22 April 2013
Asia Pacific/New Zealand
Equity Research
Multi-Utilities (Utilities)

CREDIT SUISSE

Contact Energy

(CEN.NZ / CEN NZ)

DOWNGRADE RATING

Rating	(from Outperform) NEUTRAL*
Price (22 Apr 2013, NZ$)	5.39
Target price (NZ$)	(from 5.50) 5.70[1]
Market cap. (NZ$mn)	3,952.50
Projected return:	
Capital gain (%)	5.8
Dividend yield (net %)	4.6
Total return (%)	10.4
52-week price range (NZ$)	4.62-5.82

** Stock ratings are relative to the relevant country benchmark.*
[1]Target price is for 12 months.

Research Analysts

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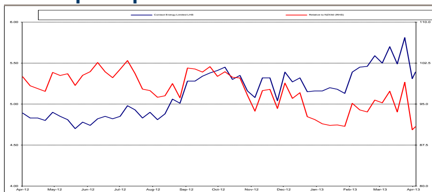
Provided by First NZ Capital

"If it ain't broke, don't fix it"

- We reduce our rating from Outperform to **Neutral** and change our TP to NZ$5.70 from NZ$5.50, post the opposition parties (Labour/Greens) releasing their electricity election policy on Thursday. **The policy proposes unwinding the so-called 'Max Bradford' reforms of the late 1990s.**
- A mid-point NZ$600mn reduction in revenue (assuming it falls straight to the bottom line) equates to **a 29% reduction in sector EBITDAF, and a 63% reduction in sector underlying earnings before tax.** The government controls 67% of the sector either through its 100% ownership, or the tax take on listed companies and **therefore stands to lose NZ$400mn annually from the government accounts** (with some offsets detailed). We detail a number of potential problems (or questions) we see with the proposal.
- We estimate NZ$8-9bn has been invested in NZ electricity since 2000. **An EBITDAF return on capital of 15% over the same period does not seem unreasonable to us.**
- Despite the alleged "excessive" price increases in the 13 years since 2000 we are not convinced the system is broken. We estimate that, **net of line charges and after allowing for inflation, residential electricity prices have risen 2.6% since 2000**. During the period gas costs have increased (in real terms) 5.6% p.a. The push for more expensive renewable generation, the removal of cross subsidisation, an appropriate return on capex, and the ETS have all contributed. Since 2008 the 'real' rate of increase (net of line charges) has slowed to 0.5% p.a. We forecast a 1.2% 'real' price reduction per annum over the next four years. This reduces further to minus 1.7% if Tiwai departs. **We believe the opposition's desire for a 10% reduction in power prices can mostly be achieved through the current market.**
- **However, acknowledging the risk if the current proposal is implemented, we see a probability weighted 7.7% and 5.6% negative impact on our CEN and TPW valuations respectively.**

Share price performance



The price relative chart measures performance against the NZX50 index which closed at 4483.7 on 22 Apr 13.
The spot exchange rate was NZ$1.189/US$1 on 22 Apr 13

Performance over	1M	3M	12M
Absolute(%)	-3.5	4.9	13.6
Rel-NZX50(%)	-5.8	-1.3	-12.8

Financial and valuation metrics

Year to 30 Jun		2011A	2012A	2013F	2014F	2015F
Adjusted Earnings	NZ$m	151	176	192	199	223
EPS Adjusted	NZc.	24.0	24.9	26.2	27.1	30.5
EPS Growth	%	-3.1	3.7	5.0	3.7	12.4
P/E	x	22.5	21.6	20.6	19.9	17.7
CPS	NZc.	50.4	52.1	52.5	56.7	60.7
P/CF	x	10.7	10.3	10.3	9.5	8.9
EV/EBITDA	x	11.7	10.3	10.2	9.0	8.4
Net DPS	NZc.	23.0	23.0	24.0	25.0	26.0
Imputation	%	100	100	100	100	100
Net Yield	%	4.3	4.3	4.5	4.6	4.8
Gross Yield	%	6.1	5.9	6.2	6.4	6.7

Source: Company data, NZX, First NZ Capital estimates

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Figure 1: **Contact Energy financial summary**

