

02 June 2022

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Origin Energy Limited (ORG)

Utilities

BUY

ORG A\$5.99
TARGET PRICE A\$6.92

Origin Energy Limited (ORG) is a major vertically integrated Australian energy utility. Its energy retailing business is the largest in Australia, with about 4 million consumers and a 33% market share. Its portfolio of base-load, intermediate, and peaking electricity plants is one of the largest in the national electricity market, with a capacity of 6,000 megawatts. Origin also operates and owns a 37.5% of Australia Pacific LNG, which owns large coal seam gas fields and LNG export facilities in Queensland.

Company Data

| | |
|------------------------------|------------------------|
| Number of shares | 1,761.2M |
| Market Capitalisation (\$m) | 10,408.8 |
| Free float (%) | 99.1 |
| 12-month high/low | \$7.11/\$4.11 |
| Average Daily Turnover (\$m) | 61.99 |
| % S&P/ASX200 | 0.487% |
| DDM Ranking | 264 |
| % All Ordinaries | 0.420% |
| GICS Industry Group | Oil and Gas Integrated |

Source: FactSet, Barclay Pearce Capital

Earnings Summary (AUD)

| Year end June | 2021A | 2022F | 2023F | 2024F |
|-------------------------|----------|----------|----------|----------|
| Revenue (\$M) | 12,097.0 | 11,939.5 | 12,382.5 | 12,375.7 |
| EBITDA (\$M) | 2,048.0 | 2,102.4 | 2,418.2 | 2,426.2 |
| Reported NPAT (\$M) | -2,291.0 | 494.3 | 873.8 | 958.9 |
| Adjusted NPAT (\$M) | 318.0 | 564.3 | 832.0 | 884.7 |
| Reported EPS (c) | -130.2 | 24.8 | 52.2 | 55.5 |
| Adjusted EPS (c - FD) | 18.0 | 32.1 | 48.3 | 52.0 |
| Adjusted EPS growth (%) | -69.0 | 83.2 | 48.2 | 7.1 |
| Adjusted P/E (x) | 32.8 | 16.6 | 11.0 | 10.3 |
| Dividend (c/sh) | 20.0 | 26.5 | 30.7 | 28.5 |
| Gross yield (%) | 3.4 | 4.5 | 5.2 | 4.8 |
| Net yield (%) | 3.4 | 4.5 | 5.2 | 4.8 |
| ROIC (%) | 2.2 | 4.3 | 6.4 | 7.0 |

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

FY22 and FY23 Guidance

On 1st of June 2022, Origin Energy Limited (ORG) announced updated operating conditions and guidance with the following highlights:

Operating Conditions:

- For FY22, higher earnings from Integrated Gas as Australia Pacific LNG benefited from strong commodity prices, are expected to offset a decline in Energy Markets earnings;
- Higher domestic gas prices are expected to provide benefit in FY23;
- In Energy Markets, ongoing challenges with coal supply have been impacting Eraring Power Station throughout FY2022;
- The situation has deteriorated significantly in recent weeks, with material under-delivery of contracted coal compared to expectations, and with Centennial Coal notifying ORG of further production constraints at its Mandalong mine;
- Deliveries from Centennial Coal's Mandalong mine are expected to be interrupted during the remainder of FY2022 and into the first half of FY2023;
- The recent material under-delivery of coal to Eraring results in lower output from plant, additional replacement coal purchases at significantly higher prices, and is being exacerbated by coal delivery constraints via rail;
- ORG is part-way through finalising coal contracting arrangements for FY23; and
- Separately, ORG has now completed \$185m of its targeted \$250m share buy-back as announced in March 2022.

Guidance:

FY22

- For the 2022 financial year, ORG expects consolidated group Underlying EBITDA to be around the mid-point of the original guidance range of \$1,950 - \$2,250 million;
- Integrated Gas and Corporate underlying EBITDA is expected to be higher at \$1,700-\$1,800million, contrasted to the original estimate range of \$1,500-\$1,650 million driven primarily by higher oil and LNG prices;
- Origin now expects Energy Markets Underlying EBITDA in FY2022 to be \$310 -\$460 million, lower than the original guidance range of \$450 - \$600 million;
- The cash distribution to Origin net of oil hedging loss is expected to be around \$1.4 billion, compared with the original guidance of >\$1.1billion;

FY23

- Origin had previously provided guidance for Energy Markets Underlying EBITDA for FY2023 of \$600 - \$850m;
- There is a very high degree of uncertainty around the range of earnings outcomes for the 2023 financial year and as a result FY23 EBITDA guidance was withdrawn.

Earnings changes

ORG gave FY22 underlying EBITDA guidance to be around the mid-point of the original guidance range of \$1,950m - \$2,250m. This compares to market expectations of \$2,213.1m. Hence, we expect negative earnings revisions of 5% for FY22 and for future periods.

Valuation

We are updating our 12-month target price from \$5.99 to \$6.92 and updating our recommendation from HOLD to BUY. The price target is underpinned by our valuation.

Disclaimer

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

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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.

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(discount)/average group P/E, sum of parts, net asset value, discounted dividend model (DDM), franking credits and return on equity (ROE) over the next 12 months.

Barclay Pearce Capital Recommendation Proportions

| | | |
|--------------|-------|---|
| Buy | 37.9% | 0.0% of stocks with recommendations are Barclay Pearce clients) |
| Hold | 22.8% | 0.0% of stocks with recommendations are Barclay Pearce clients) |
| Underperform | 39.4% | 0.0% of stocks with recommendations are Barclay Pearce clients) |