

Tilt Renewables

Snowtown 2 Takes Wind Out of 1H21

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NEUTRAL

Tougher market conditions and Tilt Renewables' (TLT) recent strong share price performance has resulted in us downgrading our rating to NEUTRAL from OUTPERFORM. The near-term wholesale electricity price outlook has softened and recent market evidence points to record low renewable energy auction prices for new build, both of which impact on value. We have lowered our target price -10cps to NZ\$4.00. TLT is reporting its 1H21 result on 9 November and we are forecasting EBITDAF of A\$32m, -56% lower than 1H20 due to the sale of Snowtown 2 (ST2) in late 2019.

NZX Code	TLT	Financials: Mar/	20A	21E	22E	23E	Valuation (x)	20A	21E	22E	23E
Share price	NZ\$3.97	NPAT* (NZ\$m)	49.8	40.7	60.9	60.9	PE	37.4	36.7	24.5	24.5
Target price	NZ\$4.00	EPS* (NZc)	10.6	10.8	16.2	16.2	EV/EBIT	30.8	98.6	87.4	99.4
Risk rating	Low	EPS growth* (%)	-32.6	2.1	49.6	-0.1	EV/EBITDA	11.8	18.3	15.2	16.0
Issued shares	376.2m	DPS (NZc)	0.0	0.0	0.0	0.0	Price / NTA	1.5	1.5	1.5	1.5
Market cap	NZ\$1,493m	Imputation (%)	0	0	0	0	Cash div yld (%)	0.0	0.0	0.0	0.0
Avg daily turnover	44.1k (NZ\$145k)	*Based on normalised profits					Gross div yld (%)	0.0	0.0	0.0	0.0

What's changed?

- **Earnings:** FY21 EBITDAF unchanged, FY22/FY23 -4%/-3% to A\$103m/A\$99m respectively
- **Target price:** Reduced -10cps to NZ\$4.00
- **Rating:** Downgraded to NEUTRAL from OUTPERFORM

Rating downgrade on lower electricity price outlook and continued new project pricing pressure

Three key factors are behind our rating downgrade to NEUTRAL from OUTPERFORM. First, in the past two months the outlook for wholesale electricity prices in Australia has softened ~4%. Second, the ACT renewable energy auction resulted in a record low price of A\$45.0/MWh for one winning project (although the second winning project was A\$54.5/MWh). Whilst there is evidence some low-priced projects struggle to reach financial close, it is not helpful for TLT's future offtake power price negotiations. Third, over the past three weeks, TLT's share price has surged +10%, outperforming the S&P/NZX50G index +5%.

Dundonnell throws late unexpected hurdles, but should be overcome by the end of 2020

TLT is finding commissioning Dundonnell more challenging than expected. Just as Dundonnell was overcoming regulatory commissioning hurdles, a turbine blade fell off. However, we expect no financial impact on TLT given turbine manufacturers guarantees (the blade failure is more of an issue for Vestas) and Dundonnell is on track to be fully commissioned by the end of 2020.

Solid 2Q21 wind volumes

Total 2Q21 generation volumes were 466GWh, with almost a third coming from Dundonnell commissioning volumes. 2Q21 volumes are down ~100GWh on 2Q20 due to the sale of ST2, but +119GWh higher than 1Q21 due to Dundonnell commissioning.

Forecast changes and 1H21 result preview

Our FY21 EBITDAF forecast is unchanged, at A\$70m, although longer-term earnings are down due to the lower wholesale electricity price outlook. TLT is reporting its 1H21 result on Monday, 9 November. We are forecasting a -56% decline in EBITDAF due to the sale of ST2 in late 2019. We are not anticipating any major announcements as TLT focusses on completing Dundonnell and Waipipi.

