

12 Nov 2024

<b>Price (p)</b>	<b>642.00</b>
Shares in issue (m)	375
Mkt Cap (£m)	2,411
Net debt (£m)	1,183
EV (£m)	3,594
BVPS (p)	330.7

#### Share price performance

1m	0.9%
3m	0.2%
12m	52.0%
12 m high/low	675/407
Ave daily vol (30D)	690,263

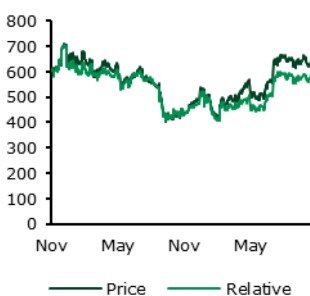
#### Shareholders

Invesco Ltd	6.9%
Vanguard Group	6.2%
Orbis Allan Gray Ltd	5.4%
Schroders Plc	5.0%
Royal London Asset	4.5%
Blackrock Inc	4.5%
Dimensional Fund	4.4%
M&G PLC	4.0%
Franklin Resources	2.9%
Aviva Plc	2.7%
Total for top 10	46.4%
Free float	99.6%
Source: Bloomberg	11 Nov 24

**Next news** Finals Q1

#### Business description

Integrated biomass, hydro and storage IPP



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## BENEFITING FROM DUNKELFLAUTE

Drax's trading update signals better performance across the UK generation portfolio as recent low wind drives better volumes and price for flexible generation. This is a strong confirmation of the recent NESO report on achieving clean power by 2030 which highlights flexible generation including biomass and BECCS as essential to balancing more intermittent renewables as these come onto the grid. We have adjusted our forecasts to reflect this and also better performance in the pellets business.

### Low Wind Drives Flexible Generation

Drax has issued a trading update with the company signalling that the full year will be at the top end of analysts' expectations. Key to this has been recent low wind in the UK with wind developers we have spoken to seeing wind output below budget for each of September, October and November to date. This has benefited all Drax's flexible capacity at both the pumped storage and hydro business but also the biomass generation business.

### Pellet Production Seeing Better Margins

Drax has also see pellet production increase output and improve margin with the company remaining on target for EBITDA of £250m in 2027. Third party sales have grown and sustainable aviation fuel interest is growing. A sales pipeline is developing in North America, Asia and Europe. The company is now well hedged with both 2024 and 2025 effectively fully hedged. We have already factored in lower prices for 2026 in line with the current forward curve but Drax is building resilience to further drops with 6.8 TWh now hedged.

### Positive Outcome Offsets Some Minor Negatives

The three OCGT projects are seeing some delays in completing grid connections and are now expected to commission in Q1 25 rather than this quarter. The impact is minimal other than some lost capacity market income. This together with the £25m Ofgem payment and a £7m cost associated with historic overbilling at Opus Energy are more than offset by the better volumes. We have adjusted our forecasts to account for these including stronger volumes in generation resulting in an increase in EBITDA in FY 24 to £1,024m. We have also factored in better margins in the pellet business further out. Our central case valuation increases to 1,023p from 984p.

£,000 Dec	2022a	2023a	2024e	2025e	2026e	2027e
Sales	8,159	7,842	5,747	5,235	4,865	4,649
EBITDA	709	1,009	1,024	848	628	542
PBT	405	665	672	499	294	197
EPS	85.1	119.6	115.3	89.6	57.9	39.6
CFPS	25.2	121.7	94.6	79.5	128.9	24.3
DPS	21.0	23.1	26.0	28.6	31.5	34.7
Net Debt (Cash)	1,356	1,183	987	839	497	574
Debt/EBITDA	1.9	1.2	1.0	1.0	0.8	1.1
P/E	7.5	5.4	5.6	7.2	11.1	16.2
EV/EBITDA	5.3	3.6	3.3	3.8	4.6	5.5
EV/sales	0.5	0.5	0.7	0.7	0.8	0.8
FCF yield	3.9%	19.0%	14.7%	12.4%	20.1%	3.8%
Div yield	3.3%	3.6%	4.0%	4.5%	4.9%	5.4%

