

Z Energy

Cloudy Period Doesn't Dampen ZEL's Spirits

ANDREW HARVEY-GREEN

 andrew.harvey-green@forsythbarr.co.nz
 +64 4 495 8185

SCOTT ANDERSON

 scott.anderson@forsythbarr.co.nz
 +64 4 914 2219

OUTPERFORM

Z Energy's (ZEL) November 2020 sales volumes were softer than in recent months, with ZEL citing the lack of international tourists that would have been arriving for the start of summer and the wet weather. That said, relative to our forecasts retail volumes are still tracking ahead. Retail margins have been under pressure in November as a result of a sharp increase in crude oil prices, however, margin pressure should ease in coming weeks (assuming the crude oil price rally does not continue). We retain our OUTPERFORM rating. So long as ZEL hits FY21 EBITDAF guidance (which it is on track to do) we expect it to continue to positively re-rate over coming months.

NZX Code	ZEL	Financials: Mar/	20A	21E	22E	23E	Valuation (x)	20A	21E	22E	23E
Share price	NZ\$3.37	NPAT* (NZ\$m)	102.2	22.0	103.2	125.5	PE	13.2	79.8	17.0	14.0
Target price	NZ\$4.35	EPS* (NZc)	25.6	4.2	19.8	24.1	EV/EBIT	13.7	31.9	15.1	13.0
Risk rating	Medium	EPS growth* (%)	-47.8	-83.5	n/a	21.7	EV/EBITDA	7.6	11.7	8.3	7.8
Issued shares	520.1m	DPS (NZc)	16.5	0.0	25.0	25.0	Price / NTA	n/a	5.8	4.4	4.2
Market cap	NZ\$1,753m	Imputation (%)	100	100	100	100	Cash div yld (%)	4.9	0.0	7.4	7.4
Avg daily turnover	1,250k (NZ\$3,966k)	*Based on normalised profits					Gross div yld (%)	6.8	0.0	10.3	10.3

Volumes down due to lack of international tourists and a drizzly November

Total November 2020 Z/Caltex retail volumes were down -1% on the pcp, which compares to October up +3% on the pcp. ZEL has cited the continued lack of tourists, in particular the absence of international tourists arriving for the start of summer, as well as wet weather in November reducing domestic travel as the key factors in the volume reduction. The positive volume story continues to be commercial, with volumes up +4.5% on the pcp, although the level of growth is lower than recent months.

ZEL indicated that there has been no shift in market dynamics that would lead to a softening in volumes, and that it believes market share gains made in recent months haven't eroded in November. Whilst a lack of international tourists will continue to be a drag, ZEL's retail volumes have experienced year-on-year increases over long weekends and holidays in recent months as Kiwis who would have otherwise been overseas have driven around the country. This provides a degree of optimism heading into the summer break.

November retail margin pressure likely to be temporary

ZEL's retail fuel margins are currently under pressure due to a sharp lift in crude oil price. Since the beginning of November 2020, the crude oil price (in NZD) has lifted +14%, and as a result the blended MBIE petrol/diesel margin is below 25cpl for the first time since the period of low margins experienced around this time last year. However, compared to last year, ZEL has taken a substantial amount of cost out of the business and the company has said it is comfortable with current retail margin levels. Whilst this is something we need to keep an eye on, we expect margins to recover as crude prices stabilise.

Z Energy (ZEL)

Priced as at 10 Dec 2020 (NZ\$)

3.37

12-month target price (NZ\$)*	4.35
Expected share price return	29.1%
Net dividend yield	5.6%
Estimated 12-month return	34.6%

Spot valuations (NZ\$)	
1. DCF	4.95
2. Dividend Yield	3.76
3. Market Multiple	4.01

Key WACC assumptions	
Risk free rate	1.30%
Equity beta	0.88
WACC	5.8%
Terminal growth	-5.0%

DCF valuation summary (NZ\$m)	
Total firm value	3,148
(Net debt)/cash	(573)
Less: Capitalised operating leases	0
Value of equity	2,575

