19 February 2024

Contact Energy performance demonstrates underlying business health; Focus on asset delivery

	Six months ended 31 December 2023 1H24		Six months ended 31 December 2022 1H23	
	Underlying[i]	Reported	Against underlying	
EBITDAF[ii]	$325m	$354m	↑	26% from $257m
Profit	$134m	$153m	↑	70% from $79m
Profit per share	17.2 cps	19.5 cps	↑	70% from 10.1 cps
Operating free cash flow[iii]	$187m		↑	163% from $71m
Stay-in-business capital expenditure (cash)	$64m		↑	16% from $55m
Growth capital expenditure (cash)	$233m		↑	7% from $217m

Financial performance

Contact Energy has reported net profit of $153m in 1H24 and operating earnings (EBITDAF) of $354m. Reported figures include a net provision release relating to the Ahuroa Gas Storage facility (AGS) onerous contract of $29m within EBITDAF ($19m within net profit after tax and interest). Excluding the provision release, underlying net profit was up 70% on 1H23 to $134m and EBITDAF was up 26% to $325m.

The improved operating result was driven by closer alignment of channel pricing to the wholesale market and greater thermal efficiency, partially offset by lower hydro generation, reduced steam revenue following the closure of Te Rapa and one-off write-offs of $8m relating to damage to Peaker assets and the CRM system upgrade programme not continuing as originally planned.

Hydro volatility characterised operating conditions throughout the period, with flow-on impacts to wholesale pricing from more thermal generation. Contact increased contracted sales volumes in anticipation of Tauhara coming online in 4Q 2023 and with the delay to 3Q 2024 applied some mitigations to meet this position. At the same time, Contact has executed well on its channel mix and pricing strategies.

"The result has been a demonstration of strength in our underlying performance, setting us up well for the year ahead and we now expect to deliver underlying EBITDAF of $620m in FY24," says Chief Executive Mike Fuge.

Operating free cash flow of $187m was up 163% on the prior year on the improved operating result, relatively lower levels of working capital due to higher thermal generation and lower tax paid on FY23 profit, partially offset by accelerated stay in business capex. The Board declared an interim dividend of 14 cents per share, in line with 1H23.

Demand

Negotiations with Rio Tinto have been constructive and have re-enforced Contact's long-held view that the New Zealand Aluminium Smelter (NZAS) appears likely to stay. Contact is expecting a new agreement to be long-term, at a fair price materially above the current pricing, and including demand response (mitigating dry-year risk).

"A new long-term agreement would de-risk investment in new renewable generation, contribute to energy security and help to preserve an important export industry, supporting growth and decarbonisation of the New Zealand economy," said Mr Fuge.

Renewable development

Remediation works got underway at Contact's Tauhara geothermal development in November and re-construction of the steam separation plant is near complete. Tauhara is expected to come online in Q3 2024 at the initial design capacity of around 152MW (expecting 174MW from the first planned outage in 2025), and Te Huka 3 is on track to follow in Q4 2024[iv].

"I'm extremely proud of the team that has worked hard over the summer to get Tauhara back into the full swing of commissioning. Both Tauhara and Te Huka will join Contact's renewable generation fleet in 2024 and will add 1.9TWh per annum of baseload renewable output once full capacity is reached."

Drilling, advanced steamfield design and tendering have progressed to prepare for a final investment decision in 2024 on GeoFuture, the replacement of Contact's 65-year-old Wairākei geothermal plant. Final investment decisions are also expected in 2024 on a 100MW North Island battery and the Kōwhai Park solar development.

"These investments in new renewable technologies will contribute to security of supply as New Zealand decarbonises, said Mr Fuge".

Decarbonising the portfolio

Emissions intensity from thermal generation was down ~30% on 1H23 driven largely by the closure of Te Rapa on 30 June 2023. Portfolio decarbonisation is just one aspect of Contact's broader commitment to sustainability, which in December saw Contact win both the Sustainability Leadership award in the Deloitte Top 200 and move into the number one ranking of participating New Zealand companies in the DJSI Asia Pacific.

Contact expects to decommission its combined cycle gas generation plant (TCC) at the end of 2024. A planned outage at TCC was brought forward and completed in December with additional operating hours approved. Contact has also worked to accelerate the return of its spare peaker engine and is expecting GT22 to be in service for winter 2024.

Retail

Retail electricity net price has improved in light of rising energy and pass-through costs. Total connections were up 20,000 on 1H23, driven primarily by broadband. Contact also expanded its telecommunication offering with the introduction of Contact Mobile and boosted its time of use offerings with the introduction of Good Weekends. Contact remains focused on supporting our customers in energy hardship through ERANZ, with offerings like ConnectMe and EnergyMate, and directly with community groups like Women's Refuge and Good Shepherd. Over the last twelve months Contact has provided in excess of one million dollars to directly support customers in energy hardship.

Outlook

Looking ahead, Mr Fuge said the next six months will see Contact reaching significant milestones in the delivery of its strategy to lead the decarbonisation of New Zealand.

“We are excited about the future. We have a clear strategy, strong balance sheet with supportive shareholders and stand ready to deliver on the opportunities in front of us to lead the decarbonisation of the New Zealand economy over the next decade.”

1/ MORE INFORMATION

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2/ CONFERENCE CALL

A conference call to support the interim results announcement will be held at 10am, NZ (New Zealand) time on 19 February 2024.

If you would like to attend the live presentation, please see the details below to view the webcast off your chosen device:

Click here to enter the webcast: LIVE EVENT LINK

Or access this link via our website: https://contact.co.nz/aboutus/investor-centre

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[i] The onerous contract provision for AGS is assessed every 6 months in line with NZ IAS 37. In 1H24 there has been a net provision release resulting in impacts of $29m EBITDAF and $19m profit. Underlying performance excludes these impacts. All variances and commentary reflect movements in underlying performance.

[ii] Refer to slide 38 of the 2024 interim results presentation for a definition and reconciliation between statutory profit and the non-GAAP profit measure earnings before net interest expense, tax, depreciation, amortisation, change in fair value of financial instruments (EBITDAF). Contact has made reclassifications to better align with IFRIC guidance on IFRS 9 resulting in realised gains/losses from market derivatives not in a hedge relationship (includes market making activity) no longer being reported in operating income (EBITDAF). 1H23 figures restated accordingly.

[iii] Refer to Note A3 of the interim financial statements for a definition and reconciliation between cash flow from operating activities and the non-GAAP measure operating free cash flow. Operating free cash flow represents cash available to repay debt, to fund distributions to shareholders and growth capital expenditure.

[iv] Calendar year references.