

Tilt Renewables

Tilting Up, Up and Away

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NEUTRAL

Infratil's strategic review has concluded with the expected sale of Tilt Renewables (TLT), but for an eye-watering price of NZ\$7.80/share. The sales price implies an FY22 EV/EBITDAF TLT multiple of 27.7x and highlights the current attractiveness of assets such as TLT. The price is even more impressive in light of recent interest rate increases and ongoing softness in Australian wholesale electricity prices. We have increased our target price to the transaction price of NZ\$7.80/share and we retain our NEUTRAL rating.

NZX Code	TLT	Financials: Mar/	20A	21E	22E	23E	Valuation (x)	20A	21E	22E	23E
Share price	NZ\$7.61	NPAT* (NZ\$m)	49.8	51.6	60.3	62.1	PE	71.8	55.5	47.5	46.1
Target price	NZ\$7.80	EPS* (NZc)	10.6	13.7	16.0	16.5	EV/EBIT	61.4	n/a	n/a	n/a
Risk rating	Low	EPS growth* (%)	-32.6	29.3	16.8	3.1	EV/EBITDA	23.5	36.9	28.9	29.4
Issued shares	376.2m	DPS (NZc)	0.0	0.0	0.0	0.0	Price / NTA	2.9	2.8	2.8	2.8
Market cap	NZ\$2,863m	Imputation (%)	0	0	0	0	Cash div yld (%)	0.0	0.0	0.0	0.0
Avg daily turnover	39.9k (NZ\$180k)	*Based on normalised profits					Gross div yld (%)	0.0	0.0	0.0	0.0

Great deal for TLT shareholders

The deal values TLT at NZ\$7.80/share, ~2x the December 2020 pre-strategic review price. The implied FY22 EV/EBITDAF 27.7x is eye-wateringly high and highlights both the attractiveness of the assets and the material decline in the cost of capital. The NZ\$7.80 share price implies a 3.4% WACC on our forecasts (although we place little value on development options).

Business to be split into Australian and New Zealand assets

TLT will be split into two businesses post-sale, with Mercury (MCY) owning the NZ assets and Powering Australian Renewables (PowAR) owning the Australian assets. The deal price has been driven by the Australian business and the implied FY22 EV/EBITDAF multiple is 37.4x for the Australian assets vs. 15.4x for the NZ assets. PowAR is a consortium of QIC (a Queensland Government investment fund), Future Fund (Australia's sovereign wealth fund) and AGL.

The usual conditions are in place for the deal, including OIO and FIRB approval (although this should not be an issue given the ending owners of each business are local), shareholder approval (IFT and MCY indicated they will vote yes, together they own 85% of TLT) and High Court approval in NZ. TLT directors are recommending the deal to shareholders, subject to the independent valuation range including the NZ\$7.80 deal price (it is hard to see how it won't). The transaction is being completed under a Scheme Implementation Agreement. The shareholder vote is likely to be four months away, with the Scheme implemented in ~five months.

Minor forecast changes

We have updated our forecasts for recent production information, latest wholesale electricity price information and exchange rates. The changes are very minor (less than A\$1m per annum). Our new target price of NZ\$7.80 reflects the transaction price.

Disclaimer: Forsyth Barr is advising Mercury on the acquisition of Tilt Renewables' New Zealand assets and will receive fees on completion of the transaction.

Tilt Renewables Limited (TLT)

Priced as at 15 Mar 2021 (NZ\$) **7.61**

12-month target price (NZ\$)*	7.80
Expected share price return	2.5%
Net dividend yield	0.0%
Estimated 12-month return	2.5%

Key WACC assumptions	
Risk free rate	2.30%
Equity beta	0.86
WACC	5.8%
Terminal growth	1.5%

Spot valuations (NZ\$)	
1. DCF	3.49
3. n/a	n/a
3. n/a	n/a

DCF valuation summary (NZ\$m)	
Total firm value	1,470
(Net debt)/cash	(158)
Less: Capitalised operating leases	
Value of equity	1,312

Profit and Loss Account (A\$m)	2019A	2020A	2021E	2022E	2023E
Sales revenue	193.3	170.2	135.4	184.1	183.9
Normalised EBITDA	134.8	117.5	73.1	103.0	101.5
Depreciation and amortisation	(83.6)	(72.5)	(52.0)	(91.3)	(88.7)
Normalised EBIT	51.2	45.0	21.1	11.7	12.8
Net interest	(30.1)	(46.2)	(13.1)	(16.8)	(12.5)
Other	(2.0)	(8.5)	9.7	0	0
Tax	(6.9)	(4.7)	(12.1)	1.5	(0.1)
Depreciation capex adjustment	55.4	46.9	27.0	59.5	57.5
Normalised NPAT	69.0	47.4	48.2	55.9	57.7
Abnormals/other	(56.8)	431.1	(20.3)	(59.5)	(57.5)
Reported NPAT	12.2	478.4	28.0	(3.6)	0.2
Normalised EPS (cps)	14.7	10.1	12.8	14.9	15.3
DPS (cps)	1.1	0	0	0	0