Profit and Loss Account (NZ\$m)	2019A	2020A	2021E	2022E	2023E
Sales revenue	5,450	4,987	3,225	3,982	4,146
Normalised EBITDA	435	366	246	320	342
Depreciation and amortisation	(122)	(163)	(154)	(144)	(136)
Normalised EBIT	312	203	90	176	205
Net interest	(51)	(66)	(50)	(49)	(46)
Associate income	(1)	0	(2)	0	0
Tax	(61)	13	(27)	(36)	(45)
Minority interests	(2)	(16)	(7)	(11)	(11)
Normalised NPAT	196	102	22	103	126
Abnormals/other	(16)	(42)	2	0	0
Reported NPAT	180	60	24	103	126
Normalised EPS (cps)	49.0	25.6	4.2	19.8	24.1
DPS (cps)	43.0	16.5	0	25.0	25.0

Valuation Ratios	2019A	2020A	2021E	2022E	2023E
EV/EBITDA (x)	5.7	7.2	10.5	7.4	6.9
EV/EBIT (x)	7.9	13.0	28.6	13.4	11.5
PE (x)	6.9	13.2	79.8	17.0	14.0
Price/NTA (x)	5.3	n/a	5.8	4.4	4.2
Free cash flow yield (%)	16.1	12.2	6.3	6.4	9.9
Net dividend yield (%)	12.8	4.9	0.0	7.4	7.4
Gross dividend yield (%)	17.7	6.8	0.0	10.3	10.3

Capital Structure	2019A	2020A	2021E	2022E	2023E
Interest cover EBIT (x)	6.1	3.1	1.8	3.6	4.4
Interest cover EBITDA (x)	8.5	5.5	5.0	6.6	7.4
Net debt/ND+E (%)	55.4	72.4	47.5	43.5	42.3
Net debt/EBITDA (x)	1.9	3.0	2.7	1.9	1.7

Growth Rates	2019A	2020A	2021E	2022E	2023E
Revenue (%)	19	-8	-35	23	4
EBITDA (%)	-3	-16	-33	30	7
EBIT (%)	-10	-35	-56	96	17
Normalised NPAT (%)	-7	-48	-79	>100	22
Normalised EPS (%)	-7	-48	-83	>100	22
Ordinary DPS (%)	33	-62	-100	n/a	0

Key Ratios	2019A	2020A	2021E	2022E	2023E
Return on assets (%)	11.0	6.7	3.5	6.6	7.8
Return on equity (%)	21.3	17.0	2.4	10.9	13.5
Return on funds employed (%)	15.8	13.2	3.5	9.1	10.8
EBITDA margin (%)	8.0	7.3	7.6	8.0	8.2
EBIT margin (%)	5.7	4.1	2.8	4.4	5.0
Capex to sales (%)	1.0	2.0	1.7	1.3	1.3
Capex to depreciation (%)	85	126	68	66	67
Imputation (%)	100	100	100	100	100
Pay-out ratio (%)	88	65	0	126	104

Cash Flow (NZ\$m)	2019A	2020A	2021E	2022E	2023E
EBITDA	435	366	246	320	342
Working capital change	(159)	268	(127)	(55)	(8)
Interest & tax paid	(161)	(124)	(58)	(92)	(99)
Other	223	(194)	103	(8)	(8)
Operating cash flow	338	316	164	165	227
Capital expenditure	(55)	(102)	(54)	(52)	(53)
(Acquisitions)/divestments	(28)	21	(1)	0	0
Other	4	(29)	(24)	(24)	(24)
Funding available/(required)	259	206	85	89	150
Dividends paid	(152)	(203)	0	(47)	(130)
Equity raised/(returned)	(1)	0	337	0	0
(Increase)/decrease in net debt	106	3	422	42	20

Operating Performance	2019A	2020A	2021E	2022E	2023E
Product volumes (m litres)					
Petrol	1,165	1,099	959	1,054	1,049
Diesel - retail	454	445	413	456	454
Diesel - commercial	812	769	760	774	793
Other fuels	1,193	1,120	435	730	875
Supply - domestic	544	537	507	540	542
Sub-total	4,168	3,970	3,074	3,554	3,713
Supply - industry & export	280	67	141	165	169
Total Fuels	4,448	4,037	3,215	3,719	3,881
Retail service stations	343	334	331	330	333
Petrol/service station (m litres)	3.60	3.41	3.00	3.31	3.28
Diesel/service station (m litres)	1.32	1.30	1.22	1.37	1.37
Gross profit (NZDm)					
Fuels	700	666	542	587	595
Refining	54	37	(24)	10	30
Non-fuels	81	76	73	76	78
Flick Electric	1	2	3	4	4
Gross profit	836	781	594	677	707
Fuels gross margin (cpl)	16.8	16.8	17.6	16.5	16.0
Fuels margin incl refining (cpl)	17.0	17.4	16.1	16.1	16.1
Fuels margin excl supply (cpl)	18.0	17.7	16.8	16.7	16.7
Non-fuels revenue/station (NZD 000)	397	373	362	382	390