Sector: Utilities — NZX Code: CEN

PROFIT & LOSS ($m)

Year to 30 Jun	2011A	2012A	2013F	2014F	2015F
Operating Revenue	2,231	2,701	2,393	2,553	2,635
Operating Expenses	-1,789	-2,192	-1,871	-1,968	-2,015
Operating EBITDA	**441**	**509**	**522**	**586**	**620**
Depreciation	-166	-193	-193	-217	-221
Amortisation	0.0	0.0	0.0	0.0	0.0
Operating EBIT	**275**	**316**	**329**	**369**	**398**
Other Income	0.0	0.0	0.0	0.0	0.0
Abnormals	-0.6	13.0	0.0	0.0	0.0
Reported EBIT	274	329	329	369	398
Net Interest	-62.3	-71.6	-62.0	-92.2	-87.2
Pretax Profit	212	257	267	277	311
Tax	-65.7	-68.5	-74.8	-77.8	-87.7
Minority Interests	0.0	0.0	0.0	0.0	0.0
Equity Accounted Profit	3.9	1.9	0.0	0.0	0.0
Reported NPAT	**150**	**190**	**192**	**199**	**223**
Abnormals (net of tax)	-0.6	14.0	0.0	0.0	0.0
Adjusted Earnings	**151**	**176**	**192**	**199**	**223**

BALANCE SHEET ($m)

Year to 30 Jun	2011A	2012A	2013F	2014F	2015F
Cash & Equivalents	0.0	0.0	0.0	0.0	0.0
Debtors & Inventories	0.0	0.0	0.0	0.0	0.0
Other Current Assets	367	510	522	534	547
Current Assets	**367**	**510**	**522**	**534**	**547**
Fixed Assets	4,865	5,215	5,307	5,290	5,218
Investments	11.6	0.3	0.3	0.3	0.3
Intangibles	342	370	370	370	370
Other Non-Current Ass.	10.1	11.5	11.5	11.5	11.5
Total Assets	**5,596**	**6,106**	**6,210**	**6,206**	**6,148**
Interest Bearing Debt	1,190	1,437	1,335	1,298	1,190
Other Liabilities	1,171	1,252	1,261	1,271	1,281
Total Liabilities	**2,361**	**2,689**	**2,596**	**2,569**	**2,471**
Minorities	0.0	0.0	0.0	0.0	0.0
Convertible Capital	0.0	0.0	0.0	0.0	0.0
Ordinary Equity	3,236	3,418	3,614	3,637	3,677
Total Funds Emp.	**5,596**	**6,106**	**6,210**	**6,206**	**6,148**

RATIOS AND CAPITAL STRUCTURE

Year to 30 Jun		2011A	2012A	2013F	2014F	2015F
Profitability & Growth						
EBITDA/Op Rev	%	19.8	18.8	21.8	22.9	23.5
EBIT/Op Rev	%	12.3	11.7	13.7	14.4	15.1
Effective Tax Rate	%	30.9	26.6	28.1	28.1	28.2
Return On Equity	%	5.0	5.3	5.5	5.5	6.1
ROCE	%	6.5	6.8	6.7	7.5	8.1
EPS Adjusted	c.	24.0	24.9	26.2	27.1	30.5
EPS Growth	%	-3.1	3.7	5.0	3.7	12.4
Net DPS	c.	23.0	23.0	24.0	25.0	26.0
Dividend Cover	x	1.0	1.1	1.1	1.1	1.2
Asset Backing & Capital Structure						
Net Cash (Debt)	$m	-1,190	-1,437	-1,335	-1,298	-1,190
NTA / Share	$	4.2	4.3	4.4	4.5	4.5
Equity / Tot Assets	%	57.8	56.0	58.2	58.6	59.8
Net Debt / EBITDA	x	2.7	2.8	2.6	2.2	1.9
Interest Cover	x	4.4	4.4	5.3	4.0	4.6
Shares on Issue						
Ordinary	m	695	707	733	733	733
Fully Diluted	m	695	707	733	733	733

CASH FLOW ($m)

