

10 February 2025

Price (p)	666.50
Shares in issue (m)	365
Mkt Cap (£m)	2,434
Net debt (£m)	1,183
EV (£m)	3,618
BVPS (p)	330.7

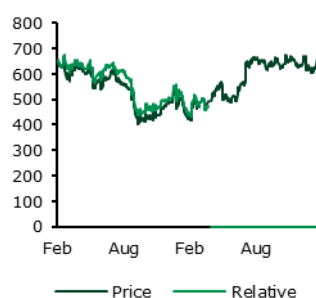
Share price performance	
1m	8.9%
3m	4.4%
12m	51.2%
12 m high/low	692/407
Ave daily vol (30D)	876,260

Shareholders	
Invesco Ltd	6.8%
Vanguard	6.2%
Orbis Allan Gray Ltd	5.4%
Schroders Plc	5.0%
Royal London AM	4.5%
Blackrock Inc	4.5%
Dimensional Fund	4.4%
M&G Plc	4.0%
Franklin Resources I	2.9%
Aviva Plc	2.7%
Total for top 10	46.3%
Free float	99.6%
Source: Bloomberg	10 Feb 24

Next news Finals Q1

Business description

Integrated biomass, hydro and storage IPP



Research

Adam Forsyth

adam.forsyth@longspur.com
+44 (0) 131 357 6770

Max Campbell

max.campbell@longspur.com
+44 (0) 7900 206039

Distribution

Adam Robertson

adam.robertson@longspur.com
+44 (0) 203 940 6602

BRIDGING MECHANISM HEADS OF TERMS

Drax has agreed continued support for the biomass units at the Drax Power Station. This will allow these flexible units to continue to provide essential support to the market as demand for flexibility rises and bridges the period before Drax can add carbon capture to create a negative emission solution, essential to delivering the UK's decarbonisation goals. While the agreed strike price is attractive, the volume is capped and collared between 5TWh and 6TWh, less than the c.14TWh currently generated. However, the units can sell merchant power above this subject to a gain sharing agreement and Drax expects the units to generate an EBITDA of between £100m and £200m. Our central case valuation is trimmed to 988p from 1,023p to reflect the units achieving £167m in FY 28 based on strong pricing in a tight market.

Deal to Support Biomass Units Until 2031

Drax has agreed heads of terms with the UK Government for support for the biomass units from April 2027 until March 2031. The proposed support will follow a contract for difference (CfD) mechanism with an agreed strike price of £113/MWh in 2012 prices and an estimated £170/MWh once you adjust for RPI. Old CfD deal was £100/MWh in 2012 terms. But the collar means they will run two shifting in winter (4TWh) and low running (2TWh) in summer with a total of 6TWh output compared to c. 14TWh today. However, the plant can sell additional merchant generation which could be very profitable at peak times in addition to ancillary service revenues.

Gain Share Envisages Higher Earnings

The potential for higher earnings is recognised in a gain share agreement. If what is effectively the annual cash operating profit (defined as revenue less operating costs less capex) is over £160m then Drax pays away 30% until it reaches £210m when they pay away 60%. Drax has guided to EBITDA from the biomass units of £100-£200m under the new agreement. At the top end this is slightly less than our FY 28 number of £211m. We think there is a good chance of reaching the top end of this range as we think market tightness from FY 27 means higher peak prices making merchant opportunities meaningful and boosting demand for ancillary services.

£,000 Dec	2023a	2024e	2025e	2026e	2027e	2028e
Sales	7,842	5,821	5,290	4,865	4,187	4,184
EBITDA	1,009	1,024	848	651	563	606
PBT	665	686	514	331	234	277
EPS	119.6	118.1	92.4	65.1	46.6	54.7
CFPS	121.7	93.5	78.6	132.4	28.3	87.6
DPS	23.1	26.0	28.6	31.5	34.7	38.2
Net Debt (Cash)	1,183	991	847	492	553	393
Debt/EBITDA	1.2	1.0	1.0	0.8	1.0	0.6
P/E	5.6	5.6	7.2	10.2	14.3	12.2
EV/EBITDA	3.6	3.3	3.9	4.5	5.3	4.7
EV/sales	0.5	0.6	0.7	0.7	0.9	0.9
FCF yield	18.3%	14.0%	11.8%	19.9%	4.2%	13.1%
Div yield	3.5%	3.9%	4.3%	4.7%	5.2%	5.7%

CHANGES TO FORECASTS

We have adjusted our forecasts for FY 27 and beyond, increasing the CfD strike prices and applying it to the four units, while reigning back output in line with the cap on the new agreement. We have also made some other minor changes to our near-term forecasts notably adjusting our depreciation calculation following a review and reflecting higher volumes in the pellets business which is offset by a slightly more conservative view on the hydro business in FY26. The full impact of the new biomass support does not materialise until FY 28 which will see biomass EBITDA reduce to £167m from £211m with some growth further out.