Balance Sheet (NZ\$m)	2019A	2020A	2021E	2022E	2023E
Working capital	358	119	250	305	313
Fixed assets	830	819	790	763	737
Intangibles	668	786	598	553	515
Right of use asset	0	282	280	280	280
Other assets	161	253	163	163	163
Total funds employed	2,017	2,259	2,081	2,064	2,009
Net debt/(cash)	827	1,083	664	610	578
Lease liability	0	299	299	299	299
Other liabilities	270	275	215	207	200
Shareholder's funds	902	600	908	964	960
Minority interests	18	2	(5)	(17)	(28)
Total funding sources	2,017	2,259	2,081	2,064	2,009

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

ZEL monthly fuel volumes

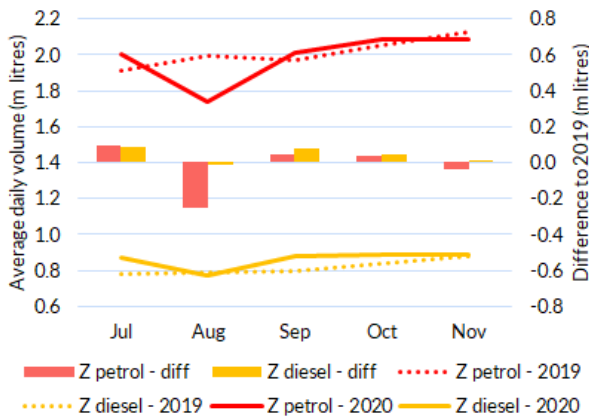
Figure 1. Monthly fuel volume movements

m litres	Nov-19	Oct-20	Nov-20	% chg vs. pcp	% chg vs. prior mth
Volumes by brand/product					
Petrol – Z	64	65	63	-2%	0%
Petrol – Caltex	29	28	28	-3%	3%
Petrol – Domestic supply	12	11	11	-10%	-1%
Diesel – Z	26	27	27	1%	1%
Diesel – Caltex	13	13	13	2%	1%
Diesel – Domestic supply	39	36	37	-5%	4%
Diesel – Commercial	67	73	70	5%	-1%
Other – Jet	74	26	24	-67%	-4%
Other – Marine	11	2	1	-89%	-20%
Other – Bitumen & other	11	16	16	46%	8%
Total ZEL excl export	345	297	290	-16%	1%
Terminal gate sales	0	12	12		-1%
Industry & Export	17	5	7	-58%	62%
Total ZEL	362	314	309	-15%	2%

Source: ZEL, Forsyth Barr analysis

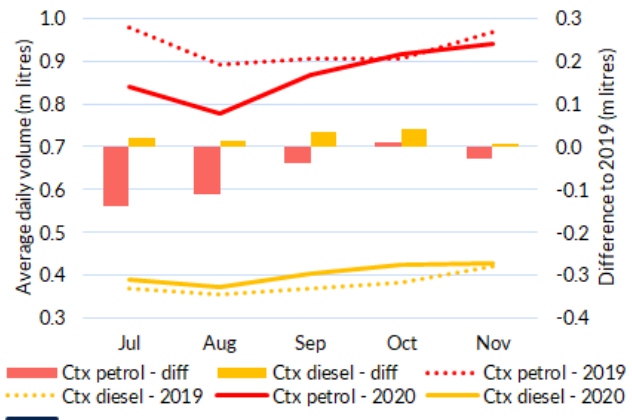
Note: monthly volume movement adjusted for the number of days in the month

