current Market Cap + Actual Net Debt			**TLT Relative:**	**-13%**	**+12%**	**+15%**	**+40%**	**-84%**	**+43%**	**-100%**

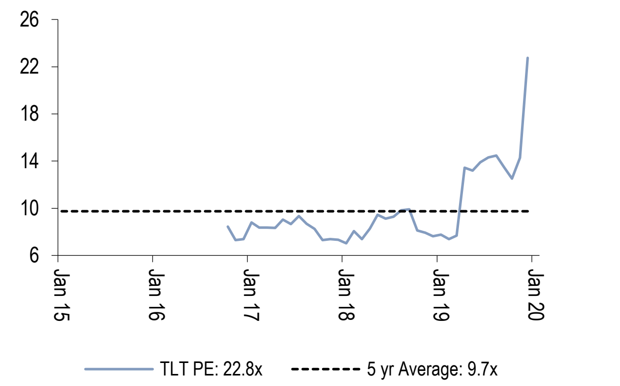
Source: *Forsyth Barr analysis, Bloomberg Consensus, Compco metrics re-weighted to reflect headline (TLT) companies fiscal year end

Figure 6. Consensus EPS Momentum



Source: Forsyth Barr analysis, Bloomberg

Figure 7. 12 Month Forward PE



Source: Forsyth Barr analysis