

29 February 2024

Price (p)	418.90
Shares in issue (m)	385
Mkt Cap (£m)	1,611
Net debt (£m)	1,356
EV (£m)	2,967
BVPS (p)	328.0

Share price performance	
1m	-17.7%
3m	-4.1%
12m	-34.2%
12 m high/low	657/395
Ave daily vol (30D)	887,242

Shareholders	
Invesco Ltd	7.4%
Orbis Allan Gray Ltd	5.0%
Vanguard Group Inc	4.9%
Blackrock Inc	4.4%
Bank Of America	4.1%
Schroders Plc	4.1%
Royal London Asset	3.6%
Jupiter	3.4%
Dimensional Fund	3.0%
Deutsche Bank Ag	2.9%
Total for top 10	42.7%
Free float	99.7%
Source: Bloomberg	28 Feb 24

Interims
Q3

Next news

Business description

Integrated biomass, hydro and storage IPP



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FLEXIBLE ASSETS DRIVE PERFORMANCE

Drax has issued its full year results showing strong performance from the pumped storage and hydro assets and a notably strong recovery in the energy supply business. The company has also set out strong targets for EBITDA post 2027 from its flexible asset portfolio and from pellet sales with more third party sales targeted. The remaining biomass units are currently under consultation for support between 2027 and 2030 when full support for BECCS is likely with recognition of the essential role of these units in contributing to energy security recognised in the consultation paper.

Pumped storage and hydro drive EBITDA

Group adjusted EBITDA before the Energy Generator Levy (EGL) was up 66% to £1,214m against our forecast of £1,158 and a market consensus of £1,177m. The pumped storage and hydro business saw EBITDA rise 35% to £230m driven by another year of strong performance, together with better ancillary services sales. This is despite a fall back from the very high storage spreads seen in 2022 and shows that Drax and Cruachan in particular continues to benefit from pressures on the grid especially due to growing wind penetration. The biomass generation units also delivered growth in EBITDA up 34% to £703m. Pellet production has seen higher volumes but as expected costs were higher in the year resulting in a decline in EBITDA down 34% to £89m. The energy supply for customers business has continued to bounce back from the weaker period caused by the COVID 19 lockdown and saw a very strong performance with EBITDA up 177% to £72m. There was some one-off benefit of electricity sales within this, but we certainly see the customers business as back to being a major contributor.

Prices clear above previous auction level

Contracted sales prices remain firm although the forward curve is now weaker, averaging c.£70/MWh out to winter 2027/28. This primarily impacts the three ROC funded biomass units which are now under consultation for additional support between 2027 and the introduction of BECCS support from 2030. Looking forward the company has set out some strong targets for financial performance in the period beyond 2027 with the flexible pumped storage, hydro and OCGT assets targeting adjusted EBITDA of over £250m. The pellets business is targeting the same amount with a further expansion of third party sales. With a 0.5mt contract in Japan and a 1.0mt LoI in the EU there is clear traction.

£,000 Dec	2022a	2023a	2024e	2025e	2026e	2027e
Sales	8,159	7,842	3,487	3,437	2,968	3,368
EBITDA	709	1,007	881	899	641	904
PBT	405	665	526	545	292	556
EPS	85.1	119.6	90.5	95.2	57.6	108.0
CFPS	25.2	121.7	76.5	91.2	59.8	165.5
DPS	21.0	23.1	25.4	27.9	30.7	33.8
Net Debt (Cash)	1,356	1,186	1,061	867	795	317
Debt/EBITDA	1.9	1.2	1.2	1.0	1.2	0.4
P/E	4.9	3.5	4.6	4.4	7.3	3.9
EV/EBITDA	4.2	2.8	3.0	2.8	3.8	2.1
EV/sales	0.4	0.4	0.9	0.9	1.0	0.9
FCF yield	6.0%	29.1%	18.3%	21.8%	14.3%	39.5%
Div yield	5.0%	5.5%	6.1%	6.7%	7.3%	8.1%

FINANCIAL MODEL

Our forecasts now show the EGL as included in EBITDA and we have also adjusted our FY 28 forecasts and beyond to take account of yesterday's auction success in the Capacity Market together with the expanded capacity on the upgrade of two existing units at Cruachan. We have also increased our long term forecast for the pellets business to model hitting the new EBITDA target (our generation forecasts were already broadly in line with the target). Nearer term we have tempered our power pricing assumptions, notably in FY 25 bringing in line with hedging.

Key Forecast Changes

	2024 Old	2024 Revised	2025 Old	2025 Revised	2026 Old	2026 Revised
EBITDA	1,066	881	1,212	899	601	641
EPS	92.0	90.5	168.6	95.2	55.5	57.6
DPS	25.4	25.4	27.9	27.9	30.7	30.7

Source: Longspur Research

VALUATION IMPACT

The EGL treatment is entirely cosmetic but the other changes are overall positive with the longer term impact of Cruachan and pellets offsetting nearer term pricing impacts. This takes our central case valuation to 1,018p from 906p.

Valuation Scenarios

p per share	Incremental	Cumulative
Existing assets	867	867
Pellet expansion – central case	89	956
CCS on two UK units	62	1018
Cruachan expansion	77	1095
Global BECCS – high case	131	1226

Source: Longspur Research

RISK

The key risks to our valuation are driven by potential policy changes, competition and commodity price risk. Policy risk includes the biomass, BECCS and long duration storage consultations currently underway. We see the signs on these as potentially positive for Drax by creating certainty of income for these activities. Competition always exists but Drax has a strong position both in the UK power market and as a global first mover in BECCS. Commodity price volatility is a big driver of forecasts and there is two-way risk here with positive as well as negative changes possible.