Growth Rates	2019A	2020A	2021E	2022E	2023E
Revenue (%)	22.4	-11.9	-20.5	36.0	-0.1
EBITDA (%)	29.9	-12.8	-37.8	40.9	-1.5
EBIT (%)	91.4	-12.2	-53.1	-44.8	9.6
Normalised NPAT (%)	49.0	-31.3	1.8	15.8	3.3
Normalised EPS (%)	-0.6	-31.3	27.1	15.8	3.3
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	73.1	103.0	101.5
Working capital change	0.6	39.8	(67.8)	(11.1)	(7.9)
Interest & tax paid	(41.7)	(57.8)	(7.1)	2.2	1.6
Other	(8.6)	(49.4)	36.0	0	0
Operating cash flow	85.0	50.2	34.2	94.1	95.1
Capital expenditure	(90.8)	(322.9)	(386.8)	(7.0)	(7.1)
(Acquisitions)/divestments	0	455.0	0	0	0
Other	0	(3.9)	(5.5)	(5.5)	(5.5)
Funding available/(required)	(5.8)	178.3	(358.1)	81.6	82.5
Dividends paid	(10.6)	0	0	0	0
Equity raised/(returned)	259.9	(1.1)	(257.5)	0	0
(Increase)/decrease in net debt	243.5	177.3	(615.6)	81.6	82.5

Balance Sheet (A\$m)	2019A	2020A	2021E	2022E	2023E
Working capital	14.3	(38.3)	11.3	14.2	13.9
Fixed assets	1,066.7	1,000.7	1,201.2	1,125.7	1,053.1
Intangibles	0.5	0.5	0.5	0.5	0.5
Right of use asset	0	13.4	124.5	124.5	124.5
Other assets	114.3	9.0	115.6	115.6	115.6
Total funds employed	1,195.9	985.2	1,453.2	1,380.6	1,307.7
Net debt/(cash)	346.4	(417.9)	196.7	115.1	32.6
Lease liability	22.9	125.5	129.2	129.2	129.2
Other liabilities	170.6	94.3	179.6	192.2	201.5
Shareholder's funds	656.0	1,183.3	947.8	944.2	944.4
Minority interests	0	0	0	0	0
Total funding sources	1,195.9	985.2	1,453.2	1,380.6	1,307.7

* 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)	28.2	27.4	43.1	34.7	35.2
EV/EBIT (x)	74.2	71.6	>100x	>100x	>100x
PE (x)	48.4	71.8	55.5	47.5	46.1
Price/NTA (x)	5.2	2.9	2.8	2.8	2.8
Free cash flow yield (%)	2.8	1.5	0.7	3.0	3.1
Net dividend yield (%)	0.2	0.0	0.0	0.0	0.0
Gross dividend yield (%)	0.2	0.0	0.0	0.0	0.0

Capital Structure	2019A	2020A	2021E	2022E	2023E
Interest cover EBIT (x)	1.7	1.0	1.6	0.7	1.0
Interest cover EBITDA (x)	4.5	2.5	5.6	6.1	8.1
Net debt/ND+E (%)	34.6	-54.6	17.2	10.9	3.3
Net debt/EBITDA (x)	2.6	n/a	2.7	1.1	0.3

Key Ratios	2019A	2020A	2021E	2022E	2023E
Return on assets (%)	3.3	2.6	1.2	0.7	0.8
Return on equity (%)	10.5	4.0	5.1	5.9	6.1
Return on funds employed (%)	3.6	4.2	1.3	0.8	0.9
EBITDA margin (%)	69.7	69.0	54.0	55.9	55.2
EBIT margin (%)	26.5	26.4	15.6	6.3	6.9
Capex to sales (%)	47.0	189.7	285.7	3.8	3.9
Capex to depreciation (%)	109	445	744	8	8
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	276	330	330
TLT installed capacity (MW)	637	367	782	836	836
Australia wind generation (GWh)	1,395	1,170	1,208	1,771	1,771
NZ wind generation (GWh)	658	664	801	1,119	1,119
TLT wind generation (GWh)	2,053	1,834	2,009	2,890	2,890

