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NEW ZEALAND EQUITY RESEARCH | UTILITIES | ELECTRICITY GENERATOR
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Tilt Renewables
Dundonnell Delays Frustrate — FY20 ASM

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OUTPERFORM

Tilt Renewables (TLT) continues to be frustrated by the Australian Electricity Market Operator's (AEMO) late-rule change preventing TLT fully connecting its Dundonnell wind farm to the grid. Whilst there is a path to full connection, it will take time, possibly to the end of FY21. We have cut our FY21 EBITDAF forecast -A$20m to A$70m due mainly to the Dundonnell delays. However, cost of capital changes have lifted our target price +60cps (+17%) to NZ$4.10/share. We retain our OUTPERFORM rating, with TLT remaining an attractive exposure to Australia de-carbonising its electricity system.

NZX Code	TLT
Share price	NZ$3.53
Target price	NZ$4.10
Risk rating	Low
Issued shares	376.2m
Market cap	NZ$1,328m
Avg daily turnover	42.5k (NZ$135k)

Financials: Mar/	20A	21E	22E	23E
NPAT* (NZ$m)	49.8	40.3	64.3	63.4
EPS* (NZc)	10.6	10.7	17.1	16.9
EPS growth* (%)	-32.6	1.1	59.4	-1.4
DPS (NZc)	0.0	0.0	0.0	0.0
Imputation (%)	0	0	0	0
*Based on normalised profits				

Valuation (x)	20A	21E	22E	23E
EV/EBITDA	10.5	16.2	13.2	14.0
EV/EBIT	27.4	90.2	63.8	75.2
PE	33.3	32.9	20.7	20.9
Price / NTA	1.4	1.3	1.3	1.3
Cash div yld (%)	0.0	0.0	0.0	0.0
Gross div yld (%)	0.0	0.0	0.0	0.0

Dundonnell connection delays continue — time frame when the remaining portion can be connected still to be finalised

The Dundonnell wind farm is effectively complete, but yet to be fully connected to the grid. Only 130MW of the 336MW wind farm is producing, with the AEMO preventing full commissioning of the wind farm. AEMO's issue relates to how Dundonnell will perform during system faults, with AEMO raising market-wide concerns (i.e. its not Dundonnell specific) as TLT connected the first turbines. AEMO is now allowing TLT to gradually connect Dundonnell with additional "hold" points inserted into the timetable. TLT has clarity on getting 150MW connected (enabling 66% of production), but beyond that the timetable has yet to be finalised. TLT's revised FY21 EBITDAF guidance of A$65m to A$80m is due to expected lower commissioning wind volumes with the bottom of the range assuming Dundonnell is unable to move to full production during FY21 (March 2021).

Sheltered from NZAS closure in short-term, some long-term implications

The nature of TLT's long-term contracts means it is sheltered from the wholesale electricity price effects of NZAS closing for five years. At that point the lower base wholesale electricity prices begin to be factored into Trustpower's (TPW) off-take prices (assuming the prices have not recovered). Genesis Energy's (GNE) off-take prices are protected for ten years. However, an expected increase in the wind discount factor will start impacting the TPW off-take price three years after NZAS has closed and lower South Island transmission constraints have been relieved (whichever is later). The other implication for TLT from NZAS closing is there is little chance its South Island development options will get built without a significant lift in South Island demand to replace NZAS.

FY21 downgraded towards bottom of TLT guidance, target price increased on currency and WACC changes

With Dundonnell taking longer to come on line and lacklustre wind volumes so far in FY21 (1Q21 Australian volumes were -10% below average and NZ volumes -7%), we have cut our FY21 EBITDAF forecast -A$20m (-22%) to A$70m towards the bottom of TLT's guidance range. Medium-term forecast changes are relatively minor, with the falling NZDAUD lowering A$ denominated earnings (but helping lift NZ$ denominated value). Longer-term we have lowered our assumed NZ$/MWh price received, primarily reflecting a higher wind discount factor. Whilst our electricity price forecasts are falling, we have increased our valuation of TLT to NZ$3.81, (and our target price +60cps to NZ$4.10) with the change in our cost of capital lifting our DCF valuation in particular.

