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Genesis Energy
2Q21 Nets Another Positive Retail Performance

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OUTPERFORM

Genesis Energy (GNE) has produced another good set of operating statistics in 2Q21, with the highlight being continued retail performance improvement. Netbacks across all of GNE's products; electricity, gas and LPG improved on 2Q20, in particular electricity which increased +13%. Whilst largely expected, the 2Q21 operating statistics are slightly better than anticipated and we have lifted our FY21 EBITDAF forecast +NZ$3m to NZ$408m. We have also increased our target price +10cps to NZ$4.00 and GNE remains our preferred electricity stock. Our rating is OUTPERFORM.

NZX Code	GNE
Share price	NZ$3.83
Target price	NZ$4.00
Risk rating	Low
Issued shares	1043.6m
Market cap	NZ$3,997m
Avg daily turnover	564.0k (NZ$1,686k)

Financials: Jun/	20A	21E	22E	23E
NPAT* (NZ$m)	154.3	192.7	225.1	223.3
EPS* (NZc)	14.9	18.4	21.2	20.8
EPS growth* (%)	-5.0	23.5	15.5	-1.9
DPS (NZc)	17.2	17.5	17.7	18.0
Imputation (%)	80	90	100	100

*Based on normalised profits

Valuation (x)	20A	21E	22E	23E
PE	25.8	20.9	18.1	18.4
EV/EBIT	35.9	26.7	24.1	24.8
EV/EBITDA	14.7	12.8	11.9	12.1
Price / NTA	2.3	2.4	2.5	2.6
Cash div yld (%)	4.5	4.6	4.6	4.7
Gross div yld (%)	5.9	6.2	6.4	6.5

What's changed?

- **EBITDAF earnings:** FY21 EBITDAF increased +NZ$3m (+0.8%) to NZ$408m
- **Target price:** Increased +10cps (+2.6%) to NZ$4.00

FY21 result expectations

- **Reporting date:** Thursday, 25 February 2021
- **1H21 EBITDAF forecast:** NZ$207m, up +NZ$40m (+24%) on 1H20
- **1H21 interim dividend forecast:** 8.65cps, up +0.125cps (+1.5%) on 1H20

Another good set of operating statistics, particularly retail

The retail performance continues to be strong, with netbacks increasing +13%, +7% and +5% for electricity, gas and LPG respectively. This is a continuation of the positive trend that started in 1Q19 and is due to both increasing prices and lower cost to serve. Whilst generation volumes increased +5% on 2Q20 and the average generation price received was a firm NZ$116/MWh, increased financial contract sales meant GNE did not have surplus generation to sell into the market. 2Q21 was also notable for the first production acquired from the Waipipi wind farm (30GWh). Once at full production, Waipipi is expected to generate ~450GWh per annum. Kupe's 2Q21 production was well up on 2Q20 (+41%) due to Kupe's large maintenance outage in 2Q20, but was down -14% on 1Q21 (more than natural field decline) due to production well difficulties that are expected to be resolved in 4Q21.

Modest increase in short-term prospects

Retail 2Q21 operating statistics were slightly better than expected, leading to a modest +NZ$3m increase in our FY21 EBITDAF forecast to NZ$408m and modest increases in later years. We have not changed our dividend forecast, which remains at 17.5cps.

1H21 result will be up significantly on soft 1H20 comparator

We are forecasting 1H21 EBITDAF of NZ$207m, an increase of +NZ$40m on 1H20. However, 1H20 had several headwinds and was -NZ$30m lower than 1H19. Nevertheless, a result of this magnitude means GNE is on track to deliver at least NZ$400m FY21 EBITDAF. The main driver of the result is a significant increase in retail margins.