Year to 30 Jun		2011A	2012A	2013F	2014F	2015F
Operating EBITDA		441	509	522	586	620
Other Cash Income		0.0	0.0	0.0	0.0	0.0
Interest Paid		-99.0	-105	-62.0	-92.2	-87.2
Tax Paid		-23.0	-21.2	-74.8	-77.8	-87.7
Working Capital / Other		-39.9	-47.2	-2.6	-2.9	-3.1
Operating Cash Flow		**280**	**335**	**382**	**413**	**442**
Total Capex		-379	-566	-285	-200	-150
Acquisitions		0.0	0.0	0.0	0.0	0.0
Divestments		0.0	0.0	87.0	0.0	0.0
Dividends		-34.4	-42.6	-169	-176	-183
Equity Raised		347	0.0	86.4	0.0	0.0
Other		-58.7	0.0	0.0	0.0	0.0
Change in Net Debt		**154**	**-273**	**102**	**36.8**	**108**
Maint Capex	$m	-95.0	-160	-125	-125	-100
Maint Capex/Depn	%	57.1	82.9	64.7	57.6	45.2
Maint Capex/Rev	%	4.3	5.9	5.2	4.9	3.8

NZ Retail Electricity Market Share

Contact Energy 23%; Mighty River Power 19%; TrustPower 11%; Genesis Power 27%; Meridian Energy 14%; Other 6%

NZ Retail Generation Market Share

Meridian Energy 34%; Contact Energy 29%; Genesis Power 21%; Mighty River Power 9%; TrustPower 5%; Other 2%

Source: Company data, NZX, First NZ Capital estimates

The proposal

On Thursday, the opposition parties (Labour/Greens) released their electricity election policy. The policy proposes unwinding the so-called 'Max Bradford' reforms of the late 1990s, moving to a single buyer model (with the creation of a new entity NZ Power), based on the short run marginal cost of generation. Labour's proposal (which differs slightly from the Greens) proposes that each generator will be paid a 'fair' return for their actual costs. The 'fair' return will be calculated by NZ Power on the basis of the generator's historic capital costs, possibly adjusted by inflation, plus operating costs such as fuel, depreciation and maintenance. The proposal also proposes the operational separation of generation and retail, with the threat of structural separation if this is "in the interests of consumers".

The maths

The opposition believes moving to this model will result in a 10-14% reduction in the average residential electricity bill, and a 5-7% reduction in the average commercial and industrial bill.

The opposition believes this will result in a NZ$500-700mn reduction in electricity revenue p.a. For our analysis we have taken the midpoint of the oppositions range.

We estimate NZ electricity revenue (excluding the effective double counting of generation revenue from results) in FY12 was NZ$6.1bn, with NZ$4bn of this coming from residential/small business (accounting for 40% of overall demand), and the balance coming from commercial and industrial (C&I). Clearly C&I customers are subject to a significantly lower electricity tariff (mostly due to lower line charges).

Clearly C&I customers are subject to a significantly lower electricity tariff (mostly due to lower line charges)

A 12% mid-point reduction in residential/small business, and a 6% mid-point reduction in C&I would result in an annual revenue reduction of NZ$607mn (excluding GST). We estimate a 12% reduction in the average residential tariff of NZ25¢/kWh assuming average usage of 8,000kWh would result in an annual saving per customer of NZ$240 p.a. or NZ$276 including GST (close to the opposition's mid-point of NZ$283 per customer).

How the opposition estimates the NZ$600mn midpoint revenue reduction is therefore clear. What is not clear (due to no further detail being provided) is whether the proposal to move to a model whereby each generator is paid a 'fair' return for their assets is enough to achieve the NZ$600mn of required savings (remember this is a model where the generators recover historic capital costs, possibly adjusted by inflation, plus operating costs such as fuel, depreciation and maintenance).

What is not clear (due to no further detail provided) is whether the proposal to move to a model whereby each generator is paid a fair return for their assets is enough to achieve the NZ$600mn of required savings

Such analysis would require the historic capital cost of each asset (and there are around 140 power stations in New Zealand) to be calculated and we would be surprised if the opposition had had the time or the resources to complete this exercise (refer 'Potential problems with the proposal' below).

