

Trustpower

For Sale, One Multi-Product Retail Business

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RESTRICTED ❌

Trustpower (TPW) has announced it is undertaking a strategic review of its retail business, which is expected to take several months. Only at the completion of the strategic review will TPW decide whether to sell or retain its retail business. An important part of the strategic review process is TECT outlining its proposal for the existing rebate scheme in the event of a sale of the retail business. Our rating is RESTRICTED.

NZX Code	TPW	Financials: Mar/	20A	21E	22E	23E	Valuation (x)	20A	21E	22E	23E
Share price	NZ\$8.59	NPAT* (NZ\$m)	74.2	82.4	97.5	103.3	PE	36.4	32.8	27.7	26.1
Target price	n/a	EPS* (NZc)	23.6	26.2	31.0	32.9	EV/EBIT	23.0	23.3	20.3	19.3
Risk rating	Low	EPS growth* (%)	-36.4	11.0	18.4	5.9	EV/EBITDA	17.7	17.8	15.9	15.3
Issued shares	313.0m	DPS (NZc)	32.5	34.0	34.0	34.0	Price / NTA	2.5	2.6	2.6	2.7
Market cap	NZ\$2,689m	Imputation (%)	100	100	100	100	Cash div yld (%)	3.8	4.0	4.0	4.0
Avg daily turnover	52.1k (NZ\$367k)	*Based on normalised profits					Gross div yld (%)	5.3	5.5	5.5	5.5

Several options for TPW

TPW has indicated it is looking at the potential sale of its mass market retail business which currently provides electricity, gas and broadband services to 231,000 customers. If a sale does take place, TPW will retain its generation assets and its commercial and industrial retail customer base.

TPW has several options around how a deal could be structured with regard to power purchase agreements with the new owners of the retail business (which will largely depend on who the buyer is) and what it does with any sale proceeds (assuming a sale does take place).

Tauranga Energy Consumer Trust (TECT) developing a proposal to protect the "TECT cheque" should a sale take place

TECT has announced that in light of TPW's strategic review and the desire to protect the existing rebate for beneficiaries, it is developing a proposal that will outline the changes to TECT's structure needed to meet the purpose of the Trust Deed. Whilst it has given no time frame, TECT has indicated it will "shortly provide a full update to beneficiaries on the proposed changes and to undertake a consultation process". The TECT proposal is an important factor for a potential buyer to assess the value of the retail business. The uncertainty of how TECT would treat the "TECT cheque" following a sale of TPW's retail business has historically been an impediment to the possible sale of TPW's retail business.

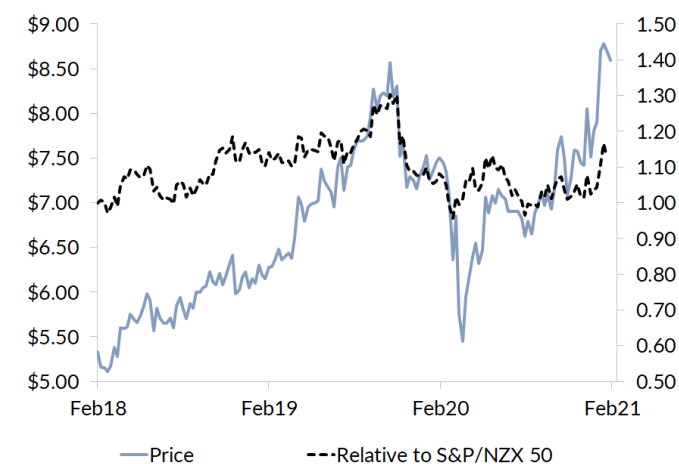
Forsyth Barr Limited is Trustpower's Financial Advisor on the strategic review of its retail business and will receive fees in connection with this role.

Trustpower Ltd (TPW)

Priced as at 28 Jan 2021 (NZ\$)