Figure 2. Z branded retail volumes



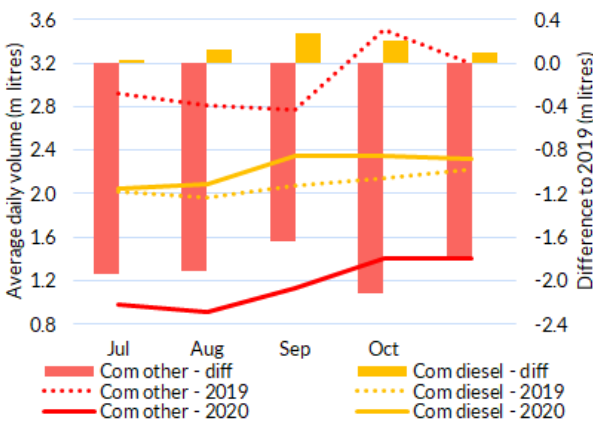
Source: ZEL, Forsyth Barr analysis

Figure 3. Caltex branded retail volumes



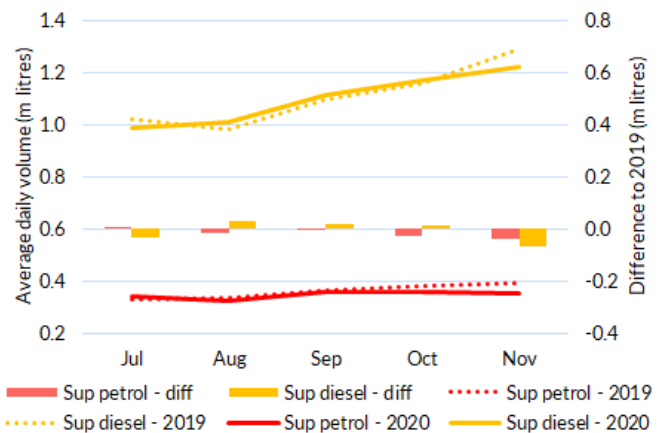
Source: ZEL, Forsyth Barr analysis

Figure 4. ZEL commercial volumes



Source: ZEL, Forsyth Barr analysis

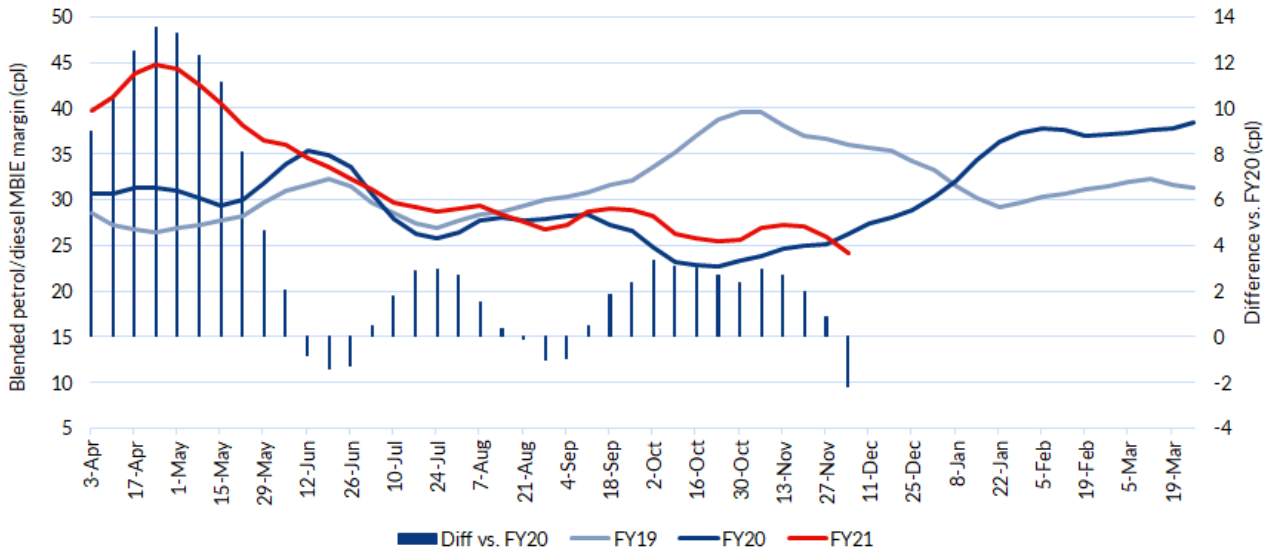
Figure 5. ZEL domestic supply volumes



Source: ZEL, Forsyth Barr analysis

MBIE importer margins

Figure 6. Blended rolling four week MBIE importer margin



Source: MBIE, Forsyth Barr analysis

Figure 7. Price performance



Source: Forsyth Barr analysis

Figure 8. Substantial shareholders

Shareholder	Latest Holding
ACC	9.3%
Commonwealth Bank of Australia	6.1%
L1 Capital Partners Pty	5.0%