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Genesis Energy Limited (GNE)

Priced as at 26 Jan 2021 (NZ$)	3.83

12-month target price (NZ$)*	4.00
Expected share price return	4.4%
Net dividend yield	4.6%
Estimated 12-month return	9.0%

Spot valuations (NZ$)	
1. DCF	4.06
2. Market multiple	3.78
3. Dividend yield	3.93

Key WACC assumptions	
Risk free rate	1.30%
Equity beta	0.84
WACC	5.1%
Terminal growth	1.5%

DCF valuation summary (NZ$m)	
Total firm value	5,557
(Net debt)/cash	(1,320)
Less: Capitalised operating leases	
Value of equity	4,237

Profit and Loss Account (NZ$m)	2019A	2020A	2021E	2022E	2023E
Sales revenue	3,410.0	3,354.5	3,596.8	3,429.2	3,282.2
Normalised EBITDA	**369.4**	**355.6**	**408.4**	**437.1**	**430.1**
Depreciation and amortisation	(201.7)	(209.8)	(213.0)	(221.9)	(221.3)
Normalised EBIT	**167.7**	**145.8**	**195.3**	**215.2**	**208.8**
Net interest	(77)	(71)	(67)	(65)	(59)
Associate income	0	0	0	0	0
Tax	(26)	(22)	(36)	(42)	(42)
Deprecation capex adjustment	96	101	100	117	116
Adjusted normalised NPAT	**160**	**154**	**193**	**225**	**223**
Abnormals/other	(101)	(108)	(100)	(117)	(116)
Reported NPAT	**59**	**46**	**93**	**108**	**108**
Normalised EPS (cps)	15.7	14.9	18.4	21.2	20.8
DPS (cps)	17.1	17.2	17.5	17.7	18.0

Valuation Ratios	2019A	2020A	2021E	2022E	2023E
EV/EBITDA (x)	14.1	14.7	12.8	11.9	12.1
EV/EBIT (x)	31.1	35.9	26.7	24.1	24.8
PE (x)	24.5	25.8	20.9	18.1	18.4
Price/NTA (x)	2.2	2.3	2.4	2.5	2.6
Free cash flow yield (%)	4.1	4.4	5.2	6.7	6.1
Net dividend yield (%)	4.5	4.5	4.6	4.6	4.7
Gross dividend yield (%)	5.8	5.9	6.2	6.4	6.5

Capital Structure	2019A	2020A	2021E	2022E	2023E
Interest cover EBIT (x)	2.1	1.9	2.9	3.3	3.5
Interest cover EBITDA (x)	4.8	5.0	6.1	6.7	7.3
Net debt/ND+E (%)	36.6	37.6	37.0	35.1	33.6
Net debt/EBITDA (x)	3.4	3.5	2.9	2.4	2.3

Growth Rates	2019A	2020A	2021A	2022A	2023A
Revenue (%)	48.0	-1.6	7.2	-4.7	-4.3
EBITDA (%)	2.5	-3.7	14.8	7.0	-1.6
EBIT (%)	8.3	-13.1	34.0	10.2	-3.0
Normalised NPAT (%)	24.6	-3.8	24.9	16.8	-0.8
Normalised EPS (%)	22.7	-5.0	23.5	15.5	-1.9
Ordinary DPS (%)	0.9	0.9	1.5	1.4	1.4

Key Ratios	2019A	2020A	2021E	2022E	2023E
Return on assets (%)	3.4	2.9	4.4	5.1	5.1
Return on equity (%)	3.0	2.6	4.6	5.5	5.6
Return on funds employed (%)	3.6	3.2	4.4	5.1	5.2
EBITDA margin (%)	10.8	10.6	11.4	12.7	13.1
EBIT margin (%)	4.9	4.3	5.4	6.3	6.4
Capex to sales (%)	2.0	2.1	2.6	1.8	1.9
Capex to depreciation (%)	34	33	44	28	29
Imputation (%)	80	80	90	100	100
Pay-out ratio (%)	109	116	95	83	86

Cash Flow (NZ$m)	2019A	2020A	2021E	2022E	2023E
EBITDA	**369.4**	**355.6**	**408.4**	**437.1**	**430.1**
Working capital change	(27.3)	21.8	10.9	16.3	(0.1)
Interest & tax paid	(123.1)	(119.2)	(116.3)	(125.5)	(122.0)
Other	15.1	(12.4)	0	0	0
Operating cash flow	**234.1**	**245.8**	**303.0**	**327.9**	**308.0**
Capital expenditure	(68.5)	(69.0)	(94.0)	(61.5)	(63.7)
(Acquisitions)/divestments	(0.2)	(7.6)	0	0	0
Other	0	0	0	0	0
Funding available/(required)	**165.4**	**169.2**	**209.0**	**266.4**	**244.4**
Dividends paid	(131.6)	(138.4)	(145.6)	(149.6)	(153.5)
Equity raised/(returned)	(1.3)	(0.1)	0	0	0
(Increase)/decrease in net debt	**32.5**	**30.7**	**63.4**	**116.8**	**90.8**