FINANCIAL MODEL

Profit and Loss Account

£,000, Dec	2022a	2023a	2024e	2025e	2026e	2027e
Turnover						
Power Generation	7,358	6,787	4,541	4,377	3,701	3,715
B2B Energy Supply	4,143	4,958	3,015	3,229	3,458	3,703
Pellet production	803	822	774	795	898	1,166
Central, int gp and depn	-4,145	-4,725	-4,843	-4,965	-5,089	-5,216
Total	8,159	7,842	3,487	3,437	2,968	3,368
Operating profit						
Power Generation	679	933	889	905	594	751
B2B Energy Supply	26	72	41	45	49	53
Pellet production	134	89	105	107	139	246
Central, int gp and depn	-369	-312	-422	-444	-434	-438
Operating profit	469	782	613	613	349	612
P&L Account						
Turnover	8,159	7,842	3,487	3,437	2,968	3,368
Operating Profit	469	782	613	613	349	612
Investment income	0	0	0	0	0	0
Net Interest	-64	-116	-88	-69	-57	-56
Pre Tax Profit (UKSIP)	405	665	526	545	292	556
Goodwill amortisation	0	0	0	0	0	0
Exceptional Items	-327	131	0	0	0	0
Pre Tax Profit (IFRS)	78	796	526	545	292	556
Tax	-67	-196	-169	-170	-65	-131
Post tax exceptionals	72	-40	0	0	0	0
Minorities	3	1	0	0	0	0
Net Profit	85	562	356	375	227	425
Dividend	-80	-88	-97	-107	-117	-129
Retained	5	474	259	268	109	296
EBITDA	709	1,007	881	899	641	904
EPS (p) (UKSIP)	85.06	119.56	90.46	95.16	57.62	107.98
EPS (p) (IFRS)	21.25	142.80	90.46	95.16	57.62	107.98
FCFPS (p)	25.20	121.72	76.51	91.25	59.77	165.48
Dividend (p)	21.00	23.10	25.40	27.90	30.70	33.80

Source: Company data, Longspur Research estimates

KEY POINTS

- Pricing results in lower revenue in FY 24 but profitability largely remains
- EGL now reflected in generation profit
- Net interest balanced between cashflow and capex
- Dividend remains covered throughout

Balance Sheet

£,000, Dec	2022a	2023a	2024e	2025e	2026e	2027e
Fixed Asset Cost	4,482	5,022	5,402	5,708	6,037	6,140
Fixed Asset Depreciation	-2,094	-2,319	-2,587	-2,873	-3,165	-3,458
Net Fixed Assets	2,388	2,703	2,815	2,835	2,872	2,682
Goodwill	424	417	417	417	417	417
Other intangibles	142	82	82	82	82	82
Investments	145	131	131	131	131	131
Stock	536	621	276	272	235	267
Trade Debtors	1,227	977	434	428	370	420
Other Debtors	1,294	733	783	833	833	833
Trade Creditors	-1,528	-1,540	-685	-675	-583	-661
Other Creditors <1yr	-1,013	-252	-252	-252	-252	-252
Creditors >1yr	-877	-624	-624	-624	-624	-624
Provisions	-59	-79	-74	-70	-66	-61
Pension	0	0	0	0	0	0
Capital Employed	2,680	3,169	3,303	3,377	3,415	3,232
Cash etc	238	380	489	112	177	657
Borrowing <1yr	67	289	289	289	289	289
Borrowing >1yr	1,527	1,272	1,260	689	683	684
Net Borrowing	1,356	1,186	1,061	867	795	317
Share Capital	48	49	49	49	49	49
Share Premium	433	441	441	441	441	441
Retained Earnings	194	666	925	1,193	1,303	1,599
Other	636	814	814	814	814	814
Minority interest	13	12	12	12	12	12
Capital Employed	2,680	3,169	3,303	3,377	3,415	3,232
Net Assets	1,324	1,983	2,242	2,510	2,619	2,915
Total Equity	1,324	1,983	2,242	2,510	2,619	2,915

Source: Company data, Longspur Research estimates

KEY POINTS

- Working capital remains comfortable across period
- Capex reduces residual cash to FY 25 but recovery thereafter
- Sale of OCGTs reduces net debt further in FY 27

Cashflow

£,000, Dec	2022a	2023a	2024e	2025e	2026e	2027e
Operating profit	469	782	613	613	349	612
Depreciation	239	225	268	286	292	292
Provisions	-29	-4	-4	-4	-4	-4
Other	14	-3	0	0	0	0
Working capital	-374	112	50	-10	98	-81
Operating cash flow	320	1,111	926	885	734	819
Tax paid	-39	-180	-196	-169	-170	-65
Capex (less disposals)	-173	-430	-429	-356	-329	-103
Investments	-8	-22	0	0	0	0
Net interest	-74	-95	-88	-69	-57	-56
Net dividends	-79	-86	-88	-97	-107	-117
Residual cash flow	-52	298	125	194	72	478
Equity issued	1	-141	0	0	0	0
Change in net borrowing	187	-174	-121	-194	-72	-478
Adjustments	-136	18	0	0	0	0
Total financing	52	-298	-121	-194	-72	-478

Source: Company data, Longspur Research estimates

KEY POINTS

- Sale of OCGTs in FY 27 reflected in capex
- Further capex on pellet business expansion

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