

20 Dec. 2023

Price (p)	472.10
Shares in issue (m)	385
Mkt Cap (£m)	1,816
Net debt (£m)	1,356
EV (£m)	3,172
BVPS (p)	328.0

Share price performance

1m	4.9%
3m	-6.6%
12m	-28.6%
12 m high/low	729/395
Ave daily vol (30D)	1,106,233

Shareholders

Invesco Ltd	7.2%
Vanguard Group	7.0%
Blackrock Inc	4.3%
Orbis Allan Gray Ltd	4.3%
Schroders Plc	4.1%
Royal London Asset	3.6%
Jupiter	3.4%
Dimensional	3.3%
Emirate Abu Dhabi	2.7%
Aviva Plc	2.6%
Total for top 10	42.5%
Free float	99.7%
Source: Bloomberg	20 Dec 23

Next news Finals Q1

Business description

Integrated biomass, hydro and storage IPP



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GOVERNMENT SUPPORT FOR CCUS

Today's statement on Carbon Capture Utilisation and Storage confirms UK government support for the technology generally and represents progress towards support for Bioenergy Carbon Capture and Storage at Drax. In particular we see the recognition of world-leading economic benefits in the long term vision paper as important in building long term support for BECCS at Drax.

Update Statement Represents Progress

The UK Government has issued an update statement on Carbon Capture Utilisation and Storage (CCUS). This confirms that agreement has been reached on key commercial principles with the East Coast Cluster, one of the two Track 1 clusters and one option for Drax to find support for its Bioenergy, Carbon Capture and Storage (BECCS) project. The Government has also said it will move forward with Track 2 clusters including the Viking transport and storage (T&S) system which also provides a support route for Drax. In early 2024, it will ask the Track 2 clusters to submit plans for assessment of an anchor phase of initial capture projects, provisionally targeting development in 2028-29.

Parallel Approach Follows September Update

The announcement represents progress in our view and follows the update given in September when the Department of Energy Security and Net Zero (DESNZ) set out a draft expectation that it would run the Tracks 1 extension and Track 2 processes in parallel. It is now clear that this is progressing giving options for supporting long term development of the Drax BECCs opportunity. There has been no update on bridging support between the end of the current renewable schemes in 2027 and the commissioning of BECCS at Drax but we expect this in 2024 given the overall support evident in today's statement.

Vision Highlights Economic Benefits

The Government has also released a vision paper on CCUS which shows strong commitment to what is an essential component in delivering negative emission technologies such as BECCS, including consultation on their inclusion in the UK Emissions Trading Scheme. Importantly, the vision document recognises the unique geology available in the UK continental shelf allowing the UK to "lead the world in capturing and permanently storing carbon". We see this as an important recognition of the economic opportunity beyond the key environmental benefits of CCUS.

£,000 Dec	2021a	2022a	2023e	2024e	2025e	2026e
Sales	5,174	8,159	5,802	6,046	6,075	5,502
EBITDA	370	709	1,158	1,181	1,246	699
PBT	101	405	811	831	922	391
EPS	22.3	85.1	111.5	111.7	174.8	75.3
CFPS	34.7	25.2	64.0	245.3	218.1	118.9
DPS	18.8	21.0	23.1	25.4	27.9	30.7
Net Debt (Cash)	1,170	1,356	1,273	472	-240	-563
Debt/EBITDA	3.2	1.9	1.1	0.4	-0.2	-0.8
P/E	19.9	5.2	4.0	4.0	2.5	5.9
EV/EBITDA	7.8	4.3	2.6	1.8	1.2	1.6
EV/sales	0.6	0.4	0.5	0.5	0.5	0.5
FCF yield	7.8%	5.7%	14.4%	55.3%	49.2%	26.8%
Div yield	4.2%	4.7%	5.2%	5.7%	6.3%	6.9%