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Tilt Renewables Limited (TLT)

Priced as at 19 Aug 2020 (NZ$)	3.53

12-month target price (NZ$)*	**4.10**
Expected share price return	16.1%
Net dividend yield	0.0%
Estimated 12-month return	16.1%

Spot valuations (NZ$)	
1. DCF	3.85
2. Multiple	3.71
3. n/a	n/a

Key WACC assumptions	
Risk free rate	1.30%
Equity beta	0.94
WACC	5.6%
Terminal growth	1.5%

DCF valuation summary (NZ$m)	
Total firm value	1,277
(Net debt)/cash	173
Less: Capitalised operating leases	
Value of equity	1,450

Profit and Loss Account (A$m)	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
Sales revenue	193.3	170.2	126.0	184.9	181.4
Normalised EBITDA	**134.8**	**117.5**	**70.0**	**107.2**	**102.3**
Depreciation and amortisation	(83.6)	(72.5)	(57.4)	(84.9)	(83.3)
Normalised EBIT	**51.2**	**45.0**	**12.6**	**22.2**	**19.1**
Net interest	(30.1)	(39.4)	(11.1)	(17.9)	(13.2)
Other	(2.0)	(8.5)	0	0	0
Tax	(6.9)	(4.7)	(0.5)	(1.3)	(1.7)
Depreciation capex adjustment	55.4	46.9	36.0	55.0	53.7
Normalised NPAT	**69.0**	**47.4**	**37.1**	**58.0**	**57.8**
Abnormals/other	(56.8)	431.1	(36.0)	(55.0)	(53.7)
Reported NPAT	**12.2**	**478.4**	**1.1**	**3.0**	**4.1**
Normalised EPS (cps)	14.7	10.1	9.9	15.4	15.4
DPS (cps)	1.1	0	0	0	0

Growth Rates	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
Revenue (%)	22.4	-11.9	-26.0	46.8	-1.9
EBITDA (%)	29.9	-12.8	-40.4	53.0	-4.5
EBIT (%)	91.4	-12.2	-72.0	76.3	-14.3
Normalised NPAT (%)	49.0	-31.3	-21.6	56.1	-0.3
Normalised EPS (%)	-0.6	-31.3	-2.1	56.1	-0.3
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**	**70.0**	**107.2**	**102.3**
Working capital change	0.6	39.8	(54.3)	(2.8)	(1.5)
Interest & tax paid	(41.7)	(57.8)	14.3	(1.0)	(0.5)
Other	(8.6)	(49.4)	0	0	0
Operating cash flow	**85.0**	**50.2**	**29.9**	**103.4**	**100.3**
Capital expenditure	(90.8)	(322.9)	(406.3)	(7.0)	(7.1)
(Acquisitions)/divestments	0	455.0	0	0	0
Other	0	(3.9)	(3.9)	(3.9)	(3.9)
Funding available/(required)	**(5.8)**	**178.3**	**(380.3)**	**92.5**	**89.3**
Dividends paid	(10.6)	0	0	0	0
Equity raised/(returned)	259.9	(1.1)	(260.0)	0	0
(Increase)/decrease in net debt	**243.5**	**177.3**	**(640.3)**	**92.5**	**89.3**

Balance Sheet (A$m)	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
Working capital	14.3	(38.3)	14.0	14.8	14.3
Fixed assets	1,066.7	1,000.7	1,350.6	1,273.7	1,198.6
Intangibles	0.5	0.5	0.5	0.5	0.5
Right of use asset	0	13.4	13.4	13.4	13.4
Other assets	114.3	9.0	9.0	9.0	9.0
Total funds employed	**1,195.9**	**985.2**	**1,387.5**	**1,311.3**	**1,235.8**
Net debt/(cash)	346.4	(417.9)	222.4	129.9	40.6
Lease liability	22.9	125.5	125.5	125.5	125.5
Other liabilities	170.6	94.3	115.2	128.6	138.2
Shareholder's funds	656.0	1,183.3	924.4	927.4	931.5
Minority interests	0	0	0	0	0
Total funding sources	**1,195.9**	**985.2**	**1,387.5**	**1,311.3**	**1,235.8**