Tilt Renewables Limited (TLT)

Priced as at 19 Oct 2020 (NZ\$) **3.97**

12-month target price (NZ\$)*	4.00
Expected share price return	0.8%
Net dividend yield	0.0%
Estimated 12-month return	0.8%

Key WACC assumptions	
Risk free rate	1.30%
Equity beta	0.86
WACC	5.5%
Terminal growth	1.5%

Spot valuations (NZ\$)	
1. DCF	3.68
2. Multiple	3.76
3. n/a	n/a

DCF valuation summary (NZ\$m)	
Total firm value	1,214
(Net debt)/cash	169
Less: Capitalised operating leases	
Value of equity	1,383

Profit and Loss Account (A\$m)	2019A	2020A	2021E	2022E	2023E
Sales revenue	193.3	170.2	129.5	180.9	178.7
Normalised EBITDA	134.8	117.5	70.5	102.9	99.2
Depreciation and amortisation	(83.6)	(72.5)	(57.4)	(84.9)	(83.3)
Normalised EBIT	51.2	45.0	13.1	17.9	15.9
Net interest	(30.1)	(39.4)	(11.0)	(17.9)	(13.4)
Other	(2.0)	(8.5)	0	0	0
Tax	(6.9)	(4.7)	(0.6)	0.0	(0.7)
Depreciation capex adjustment	55.4	46.9	36.0	55.0	53.7
Normalised NPAT	69.0	47.4	37.5	54.9	55.5
Abnormals/other	(56.8)	431.1	(36.0)	(55.0)	(53.7)
Reported NPAT	12.2	478.4	1.5	(0.0)	1.8
Normalised EPS (cps)	14.7	10.1	10.0	14.6	14.7
DPS (cps)	1.1	0	0	0	0

Growth Rates	2019A	2020A	2021E	2022E	2023E
Revenue (%)	22.4	-11.9	-24.0	39.8	-1.2
EBITDA (%)	29.9	-12.8	-40.0	45.9	-3.6
EBIT (%)	91.4	-12.2	-70.9	37.1	-11.2
Normalised NPAT (%)	49.0	-31.3	-20.8	46.5	0.9
Normalised EPS (%)	-0.6	-31.3	-1.2	46.5	0.9
Ordinary DPS (%)	-65.0	-100.0	n/a	n/a	n/a

Cash Flow (A\$m)	2019A	2020A	2021E	2022E	2023E
EBITDA	134.8	117.5	70.5	102.9	99.2
Working capital change	0.6	39.8	(53.2)	(3.4)	(1.6)
Interest & tax paid	(41.7)	(57.8)	14.2	0.2	0.3
Other	(8.6)	(49.4)	0	0	0
Operating cash flow	85.0	50.2	31.4	99.7	98.0
Capital expenditure	(90.8)	(322.9)	(406.3)	(7.0)	(7.1)
(Acquisitions)/divestments	0	455.0	0	0	0
Other	0	(3.9)	(3.9)	(3.9)	(3.9)
Funding available/(required)	(5.8)	178.3	(378.8)	88.8	86.9
Dividends paid	(10.6)	0	0	0	0
Equity raised/(returned)	259.9	(1.1)	(260.0)	0	0
(Increase)/decrease in net debt	243.5	177.3	(638.8)	88.8	86.9

Balance Sheet (A\$m)	2019A	2020A	2021E	2022E	2023E
Working capital	14.3	(38.3)	12.9	14.4	13.9
Fixed assets	1,066.7	1,000.7	1,350.6	1,273.7	1,198.6
Intangibles	0.5	0.5	0.5	0.5	0.5
Right of use asset	0	13.4	13.4	13.4	13.4
Other assets	114.3	9.0	9.0	9.0	9.0
Total funds employed	1,195.9	985.2	1,386.4	1,310.9	1,235.4
Net debt/(cash)	346.4	(417.9)	220.9	132.1	45.2
Lease liability	22.9	125.5	125.5	125.5	125.5
Other liabilities	170.6	94.3	115.2	128.6	138.2
Shareholder's funds	656.0	1,183.3	924.7	924.7	926.5
Minority interests	0	0	0	0	0
Total funding sources	1,195.9	985.2	1,386.4	1,310.9	1,235.4

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

Valuation Ratios	2019A	2020A	2021E	2022E	2023E
EV/EBITDA (x)	13.8	11.8	18.3	15.2	16.0
EV/EBIT (x)	36.3	30.8	98.6	87.4	99.4
PE (x)	25.2	37.4	36.7	24.5	24.5
Price/NTA (x)	2.7	1.5	1.5	1.5	1.5
Free cash flow yield (%)	5.4	3.0	1.7	6.2	6.1
Net dividend yield (%)	0.3	0.0	0.0	0.0	0.0
Gross dividend yield (%)	0.3	0.0	0.0	0.0	0.0

