15 May 2017

Trustpower lifts profit supported by strong generation performance

Financial performance for year to 31 March 2017:[1]

- Demerged Net Profit after Tax of $94 million, 37% above FY16
- EBITDAF[3] of $218 million, 5% higher than FY16[2] (EBITDAF excluding demerger costs was $235 million or 12% higher than last year)
- Underlying earnings after tax $115 million, $31 million or 36% above FY16
- Net debt to EBITDAF ratio of 3.0, down from 3.5 at 31 March 2016

Operating highlights:

- Total customers increased to 249,000, 1% higher than 31 March 2016
- Customers with two or more products increased to 90,000, 17% higher than 31 March 2016
- Favourable hydro conditions in New Zealand and Australia, along with a full year contribution from King Country Energy, lifted total generation production by 535 GWh, 29%, higher than FY16
- Significant lift in Australian spot prices, along with increased volume, drove a contribution uplift of $19 million or 156%

Trustpower Limited (NZX:TPW) today announced its financial results for the year ended 31 March 2017. On 31 October 2016 the Trustpower Group demerged into two separate groups - Trustpower Limited (formerly Bay Energy Limited) and Tilt Renewables Limited. These results show Trustpower's actual performance since demerger together with its share of the combined Trustpower Group's results pre-demerger. The financial statements have been prepared as if the demerger had been in place for the entire period, including the comparative period.

Trustpower Chair Paul Ridley-Smith said the Company's performance, particularly over the past five months, has been very pleasing.

"This has been a rewarding year for Trustpower. Strategically, we have successfully completed an organisational demerger and restructure are now well-positioned to deliver improved financial performance. Operationally we have capitalised on strong generation conditions as well as continuing to build the retail business through our multi-product bundling strategy. We have also completed the first full year of operations with King Country Energy."

Chief Executive Vince Hawksworth said the $218 million EBITDAF[3] included $17 million of one-off costs associated with the demerger.

"The year was characterised by strong generation volumes, particularly in Australia where the increased volume was also associated with very high spot prices. While wholesale prices in New Zealand remained well below long run average, the increased volumes nonetheless drove a very positive uplift in profitability.

“We have continued to invest in developing a strong service and technology platform to support our multi-product retail business. We are now well-positioned for customer growth that delivers improved profitability and I have been pleased with the outcomes of recent campaigns which have re-established our momentum following the demerger,” said Mr Hawksworth.

A final dividend of 17 cents per share, fully imputed, has been declared and is payable on 9 June 2017. This brings the first full year of dividends since the demerger to 33 cents per share. This is the first fully imputed dividend for a number of years. Trustpower expects to be able to provide this benefit to shareholders for the foreseeable future.

Mr Ridley-Smith said that while the company delivered a higher profit for the financial year, it had also focused on paying down debt to improve its capital management.

“The dividend is in accordance with our policy to pay out between 70% and 90% of free cash flow subject to the Board’s consideration of performance in any given period, working capital needs, the risks from predicted short and medium term economic and hydrological conditions and potential future capital requirements.” said Mr Ridley-Smith.

Retail operations
Total retail EBITDAF of $45 million, 20% lower than FY16 as the Company invested in multi-product growth.

Trustpower’s retail business continued to make solid progress with its multi-product growth strategy. Trustpower now has 249,000 customers up 1% from 247,000 the year before. Most importantly, the number of customers taking two or more products rose to 90,000, up 17% from the 77,000 customers at the same time last year. The total number of products provided by Trustpower to its customers has risen by 4% to 385,000.

“While the market remains highly competitive, Trustpower’s bundled proposition resonates well with customers who can see its value,” said Mr Hawksworth. “Just under 40% of our total customers now purchase more than one product from us.”

Mr Hawksworth said ongoing competition in the electricity sector had continued to create revenue pressure. “Our overall revenues were up by $13 million or 2%, driven primarily by growth in telco and gas services, with electricity revenue remaining static.”

Direct cost of sales[5] has increased in line with revenue resulting in a gross margin increase of $3m or 2%. Other retail operating costs[6] were $14 million or 18% higher than last year. Mr Hawksworth said in addition to the increased sales costs driven by the high proportion of new customers taking two or more products, Trustpower had continued to invest in marketing, service support and technology to ensure it could continue to deliver its highly-reputed levels of service while growing. “This includes increased employee support, technology and corporate expenses related to our new building. While it is having a medium-term impact on our overheads and retail contribution, we are targeting a reduction in both cost-to-serve and cost-to-acquire in the coming year.”

