

Tilt Renewables

FY21 Winds Down With Weak Wind

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NEUTRAL 

Tilt Renewables (TLT) 4Q21 wind generation was well below average due to a combination of factors and that has led to our -10% FY21 EBITDAF downgrade to A\$66m. Whilst our revised forecast is still within the A\$65m to A\$80m guidance range, 4Q21 was a weak end to FY21. With TLT under takeover, there is no change to NZ\$7.80 target price or NEUTRAL rating.

NZX Code	TLT	Financials: Mar/	20A	21E	22E	23E	Valuation (x)	20A	21E	22E	23E
Share price	NZ\$7.60	NPAT* (NZ\$m)	49.8	46.3	60.1	62.0	PE	71.7	61.8	47.6	46.1
Target price	NZ\$7.80	EPS* (NZc)	10.6	12.3	16.0	16.5	EV/EBIT	61.3	n/a	n/a	n/a
Risk rating	Low	EPS growth* (%)	-32.6	16.0	29.9	3.1	EV/EBITDA	23.5	40.8	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\$2,859m	Imputation (%)	0	0	0	0	Cash div yld (%)	0.0	0.0	0.0	0.0
Avg daily turnover	52.8k (NZ\$292k)	*Based on normalised profits					Gross div yld (%)	0.0	0.0	0.0	0.0

What's changed?

- **Earnings:** FY21 EBITDAF -down A\$7m (-10%) to A\$66m

4Q21 wind generation well below average

4Q21 wind generation from TLT's existing asset base was -17% lower than 4Q20, with TLT citing a variety of factors. Lower wind speeds was the primary issue in both countries. In New Zealand, generation volumes were also impacted by lower availability due to mid-life maintenance work at Tararua 3 and transmission issues at Mahinerangi. In Australia, volumes were also affected by network outages in Victoria, the now common South Australia AEMO curtailment, as well as voluntary curtailment to avoid negative prices.

Total FY21 wind generation was flat on FY20, with under commission assets (Waipipi and Dundonnell) offsetting the impact from the sale of Snowtown 2 in December 2019 and the lower generation volumes from existing assets.

Lower wind volumes pull back FY21 earnings expectation

FY21 generation volumes have come in -8% lower than our forecast and that is the driver of our -A\$7m FY21 EBITDAF downgrade to A\$66m, just above the bottom of TLT's FY21 EBITDAF guidance range of A\$65m to A\$80m. Even though FY21 generation volumes are similar to FY20, our FY21 EBITDAF forecast is -A\$51m lower than the FY20 result – highlighting the profitability of the Snowtown 2 offtake contracts that were sold in December 2019.

TLT is reporting its FY21 result on Thursday, 13 May.

Our forecasts beyond FY21 remain unchanged. With TLT under takeover, we have also left our target price unchanged at the takeover price of NZ\$7.80 and our rating is NEUTRAL. The takeover is expected to complete in July/August 2021.

Tilt Renewables Limited (TLT)

Priced as at 14 Apr 2021 (NZ\$)

7.60

12-month target price (NZ\$)*

7.80

Expected share price return

2.6%

Net dividend yield

0.0%

Estimated 12-month return

2.6%

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

1,471

(Net debt)/cash

(158)

Less: Capitalised operating leases

Value of equity

1,313

Profit and Loss Account (A\$m)	2019A	2020A	2021E	2022E	2023E
Sales revenue	193.3	170.2	125.1	184.2	184.0
Normalised EBITDA	134.8	117.5	66.0	103.1	101.6
Depreciation and amortisation	(83.6)	(72.5)	(52.0)	(91.3)	(88.7)
Normalised EBIT	51.2	45.0	14.0	11.7	12.9
Net interest	(30.1)	(46.2)	(13.2)	(17.0)	(12.8)
Other	(2.0)	(8.5)	9.7	0	0
Tax	(6.9)	(4.7)	(10.0)	1.5	(0.0)
Depreciation capex adjustment	55.4	46.9	27.0	59.5	57.5
Normalised NPAT	69.0	47.4	43.2	55.8	57.6
Abnormals/other	(56.8)	431.1	(20.3)	(59.5)	(57.5)
Reported NPAT	12.2	478.4	22.9	(3.7)	0.1
Normalised EPS (cps)	14.7	10.1	11.5	14.8	15.3
DPS (cps)	1.1	0	0	0	0

