

11 February 2021

Russell Wright | T+02 8288 6900 | E:russell@barclaypearce.com.au

AGL Energy Limited

Utilities

HOLD

AGL A\$11.24 TARGET PRICE A\$11.20

AGL Energy Limited (AGL) is an integrated energy company and owner, operator and developer of renewable energy generation in Australia. It has a diverse power generation portfolio including base, peaking and intermediate generation plants, spread across traditional thermal generation as well as renewable sources including hydro, wind, landfill gas, solar and biomass.

Company Data

Number of shares	623.0 M
Market Capitalisation	\$6,953.1M
Free float (%)	99.4
12-month high/low	\$21.13/\$10.93
Average Daily Turnover (\$m)	85.69
% S&P/ASX200	0.36%
DDM Ranking	325
% All Ordinaries	0.31%
GICS Industry Group	Utilities

Source: FactSet, Barclay Pearce Capital

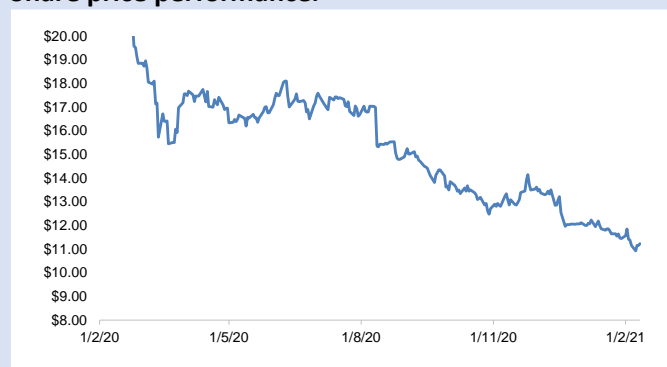
Earnings Summary (AUD)

Year end June	2020A	2021F	2022F	2023F
Revenue (\$M)	12,160.0	11,626.4	11,433.5	11,307.6
EBITDA (\$M)	2,070.0	1,737.7	1,479.1	1,414.6
Reported NPAT (\$M)	1,015.0	522.0	360.8	359.7
Adjusted NPAT (\$M)	816.0	542.2	372.4	357.0
Reported EPS (c)	158.4	86.6	56.7	52.5
Adjusted EPS (c - FD)	127.4	85.4	59.5	61.2
Adjusted EPS growth (%)	-19.7	-33.0	-30.3	2.9
Adjusted P/E (x)	8.8	13.1	18.7	18.2
Dividend (c/sh)	98.0	84.4	58.2	47.7
Gross yield (%)	12.5	10.8	7.4	6.1
Net yield (%)	8.8	7.6	5.2	4.3
ROIC (%)	7.4	5.0	3.5	3.6

Source: Barclay Pearce Capital

Barclay Pearce Capital contributes all company estimates to Thomson Reuters, FactSet, Nucleus 195 and Capital IQ.

Share price performance.



Source: FactSet, Barclay Pearce Capital

1H21 Financial Results

On 11th February, AGL Energy Limited (AGL) announced their results for 1H21 with the following highlights:

- Statutory Loss after tax: \$2,287 million, including \$2,686 million of onerous contract provision and impairment charges announced 4 February 2021;
- Underlying EBITDA: \$926 million, down 13 percent on 1H20;
- Underlying Profit after tax: \$317 million, down 27 percent, including \$74 million of insurance receipts relating to FY20 Loy Yang Unit 2 outage;
- Total services to customers: 4.2 million, up 246,000, including from Click Energy acquisition, broadband launch, and organic growth in energy;
- Total generation volumes: 20,816 GWh, down 4.5 percent, reflecting reduced market demand and the impact of unplanned outages;
- Flexible storage capacity development: 850 MW of grid-scale batteries well advanced with planning phase and successful tenderers announced;
- Interim ordinary dividend of 31 cents per share and special dividend of 10 cents declared;
- Guidance for FY21 Underlying Profit after tax of between \$500 million and \$580 million unchanged from 21 December 2020 update; and
- Guidance for FY21 Underlying EBITDA of between \$1,585 million and \$1,845 million.

Outlook

- AGL continues to expect Underlying Profit after tax for FY21 of between \$500 million and \$580 million, as stated in the 21 December 2020 trading update;
- This range reflects previously advised headwinds resulting from the deterioration of wholesale electricity and renewable energy certificate prices, lower-cost gas supply contracts rolling off, higher depreciation expense and costs associated with managing COVID-19, as well as the \$25 million negative impact of the outage at Unit 3 of the Liddell Power Station;
- AGL continues to expect FY21 operating costs (excluding depreciation and amortisation) to be broadly flat on FY20, excluding COVID-19 impacts and operating costs from acquired businesses;
- The FY21 Underlying Profit after tax range includes the expected \$80 million to \$100 million after tax benefit from insurance proceeds relating to FY20 unplanned outages at Unit 2 of AGL Loy Yang, which will not be repeated in FY22;
- AGL has also provided EBITDA guidance for FY21 of between \$1,585 million and \$1,845 million;
- As stated on 21 December 2020, in addition to the non-recurrence of the \$80 million to \$100 million of insurance proceeds noted above, AGL anticipates a further material step-down in Wholesale Electricity earnings in FY22 as hedging positions established when wholesale prices were materially higher progressively roll off and are re-contracted at lower levels reflecting the deterioration in wholesale prices; and
- All guidance is subject to ongoing uncertainty in relation to variability in trading conditions and the economic impacts of the COVID-19 pandemic.

Earnings changes

AGL expects NPAT for FY21 to be between \$500 million and \$580 million. AGL have also provided an EBITDA guidance for FY21 between \$1,585 million and \$1,845 million. This is in line with market expectations and hence we do not expect any significant earnings revisions.

Valuation

We are initiating on AGL with a price target of \$11.20 and a HOLD recommendation. The price target is underpinned by our Valuation.

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Barclay Pearce Capital provides research services to its client. Mr Wright is General Manager of Research and has over twenty (26) years' experience in the financial services industry, particularly in financial analysis and research report writing. Mr Wright joined the Barclay Pearce team in 2017 where he has been involved in the research and publication of reports. Prior to this Mr Wright worked at a number of entities where he held Director/Head of Research and General Manager of Research positions. Mr Wright holds a Bachelor of Mathematics (Honours) from Edinburgh University and has completed the SDIA Accreditation Program (RG146) through DeakinPrime.

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Hold – Describes stocks that are neither a buy nor underperform.

Underperform – Describes stocks that we expect to provide a total return (price appreciation plus net yield) of less than minus 10% within a 12-month period.

NR – The investment rating and price target have been temporarily suspended. Such suspensions are in compliance with applicable regulations and/or Barclay Pearce Capital policies.

Speculative Buy – Describes stocks we research with a positive bias, whose company fundamentals and/or financials are being covered, but for which there is insufficient information for Barclay Pearce Capital to assign a Buy or Underperform rating.

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Buy	40.2%	(0.0% of stocks with recommendations are Barclay Pearce clients)
Speculative Buy	0.4%	(100.0% of stocks with recommendations are Barclay Pearce clients)
Hold	19.5%	(0.0% of stocks with recommendations are Barclay Pearce clients)
Underperform	40.0%	(0.0% of stocks with recommendations are Barclay Pearce clients)