

8 October 2024

<b>Price (p)</b>	<b>642.00</b>
Shares in issue (m)	381
Mkt Cap (£m)	2,446
Net debt (£m)	1,183
EV (£m)	3,629
BVPS (p)	330.7

#### Share price performance

1m	-1.6%
3m	18.8%
12m	55.1%
12 m high/low	675/400
Ave daily vol (30D)	822,291

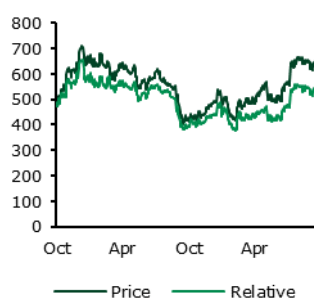
#### Shareholders

Invesco Ltd	7.4%
Orbis Allan Gray Ltd	5.0%
Vanguard Group	4.9%
Blackrock Inc	4.4%
Bank Of America	4.3%
Schroders Plc	4.1%
Royal London	3.6%
Jupiter	3.4%
M&G Plc	3.1%
Dimensional	3.0%
Total for top 10	43.1%
Free float	99.7%
Source: Bloomberg	24 Sep 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

## A KEY PIECE OF THE CCS JIGSAW

While the UK Government's confirmation of funding for CCS (Track 1) was positive it is even better to see rapid progress on the ground with signs that key projects are already moving towards debt funding. For Drax the potential funding of a storage and transport pipeline fills in a key piece of the jigsaw allowing progress to be made on the two biomass with carbon capture installations at the Drax power station.

### Moving on Debt for Carbon Storage and Transport

Last week's UK Government confirmation of funding for Track 1 carbon capture and storage (CCS) projects was positive for Drax but is only meaningful if it leads to actual investment. This morning Infralogic is running a story suggesting that debt packages are close to being signed for two CCS projects. Critically, the Northern Endurance Partnership, a consortium owned by bp, Equinor and Total Energies is said to be seeking £3bn of debt to finance the construction of a carbon storage and transport pipeline that will cover both the Teeside and Humber cluster areas. The lender group is said to compose 15 banks each contributing £200m to £250m.

### Fills a Key Piece of the Jigsaw

We see this as positive for Drax which is working towards government support for biomass with carbon capture on two units at the Drax power station site. Clearly having a transport and storage solution allows CO<sub>2</sub> captured at Drax to be permanent sequestered resulting in a genuine carbon dioxide removal (CDR). There is now consensus on the necessity of CDR to reach net zero from the Intergovernmental Panel on Climate Change, the International Energy Agency and the National Academies of Sciences, Engineering, and Medicine. Drax can make an important contribution to both UK and global decarbonization.

### Bringing Forecasts in Line with Forward Pricing

We are also taking an opportunity to review our power price assumptions and have pulled back FY 27 forecasts given a forward curve now below £70/MWh. This removes an anomalous FY 27 EBTIDA peak of £836m which now drops to £529m before normalising in FY 28 which remains unchanged at £637m. Our central case valuation goes to 984p from 1,031p.