Operating Performance	2019A	2020A	2021E	2022E	2023E
Renewable generation	2,835	2,340	2,743	2,724	2,724
Gas generation	2,586	3,121	2,792	2,376	1,941
Coal generation	1,410	1,340	1,672	1,139	767
Total GNE generation (GWh)	**6,831**	**6,801**	**7,208**	**6,240**	**5,432**
GWAP ($/MWh)	143	114	142	139	128
Retail electricity					
Electricity customers (000)	499	493	481	479	479
MM/SME volumes	4,077	4,111	3,989	3,939	3,941
TOU volumes	1,992	2,134	2,388	2,400	2,412
Total fixed price volumes (GWh)	**6,068**	**6,245**	**6,377**	**6,338**	**6,353**
Average MM usage/cust (kWh/yr)	8,126	8,272	8,184	8,214	8,230
Average FPVV price ($/MWh)	210	212	211	211	212
LWAP ($/MWh)	139	110	142	134	120
LWAP/GWAP	0.97	0.96	1.00	0.96	0.94
Line losses (%)	5.4	5.7	5.4	5.5	5.5
Kupe production					
Gas production (PJ)	11.8	10.7	11.0	11.9	11.4
Oil production (k barrels)	472.9	374.3	350.4	497.3	432.8
LPG production (k tonnes)	50.6	46.6	47.6	50.7	48.2
Kupe EBITDAF ($m)	109	94	93	109	102
Energy EBITDAF ($m)	260	262	315	328	328
GNE EBITDAF ($m)	**369**	**356**	**408**	**437**	**430**

Balance Sheet (NZ$m)	2019A	2020A	2021E	2022E	2023E
Working capital	111.8	99.4	88.5	72.2	72.3
Fixed assets	3,773.1	3,675.1	3,558.2	3,401.8	3,250.0
Intangibles	364.0	353.4	356.1	352.1	346.3
Right of use asset	0	0	0	0	0
Other assets	120.8	163.3	158.4	158.4	158.4
Total funds employed	**4,369.7**	**4,291.2**	**4,161.2**	**3,984.5**	**3,827.0**
Net debt/(cash)	1,293.1	1,334.9	1,271.5	1,154.7	1,063.9
Lease liability	0	0	0	0	0
Other liabilities	931.6	886.5	872.9	854.4	833.6
Shareholder's funds	2,145.0	2,068.0	2,015.0	1,973.6	1,927.7
Minority interests	0	1.8	1.8	1.8	1.8
Total funding sources	**4,369.7**	**4,291.2**	**4,161.2**	**3,984.5**	**3,827.0**

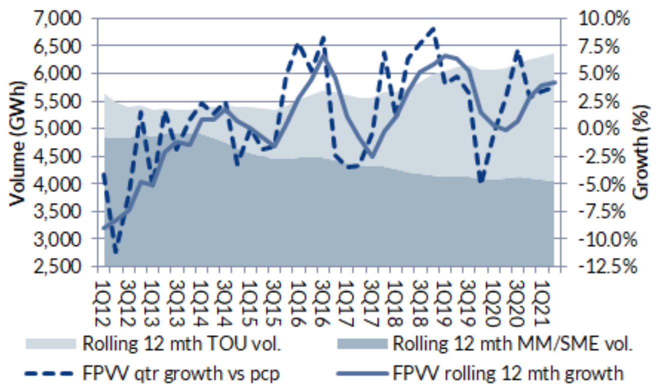
Summary 2Q21 operating statistics and forecast changes