The sector generated EBITDA of NZ$2.0bn in FY12 and underlying profit before tax (assuming a normalised 28% tax rate) of NZ$960mn (underlying profit after tax of NZ$690mn). The difference can be attributed to NZ$750mn of depreciation, and NZ$350mn of interest expense.

A NZ$600mn reduction in revenue (assuming it falls straight to the bottom line) equates to a 29% reduction in EBITDAF, and a 63% reduction in underlying earnings before tax.

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The government controls 67% of the sector either through its 100% ownership, or the tax take on listed companies Contact Energy (CEN), and TrustPower (TPW) and therefore stands to lose NZ$400mn annually from the government accounts. It is unclear if the NZ$600mn targeted revenue reduction includes GST (we have assumed so). If not, the impact on the government accounts is even greater.

The opposition proposal detailed offsetting benefits to the economy to arrive at a net negative impact on the government accounts of NZ$75mn p.a. (at midpoint). There are a number of assumptions that are made to arrive at this lower number.

It is unclear what the costs of running 'NZ Power' are (we believe these could be substantial).

Potential problems (and questions) with the proposal

We believe the process of calculating an asset base on which a 'fair return' can be awarded will be fraught with difficulty. Some hydro dams (for example TPW's Waipori) are over 100 years old. Historic records simply will not exist for plants like this. How will maintenance capex be accounted for? (Many 'long life' hydro assets are in the middle of expensive mid-life refurbishment programmes). We have seen how long it has taken to arrive at an agreed-upon asset base for the line businesses (ten years and counting and still not resolved). We believe arriving at an adjusted historic cost for the asset base will be time consuming, potentially litigious, and expensive.

We believe the process of calculating an asset base on which a 'fair return' can be awarded will be fraught with difficulty

The opposition comment that the historical capital cost will possibly be adjusted for inflation is particularly vague. Whether inflation is accounted for (or not) will have a very material impact on the value of the asset base the fair return is calculated on.

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Perversely, the opposition parties' policy will likely result in an increased return on new geothermal and wind projects and existing thermal assets. The SRMC of a gas thermal plant is NZ$70-$80/MWh (sometimes a thermal plant is run at a loss due to inflexible gas take or pay arrangements), and the all-in cost for new wind and geothermal developments NZ$80-$85/MWh. We forecast a wholesale electricity price of NZ$65-$75/MWh over the next four years (lower if Tiwai departs) meaning returns under the proposed model would likely be higher. Currently, thermal plants are included in our model with zero value. This would change under the proposed model.

Perversely, the opposition parties' policy will likely result in an increased return on new geothermal and wind projects and existing thermal assets

The proposed operational (and possible structural) separation will be expensive. Duplicating six (including Todd Energy) further management teams and Boards comes at a considerable cost.

The proposed operational (and possible structural) separation will be expensive

Security of supply could potentially be impacted. Without proper price signals for dry year risk where is the incentive to store water? How will water and gas storage be valued? Will the government take the dry year risk? Longer term, where are the price signals for new plants? We don't think there will be any issue with funding for new plants assuming an appropriate return on assets is allowed for; however, decisions for new plants will be made by NZ Power rather than the market. These issues may well have been considered by the opposition but lack of detail in the release means this is unclear.

A 29% reduction in EBITDAF is likely to result in the current credit ratings of gentailers being downgraded. To retain a BBB rating (BBB+ with the one notch halo effect of being government owned) requires FFO interest cover of >4x, and FFO/average net debt of >25%. Depending on how long such a policy takes to implement, these covenants may be breached. This would likely result in a further cash injection (either from the private sector or government) or the re-pricing of debt to more expensive rates.

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Assets would almost certainly be revalued downwards impacting the government accounts.

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The aluminium smelter would presumably feel it has rights to a lower electricity price, and if it didn't get it, in the event of a shutdown, the government could find itself paying a higher-than-required electricity price with excess supply hitting the market. The risk to a generator being left with a stranded plant if Tiwai departs will be eliminated.

Is there even a need for a wholesale electricity market under the proposed model?

What if the generators can't supply NZ Power due to unplanned maintenance outages?