8.59

12-month target price (NZ\$)*	n/a					Spot valuations (NZ\$)					
Expected share price return	n/a					DCF	n/a				
Net dividend yield	n/a					Market multiple	n/a				
Estimated 12-month return	n/a					Dividend yield	n/a				
Key WACC assumptions						DCF valuation summary (NZ\$m)					
Risk free rate						Total firm value	n/a				
Equity beta						(Net debt)/cash	n/a				
WACC						Less: Capitalised operating leases	n/a				
Terminal growth						Value of equity	n/a				
Profit and Loss Account (NZ\$m)	2019A	2020A	2021E	2022E	2023E	Valuation Ratios	2019A	2020A	2021E	2022E	2023E
Sales revenue	1,030.1	989.9	942.8	971.1	962.1	EV/EBITDA (x)	14.5	17.7	17.8	15.9	15.3
Normalised EBITDA	222.2	186.5	190.4	214.0	223.1	EV/EBIT (x)	18.4	23.0	23.3	20.3	19.3
Depreciation and amortisation	(47.2)	(42.6)	(45.1)	(46.4)	(46.6)	PE (x)	23.1	36.4	32.8	27.7	26.1
Normalised EBIT	175	144	145	168	176	Price/NTA (x)	2.3	2.5	2.6	2.6	2.7
Net interest	(28)	(32)	(30)	(29)	(29)	Free cash flow yield (%)	3.3	2.9	3.5	3.6	4.0
Depreciation capex adjustment	19	(2)	3	0	(0)	Net dividend yield (%)	8.6	3.8	4.0	4.0	4.0
Tax	(45)	(32)	(33)	(39)	(41)	Gross dividend yield (%)	10.5	5.3	5.5	5.5	5.5
Minority interests	(2)	(3)	(2)	(3)	(3)						
Normalised NPAT	117	74	82	97	103	Capital Structure	2019A	2020A	2021E	2022E	2023E
Abnormals/other/depn adj	(26)	21	(21)	(0)	0	Interest cover EBIT (x)	6.8	4.9	5.2	6.3	6.6
Reported NPAT	91	95	61	97	104	Interest cover EBITDA (x)	7.9	5.9	6.3	7.5	7.7
Normalised EPS (cps)	37.1	23.6	26.2	31.0	32.9	Net debt/ND+E (%)	58.6	64.8	69.3	70.5	71.0
DPS (cps)	74.0	32.5	34.0	34.0	34.0	Net debt/EBITDA (x)	2.5	3.3	3.5	3.2	3.1
Growth Rates	2019A	2020A	2021A	2022A	2023A	Key Ratios	2019A	2020A	2021E	2022E	2023E
Revenue (%)	5.2	-3.9	-4.8	3.0	-0.9	Return on assets (%)	7.2	8.0	5.5	7.8	8.2
EBITDA (%)	-17.6	-16.1	2.1	12.4	4.2	Return on equity (%)	9.7	6.9	8.0	9.6	10.2
EBIT (%)	-21.6	-17.8	1.0	15.3	5.3	Return on funds employed (%)	7.2	5.6	6.4	6.9	7.2
Normalised NPAT (%)	-17.3	-36.4	11.0	18.4	5.9	EBITDA margin (%)	21.6	18.8	20.2	22.0	23.2
Normalised EPS (%)	-17.3	-36.4	11.0	18.4	5.9	EBIT margin (%)	17.0	14.5	15.4	17.3	18.3
Ordinary DPS (%)	0.0	-4.4	4.6	0.0	0.0	Capex to sales (%)	3.0	4.5	3.7	4.0	4.1
						Capex to depreciation (%)	98	142	107	119	120
Cash Flow (NZ\$m)	2019A	2020A	2021E	2022E	2023E	Imputation (%)	55	100	100	100	100
EBITDA	222.2	186.5	190.4	214.0	223.1	Pay-out ratio (%)	199	138	130	110	103
Working capital change	(47.1)	1.7	(15.6)	(13.5)	(9.1)						
Interest & tax paid	(74.8)	(77.1)	(69.4)	(65.8)	(68.8)	Operating Performance	2019A	2020A	2021E	2022E	2023E
Other	20.0	10.9	23.2	1.3	1.3	NZ electricity revenue	861	804	762	784	768
Operating cash flow	120.3	121.9	128.8	135.9	146.4	Gas revenue	29	30	31	32	34
Capital expenditure	(31.1)	(44.7)	(34.8)	(39.0)	(39.7)	Telecommunication revenue	88	98	99	102	107
(Acquisitions)/divestments	8.1	20.2	0	0	0	Other revenue	52	58	51	52	53
Other	0	(6.8)	(8.7)	(8.7)	(8.7)	Total revenue	1,030	990	943	971	962
Funding available/(required)	97.3	90.6	85.3	88.3	98.1	Generation (GWh)	1,995	1,758	1,681	1,918	1,939
Dividends paid	(190.4)	(156.7)	(103.4)	(106.4)	(106.4)	NZ GWAP (\$/MWh)	125	107	130	131	104
Equity raised/(returned)	(1)	(1)	0	0	0						
(Increase)/decrease in net debt	(94.5)	(67.4)	(18.1)	(18.1)	(8.3)	Mass market sales (GWh)	1,845	1,817	1,834	1,792	1,786
						TOU sales (GWh)	880	826	536	587	590
Balance Sheet (NZ\$m)	2019A	2020A	2021E	2022E	2023E	Spot sales (GWh)	1,021	972	856	922	925
Working capital	(0.3)	(8.2)	25.5	29.7	31.4	Total Sales (GWh)	3,746	3,615	3,225	3,301	3,302
Fixed assets	1,924.7	1,836.4	1,835.6	1,835.7	1,835.9	LWAP (\$/MWh)	131	109	132	136	108
Intangibles	37.0	38.7	37.8	37.6	37.9	LWAP/GWAP	1.04	1.02	1.02	1.04	1.04
Right of use asset	0	35.5	37.1	37.1	37.1	Electricity customers (000)	267	266	262	260	259
Other assets	114.8	100.2	111.2	120.6	128.0	Usage/customer (MWh)	6.8	6.8	7.0	6.9	6.9
Total funds employed	2,076.2	2,002.6	2,047.2	2,060.7	2,070.3	Revenue/MWh sold (\$)	230	222	236	238	233
Net debt/(cash)	557.4	616.7	666.2	684.3	692.7	Gas customers (000)	39	41	43	43	44
Lease liability	0	36.1	38.2	38.2	38.2	Volume/customer (GJ)	26.5	24.9	25.9	25.9	25.9
Other liabilities	269.8	249.8	270.0	271.9	273.4	Telco customers (000)	96	104	109	113	116
Shareholder's funds	1,224.4	1,076.2	1,048.1	1,039.1	1,036.3	Revenue/customer (\$)	963	983	978	988	998
Minority interests	24.6	23.8	24.7	27.2	29.8						
Total funding sources	2,076.2	2,002.6	2,047.2	2,060.7	2,070.3						