Figure 1. 2Q21 operating statistics

	Dec-19 2Q20	Dec-20 2Q21	% Chg	Comments
Retail electricity sales (GWh)				
Mass market (MM)	661	638	-3.5%	Decline in line with reduced customer numbers
Small, medium enterprises (SME)	287	276	-3.8%	Further decline in SME sales. This is an area GNE wants to reverse
Commerical and industrial (C&I)	507	597	17.8%	C&I growth from last three quarters has stepped up
Total fixed price variable volume (FPVV)	**1,455**	**1,511**	**3.8%**	
Electricity customer numbers (000)	497.4	487.1	-2.1%	Gradual decline in customer numbers continues as GNE focusses on margin
Electricity customer number additions (000)	(4.6)	(3.6)		
MM & SME sales/customer (MWh/customer)	1.90	1.87	-1.5%	
MM sales price ($/MWh)	$265.0	$270.4	2.1%	GNE has consistently lifted average price +2% to +2.5% over the past 2 years
SME sales price ($/MWh)	$223.3	$212.0	-5.1%	Surprising decline in SME price when everything else is going up
C&I average selling price ($/MWh)	$116.0	$119.5	3.0%	Increase linked to ASX futures prices and new C&I contracts, hence, solid price growth
Weighted average FPVV selling price ($/MWh)	**$204.8**	**$200.1**	**-2.3%**	
Electricity netback ($/MWh)	**$101.4**	**$114.5**	**13.0%**	**Very strong netback result, continues increases in recent quarters**
LWAP ($/MWh)	$104.1	$115.8	11%	
Retail gas sales (PJ)				
Mass market (incl SME)	1.0	1.0	3.8%	
C&I gas sales	0.8	0.7	-8.2%	
Total gas sales	**1.7**	**1.7**	**-1.5%**	
Gas customer numbers (000)	105.6	105.5	-0.1%	
Gas consumption/customer (GJ)	9.1	9.5	4.4%	
Retail gas price ($/GJ)	$28.5	$29.4	3.0%	
Gas netback ($/GJ)	**$9.8**	**$10.5**	**6.8%**	**Lift in netback consistant with gas price increase**
Retail LPG sales (tonnes)				
Bottled sales	3,949	4,200	6.4%	Continued lift in bottles sales due to more connection growth
Other bulk & SME sales	6,404	5,843	-8.8%	
Total retail LPG sales	**10,353**	**10,043**	**-3.0%**	
LPG connections (000)	71.3	76.9	7.7%	Good connection growth continues
LPG connection additions	1.0	1.7	75.4%	
LPG consumption/connections (kg)	55.7	55.2	-0.9%	
LPG netback ($/tonne)	**$960**	**$1,012**	**5.4%**	**Good increase in netback (after decrease in 1Q21)**
Generation (GWh)				
Hydro	693	674	-3%	Hydro generation slightly below average but not significantly so
Coal - Rankine Units	304	359	18%	Increase in coal usage due to generally dry conditions in 2Q21
Gas - Rankine units	34	41	21%	
Gas - Units 5 & 6	565	603	7%	Kupe outage in 2Q20 suppressed Unit 5 generation last year
Wind	7	5	-29%	
Total generation	**1,603**	**1,682**	**5%**	
GWAP ($/MWh)	$108.2	$116.1	7%	
LWAP/GWAP	96.2%	99.8%	4%	Solid LWAP/GWAP performance, but not as good as some recent quarters
Portfolio fuel cost ($/MWh)	$45.0	$48.5	8%	Increase due to lift in coal-fired generation. Coal burn costs themselves were down -15%
Kupe sales and production				
Oil production (barrels)	65,732	83,000	26%	2Q20 had signficiant Kupe outage, impacting on all Kupe metrics
Oil sales (barrels)	71,864	81,000	13%	
Gas sales (PJ)	1.8	2.6	44%	
LPG sales (000 tonnes)	8,022	11,000	37%	
Barrels of oil equivalent - sales	**434,126**	**599,156**	**38%**	
Barrels of oil equivalent - production	**427,663**	**604,634**	**41%**	