Capital Structure	2019A	2020A	2021E	2022E	2023E
Interest cover EBIT (x)	1.7	1.1	1.2	1.0	1.2
Interest cover EBITDA (x)	4.5	3.0	6.4	5.7	7.4
Net debt/ND+E (%)	34.6	-54.6	19.3	12.5	4.6
Net debt/EBITDA (x)	2.6	n/a	3.1	1.3	0.5

Key Ratios	2019A	2020A	2021E	2022E	2023E
Return on assets (%)	3.3	2.6	0.6	0.9	0.8
Return on equity (%)	10.5	4.0	4.1	5.9	6.0
Return on funds employed (%)	3.6	4.2	0.8	1.2	1.2
EBITDA margin (%)	69.7	69.0	54.5	56.9	55.5
EBIT margin (%)	26.5	26.4	10.1	9.9	8.9
Capex to sales (%)	47.0	189.7	313.8	3.9	4.0
Capex to depreciation (%)	109	445	708	8	9
Imputation (%)	0	0	0	0	0
Pay-out ratio (%)	7	0	0	0	0

Operating Performance	2019A	2020A	2021E	2022E	2023E
Australia installed capacity (MW)	440	170	506	506	506
NZ installed capacity (MW)	197	197	197	330	330
TLT installed capacity (MW)	637	367	703	836	836
Australia wind generation (GWh)	1,395	1,170	1,174	1,771	1,771
NZ wind generation (GWh)	658	664	667	1,119	1,119
TLT wind generation (GWh)	2,053	1,834	1,840	2,890	2,890

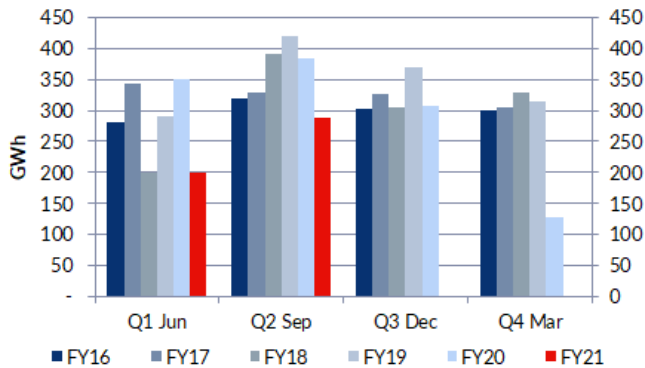
Price assumptions	2019A	2020A	2021E	2022E	2023E
Australia REC price (A\$/MWh)	78.3	65.2	29.1	24.3	18.0
SA wholesale price (A\$/MWh)	81.0	56.0	42.5	46.2	43.3
VIC wholesale price (A\$/MWh)		85.8	62.1	57.5	51.3
Australia PPA price (A\$/MWh)	94.8	94.5	55.9	57.8	58.9
NZ PPA price (NZ\$/MWh)	64.8	63.7	64.9	66.1	67.1

Australia spot sales (GWh)	155	365	730	458	458
Australia PPA sales (GWh)	1,239	805	444	1,313	1,313
Australia spot revenue (A\$m)	34	53	38	23	21
Australia PPA revenue (A\$m)	117	76	25	76	77
Australia revenue (A\$m)	151	129	89	113	109
NZ revenue (A\$m)	42	42	41	68	69