Near Term Forecast Changes

	2024	2024	2025	2025	2026	2026
	Old	Revised	Old	Revised	Old	Revised
EBITDA	1,024	1,024	848	848	628	651
EPS	115.1	118.1	89.6	92.4	57.9	65.1
DPS	26.0	26.0	28.6	28.6	31.5	31.5

Source: Longspur Research

VALUATION IMPACT

We have updated our base case forecast to capture the near-term changes above and our view of the longer-term impact of the new biomass support. Our long-term biomass EBITDA is reduced but overall, the impact is not too great with our DCF based valuation dropping to 988p from 1,023p.

FINANCIAL MODEL

Profit and Loss Account

£,000, Dec	2023a	2024e	2025e	2026e	2027e	2028e
Turnover						
Bioenergy generation	6,432	4,502	4,008	3,558	2,770	2,487
Pumped storage and hydro	355	306	227	247	285	339
B2B Energy Supply	4,958	3,015	3,229	3,458	3,703	3,965
Pellet production	822	872	905	898	958	1,172
Central, int gp and depn	-4,725	-2,874	-3,077	-3,295	-3,529	-3,779
Total turnover	7,842	5,821	5,290	4,865	4,187	4,184
EBITDA						
Bioenergy generation	703	752	622	374	231	154
Pumped storage and hydro	230	181	108	132	152	199
B2B Energy Supply	72	34	45	49	53	56
Pellet production	89	144	156	162	195	256
Central, int gp and depn	-312	-337	-349	-328	-344	-336
Operating profit	782	774	582	388	286	329
P&L Account						
Turnover	7,842	5,821	5,290	4,865	4,187	4,184
Operating Profit	782	774	582	388	286	329
Investment income	0	0	0	0	0	0
Net Interest	-116	-88	-67	-57	-52	-52
Pre Tax Profit (UKSIP)	665	686	514	331	234	277
Goodwill amortisation	0	0	0	0	0	0
Exceptional Items	131	0	0	0	0	0
Pre Tax Profit (IFRS)	796	686	514	331	234	277
Tax	-196	-222	-150	-75	-51	-61
Post tax exceptionals	-40	0	0	0	0	0
Minorities	1	0	0	0	0	0
Net Profit	562	465	364	256	184	216
Dividend	-88	-98	-109	-121	-133	-146
Retained	474	366	255	136	51	69
EBITDA	1,009	1,024	848	651	563	606
EPS (p) (UKSIP)	119.56	118.05	92.43	65.07	46.62	54.75
EPS (p) (IFRS)	142.80	118.05	92.43	65.07	46.62	54.75
FCFPS (p)	121.72	93.49	78.63	132.39	28.31	87.64
Dividend (p)	23.10	26.00	28.60	31.50	34.70	38.20

Source: Company data, Longspur Research estimates

KEY POINTS

- Pricing drops revenue in FY 24 but profitability remains
- Net interest balanced between cashflow and capex
- Higher tax due to windfall tax in FY 23 and FY 24, lower in FY 25 as pricing starts to normalise with FY 27 revised on lower forward curve
- Dividend remains covered throughout

Balance Sheet

£,000, Dec	2023a	2024e	2025e	2026e	2027e	2028e
Fixed Asset Cost	5,022	5,407	5,733	5,776	6,165	6,348
Fixed Asset Depreciation	-2,322	-2,572	-2,838	-3,101	-3,378	-3,655
Net Fixed Assets	2,701	2,835	2,896	2,675	2,787	2,692
Goodwill	417	417	417	417	417	417
Other intangibles	82	82	82	82	82	82
Investments	131	131	131	131	131	131
Stock	621	461	419	385	331	331
Trade Debtors	977	725	659	606	522	521
Other Debtors	733	783	833	833	833	833
Trade Creditors	-1,540	-1,143	-1,039	-955	-822	-821
Other Creditors <1yr	-252	-252	-252	-252	-252	-252
Creditors >1yr	-624	-624	-624	-624	-624	-624
Provisions	-79	-74	-70	-66	-61	-57
Pension	0	0	0	0	0	0
Capital Employed	3,166	3,341	3,451	3,232	3,344	3,253
Cash etc	380	559	130	492	431	587
Borrowing <1yr	289	289	289	289	289	289
Borrowing >1yr	1,272	1,261	688	695	694	691
Net Borrowing	1,183	991	847	492	553	393
Share Capital	49	49	49	49	49	49
Share Premium	441	441	441	441	441	441
Retained Earnings	666	1,033	1,288	1,423	1,474	1,543
Other	814	814	814	814	814	814
Minority interest	12	12	12	12	12	12
Capital Employed	3,166	3,341	3,451	3,232	3,344	3,253
Net Assets	1,983	2,349	2,604	2,740	2,791	2,860
Total Equity	1,983	2,349	2,604	2,740	2,791	2,860