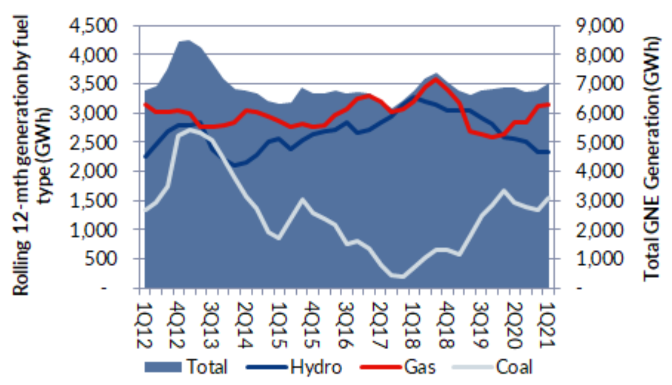
Source: GNE, Forsyth Barr analysis

Figure 2. Electricity sales volumes



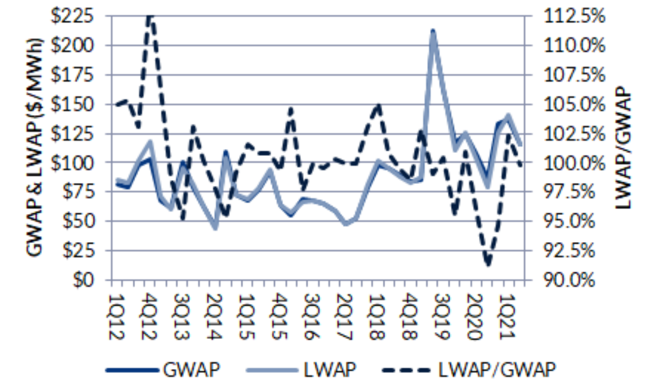
Source: GNE, Forsyth Barr analysis

Figure 3. Generation volumes



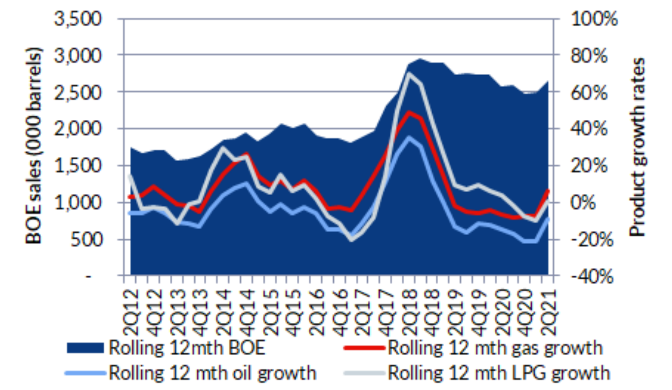
Source: GNE, Forsyth Barr analysis

Figure 4. LWAP/GWAP ratio



Source: GNE, Forsyth Barr analysis

Figure 5. Kupe production



Source: GNE, Forsyth Barr analysis

Figure 6. Forecast changes

	FY21 Old $m	FY21 New $m	% Chg	FY22 Old $m	FY22 New $m	% Chg	FY23 Old $m	FY23 New $m	% Chg
Energy revenue	3,439	3,450	0%	3,216	3,261	1%	3,058	3,122	2%
Kupe revenue	147	147	0%	169	168	-1%	162	160	-2%
Total revenue	**3,587**	**3,597**	**0%**	**3,386**	**3,429**	**1%**	**3,220**	**3,282**	**2%**
Energy operating costs	(3,129)	(3,135)	0%	(2,893)	(2,934)	1%	(2,733)	(2,795)	2%
Kupe operating costs	(53)	(53)	1%	(58)	(58)	0%	(57)	(57)	0%
Energy EBITDAF	311	315	1%	324	328	1%	324	328	1%
Kupe EBITDAF	94	93	-1%	111	109	-1%	105	102	-3%
Reported EBITDAF	**405**	**408**	**1%**	**435**	**437**	**1%**	**430**	**430**	**0%**
Depn & amort	(213)	(213)	0%	(222)	(222)	0%	(221)	(221)	0%
EBIT	**192**	**195**	**2%**	**213**	**215**	**1%**	**208**	**209**	**0%**
Net interest	(67)	(67)	0%	(65)	(65)	0%	(60)	(59)	-1%
Pre-tax profit	**125**	**129**	**3%**	**148**	**150**	**2%**	**149**	**150**	**1%**
Tax	(35)	(36)	3%	(41)	(42)	2%	(42)	(42)	1%
NPAT	**90**	**93**	**3%**	**106**	**108**	**2%**	**107**	**108**	**1%**
EPS (cps)	8.6	8.8	3%	10.0	10.2	2%	10.0	10.0	1%
Dividend (cps)	17.5	17.5	0%	17.7	17.7	0%	18.0	18.0	0%
Capex	94	94	0%	61	61	0%	64	64	0%
Operating statistics			Diff			Diff			Diff
Generation (GWh)	7,139	7,208	1%	6,245	6,240	0%	5,437	5,432	0%
FPVV sales (GWh)	6,338	6,377	1%	6,294	6,338	1%	6,308	6,353	1%
Electricity customer numbers (000)	479	481	0%	477	479	0%	477	479	0%
GWAP ($/MWh)	$145.5	$142.5	-2%	$135.5	$139.3	3%	$122.0	$128.3	5%
LWAP/GWAP	0.995	0.996	0%	0.960	0.960	0%	0.938	0.937	0%