Figure 1. Price performance


Source: Forsyth Barr analysis

Figure 2. Substantial shareholders

Shareholder	Latest Holding
Infratil	51.0%
TECT Holdings	26.8%

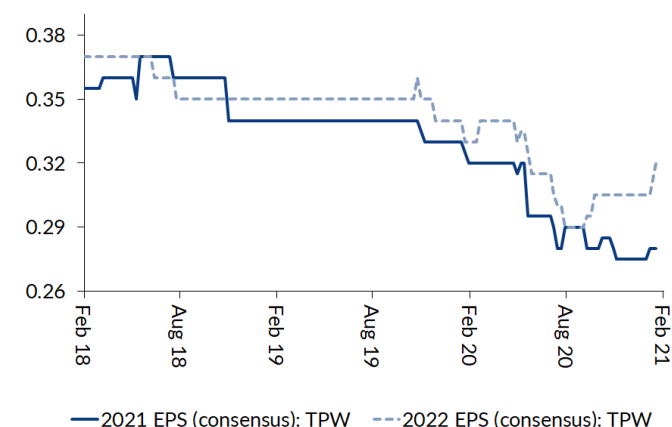
Source: NZX, Forsyth Barr analysis, NOTE: based on SPH notices only

Figure 3. International valuation comparisons

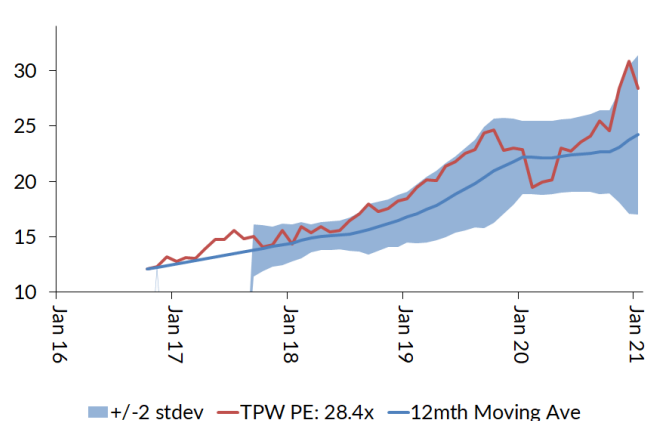
Company	Code	Price	Mkt Cap (m)	PE 2021E	PE 2022E	EV/EBITDA 2021E	EV/EBITDA 2022E	EV/EBIT 2021E	EV/EBIT 2022E	Cash Yld 2022E
(metrics re-weighted to reflect TPW's balance date - March)										
Trustpower	TPW NZ	NZ\$8.59	NZ\$2,689	32.8x	27.7x	17.4x	15.4x	22.7x	19.7x	4.0%
CONTACT ENERGY *	CEN NZ	NZ\$8.74	NZ\$6,280	25.7x	25.8x	16.1x	16.0x	35.1x	33.5x	4.1%
GENESIS ENERGY *	GNE NZ	NZ\$3.90	NZ\$4,065	22.5x	19.1x	13.5x	12.4x	29.5x	25.3x	4.5%
MERIDIAN ENERGY *	MEL NZ	NZ\$7.75	NZ\$19,860	46.6x	48.5x	28.8x	29.2x	49.5x	50.0x	2.2%
MERCURY *	MCY NZ	NZ\$7.37	NZ\$10,040	36.6x	33.6x	21.5x	19.9x	36.5x	33.5x	2.5%
AGL ENERGY	AGLAT	A\$11.55	A\$7,196	11.8x	17.6x	5.5x	6.6x	9.5x	13.5x	5.7%
ORIGIN ENERGY	ORG AT	A\$4.88	A\$8,595	41.1x	17.1x	24.2x	5.8x	6.4x	20.9x	4.7%
Compco Average:				30.7x	27.0x	18.3x	15.0x	27.8x	29.5x	4.0%
TPW Relative:				7%	3%	-5%	3%	-18%	-33%	0%

EV = Current Market Cap + Actual Net Debt

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

Figure 4. Consensus EPS momentum (NZ\$)


Source: Forsyth Barr analysis

Figure 5. One year forward PE (x)


Source: Forsyth Barr analysis

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