Generation
Total generation EBITDAF of $200 million, 24% higher than FY16.

New Zealand generation production was well above the prior period due to the impact of the King Country Energy acquisition and strong hydrological inflows. Overall New Zealand generation was 5% above long run average, and despite spot prices being 13% lower than last year, New Zealand generation’s EBITDAF contribution was 13% higher at $169 million.

Production from, the three Australian hydro stations, was 359 GWh, 41% higher than last year reflecting very strong hydro inflows in the period. Australian spot prices were also very firm, 81% higher than last year. Consequently Australian generation's EBITDAF contribution increased by 156% to $32 million for the year under review.

King Country Energy

This year ended 31 March 2017 was the first full period in which the operations of King Country Energy were consolidated into the operating results since it was acquired in December 2015.

"We are continuing to work closely with King Country Energy's management and other owners. We have already delivered a number of operating efficiencies, and look forward to making further progress in the coming year." said Mr Hawksworth.

Financial position

There was a $70 million reduction in net debt[4] to $661 million. At 31 March 2017, the ratio of net debt[4] (including subordinated bonds) to EBITDAF[3] was 3.0 times, a solid improvement on the prior year's 3.5 times.

Operating cash flows were $181 million for the year, up $22 million on the previous year, and are consistent with the level of EBITDAF.

Regulatory matters

The Electricity Authority has recently announced it is preparing a new cost-benefit analysis as part of its review of Transmission Pricing Methodology (TPM) guidelines, which will now push the timetable for a final decision into 2018. This was due to a considerable number of errors in the previous model, that were highlighted to the Authority by the electricity sector, including Trustpower.

"While we are pleased the Authority has eventually acknowledged the errors in its model, we are also disappointed it has taken so long since we first raised the issue in July 2016", said Mr Hawksworth.

"We still have significant concerns about the lack of clear evidence to support the scale of intervention being proposed, or that any new methodology would be materially better than the status quo. Trustpower's view remains that the governance surrounding this process is fundamentally flawed and the Authority needs to go back and revisit the whole process."

Outlook

Looking ahead, Trustpower will continue its pursuit of profitable growth – both organically through its multi-product retail strategy, or via the acquisition of aligned business where it can add value. It will continue to seek technology opportunities to improve customer experience, reduce average costs and drive product growth, and will also remain focused on optimising the value generated by its generation assets.

Trustpower expects its FY18 EBITDAF to be in the range of $215 million to $235 million assuming average hydrology and climatic conditions

For further information:

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About Trustpower

Trustpower is New Zealand's fifth largest electricity generator and fourth largest energy retailer by market share, with approximately 12% electricity retail market share. It owns 26 hydro power schemes throughout New Zealand and Australia with a total installed capacity of 570MW. It operates a multi-product retail business, including electricity, gas and telecommunications products with approximately 280,000 electricity customer connections, 33,000 gas customer connections and 76,000 telecommunications customer connections. - For further information see www.trustpower.co.nz

Key performance data:

	Mar-17	Mar-16	Variance
EBITDAF ($M)	218	208	5%
Profit After Tax ($M)	94	68	37%
Total utility accounts (000s)	385	370	4%
Customers with two or more utilities (000s)	90	77	17%
Total New Zealand generation production (GWh)	2,017	1,588	27%
Total Australian generation production (GWh)	359	254	41%

Notes

1. The full financial statements for the Trustpower Group have been lodged with NZX and are available from the NZX and Trustpower websites.
2. References to FY16 or prior period are for the year to 31 March 2016
3. EBITDAF (Earnings before interest, tax, depreciation, amortisation, fair value movements of financial instruments, asset impairments and discount on acquisition adjustments) is a non-GAAP financial measure commonly used within the electricity industry as a measure of performance as it shows the level of earnings before the impact of gearing and non-cash charges such as depreciation and amortisation.
4. Net debt is a measure of indebtedness to external funding provides net of funds held with those providers and is defined as bank loans plus subordinated bonds plus senior bonds less cash at bank.
5. Retail cost of sales is defined as Energy costs, line costs, meter rental, telco cost of sales and gas cost of sales
6. Other retail costs are all other costs in the retail segment excluding cost of sales. This includes cost to serve, cost to acquire and meter reading. It also includes an allocation of corporate and IT costs