Source: Forsyth Barr analysis

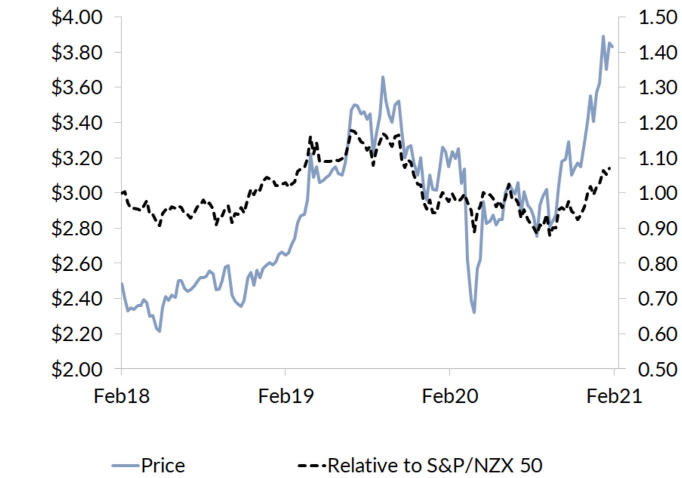
1H21 forecast

Figure 7. 1H21 forecast

6 months ending 31 Dec	1H20	1H21	
	NZ$m	NZ$m	% Chg
Energy revenue	1,647	1,782	8%
Kupe revenue	67	74	11%
Total Revenue	**1,714**	**1,856**	**8%**
Energy operating costs	(1,523)	(1,622)	7%
Kupe operating costs	(24)	(27)	15%
Energy EBITDAF	124	160	29%
Kupe EBITDAF	43	47	8%
Comparable EBITDAF	**167**	**207**	**24%**
Depn & amort	(110)	(106)	-3%
EBIT	**57**	**100**	**75%**
FV mvmts, assoc inc, other	(8)	-	
Net interest	(36)	(33)	-9%
Pre-tax profit	**13**	**67**	
Tax	(4)	(19)	
Reported NPAT	**9**	**48**	
Normalised NPAT	**16**	**49**	
Normalised EPS (cps)	1.6	4.7	197%
Interim dividend (cps)	8.525	8.65	1.5%
Operating statistics			
Generation (GWh)	3,441	3,761	9%
FPVV sales (GWh)	3,173	3,287	4%
Electricity connections	497,435	487,149	-2%
GWAP ($/MWh)	$117.0	$127.7	9%
LWAP/GWAP	0.990	1.011	0.021