Source: Company data, Longspur Research estimates

KEY POINTS

- Working capital remains comfortable across period
- Goodwill increases in FY 21 with pellet acquisition
- Net debt rises with acquisition and then drops with cashflow
- Sale of OCGTs reduces net debt further in FY 26

Cashflow

£,000, Dec	2023a	2024e	2025e	2026e	2027e	2028e
Operating profit	782	774	582	388	286	329
Depreciation	228	250	266	263	277	277
Provisions	-4	-4	-4	-4	-4	-4
Other	-6	0	0	0	0	0
Working capital	112	-21	64	67	17	-24
Operating cash flow	1,111	999	908	714	576	578
Tax paid	-180	-196	-222	-150	-75	-51
Capex (less disposals)	-430	-435	-376	-42	-389	-183
Investments	-22	0	0	0	0	0
Net interest	-95	-88	-67	-57	-52	-52
Net dividends	-86	-88	-98	-109	-121	-133
Residual cash flow	298	192	144	355	-61	160
Equity issued	-141	0	0	0	0	0
Change in net borrowing	-174	-191	-144	-355	61	-160
Adjustments	18	0	0	0	0	0
Total financing	-298	-191	-144	-355	61	-160

Source: Company data, Longspur Research estimates

KEY POINTS

- Working capital negative in FY 23 but some reversal further out
- Capex slightly down in FY 20 as signalled by company
- Sale of OCGTs in FY 26 reflected in capex
- Further capex on pellet business expansion
- Windfall tax outflows in FY 24 and FY 25

Equity Research Disclaimers

Non-independent research

This report has been commissioned by the issuer and prepared and issued by Longspur Research, in consideration of a fee payable by the issuer. It is Non-Independent Research and a marketing communication under the FCA's Conduct of Business Rules. It is not Investment Research as defined by the FCA's Rules and has not been prepared in accordance with legal requirements designed to promote Investment Research independence and is also not subject to any legal prohibition on dealing ahead of the dissemination of Investment Research. We do not hold out this research material as an impartial assessment of the values or prospects of the company.

Notwithstanding this, Longspur Research has procedures in place to manage conflicts of interest which may arise in the production of Research, which include measures designed to prevent dealing ahead of Research.

Minor non-monetary benefit

This Research is a minor non-monetary benefit as set out in Article 12 (3) of the Commission Delegated Directive (EU) 2017/593. The Research is paid for by a corporate client of Longspur Research) and can be distributed free of charge.

Copyright

Copyright 2019 Longspur Capital. This Communication is being supplied to you solely for your information and may not be reproduced, redistributed or passed to any other person or published in whole or in part for any purpose without the prior consent of Longspur Research. Additional information is available upon request.

Regulated by the FCA

Longspur Research Longspur Research is a trading name of Longspur Capital Limited, authorised and regulated by the Financial Conduct Authority (FRN 839313). Longspur Capital is registered in England, company number 11011596.

No warranty as to accuracy or completeness

All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report and have not sought for this information to be independently verified.

Opinions contained in this report represent those of the Longspur Research analyst at the time of publication. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations. No representation or warranty is made as to the accuracy or completeness of the information included in this Research and opinions expressed may be subject to change without notice. Longspur Research does not undertake any obligation to revise such forward-looking statements to reflect the occurrence of unanticipated events or changed circumstances.

This report is solely for informational purposes and is not intended to be used as the primary basis of investment decisions. Longspur Research has not assessed the suitability of the subject company for any person. Because of individual client requirements, it is not, and it should not be construed as, advice designed to meet the particular investment needs of any investor. This report is not an offer or the solicitation of an offer to sell or buy any security.

Longspur Research has no authority whatsoever to make any representation or warranty on behalf of any of its corporate finance clients, their shareholders or any other persons similarly connected.