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

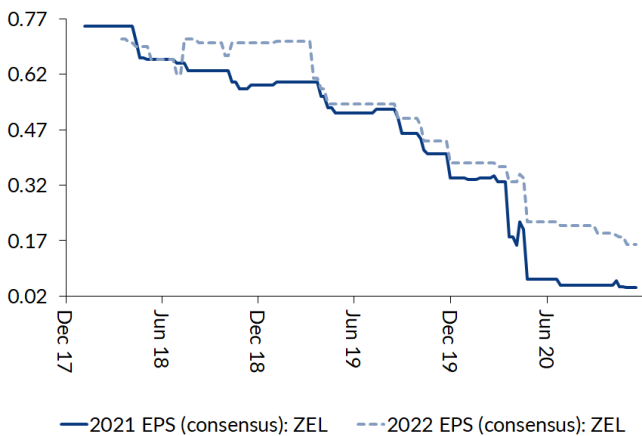
Figure 9. International valuation comparisons

Company	Code	Price	Mkt Cap (m)	PE		EV/EBITDA		EV/EBIT		Cash Yld 2022E
				2021E	2022E	2021E	2022E	2021E	2022E	
Z Energy	ZEL NZ	NZ\$3.37	NZ\$1,753	>50x	17.0x	11.5x	8.8x	31.5x	16.1x	7.4%
SUBURBAN PROPANE PARTNERS LP	SPH US	US\$15.33	US\$958	14.3x	12.8x	8.3x	8.6x	16.3x	n/a	7.8%
AMPOL	ALDAT	A\$30.85	A\$7,703	34.6x	19.6x	11.7x	9.4x	22.8x	14.8x	3.1%
VIVA ENERGY GROUP	VEA AT	A\$1.94	A\$3,138	>50x	25.8x	9.7x	7.2x	31.6x	17.3x	3.0%
CONTACT ENERGY *	CEN NZ	NZ\$7.87	NZ\$5,655	22.8x	26.8x	14.5x	16.3x	31.1x	37.8x	4.1%
MERCURY *	MCY NZ	NZ\$6.47	NZ\$8,814	34.4x	35.2x	20.1x	20.1x	35.6x	37.0x	2.6%
TRUSTPOWER *	TPW NZ	NZ\$7.50	NZ\$2,347	28.1x	29.5x	15.4x	15.6x	20.1x	20.7x	4.0%
MERIDIAN ENERGY *	MEL NZ	NZ\$6.74	NZ\$17,272	37.5x	43.5x	23.9x	27.1x	39.3x	48.2x	2.5%
GENESIS ENERGY *	GNE NZ	NZ\$3.35	NZ\$3,496	19.5x	18.5x	12.1x	12.1x	26.8x	27.8x	4.2%
Compco Average:				27.3x	26.5x	14.5x	14.5x	27.9x	29.1x	3.9%
ZEL Relative:				n/a	-36%	-20%	-39%	13%	-45%	90%

EV = Current Market Cap + Actual Net Debt

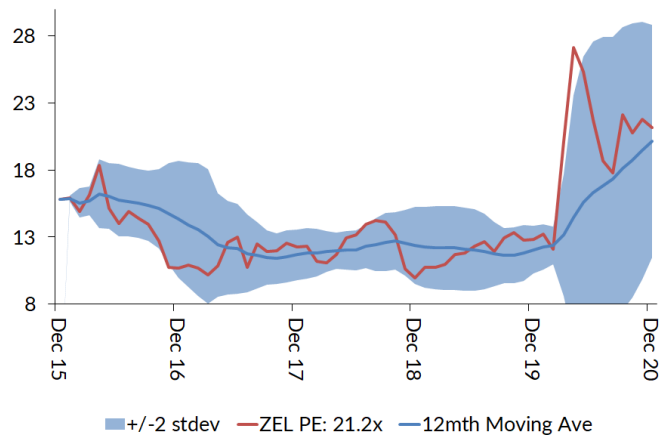
Source: *Forsyth Barr analysis, Bloomberg Consensus, Compco metrics re-weighted to reflect headline (ZEL) companies fiscal year end

Figure 10. Consensus EPS momentum (NZ\$)



Source: Forsyth Barr analysis

Figure 11. One year forward PE (x)



Source: Forsyth Barr analysis

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