## FINANCIAL MODEL

### Profit and Loss Account

£,000, Dec	2022a	2023a	2024e	2025e	2026e	2027e
<b>Turnover</b>						
Bioenergy generation	7,074	6,432	4,449	4,067	3,558	3,247
Pumped storage and hydro	284	355	383	221	247	270
B2B Energy Supply	4,143	4,958	3,015	3,229	3,458	3,703
Pellet production	803	822	774	795	898	958
Central, int gp and depn	-4,145	-4,725	-2,874	-3,077	-3,295	-3,529
Total turnover	8,159	7,842	5,747	5,235	4,865	4,649
<b>EBITDA</b>						
Bioenergy generation	508	703	714	682	374	241
Pumped storage and hydro	171	230	258	102	132	143
B2B Energy Supply	26	72	34	45	49	53
Pellet production	134	89	105	108	145	178
Central, int gp and depn	-369	-312	-352	-370	-349	-366
Operating profit	469	782	759	567	350	249
<b>P&amp;L Account</b>						
Turnover	8,159	7,842	5,747	5,235	4,865	4,649
Operating Profit	469	782	759	567	350	249
Investment income	0	0	0	0	0	0
Net Interest	-64	-116	-88	-67	-57	-52
Pre Tax Profit (UKSIP)	405	665	672	499	294	197
Goodwill amortisation	0	0	0	0	0	0
Exceptional Items	-327	131	0	0	0	0
Pre Tax Profit (IFRS)	78	796	672	499	294	197
Tax	-67	-196	-218	-147	-65	-41
Post tax exceptionals	72	-40	0	0	0	0
Minorities	3	1	0	0	0	0
Net Profit	85	562	454	353	228	156
Dividend	-80	-88	-98	-109	-121	-133
Retained	5	474	355	243	108	23
EBITDA	709	1,009	1,024	848	628	542
EPS (p) (UKSIP)	85.06	119.56	115.25	89.57	57.95	39.64
EPS (p) (IFRS)	21.25	142.80	115.25	89.57	57.95	39.64
FCFPS (p)	25.20	121.72	94.64	79.52	128.93	24.35
Dividend (p)	21.00	23.10	26.00	28.60	31.50	34.70

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	2022a	2023a	2024e	2025e	2026e	2027e
Fixed Asset Cost	4,482	5,022	5,407	5,733	5,776	6,165
Fixed Asset Depreciation	-2,094	-2,322	-2,587	-2,868	-3,146	-3,438
Net Fixed Assets	2,388	2,701	2,820	2,866	2,630	2,727
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	455	414	385	368
Trade Debtors	1,227	977	716	652	606	579
Other Debtors	1,294	733	783	833	833	833
Trade Creditors	-1,528	-1,540	-1,128	-1,028	-955	-913
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	3,166	3,325	3,421	3,187	3,287
Cash etc	238	380	564	137	486	417
Borrowing <1yr	67	289	289	289	289	289
Borrowing >1yr	1,527	1,272	1,261	687	694	702
Net Borrowing	1,356	1,183	987	839	497	574
Share Capital	48	49	49	49	49	49
Share Premium	433	441	441	441	441	441
Retained Earnings	194	666	1,022	1,265	1,373	1,396
Other	636	814	814	814	814	814
Minority interest	13	12	12	12	12	12
Capital Employed	2,680	3,166	3,325	3,421	3,187	3,287
Net Assets	1,324	1,983	2,338	2,582	2,689	2,713
Total Equity	1,324	1,983	2,338	2,582	2,689	2,713

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	2022a	2023a	2024e	2025e	2026e	2027e
Operating profit	469	782	759	567	350	249
Depreciation	239	228	265	281	278	292
Provisions	-29	-4	-4	-4	-4	-4
Other	14	-6	0	0	0	0
Working capital	-374	112	-17	64	73	13
Operating cash flow	320	1,111	1,003	907	696	551
Tax paid	-39	-180	-196	-218	-147	-65
Capex (less disposals)	-173	-430	-435	-376	-42	-389
Investments	-8	-22	0	0	0	0
Net interest	-74	-95	-88	-67	-57	-52
Net dividends	-79	-86	-88	-98	-109	-121
Residual cash flow	-52	298	197	147	342	-77
Equity issued	1	-141	0	0	0	0
Change in net borrowing	187	-174	-195	-147	-342	77
Adjustments	-136	18	0	0	0	0
Total financing	52	-298	-195	-147	-342	77

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

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