Australia EBITDAF (A\$m)	109	93	47	59	54
NZ EBITDAF (A\$m)	25	24	24	44	45

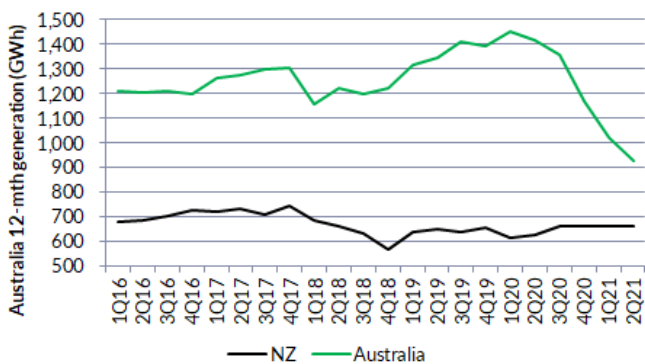
2Q21 operating statistics

Figure 1. Australia quarterly generation volumes



Source: TLT, Forsyth Barr analysis

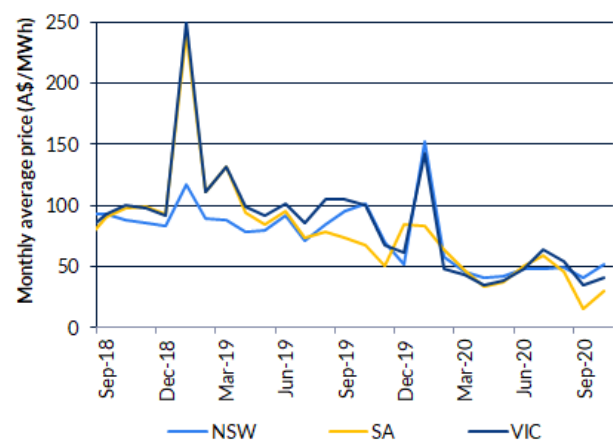
Figure 3. Rolling 12-month generation



Source: TLT, Forsyth Barr analysis

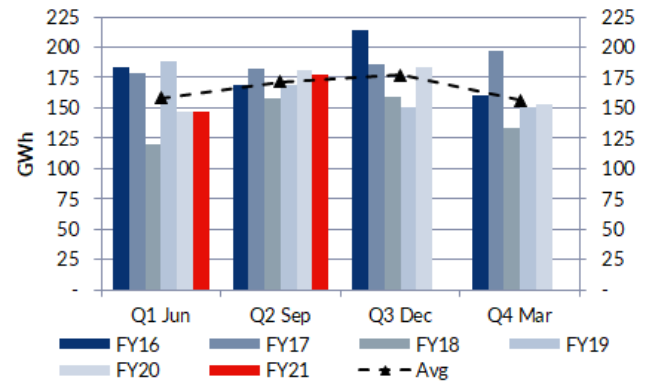
Wholesale electricity prices

Figure 5. Historic month average wholesale electricity prices



Source: AEMO, Forsyth Barr analysis

Figure 2. New Zealand quarterly generation volumes



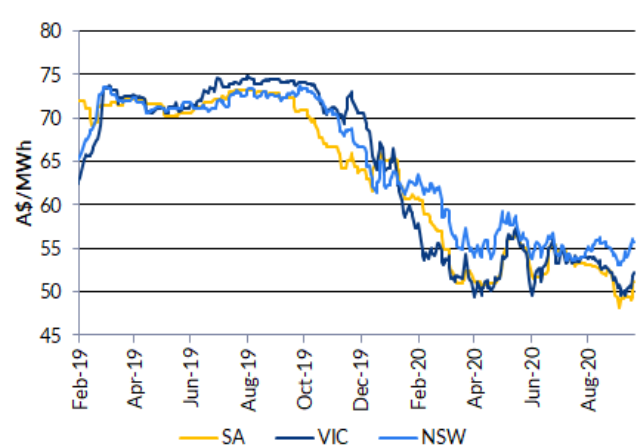
Source: TLT, Forsyth Barr analysis

Figure 4. Quarterly generation

GWh	Quarterly Production			Year-to-date generation		
	2Q20	2Q21	Diff to pcp	1H20	1H21	Diff to pcp
NZ	181	177	-2%	328	324	-1%
Australia	384	289	-25%	734	489	-33%
TLT	565	466	-18%	1,062	813	-23%