Growth Rates	2019A	2020A	2021E	2022E	2023E
Revenue (%)	22.4	-11.9	-26.5	47.3	-0.1
EBITDA (%)	29.9	-12.8	-43.8	56.1	-1.4
EBIT (%)	91.4	-12.2	-68.8	-16.4	9.8
Normalised NPAT (%)	49.0	-31.3	-8.8	29.2	3.2
Normalised EPS (%)	-0.6	-31.3	13.8	29.2	3.2
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	66.0	103.1	101.6
Working capital change	0.6	39.8	(66.2)	(12.7)	(7.9)
Interest & tax paid	(41.7)	(57.8)	(5.0)	2.0	1.4
Other	(8.6)	(49.4)	36.0	0	0
Operating cash flow	85.0	50.2	30.8	92.4	95.0
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	(361.6)	79.9	82.4
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	(619.1)	79.9	82.4

Balance Sheet (A\$m)	2019A	2020A	2021E	2022E	2023E
Working capital	14.3	(38.3)	9.8	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	1,451.6	1,380.6	1,307.6
Net debt/(cash)	346.4	(417.9)	200.1	120.2	37.8
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	942.7	939.0	939.1
Minority interests	0	0	0	0	0
Total funding sources	1,195.9	985.2	1,451.6	1,380.6	1,307.6

* 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	47.7	34.7	35.3
EV/EBIT (x)	74.1	71.5	>100x	>100x	>100x
PE (x)	48.3	71.7	61.8	47.6	46.1
Price/NTA (x)	5.2	2.9	2.8	2.8	2.8
Free cash flow yield (%)	2.8	1.5	0.6	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	1.1	0.7	1.0
Interest cover EBITDA (x)	4.5	2.5	5.0	6.1	8.0
Net debt/ND+E (%)	34.6	-54.6	17.5	11.3	3.9
Net debt/EBITDA (x)	2.6	n/a	3.0	1.2	0.4

Key Ratios	2019A	2020A	2021E	2022E	2023E
Return on assets (%)	3.3	2.6	0.8	0.7	0.8
Return on equity (%)	10.5	4.0	4.6	5.9	6.1
Return on funds employed (%)	3.6	4.2	0.9	0.8	0.9
EBITDA margin (%)	69.7	69.0	52.8	56.0	55.2
EBIT margin (%)	26.5	26.4	11.2	6.4	7.0
Capex to sales (%)	47.0	189.7	309.3	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	1,130	1,771	1,771
NZ wind generation (GWh)	658	664	712	1,119	1,119
TLT wind generation (GWh)	2,053	1,834	1,842	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	56.6	57.8	58.9
NZ PPA price (NZ\$/MWh)	64.8	63.7	66.4	67.3	68.3

Australia spot sales (GWh)	155	365	715	458	458
Australia PPA sales (GWh)	1,239	805	415	1,313	1,313
Australia spot revenue (A\$m)	34	53	34	22	21
Australia PPA revenue (A\$m)	117	76	23	76	77
Australia revenue (A\$m)	151	129	80	114	112
NZ revenue (A\$m)	42	42	45	71	72