£,000 Dec	2022a	2023a	2024e	2025e	2026e	2027e
Sales	8,159	7,842	5,613	5,214	4,809	4,574
EBITDA	709	1,009	965	811	615	529
PBT	405	665	609	458	280	184
EPS	85.1	119.6	103.3	81.7	55.3	37.1
CFPS	25.2	121.7	85.1	77.9	126.5	21.9
DPS	21.0	23.1	26.0	28.6	31.5	34.7
Net Debt (Cash)	1,356	1,183	1,024	884	552	639
Debt/EBITDA	1.9	1.2	1.1	1.1	0.9	1.2
P/E	7.5	5.4	6.2	7.9	11.6	17.3
EV/EBITDA	5.4	3.6	3.6	4.1	4.9	5.8
EV/sales	0.5	0.5	0.7	0.7	0.8	0.8
FCF yield	3.9%	19.0%	13.3%	12.1%	19.7%	3.4%
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	4,379	4,046	3,502	3,174
Pumped storage and hydro	284	355	319	221	247	279
B2B Energy Supply	4,143	4,958	3,015	3,229	3,458	3,703
Pellet production	803	822	774	795	898	947
Central, int gp and depn	-4,145	-4,725	-2,874	-3,077	-3,295	-3,529
Total turnover	8,159	7,842	5,613	5,214	4,809	4,574
<b>EBITDA</b>						
Bioenergy generation	508	703	712	646	366	235
Pumped storage and hydro	171	230	194	102	132	153
B2B Energy Supply	26	72	41	45	49	53
Pellet production	134	89	105	107	139	161
Central, int gp and depn	-369	-312	-355	-375	-349	-366
Operating profit	469	782	697	526	337	236
<b>P&amp;L Account</b>						
Turnover	8,159	7,842	5,613	5,214	4,809	4,574
Operating Profit	469	782	697	526	337	236
Investment income	0	0	0	0	0	0
Net Interest	-64	-116	-88	-68	-57	-52
Pre-Tax Profit (UKSIP)	405	665	609	458	280	184
Goodwill amortisation	0	0	0	0	0	0
Exceptional Items	-327	131	0	0	0	0
Pre-Tax Profit (IFRS)	78	796	609	458	280	184
Tax	-67	-196	-202	-136	-62	-38
Post tax exceptionals	72	-40	0	0	0	0
Minorities	3	1	0	0	0	0
Net Profit	85	562	407	321	218	146
Dividend	-80	-88	-98	-109	-121	-133
Retained	5	474	309	212	97	13
EBITDA	709	1,009	965	811	615	529
EPS (p) (UKSIP)	85.06	119.56	103.33	81.65	55.31	37.10
EPS (p) (IFRS)	21.25	142.80	103.33	81.65	55.31	37.10
FCFPS (p)	25.20	121.72	85.07	77.93	126.45	21.93
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	5,402	5,708	5,750	6,140
Fixed Asset Depreciation	-2,094	-2,322	-2,590	-2,876	-3,154	-3,446
Net Fixed Assets	2,388	2,701	2,812	2,832	2,596	2,694
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	444	413	381	362
Trade Debtors	1,227	977	699	649	599	570
Other Debtors	1,294	733	783	833	833	833
Trade Creditors	-1,528	-1,540	-1,102	-1,024	-944	-898
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	3,316	3,387	3,153	3,253
Cash etc	238	380	523	95	420	341
Borrowing <1yr	67	289	289	289	289	289
Borrowing >1yr	1,527	1,272	1,258	689	683	691
Net Borrowing	1,356	1,183	1,024	884	552	639
Share Capital	48	49	49	49	49	49
Share Premium	433	441	441	441	441	441
Retained Earnings	194	666	975	1,187	1,284	1,298
Other	636	814	814	814	814	814
Minority interest	13	12	12	12	12	12
Capital Employed	2,680	3,166	3,316	3,387	3,153	3,253
Net Assets	1,324	1,983	2,292	2,504	2,601	2,614
Total Equity	1,324	1,983	2,292	2,504	2,601	2,614

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	697	526	337	236
Depreciation	239	228	268	286	278	292
Provisions	-29	-4	-4	-4	-4	-4
Other	14	-6	0	0	0	0
Working capital	-374	112	0	58	66	14
Operating cash flow	320	1,111	960	865	676	538
Tax paid	-39	-180	-196	-202	-136	-62
Capex (less disposals)	-173	-430	-429	-356	-42	-389
Investments	-8	-22	0	0	0	0
Net interest	-74	-95	-88	-68	-57	-52
Net dividends	-79	-86	-88	-98	-109	-121
Residual cash flow	-52	298	159	141	332	-86
Equity issued	1	-141	0	0	0	0
Change in net borrowing	187	-174	-157	-141	-332	86
Adjustments	-136	18	0	0	0	0
Total financing	52	-298	-157	-141	-332	86

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](mailto: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](mailto: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