How will the proposed model deal with massive cost overruns: e.g., the Clyde Dam (commissioned in 1992) is believed to require a price approaching NZ$200/MWh to justify its historic cost.

How will the proposed model deal with massive cost overruns: e.g., the Clyde Dam

Again, we reiterate, these issues may well have been considered by the opposition however a lack of detail means this is unclear.

Capital intensive sector

Since 2000, we estimate the sector has invested NZ$10bn in capex (more so if Todd Energy's generation plant is included). Adjusted to 2013 dollars this figure increases to NZ$11.5bn. Ignoring capex on Meridian Energy's two forays into Australia, TPW's wind investment into Australia, and Genesis Energy's oil and gas capex (plus other offshore expenditure) we estimate approximately NZ$8-9bn has been invested in NZ electricity with a resultant NZ$1.3bn uplift in EBITDAF. An EBITDAF return on capital of 15% does not seem unreasonable to us, suggesting a WACC (in a post-tax ROIC sense) of sub-8%. In reality a portion of these projects have been debt funded so the return is higher. But still, it doesn't seem excessive.

We estimate approximately NZ$8-9bn has been invested in NZ electricity since 2000. An EBITDAF return on capital of 15% does not seem unreasonable to us

If it ain't broke, don't fix it

Recent history

Despite the alleged "excessive" price increases in the 13 years since 2000 we are not convinced the system is broken. If it isn't, then it doesn't need fixing.

Despite the alleged "excessive" price increases in the 13 years since 2000 we are not convinced the system is broken. Gas costs have increased (in real terms) 5.6% p.a. The push for more expensive renewable generation, the removal of cross subsidisation, an appropriate return on capex, and the ETS have all contributed

We estimate (based on Ministry of Business, Innovation, and Employment pricing quarterly surveys) that, net of line charges and after allowing for inflation, residential electricity prices have risen 2.6% in real terms since 2000. During the same period, gas costs have increased in real terms 5.6% p.a. Given gas thermal contributes anything up to 30% of generation this increased gas cost accounts for a reasonable part of the above inflation increase. The push for more (expensive) renewable generation (remember the previous Labour government had a target of achieving 90% renewable generation by 2025), the removal of cross subsidisation of residential tariffs by C&I, returns on the NZ$8-9bn of capex, and the emissions trading scheme (this has had a relatively minor impact due to the carbon price collapsing following an on average 2% increase in tariffs due to the scheme) all suggest 'real' price increases of 2.6% (net of line charges) do not appear unreasonable.

Since 2008, the 'real' rate of increase (net of line charges) has slowed even further to 0.5% p.a. One final comment, we do not believe the MBIE pricing schedules accurately reflect the emergence of special offers. Your writer knows for a fact he is paying less for electricity today than three years ago. There are signs of genuine competition due to Electricity Authority initiatives and we believe the market should be given a chance.

Since 2008 the 'real' rate of increase (net of line charges) has slowed even further to 0.5% p.a.

Looking forward

Our modelling (assuming Tiwai stays) assumes 11.6% residential tariff increases over the next four years, however net of line charges (and remember Transpower alone is coming to the end of a NZ$4bn investment programme that is being progressively levied on customers) this reduces to 3.2% over four years. Net of inflation this equates to a 1.2% 'real' price reduction p.a. over the next four years.

We are forecasting a 1.2% 'real' price reduction p.a. over the next four years. This reduces further to minus 1.7% if Tiwai departs

If the smelter shuts down, this figure reduces further to a 1.7% 'real' price reduction per annum over the next four years.

We believe the opposition's desire for a 10% reduction in power prices can mostly be achieved through the current market without the need for a complex and costly change of market structure.

We believe the oppositions desire for a 10% reduction in power prices can mostly be achieved through the current market

What politicians want, they likely get

However we acknowledge that if a Labour/Green government is elected (and recent polls suggest this is a 50/50 chance) then what they want, they will likely get.

If a newly elected government wants a NZ$600mn price reduction that is what they can regulate for. It doesn't matter about the loss of government revenue, or the impact on the value of the remaining government assets. It doesn't matter if it makes sense, or even if it will work. In the short term they can regulate to make it work (we say short term but in reality the complexity of this proposal, and potential for litigation may naturally slow down implementation anyway).