Source: TLT, Forsyth Barr analysis

Figure 6. FY22 ASX futures prices



Source: IRESS, Forsyth Barr analysis

Forecast changes

Figure 7. Forecast changes

Year to 31 March	FY21	FY21		FY22	FY22		FY23	FY23	
A\$m	Old	New	% Chg	Old	New	% Chg	Old	New	% Chg
Australia revenue	86	89	3%	117	113	-3%	112	109	-2%
NZ revenue	40	41	2%	68	68	0%	69	69	0%
Total Revenue	126	129	3%	185	181	-2%	181	179	-2%
Operating costs	(56)	(59)	5%	(78)	(78)	0%	(79)	(79)	0%
Australia EBITDAF	47	47	0%	63	59	-7%	58	54	-5%
NZ EBITDAF	23	24	3%	44	44	0%	45	45	0%
EBITDAF	70	70	1%	107	103	-4%	102	99	-3%
Depreciation & amortisation	(57)	(57)	0%	(85)	(85)	0%	(83)	(83)	0%
EBIT	13	13	4%	22	18	-19%	19	16	-16%
Interest costs	(11)	(11)	0%	(18)	(18)	0%	(13)	(13)	1%
Pre-tax profit	2	2	33%	4	(0)	-100%	6	3	-57%
Tax expense	(0)	(1)	33%	(1)	0	-100%	(2)	(1)	-57%
Reported NPAT	1	1	33%	3	(0)	-100%	4	2	-57%
Adjusted (deprn/capex) NPAT	36	37	1%	57	54	-5%	57	55	-4%
EPS	0.3	0.4	33%	0.8	(0.0)	-100%	1.1	0.5	-57%
DPS	0.00	0.00		0.00	0.00		0.00	0.00	
Australia generation (GWh)	1,059	1,174	11%	1,771	1,771	0%	1,771	1,771	0%
NZ generation (GWh)	653	667	2%	1,119	1,119	0%	1,119	1,119	0%
Total generation (GWh)	1,712	1,840	8%	2,890	2,890	0%	2,890	2,890	0%
Australian sales price (A\$/MWh)	81	76	-7%	66	64	-3%	63	62	-2%
NZ sales price (A\$/MWh)	61	61	0%	60	60	0%	62	62	0%
Weighted avg price (A\$/MWh)	74	70	-4%	64	63	-2%	63	62	-2%

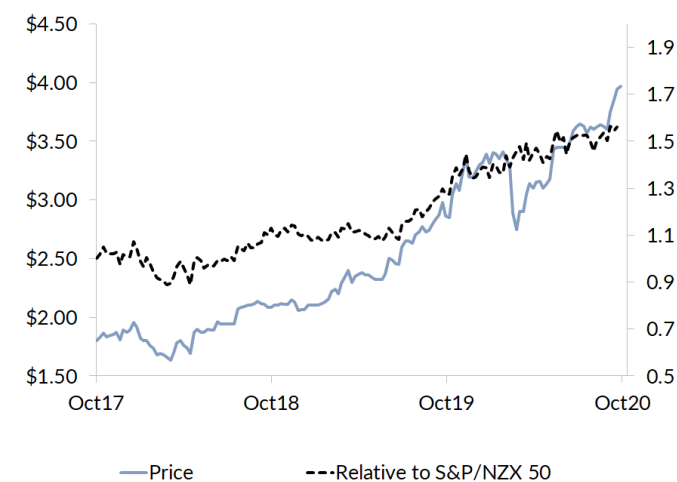
Source: Forsyth Barr analysis

1H21 result preview – reporting date Monday, 9 November

Figure 8. 1H21 forecast

	1H20	1H21	Diff	
	A\$m	A\$m	% chg	Commentary
Australia revenue	82	37	-55%	Big decline due to sale of ST2
NZ revenue	22	21	-2%	Steady NZ revenue
Total Revenue	103	58	-43%	
Operating costs	(32)	(27)	-16%	
Australia EBITDAF	57	18	-69%	Flow through from lower revenue
NZ EBITDAF	14	14	-3%	Steady NZ performance expected
EBITDAF	71	32	-56%	
Depreciation & amortisation	(40)	(25)	-37%	Decline due to sale of ST2
EBIT	32	7	-78%	
Fair value gain/(loss)	(10)	0		We do not forecast non-cash fair value movements
Interest costs	(6)	(0)	-93%	Low interest costs due to sale proceeds from ST2 and capitalised interest
Pre-tax profit	16	6		
Tax expense	(4)	(1)	-74%	
Reported NPAT	12	5	-54%	
Normalised NPAT	19	5	-71%	
EPS (\$A cps)	5.0	1.4	-71%	
DPS (\$A cps)	0.0	0.0		
Australia generation (GWh)	734	489	-33%	Volume decline from ST2 sale, partially offset by Dundonnell commissioning volumes
NZ generation (GWh)	328	324	-1%	
Total generation (GWh)	1,062	813	-23%	
Australian sales price (A\$/MWh)	111	76	-32%	Sales price decline due to ST2 sale. ST2 had a very high fixed sales price
NZ sales price (A\$/MWh)	66	66	-1%	
Weighted avg price (A\$/MWh)	97	72	-26%	