Australia EBITDAF (A\$m)	109	93	40	57	55
NZ EBITDAF (A\$m)	25	24	26	46	47

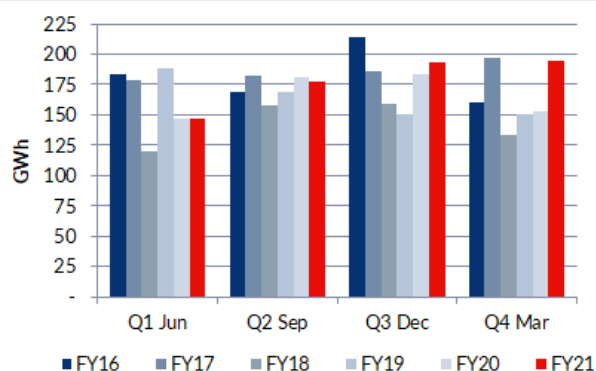
4Q/2H/FY21 wind generation volumes

Figure 1. Wind generation volumes

GW h	4Q20	4Q21	% diff	2H20	2H21	% diff	FY20	FY21	% diff
New Zealand									
Existing assets	153	118	-23%	336	281	-16%	665	604	-9%
Waipipi	0	77		0	107		0	107	
NZ total	153	195	27%	336	388	15%	665	711	7%
Australia									
Existing assets	128	114	-11%	259	240	-7%	538	496	-8%
Sold assets	0	0		178	0	-100%	631	0	-100%
Dundonnell	0	212		0	401		0	633	
Australia total	128	114	-11%	437	641	47%	1169	1129	-3%
TLT									
Existing assets	281	232	-17%	595	521	-12%	1203	1100	-9%
Sold assets	0	0		178	0	-100%	631	0	-100%
New assets	0	289		0	508		0	740	
TLT Total	281	309	10%	773	1029	33%	1834	1840	0%

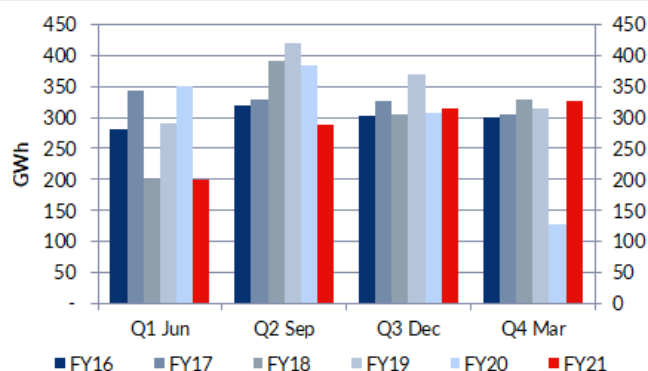
Source: TLT, Forsyth Barr analysis

Figure 2. New Zealand wind generation



Source: TLT, Forsyth Barr analysis

Figure 3. Australia wind generation



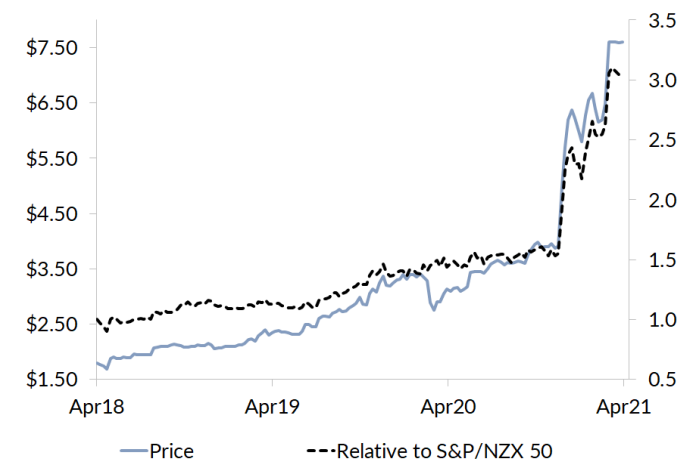
Source: TLT, Forsyth Barr analysis

Forecast changes

Figure 4. Forecast changes

Year to 31 March	FY21	FY21		FY22	FY22		FY23	FY23	
A\$m	Old	New	% Chg	Old	New	% Chg	Old	New	% Chg
Total Revenue	135	125	-8%	184	184	0%	184	184	0%
Operating costs	(62)	(59)	-5%	(81)	(81)	0%	(82)	(82)	0%
Australia EBITDAF	44	40	-9%	57	57	0%	55	55	0%
NZ EBITDAF	30	26	-11%	46	46	0%	47	47	0%
EBITDAF	73	66	-10%	103	103	0	101	102	0%
EBIT	21	14	-34%	12	12	1%	13	13	1%
Pre-tax profit	40	33	-18%	(5)	(5)	3%	0	0	
Reported NPAT	28	23	-18%	(4)	(4)	3%	0	0	
Normalised NPAT	21	16	-24%	(4)	(4)	3%	0	0	
EPS	5.6	4.3	-24%	(1.0)	(1.0)	3%	0.1	0.0	
DPS	0.00	0.00		0.00	0.00		0.00	0.00	
Australia generation (GW h)	1,208	1,130	-6%	1,771	1,771	0%	1,771	1,771	0%
NZ generation (GW h)	801	712	-11%	1,119	1,119	0%	1,119	1,119	0%
Total generation (GW h)	2,009	1,842	-8%	2,890	2,890	0%	2,890	2,890	0%