However we acknowledge that if a Labour/Green government is elected then what they want, they will likely get. If a newly elected government wants a NZ$600mn price reduction that is what they can regulate for

So based on that scenario, it would be remiss of us not to quantify the possible impact on the existing listed players' profitability and valuation.

With a lack of detail the best we can do is calculate the percentage of the desired NZ$600mn midpoint of the cost savings that each gentailer would face.

Without further detail we can assume this policy is aimed at those generators with long life hydro assets, and probably CEN's Wairakei plant which dates back to 1958 (although it has had a considerable amount of capex spent on it in recent years). Incidentally, the government owns 73% of these 'type' of assets.

Without further detail we can assume this policy is aimed at those generators with long life hydro assets, and probably CEN's Wairakei plant. Incidentally, the government owns 73% of these 'type' of assets

Potential impact on CEN earnings

We estimate CEN's share of the required NZ$600mn EBITDAF reduction would be 20% (NZ$119mn p.a. or 24% of CEN's FY12 EBITDAF). In reality this is probably being overly conservative with respect to CEN as it assumes Wairakei's geothermal is fully depreciated (with recent capex it won't be), and it assumes the Clutha scheme is fully depreciated. The Roxburgh station (44% of combined output) dates back to 1956, though the Clyde dam (56% of combined output) is only 20 years old. However, we also haven't included Ohaaki and Poihipi geothermal stations in the list of long life-low SRMC assets, and dating back to 1989 and 1996 (respectively) these will be partially depreciated and likely offset the benefit from Wairakei and Clyde.

CEN's analysis is complicated

A NZ$120mn revenue reduction would result in a 22% reduction to our DCF-based valuation of NZ$6.20. This assumes the new policy is implemented in FY16.

Potential impact on TPW's earnings

We estimate TPW's share of the required NZ$600mn EBITDAF reduction would be 7% (NZ$41mn p.a. or 13.7% of its FY12 EBITDAF). TPW is disproportionately favourably impacted due to more of its EBITDAF coming from Australia and also due to its higher retail load versus generation. Again, this assumes the new policy is implemented in FY16.

In TPW's case we believe that the company is likely to be negatively impacted at the retail level as well. TPW has quite successfully (although less so in recent years) run a premium price retail strategy. This has partially been assisted by the dividends Tauranga customers receive from 33% shareholder TECT if they remain a TPW customer. With potentially less dividends to distribute, and under the proposed model with each retailer paying the same price for electricity, it may make it harder to continue this strategy.

In TPW's case we believe that the company is likely to be negatively impacted at the retail level as well

Our scenario assumes a further 2.5% reduction in retail prices equating to a further NZ$10mn reduction in EBITDAF. This increases the assumed EBITDAF impact to $51mn p.a. or 17% of TPW's FY12 EBITDAF.

A NZ$51mn revenue reduction would result in a 16% reduction to our DCF-based valuation of NZ$8.10. This assumes the new policy is implemented in FY16.

Investment view

CEN valuation

We note a potential 22% reduction to our CEN valuation if the proposed reforms are implemented.

Note this does not assume any cost savings, or winding back of maintenance capex—both of which would be likely under such a scenario and reduce this negative impact. In adjusting our valuation we probability weight the chance of the opposition (Labour/Greens) winning the next election (50%) and the chance this proposal is implemented in the first term. Given the complexity, potential for litigation and, therefore, time to implement there is a possibility that such a policy may never be implemented (at the same time acknowledging that one term governments are rare in NZ politics). As such we have adopted a 70% chance of this policy being implement to probability weight the impact on our CEN's valuation of NZ$6.20.

This does not assume any cost savings, or winding back of maintenance capex—both of which would be likely under such a scenario and reduce this negative impact

A 7.7% reduction on our NZ$6.20 valuation results in a 12-month target price of NZ$5.70. We already apply a discount to our valuation for the Tiwai uncertainty and competition for capital (NZ$5.50) and do not believe two discounts are required. If this policy goes ahead and Rio shuts down the Tiwai smelter then generators would likely be protected from the negative impact of such a scenario. We increase our 12-month target price to NZ$5.70 (from NZ$5.50) but due to share price appreciation lower our rating to NEUTRAL (from Outperform).