Price assumptions	2019A	2020A	2021E	2022E	2023E
Australia REC price (A\$/MWh)	78.3	65.2	26.4	25.9	22.8
SA wholesale price (A\$/MWh)	81.0	56.0	39.4	44.6	42.9
VIC wholesale price (A\$/MWh)		85.8	55.5	53.9	49.5
Australia PPA price (A\$/MWh)	94.8	94.5	56.7	57.8	58.9
NZ PPA price (NZ\$/MWh)	64.8	63.7	65.7	67.2	68.3

Australia spot sales (GWh)	155	365	740	458	458
Australia PPA sales (GWh)	1,239	805	467	1,313	1,313
Australia spot revenue (A\$m)	34	53	35	22	21
Australia PPA revenue (A\$m)	117	76	27	76	77
Australia revenue (A\$m)	151	129	85	114	112
NZ revenue (A\$m)	42	42	50	71	72

Australia EBITDAF (A\$m)	109	93	44	57	55
NZ EBITDAF (A\$m)	25	24	30	46	47

Implied FY22 EV/EBITDAF and NZ\$/MW transaction multiples

Figure 1. Implied FY22 EV/EBITDAF and NZ\$/MW transaction multiples

NZ\$m	NZ	Australia	TLT	Comment
Purchase price (enterprise value)	770	2,354	3,124	NZ and TLT EV per TLT and MCY disclosure
EBITDAF	50	63	113	NZ and TLT FY22 EBITDAF per TLT and MCY disclosure
EV/EBITDAF	15.4	37.4	27.7	
Operational MW	330.3	505.5	835.8	Only includes those assets operating or near completion
NZ\$m/MW	2.3	4.7	3.7	

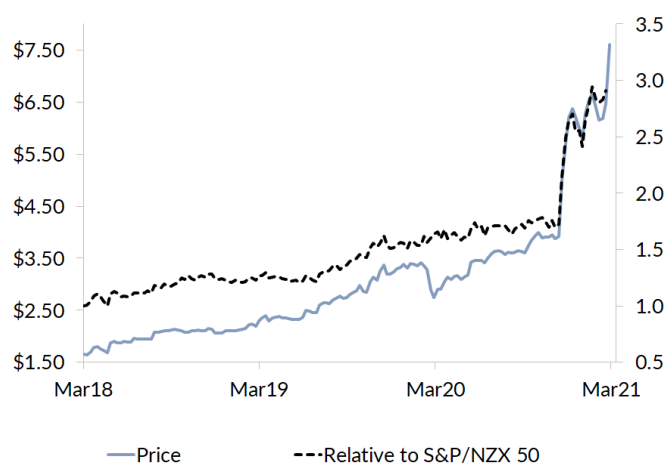
Source: TLT, MCY, Forsyth Barr analysis

Forecast changes

Figure 2. 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	88	85	-3%	113	114	0%	111	112	1%
NZ revenue	47	50	7%	70	71	1%	72	72	0%
Total Revenue	135	135	0%	183	184	1%	183	184	0%
Operating costs	(62)	(62)	1%	(80)	(81)	1%	(82)	(82)	1%
Australia EBITDAF	46	44	-5%	57	57	1%	54	55	1%
NZ EBITDAF	28	30	7%	46	46	0%	47	47	-1%
EBITDAF	74	73	-1%	103	103	0	101	101	0%
Depreciation & amortisation	(52)	(52)	0%	(91)	(91)	0%	(89)	(89)	0%
EBIT	22	21	-3%	11	12	2%	12	13	2%
Fair value gain/(loss) & other	10	10		0	0		0	0	
FX movements (non-cash)	22	22		0	0		0	0	
Interest costs	(13)	(13)	0%	(17)	(17)	0%	(12)	(12)	0%
Pre-tax profit	41	40	-1%	(5)	(5)	-5%	(0)	0	
Tax expense	(12)	(12)	-1%	2	2	-5%	0	(0)	
Reported NPAT	28	28	-1%	(4)	(4)	-5%	(0)	0	
Normalised NPAT	22	21	-2%	(4)	(4)	-5%	(0)	0	
Adjusted (depn/capex) NPAT	49	48	-1%	56	56	0%	57	58	0%
EPS	5.7	5.6	-2%	(1.0)	(1.0)	-5%	(0.0)	0.1	-1229%
DPS	0.00	0.00	0%	0.00	0.00	0%	0.00	0.00	0%
Australia generation (GWh)	1,242	1,208	-3%	1,771	1,771	0%	1,771	1,771	0%
NZ generation (GWh)	747	801	7%	1,119	1,119	0%	1,119	1,119	0%
Total generation (GWh)	1,989	2,009	1%	2,890	2,890	0%	2,890	2,890	0%
Australian sales price (A\$/MWh)	71	71	-1%	64	64	0%	63	63	1%
NZ sales price (A\$/MWh)	63	62	0%	63	63	1%	64	64	0%
Weighted avg price (A\$/MWh)	68	67	-1%	63	64	1%	63	64	0%