Source: Forsyth Barr analysis

Figure 8. Price performance



Source: Forsyth Barr analysis

Figure 9. Substantial shareholders

Shareholder	Latest Holding
NZ Govt	51.8%

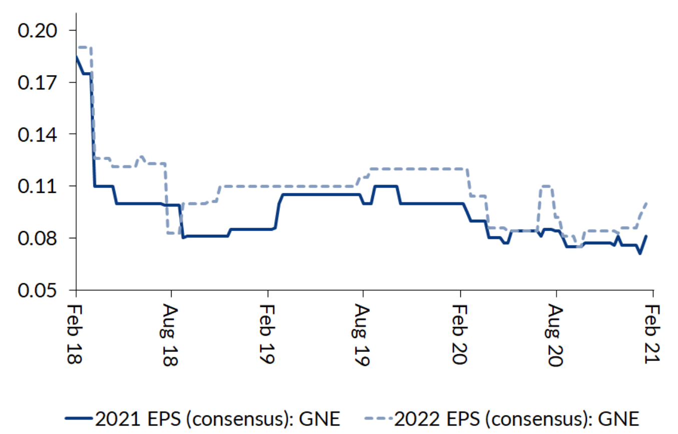
Source: NZX, Forsyth Barr analysis, NOTE: based on SPH notices only

Figure 10. International valuation comparisons

Company	Code	Price	Mkt Cap	PE		EV/EBITDA		EV/EBIT		Cash Yld
(metrics re-weighted to reflect GNE's balance date - June)			(m)	2021E	2022E	2021E	2022E	2021E	2022E	2022E
Genesis Energy	**GNE NZ**	**NZ$3.83**	**NZ$3,997**	**20.9x**	**18.1x**	**12.8x**	**12.0x**	**26.8x**	**24.4x**	**4.6%**
CONTACT ENERGY *	CEN NZ	NZ$9.24	NZ$6,640	27.3x	27.3x	16.8x	16.7x	38.0x	34.2x	3.9%
MERIDIAN ENERGY *	MEL NZ	NZ$8.10	NZ$20,757	>50x	>50x	31.3x	30.2x	55.0x	51.2x	2.1%
MERCURY *	MCY NZ	NZ$7.37	NZ$10,040	34.7x	33.3x	20.8x	19.6x	35.4x	32.8x	2.5%
TRUSTPOWER *	TPW NZ	NZ$8.66	NZ$2,710	32.3x	28.2x	17.2x	15.6x	22.4x	20.0x	3.9%
AGL ENERGY	AGL AT	A$11.65	A$7,258	13.4x	19.1x	5.9x	6.9x	10.6x	14.5x	5.1%
ORIGIN ENERGY	ORG AT	A$5.01	A$8,824	21.6x	16.4x	6.4x	5.7x	22.7x	21.0x	4.8%
			Compco Average:	**25.9x**	**24.9x**	**16.4x**	**15.8x**	**30.7x**	**29.0x**	**3.7%**
EV = Current Market Cap + Actual Net Debt			**GNE Relative:**	**-19%**	**-27%**	**-22%**	**-24%**	**-12%**	**-16%**	**24%**

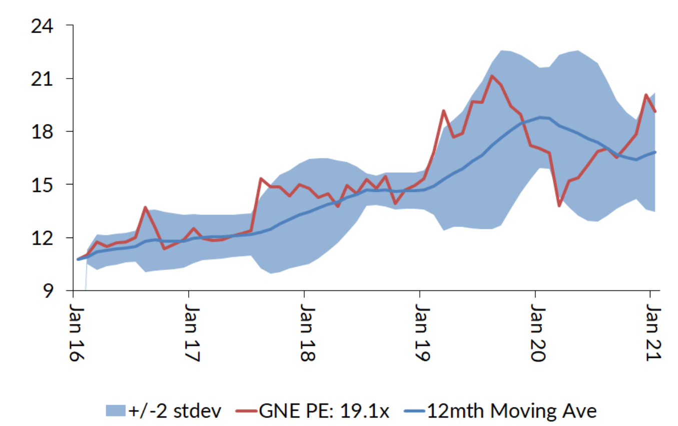
Source: *Forsyth Barr analysis, Bloomberg Consensus, Compco metrics re-weighted to reflect headline (GNE) companies fiscal year end

Figure 11. Consensus EPS momentum (NZ$)



Source: Forsyth Barr analysis

Figure 12. One year forward PE (x)



Source: Forsyth Barr analysis

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