* 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)	12.6	10.5	16.2	13.2	14.0
EV/EBIT (x)	33.2	27.4	90.2	63.8	75.2
PE (x)	22.4	33.3	32.9	20.7	20.9
Price/NTA (x)	2.4	1.4	1.3	1.3	1.3
Free cash flow yield (%)	6.0	3.3	1.8	7.3	7.0
Net dividend yield (%)	0.3	0.0	0.0	0.0	0.0
Gross dividend yield (%)	0.3	0.0	0.0	0.0	0.0

Capital Structure	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
Interest cover EBIT (x)	1.7	1.1	1.1	1.2	1.4
Interest cover EBITDA (x)	4.5	3.0	6.3	6.0	7.7
Net debt/ND+E (%)	34.6	-54.6	19.4	12.3	4.2
Net debt/EBITDA (x)	2.6	n/a	3.2	1.2	0.4

Key Ratios	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
Return on assets (%)	3.3	2.6	0.6	1.1	1.0
Return on equity (%)	10.5	4.0	4.0	6.3	6.2
Return on funds employed (%)	3.6	4.2	0.8	1.5	1.4
EBITDA margin (%)	69.7	69.0	55.6	58.0	56.4
EBIT margin (%)	26.5	26.4	10.0	12.0	10.5
Capex to sales (%)	47.0	189.7	322.6	3.8	3.9
Capex to depreciation (%)	109	445	708	8	9
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	197	330	330
TLT installed capacity (MW)	**637**	**367**	**703**	**836**	**836**
Australia wind generation (GWh)	1,395	1,170	1,059	1,771	1,771
NZ wind generation (GWh)	658	664	653	1,119	1,119
TLT wind generation (GWh)	**2,053**	**1,834**	**1,712**	**2,890**	**2,890**
Price assumptions					
Australia REC price (A$/MWh)	78.3	65.2	29.0	25.7	18.0
SA wholesale price (A$/MWh)	81.0	56.0	47.1	52.3	50.1
VIC wholesale price (A$/MWh)		85.8	63.9	66.6	55.3
Australia PPA price (A$/MWh)	94.8	94.5	55.3	57.8	58.9
NZ PPA price (NZ$/MWh)	64.8	63.7	64.7	66.1	67.1
Australia spot sales (GWh)	155	365	760	458	458
Australia PPA sales (GWh)	1,239	805	298	1,313	1,313
Australia spot revenue (A$m)	34	53	43	26	24
Australia PPA revenue (A$m)	117	76	16	76	77
Australia revenue (A$m)	**151**	**129**	**86**	**117**	**112**
NZ revenue (A$m)	**42**	**42**	**40**	**68**	**69**
Australia EBITDAF (A$m)	**109**	**93**	**47**	**63**	**58**
NZ EBITDAF (A$m)	**25**	**24**	**23**	**44**	**45**