Source: Forsyth Barr analysis

Figure 3. Price performance


Source: Forsyth Barr analysis

Figure 4. Substantial shareholders

Shareholder	Latest Holding
Infratil	65.3%
Mercury NZ Ltd	20.0%

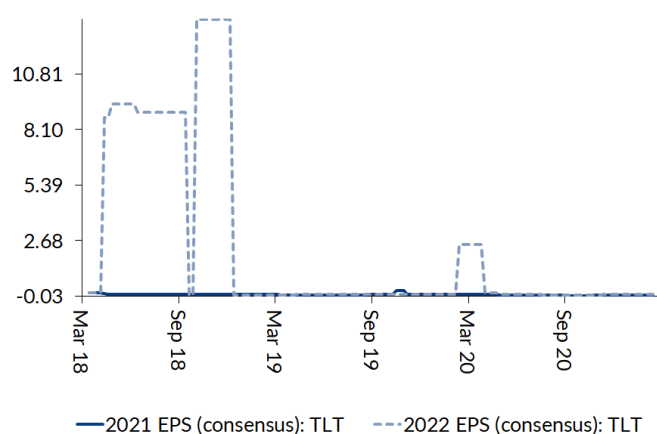
Source: NZX, Forsyth Barr analysis, NOTE: based on SPH notices only

Figure 5. International valuation comparisons

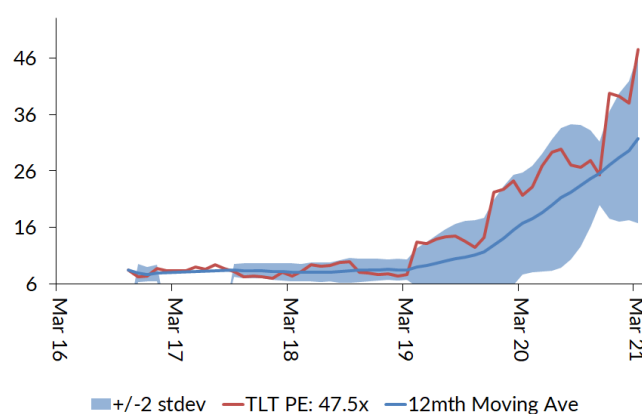
Company	Code	Price	Mkt Cap (m)	PE 2021E	PE 2022E	EV/EBITDA 2021E	EV/EBITDA 2022E	EV/EBIT 2021E	EV/EBIT 2022E	Cash Yld 2022E
(metrics re-weighted to reflect TLT's balance date - March)										
Tilt Renewables	TLT NZ	NZ\$7.61	NZ\$2,863	>50x	47.5x	31.1x	21.9x	>75x	>75x	0.0%
TRUSTPOWER *	TPW NZ	NZ\$8.08	NZ\$2,529	30.8x	26.0x	16.5x	14.7x	21.6x	18.8x	4.2%
CONTACT ENERGY *	CEN NZ	NZ\$7.20	NZ\$5,588	20.7x	20.1x	14.0x	13.6x	27.0x	25.8x	5.0%
GENESIS ENERGY *	GNE NZ	NZ\$3.88	NZ\$4,049	21.1x	17.7x	13.2x	12.2x	27.5x	23.3x	4.5%
MERIDIAN ENERGY *	MEL NZ	NZ\$5.77	NZ\$14,786	35.6x	35.9x	22.4x	22.5x	38.8x	38.8x	3.0%
MERCURY *	MCY NZ	NZ\$6.00	NZ\$8,174	29.7x	24.7x	18.5x	15.6x	31.4x	25.8x	3.4%
Compc Average:				27.6x	24.9x	16.9x	15.7x	29.3x	26.5x	4.0%
TLT Relative:				n/a	91%	84%	39%	n/a	n/a	-100%

EV = Current Market Cap + Actual Net Debt

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

Figure 6. Consensus EPS momentum (NZ\$)


Source: Forsyth Barr analysis

Figure 7. One year forward PE (x)


Source: Forsyth Barr analysis

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