FINANCIAL MODEL

Profit and Loss Account

£,000, Dec	2021a	2022a	2023e	2024e	2025e	2026e
Turnover						
Power Generation	4,682	7,358	4,657	4,682	4,586	3,862
B2B Energy Supply	2,360	4,143	2,791	2,989	3,201	3,428
Pellet production	450	803	789	871	846	834
Central, int gp and depn	-2,318	-4,145	-2,435	-2,496	-2,558	-2,622
Total	5,174	8,159	5,802	6,046	6,075	5,502
Operating profit						
Power Generation	352	679	875	831	920	384
B2B Energy Supply	6	26	13	15	17	19
Pellet production	86	134	391	460	437	428
Central, int gp and depn	-273	-369	-376	-382	-388	-394
Operating profit	170	469	904	924	986	437
P&L Account	2021a	2022a	2023e	2024e	2025e	2026e
Turnover	5,174	8,159	5,802	6,046	6,075	5,502
Operating Profit	170	469	904	924	986	437
Investment income	0	0	0	0	0	0
Net Interest	-70	-64	-93	-92	-64	-46
Pre Tax Profit (UKSIP)	101	405	811	831	922	391
Goodwill amortisation	0	0	0	0	0	0
Exceptional Items	21	-327	0	0	0	0
Pre Tax Profit (IFRS)	122	78	811	831	922	391
Tax	-12	-67	-364	-384	-223	-90
Post tax exceptionals	-30	72	0	0	0	0
Minorities	1	3	0	0	0	0
Net Profit	80	85	447	447	700	301
Dividend	-71	-80	-89	-98	-108	-118
Retained	9	5	358	349	592	183
EBITDA	370	709	1,158	1,181	1,246	699
EPS (p) (UKSIP)	22.31	85.06	111.54	111.70	174.75	75.28
EPS (p) (IFRS)	20.01	21.25	111.54	111.70	174.75	75.28
FCFPS (p)	34.66	25.20	63.96	245.31	218.14	118.86
Dividend (p)	18.80	21.00	23.10	25.40	27.90	30.70

Source: Company data, Longspur Research estimates

KEY POINTS

- Flattish EBITDA in FY 21 reflects loss of income from gas assets now sold
- Strong recovery in FY 22 as new pellet income contributes for a full year
- FY22 also benefits from stronger generation market
- COVID 19 impact on customers' business in FY 20 but recovery in FY 21 and FY 22
- Overall recovery sustained in FY 23 with stronger pricing
- 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
- Dividend remains covered throughout

Balance Sheet

£,000, Dec	2021a	2022a	2023e	2024e	2025e	2026e
Fixed Asset Cost	4,166	4,482	5,079	4,878	5,017	5,156
Fixed Asset Depreciation	-1,855	-2,094	-2,349	-2,606	-2,865	-3,128
Net Fixed Assets	2,311	2,388	2,730	2,272	2,151	2,028
Goodwill	416	424	424	424	424	424
Other intangibles	189	142	142	142	142	142
Investments	125	145	145	145	145	145
Stock	501	536	381	397	399	361
Trade Debtors	642	1,227	873	909	914	827
Other Debtors	1,324	1,294	1,294	1,294	1,294	1,294
Trade Creditors	-1,211	-1,528	-1,087	-1,132	-1,138	-1,030
Other Creditors <1yr	-966	-1,013	-1,013	-1,013	-1,013	-1,013
Creditors >1yr	-767	-877	-877	-877	-877	-877
Provisions	-86	-59	-59	-59	-59	-59
Pension	0	0	0	0	0	0
Capital Employed	2,476	2,680	2,955	2,503	2,384	2,244
Cash etc	317	238	339	1,160	1,323	1,662
Borrowing <1yr	56	67	67	67	67	67
Borrowing >1yr	1,431	1,527	1,545	1,565	1,016	1,032
Net Borrowing	1,170	1,356	1,273	472	-240	-563
Share Capital	48	48	48	48	48	48
Share Premium	432	433	433	433	433	433
Retained Earnings	198	194	552	901	1,493	1,676
Other	607	636	636	636	636	636
Minority interest	22	13	13	13	13	13
Capital Employed	2,476	2,680	2,955	2,503	2,384	2,244
Net Assets	1,307	1,324	1,682	2,031	2,624	2,807
Total Equity	1,307	1,324	1,682	2,031	2,624	2,807

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

Cashflow

£,000, Dec	2021a	2022a	2023e	2024e	2025e	2026e
Operating profit	170	469	904	924	986	437
Depreciation	199	239	254	257	260	262
Provisions	-4	-29	0	0	0	0
Other	-42	14	0	0	0	0
Working capital	32	-374	-238	-36	151	139
Operating cash flow	355	320	920	1,145	1,397	838
Tax paid	12	-39	-67	-364	-384	-223
Capex (less disposals)	-209	-173	-597	202	-139	-139
Investments	-20	-8	0	0	0	0
Net interest	-60	-74	-93	-92	-64	-46
Net dividends	-71	-79	-80	-89	-98	-108
Residual cash flow	7	-52	83	801	712	323
Equity issued	2	1	0	0	0	0
Change in net borrowing	363	187	-83	-801	-712	-323
Adjustments	-359	-136	0	0	0	0
Total financing	7	52	-83	-801	-712	-323

Source: Company data, Longspur Research estimates

KEY POINTS

- Working capital modestly negative assuming no change in payment timings
- Capex slightly down in FY 20 as signalled by company
- Windfall tax outflows in FY 24 and FY 25
- Net investment outflow in FY 21 as gas asset sales offset by pellet acquisition
- Cash positive from FY 22
- Further capex on pellet business expansion

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