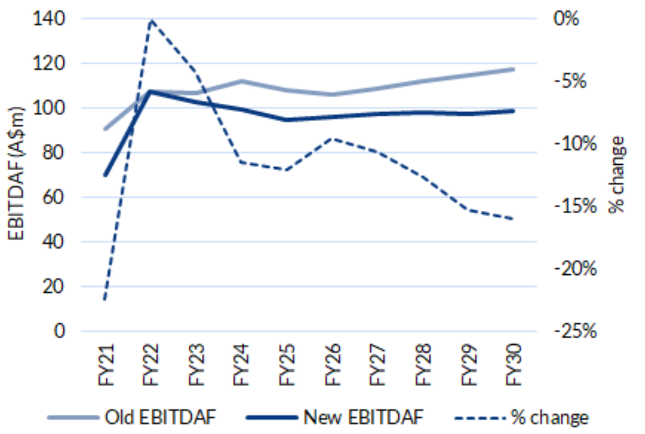
Forecast changes

Figure 1. Forecast changes

	FY21 Old A$m	FY21 New A$m	% Chg	FY22 Old A$m	FY22 New A$m	% Chg	FY23 Old A$m	FY23 New A$m	% Chg
Australia revenue	110	86	-22%	115	117	2%	116	112	-3%
NZ revenue	42	40	-6%	71	68	-4%	71	69	-2%
Total Revenue	**152**	**126**	**-17%**	**186**	**185**	**-1%**	**186**	**181**	**-3%**
Operating costs	(62)	(56)	-10%	(79)	(78)	-1%	(80)	(79)	-1%
Australia EBITDAF	66	47	-28%	62	63	3%	61	58	-6%
NZ EBITDAF	25	23	-7%	46	44	-4%	46	45	-2%
EBITDAF	**90**	**70**	**-22%**	**107**	**107**	**0%**	**107**	**102**	**-4%**
Depreciation & amortisation	(60)	(57)	-4%	(85)	(85)	0%	(83)	(83)	0%
EBIT	**30**	**13**	**-58%**	**23**	**22**	**-1%**	**24**	**19**	**-20%**
Fair value gain/(loss) & other	0	0		0	0		0	0	
Interest costs	(11)	(11)	3%	(17)	(18)	4%	(12)	(13)	7%
Pre-tax profit	**20**	**2**	**-92%**	**5**	**4**	**-18%**	**11**	**6**	**-49%**
Tax expense	(6)	(0)	-92%	(2)	(1)	-18%	(3)	(2)	-49%
Reported NPAT	**14**	**1**	**-92%**	**4**	**3**	**-18%**	**8**	**4**	**-49%**
Normalised NPAT	**14**	**1**	**-92%**	**4**	**3**	**-18%**	**8**	**4**	**-49%**
Adjusted (depn/capex) NPAT	**51**	**36**	**-29%**	**58**	**57**	**-1%**	**61**	**57**	**-6%**
EPS	3.7	0.3	-92%	1.0	0.8	-18%	2.1	1.1	-49%
DPS	0.00	0.00		0.00	0.00		1.30	0.00	-100%
Australia generation (GWh)	1,331	1,059	-20%	1,771	1,771	0%	1,771	1,771	0%
NZ generation (GWh)	672	653	-3%	1,119	1,119	0%	1,119	1,119	0%
Total generation (GWh)	**2,003**	**1,712**	**-15%**	**2,890**	**2,890**	**0%**	**2,890**	**2,890**	**0%**
Australian sales price (A$/MWh)	83	81	-1%	65	66	2%	65	63	-3%
NZ sales price (A$/MWh)	63	61	-4%	63	60	-4%	63	62	-2%
Weighted avg price (A$/MWh)	**76**	**74**	**-3%**	**64**	**64**	**-1%**	**64**	**63**	**-3%**

Source: Forsyth Barr analysis

Figure 2. Long-term valuation changes



Source: Forsyth Barr analysis

Figure 3. Valuation changes

NZ$/share	Old	New	% chg	$ change
Multiple value (33%)	3.54	3.71	5%	0.17
DCF (67%)	3.22	3.85	20%	0.63
Weighted average	**3.33**	**3.81**	**14%**	**0.48**
Target price	**3.50**	**4.10**	**17%**	**0.60**

Comment: Our cost of capital assumption has fallen to 5.6% from 7.4%. We have also increased our market multiples slightly, reflecting the effect of lower interest rates/market risk premiums on multiples. Our DCF valuation only values existing projects, it does not attach value to TLT's development pipeline.

Source: Forsyth Barr analysis

Investment Summary

Our rating is OUTPERFORM. TLT offers exposure to renewable energy developments, particularly in Australia. It has a strong pipeline and excellent development track record. In addition, the low interest rate environment is attractive for low cost funding.

Business quality

- **Strong development pipeline:** TLT has a large portfolio of renewable energy development options, predominantly in Australia. Most of the options are wind, but also include solar, pumped hydro, and batteries. The total pipeline is over 3,000MW.
- **Excellent development track record:** TLT's development track record is very good, with projects typically coming in on time and at/ below budget. It has also demonstrated an ability to attract strong offtake partners.

Earnings and cashflow outlook

- **Long-term growth from new developments tempered by falling prices:** TLT's earnings outlook is flat. Whilst wind farm developments are coming to fruition, LGC and electricity futures prices are falling, tempering any earnings growth.
- **Mix of fixed prices and wholesale price exposure:** Most of TLT's developments have long-term fixed price offtake agreements, providing a reliable earnings stream. However, it also has some (~20%) long-term exposure to wholesale electricity prices in Australia.