Information purposes only

This Research is designed for information purposes only. Neither the information included herein, nor any opinion expressed, are deemed to constitute an offer or invitation to make an offer, to buy or sell any financial instrument or any option, futures or other related derivatives. Investors should consider this Research as only a single factor in making any investment decision. This Research is published on the basis that Longspur Research is not acting in a fiduciary capacity. It is also published without regard to the recipient's specific investment objectives of recipients and is not a personal recommendation. The value of any financial instrument, or the income derived from it, may fluctuate.

Take own advice

The information that we provide should not be construed in any manner whatsoever as, personalised advice. Also, the information provided by us should not be construed by any subscriber or prospective subscriber as Longspur Research's solicitation to effect, or attempt to effect, any transaction in a security. The securities described in the report may not be eligible for sale in all jurisdictions or to certain categories of investors.

Longspur Research may have a position

At any time, Longspur Research or its employees may have a position in the securities and derivatives (including options or warrants) of the companies researched and this may impair the objectivity of this report. Longspur Research may act as principal in transactions in any relevant securities, or provide advisory or other services to any issuer of relevant securities or any company connected therewith.

Only for eligible counterparties and professional clients. Not for retail

This Communication is being distributed in the United Kingdom and is directed only at (i) persons having professional experience in matters relating to investments, i.e. investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "FPO") (ii) high net-worth companies, unincorporated associations or other bodies within the meaning of Article 49 of the FPO and (iii) persons to whom it is otherwise lawful to distribute it. The investment or investment activity to which this document relates is available only to such persons. It is not intended that this document be distributed or passed on, directly or indirectly, to any other class of persons and in any event and under no circumstances should persons of any other description rely on or act upon the contents of this document (nor will such persons be able to purchase shares in the placing).

Distribution in the US

Longspur Capital Limited (Longspur) is not registered as a broker-dealer with the U S Securities and Exchange Commission, and it and its analysts are not subject to SEC rules on securities analysts' certification as to the currency of their views reflected in the research report. Longspur is not a member of the Financial Industry Regulatory Authority. It and its securities analysts are not subject to FINRA's rules on Communications with the Public and Research Analysts and Research Reports and the attendant requirements for fairness, balance and disclosure of potential conflicts of interest. This research report is intended for distribution in the United States solely to "major U.S. institutional investors" in reliance on the exemption from broker-dealer registration provided by Rule 15a-6 under the United States Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major U.S. institutional investor that receives a copy of such a report by its acceptance thereof represents and agrees that it shall not distribute or provide copies to any other person.

MAR Formal disclosure of conflicts

This report has been commissioned by the issuer and prepared and issued by Longspur Research in consideration of a fee payable by the issuer. Fees are paid upfront in cash without recourse. A draft has been sent to the issuer for comment and it has been appropriately amended.

Neither Longspur Research nor the analyst have any holdings in the issuer. Longspur Research may from time to time provide the issuer with of consultancy advice.

See webpage for additional MAR disclosures.

GDPR

For further information about the way we use your personal data please see our Third Party Privacy Notice at <https://longspur.com/privacypolicy.html> or at such other place as we may provide notice of from time to time. We may contact you about industry news, offers and information relating to our products and services which we think would be of interest to you. You can tell us you do not wish to receive such communications by emailing michelle.elsmore@longspur.com.

Laven Consulting Limited (incorporated and registered in England and Wales with company number 10918441) ("Laven") acting through its Paris branch located at 128 Rue La Boetie 75008, Paris, France as designated representative of Two Sigma Investments LP ("Company"), in accordance with art. 27 of the General Data Protection Regulation (the Regulation (EU) 2016/679) ("GDPR"). The Company has mandated Laven to be the European representative of the Company with regards to any communications or enquiry from the Supervisory Authority and/or data subjects on all issues related to the processing of personal data. Please contact Laven on info@eurorep.eu; the postal address is FAO EuroRep, c/o Laven Partners, 128 Rue La Boetie 75008, Paris, France. When contacting Laven regarding the Company please quote the name of the company and the Ref: 0085.

Severability Applicable law

Exclusion of Liability: To the fullest extent allowed by law, Longspur Research shall not be liable for any direct, indirect or consequential losses, loss of profits, damages, costs or expenses incurred or suffered by you arising out or in connection with the access to, use of or reliance on any information contained on this note.

Longspur Research
10 Castle Street,
Edinburgh. EH2 3AT
UK

Longspur Capital
20 North Audley Street,
London. W1K 6WE
UK