Source: Forsyth Barr analysis

Figure 5. Price performance


Source: Forsyth Barr analysis

Figure 6. Substantial shareholders

Shareholder	Latest Holding
Infratil	65.3%
Mercury NZ Ltd	20.0%

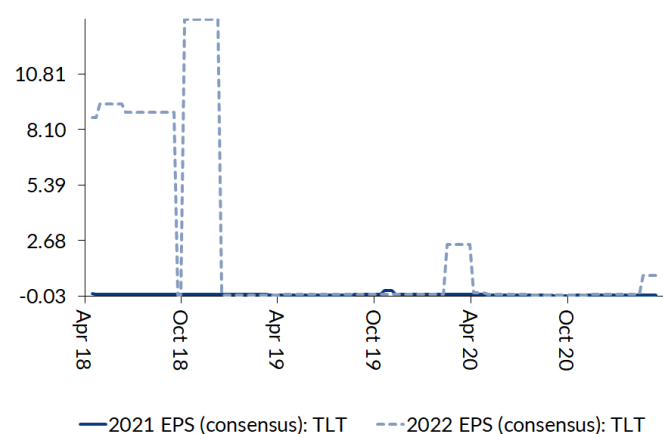
Source: NZX, Forsyth Barr analysis, NOTE: based on SPH notices only

Figure 7. International valuation comparisons

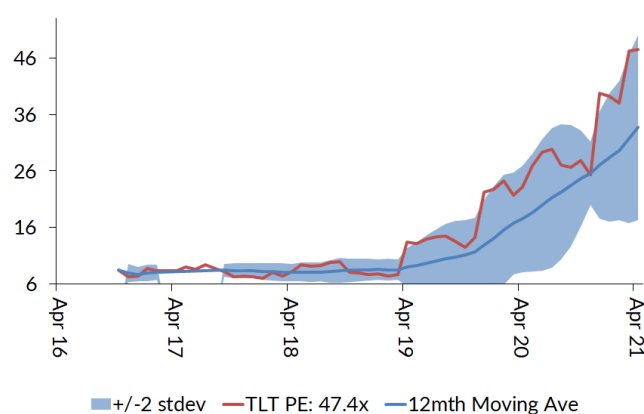
Company	Code	Price	Mkt Cap (m)	PE 2021E	PE 2022E	EV/EBITDA 2021E	EV/EBITDA 2022E	EV/EBIT 2021E	EV/EBIT 2022E	Cash Yld 2022E
(metrics re-weighted to reflect TLT's balance date - March)										
Tilt Renewables	TLT NZ	NZ\$7.60	NZ\$2,859	61.8x	47.6x	34.3x	21.9x	>75x	>75x	0.0%
TRUSTPOWER *	TPW NZ	NZ\$8.52	NZ\$2,667	32.5x	27.4x	17.2x	15.3x	22.6x	19.6x	4.0%
CONTACT ENERGY *	CEN NZ	NZ\$7.37	NZ\$5,720	21.2x	20.6x	14.3x	13.8x	27.5x	26.3x	4.9%
GENESIS ENERGY *	GNE NZ	NZ\$3.38	NZ\$3,527	n/a	n/a	11.9x	11.0x	24.8x	21.0x	5.2%
MERIDIAN ENERGY *	MEL NZ	NZ\$5.79	NZ\$14,837	35.7x	36.0x	22.4x	22.5x	38.9x	38.9x	2.9%
MERCURY *	MCY NZ	NZ\$6.80	NZ\$9,264	33.7x	28.0x	20.7x	17.4x	35.1x	28.8x	3.0%
Compco Average:				30.8x	28.0x	17.3x	16.0x	29.8x	26.9x	4.0%
TLT Relative:				101%	70%	98%	36%	n/a	n/a	-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 8. Consensus EPS momentum (NZ\$)


Source: Forsyth Barr analysis

Figure 9. One year forward PE (x)


Source: Forsyth Barr analysis

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