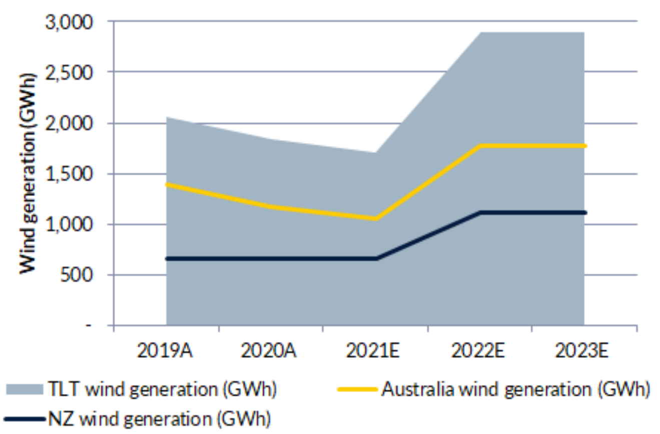
Financial structure

- **Strong balance sheet following sale of Snowtown 2:** We estimate that TLT has surplus capital of more than A$280m following the successful sale of its Snowtown 2 wind farm, which will go a long way to funding TLT's next development.

Risk factors

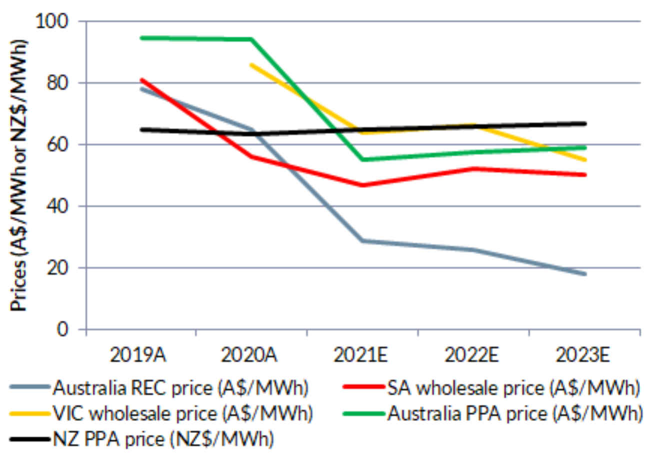
- **Competing developers with low cost of capital requirements:** The power purchase agreement (PPA) market at present is well below A$60/MWh, with the low end of the range partly driven by low return requirements. TLT could be outbid if low return expectations become the norm, limiting the value upside from new developments.
- **Regulatory uncertainty:** Whilst renewable electricity generation is going to be a core part of Australia decarbonising its economy, there is significant policy uncertainty. In addition, electricity prices are a politically sensitive topic, adding to the uncertainty. The market regulator, AEMO, is also making connecting wind farms to the grid more challenging.

