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Unfavourable hydro inflows impact Trustpower's H1 performance

Trustpower well positioned for the future

Summary:

- **Profit after tax of $39m, down 40%**
- **Underlying earnings after tax* of $49m, down $17m or 25%**
- **Operating earnings (EBITDAF*) of $107m, down 17%**
- **Operating cash flow of $59m, down 3%**
- **Fully imputed interim dividend of 17 cents per share**

Trustpower Limited (NZX:TPW) today announced its interim financial results for the six months to 30 September 2019 and is pleased to declare a fully imputed interim dividend supported by strong operating cash flows.

Generation volumes were down 177GWh (15%) on the same period last year, due to some plant outages and materially lower North Island inflows (22% decline) compared to the above-average H1 FY-19. This is representative of the variable nature of hydro power generation. Wholesale prices were materially above the comparative period in FY-19 and remain above long-run averages.

Trustpower is one of the fastest growing telcos in New Zealand, reaching 100,000 telco customers in October 2019. Total retail utility accounts reached 406,000, up 7,000 on the same time last year, while customers with two or more products rose 8.8% to over 111,000. Total retail revenues of $507m million were up 4% on the same period last year.

Leveraging the successful bundling strategy remains a key growth opportunity for the future, with customers who take up the bundle offer demonstrating increased loyalty, satisfaction, and higher long-term value.

During this period Trustpower has invested significantly in developing capability for the future across both the Retail and Generation divisions. Operational highlights include the successful implementation of ISP network strengthening, development of wireless broadband capability, continued investment into building capability and our ability to respond to Generation asset management challenges, such as those faced at Highbank and Waipori.

Trustpower Chair Paul Ridley-Smith said the Board was "focused on ensuring the business has the platforms and capability to succeed in a low emission electricity sector and an ever-increasing desire for data and quality digital access".

Chief Executive Vince Hawksworth said the result, whilst down on the same period last year, was impacted heavily by reduced Generation volumes and costs associated with a three month unplanned outage at the Highbank scheme in Canterbury, as well as climate and hydrology, which were inherent variables in hydro power generation and retailing. Purposeful investment into Trustpower's ISP network and continued growth in the capability of the business also impacted the result.

"Trustpower is a multi-layered business with Generation, Retail and a growing ISP; we are committed to investing in these platforms to create a robust future-focused business that is primed to deliver future value," said Mr Hawksworth.

Generation

Asset enhancements continue to be a key strategic priority for Trustpower to help fill the expected long-term New Zealand energy gap. Trustpower is implementing a structured generation enhancement programme over the next five years with an anticipated increase in average annual output (once commissioned) of ~60GWh per year.

An unplanned machine shut down of Trustpower's fourth largest machine, located at Highbank Power Station, resulted in a three-month forced outage. This represents the worst single machine point of failure across the Trustpower Generation fleet but demonstrates the resiliency of a diverse portfolio. The outage represented a 43 GWh loss during this time which while significant, represented only ~2% of total annual Trustpower output.

Retail Operations

Retail was impacted by generally warm weather through Autumn, increased electricity input prices and a continuation of investment in customer acquisition and service. Retail EBITDAF* for the period was $13.9m and continues to show strong underlying performance.

The retail environment remains competitive despite prolonged heightened wholesale electricity prices. "Our strategy continues to resonate with customers, and new offerings will continue the positive trajectory" said Mr Hawksworth.

Trustpower launching wireless broadband offerings in market and continued development of mobile are further evidence of the evolution of the multi-product strategy.

Our focus and investment in customer centric service offerings is paying dividends, with over 72% of all customer contacts handled via digital channels this year, and ~80,000 customers now enjoying new functionality on our app.

ISP network upgrades to cater for increased data consumption and quality provides a platform to leverage for growth and continued increase of customer experience, with Trustpower topping the Netflix speed rankings for the previous eight consecutive months (and 19 of the last 22 months)

Outlook

Trustpower has previously indicated it expects FY-20 EBITDAF guidance to be at the bottom end of its guidance range ($205m - $225m). Trustpower confirms that it expects its FY-20 EBITDAF to be in the range $200m - $215m), assuming currently observable pricing and expected hydrology.

Trustpower remains positive on the longer-term outlook from both an industry point of view and due to the investments we have made internally, and our market positioning.

"Trustpower's strong balance sheet and operational capability means is in a good position to capitalise on opportunities, and the future is very exciting," said Mr Ridley-Smith.

ENDS

Notes The half-year financial statements for Trustpower Limited have been lodged with NZX and are available from the NZX and Trustpower websites.

Contacts

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About Trustpower
Trustpower is New Zealand's fifth largest electricity generator and fourth largest energy retailer by market share, with approximately 12% electricity retail market share. It owns 26 hydro power schemes throughout New Zealand with a total installed capacity of 487MW. It operates a multi-product retail business, including electricity, gas and telecommunications products with approximately 266,000 electricity connections, 40,000 gas connections and 100,000 telecommunications customers. - For further information see www.trustpower.co.nz

Key performance data for the six months to September:

		September 2019 (H1-20)	September 2018 (H1-19)	September 2017 (H1-18)
Profit after tax from continuing operations	$m	38.7	64.9	79.3
Operating earnings (EBITDAF*)	$m	107.1	129.6	152.2
Retail earnings (EBITDAF*)	$m	13.9	27.9	29.6
NZ Generation earnings (EBITDAF*)	$m	94.6	108.1	126.6
Underlying earnings after tax*	$m	49.2	65.8	82.4
Fully imputed interim dividend	Cents	17	17	17
Underlying earnings* per share	Cents	15.7	21.0	26.3

Reconciliation of non-GAAP measures:

- Underlying Earnings is a non GAAP (Generally Accepted Accounting Principles) financial measure. Trustpower believes that this measure is an important additional financial measure to disclose as it excludes movements in the fair value of financial instruments which can be volatile year to year depending on movement in long term interest rate and or electricity future prices. Also excluded in this measure are items considered to be one off and not related to core business such as changes to the company tax rate or impairment of generation assets.

- EBITDAF is a non GAAP financial measure but is commonly used within the electricity industry as a measure of performance as it shows the level of earnings before impact of gearing levels and non-cash charges such as depreciation and amortisation. Market analysts use the measure as an input into company valuation and valuation metrics used to assess relative value and performance of companies across the sector. The EBITDAF shown in the financial statements excludes the Australian business which is a discontinued operation.
- Reconciliation between statutory measures of profit and the two measures above, as well as EBITDAF per the financial statements and total EBITDAF, are given below:

Non-GAAP Reconciliations	**H1 FY-20**	**H1 FY-19**
Profit after Tax	**38,678**	**64,869**
Fair value losses on financial instruments	12,249	1,033
Impairment of assets	2,381	291
Changes in income tax expense in relation to adjustments	(4,096)	(371)
Underlying earnings after tax	**49,212**	**65,822**
Operating profit	**72,705**	**103,420**
Impairment of assets	2,381	291
Fair value losses on financial instruments	12,249	1,033
Amortisation of intangible assets	4,984	7,821
Depreciation	14,784	17,078
EBITDAF	**107,103**	**129,643**