

5 December 2023

Price (p)	443.50
Shares in issue (m)	385
Mkt Cap (£m)	1,706
Net debt (£m)	1,356
EV (£m)	3,062
BVPS (p)	328.0

Share price performance

1m	1.2%
3m	-18.6%
12m	-28.4%
12 m high/low	729/395
Ave daily vol (30D)	962,141

Shareholders

Invesco Ltd	7.7%
Vanguard Group	4.9%
Blackrock Inc	4.9%
Orbis Allan Gray Ltd	4.3%
Schroders Plc	3.9%
Jupiter	3.7%
Dimensional Fund	3.2%
Bank Of America	2.9%
Emirate Abu Dhabi	2.7%
Royal London	2.5%
Total for top 10	40.6%
Free float	99.7%
Source: Bloomberg	27 Nov 23

Next news Finals Q1

Business description

Integrated biomass, hydro and storage IPP



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CRUACHAN TRADING STRONGLY

Drax's trading update confirms consensus expectations and the pumped hydro business in particular is seeing strong performance. Biomass is also finding new outlets with demand from a growing biofuels market and we see this continuing in the medium term. We have increased our forecasts for FY23 and FY 24 to reflect better capture of power market volatility at Cruachan putting EBITDA at £1,158m and £1,181m respectively and our central valuation moves to 1063p from 1049p.

FY23 Expected to be in Line With Consensus

Drax's trading update signals a full year 2023 adjusted EBITDA outlook in line with consensus expectations. The year has seen strong performance from the pumped storage and hydro assets with adjusted EBITDA from these units to be "significantly" in excess of the £171m delivered in FY 22. With the large scale storage of Cruachan at 440MW, Drax can fully participate in the balancing mechanism and has not seen the restrictions of some battery solutions in this market. While these restrictions are being removed, we continue to see an increasingly volatile UK power market with growing wind generation in Scotland as driving continued performance at Cruachan going forward. Drax continues to look to expand the Cruachan site, adding 600MW. A number of other developers are also looking at pumped storage projects highlighting the attractiveness of these assets, but with long lead times, we see Drax as having a strong market position for the rest of the decade. Including the ROC biomass units at the Drax site, the company is now fully hedged for FY 23 and FY24 and 70% hedged in FY 25 with prices at £169.1/MWh, £148.0/MWh and £115.3/MWh respectively.

Biofuels Demand Emerges for Biomass

The biomass business has seen new outlets in third party sales with a 450kt supply agreement with a Japanese customer and a letter of intent with a European utility for up to 1Mt. This includes the supply of biomass feedstock for a biofuel project. We see EU and UK blending mandates for sustainable aviation fuel and the inclusion of the shipping industry in the EU ETS driving demand for biofuels. For biomass generation, Drax now has over 1Mt in inventories to support generation in the UK over winter and the vertically integrated nature of Drax's biomass supply chain and optionality on offtake gives protection against market volatility. The development of bioenergy with carbon capture and storage (BECCS) continues both in the UK and globally. The important Ten New Insights in Climate Science paper published ahead of COP 28 has highlighted the necessity of such carbon removal technologies.

£,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						
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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