Figure 4. Generation volumes



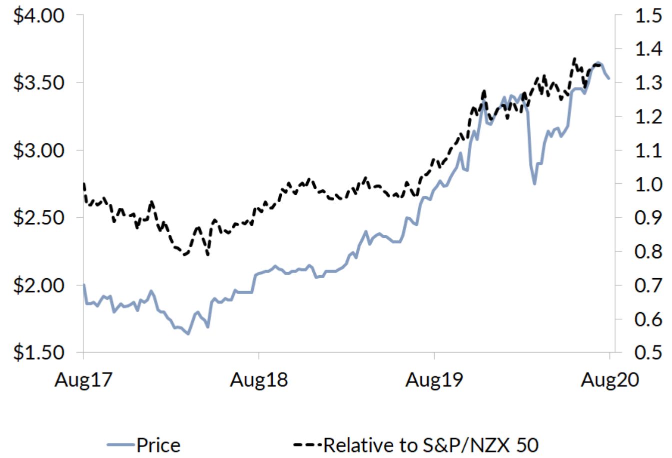
Source: TLT, Forsyth Barr analysis

Figure 5. Electricity prices



Source: TLT, Forsyth Barr analysis

Figure 6. Price performance



Source: IRESS, Forsyth Barr analysis

Figure 7. Substantial shareholders

Shareholder	Latest Holding
Infratil	65.3%
Mercury NZ Ltd	20.0%

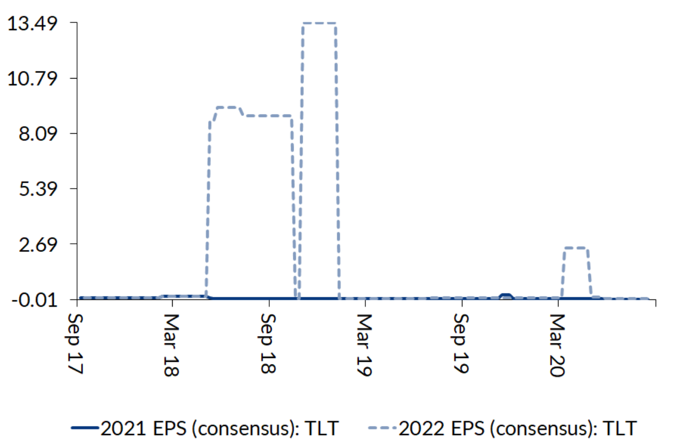
Source: NZX, Forsyth Barr analysis, NOTE: based on SPH notices only

Figure 8. International valuation comparisons

Company	Code	Price	Mkt Cap	PE		EV/EBITDA		EV/EBIT		Cash Yld
(metrics re-weighted to reflect TLT's balance date - March)			(m)	2021E	2022E	2021E	2022E	2021E	2022E	2022E
Tilt Renewables	**TLT NZ**	**NZ$3.53**	**NZ$1,328**	**32.9x**	**20.7x**	**11.8x**	**7.6x**	**65.5x**	**36.4x**	**0.0%**
TRUSTPOWER *	TPW NZ	NZ$6.70	NZ$2,097	24.0x	23.7x	14.3x	14.2x	19.0x	18.9x	4.5%
CONTACT ENERGY *	CEN NZ	NZ$6.34	NZ$4,553	19.5x	22.0x	12.7x	13.7x	28.8x	32.4x	5.0%
GENESIS ENERGY *	GNE NZ	NZ$2.82	NZ$2,920	17.1x	15.9x	11.2x	11.3x	28.9x	29.7x	5.0%
MERIDIAN ENERGY *	MEL NZ	NZ$4.71	NZ$12,057	26.4x	30.9x	16.6x	19.7x	26.9x	35.9x	3.5%
MERCURY *	MCY NZ	NZ$5.02	NZ$6,839	26.1x	27.0x	15.9x	16.0x	27.7x	29.4x	3.4%
INFIGEN ENERGY	IFN AT	A$0.92	A$893	34.6x	>50x	10.0x	11.6x	19.0x	26.4x	2.2%
			Compco Average:	**24.6x**	**23.9x**	**13.5x**	**14.4x**	**25.1x**	**28.8x**	**3.9%**
EV = Current Market Cap + Actual Net Debt			**TLT Relative:**	**34%**	**-14%**	**-12%**	**-48%**	**162%**	**27%**	**-100%**

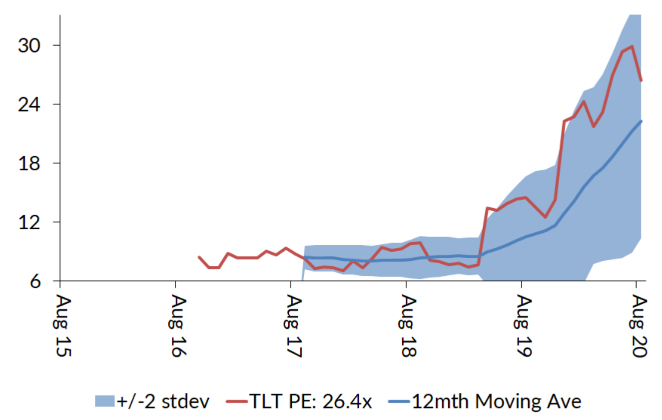
Source: *Forsyth Barr analysis, Bloomberg Consensus, Compco metrics re-weighted to reflect headline (TLT) companies fiscal year end

Figure 9. Consensus EPS momentum (NZ$)



Source: Forsyth Barr analysis

Figure 10. One year forward PE (x)



Source: Forsyth Barr analysis

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