Source: Forsyth Barr analysis

Figure 9. Price performance


Source: Forsyth Barr analysis

Figure 10. Substantial shareholders

Shareholder	Latest Holding
Infratil	65.3%
Mercury NZ Ltd	20.0%

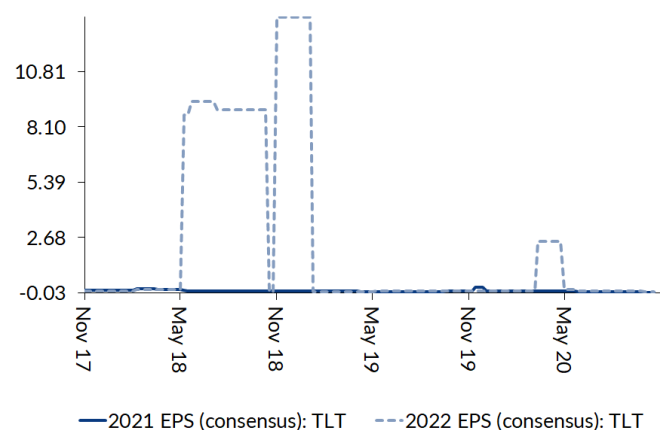
Source: NZX, Forsyth Barr analysis, NOTE: based on SPH notices only

Figure 11. International valuation comparisons

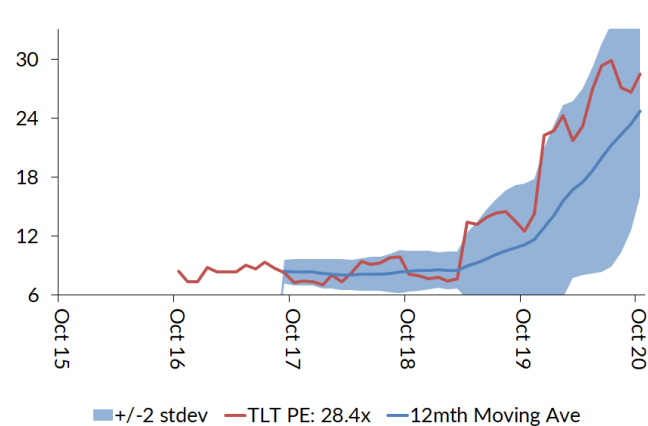
Company	Code	Price	Mkt Cap (m)	PE 2021E	PE 2022E	EV/EBITDA 2021E	EV/EBITDA 2022E	EV/EBIT 2021E	EV/EBIT 2022E	Cash Yld 2022E
(metrics re-weighted to reflect TLT's balance date - March)										
Tilt Renewables	TLT NZ	NZ\$3.97	NZ\$1,493	36.7x	24.5x	13.9x	9.3x	74.9x	53.5x	0.0%
TRUSTPOWER *	TPW NZ	NZ\$7.70	NZ\$2,410	26.7x	26.8x	15.6x	15.6x	20.6x	20.6x	3.9%
CONTACT ENERGY *	CEN NZ	NZ\$7.59	NZ\$5,454	22.0x	25.9x	14.1x	15.8x	30.2x	36.6x	4.2%
GENESIS ENERGY *	GNE NZ	NZ\$3.16	NZ\$3,298	18.5x	17.4x	11.7x	11.9x	25.9x	28.5x	4.4%
MERIDIAN ENERGY *	MEL NZ	NZ\$5.49	NZ\$14,069	31.2x	35.7x	20.2x	22.8x	33.6x	40.9x	3.1%
MERCURY *	MCY NZ	NZ\$5.37	NZ\$7,316	28.6x	29.2x	17.1x	17.1x	30.3x	31.5x	3.2%
INFIGEN ENERGY	IFN AT	A\$0.93	A\$898	>50x	n/a	10.2x	n/a	20.5x	n/a	n/a
Compco Average:				25.4x	27.0x	14.8x	16.6x	26.8x	31.6x	3.8%
TLT Relative:				44%	-9%	-6%	-44%	179%	69%	-100%

EV = Current Market Cap + Actual Net Debt

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

Figure 12. Consensus EPS momentum (NZ\$)


Source: Forsyth Barr analysis

Figure 13. One year forward PE (x)


Source: Forsyth Barr analysis

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