We already apply a discount to our CEN valuation for the Tiwai uncertainty and do not believe two discounts are required. If this policy goes ahead and Rio shuts down the Tiwai smelter then generators would likely be protected from the negative impact of such a scenario

TPW valuation

We note a potential 16% reduction to our TPW valuation if the proposed reforms are implemented.

Note this does not assume any cost savings, or winding back of maintenance capex both of which would be likely under such a scenario and reduce this negative impact. In adjusting our valuation we probability weight the chance of the opposition (Labour/Greens) winning the next election (50%) and the chance this proposal is implemented in the first term. Given the complexity, potential for litigation and, therefore, time to implement there is a possibility that such a policy may never be implemented (at the same time acknowledging that one term governments are rare in NZ politics). As such we have adopted a 70% chance of this policy being implement to probability weight the impact on our TPW's valuation of NZ$8.10.

A 5.6% reduction on our NZ$8.10 valuation results in a 12-month target price of NZ$7.65. Due to share price underperformance we upgrade our rating to NEUTRAL (from Underperform).

CREDIT SUISSE

Companies Mentioned *(Price as of 22-Apr-2013)*

Contact Energy (CEN.NZ, NZ$5.39, NEUTRAL, TP NZ$5.70)
Genesis Energy, LP (GEL.N, $45.96)
TrustPower (TPW.NZ, NZ$7.2)

First NZ Capital Disclosure Appendix

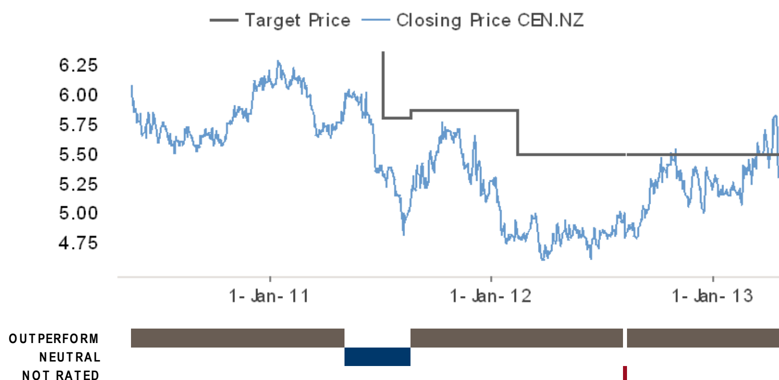
Important Global Disclosures

I, Jason Lindsay, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

Price and Rating History for Contact Energy (CEN.NZ)

CEN.NZ Date	Closing Price (NZ$)	Target Price (NZ$)	Rating
17-May-10	6.07	7.04	O
17-Aug-10	5.65	6.96	
05-May-11	6.01	6.77	N
06-Jul-11	5.32	5.80	
22-Aug-11	5.16	5.87	O
14-Feb-12	4.80	5.50	
08-Aug-12	5.00		NR
14-Aug-12	4.88	5.50	O
27-Nov-12	5.27	5.50	*

** Asterisk signifies initiation or assumption of coverage.*



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See the Companies Mentioned section for full company names.
Price Target: (12 months) for (CEN.NZ)
Method: In setting our NZ$5.70 target price for CEN.NZ, we use:
We use a discounted cash-flow (DCF) method (with an equity beta of 0.79, a weighted average cost of capital of 8.6%, and a terminal growth value of 1.5%) to value Contact Energy (CEN) which results in a current value of $6.30. Due to continuing uncertainty around the long-term future of NZAS in New Zealand we have set our 12-month target price at NZ$5.70.
Risks: Risks to our NZ$5.70 target price for CEN.NZ are:
Key risks to our NZ$5.70 target price on CEN include the exit of NZAS from New Zealand.

As of the date of this report, First NZ Capital makes a market in the following subject companies (CEN.NZ).

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First NZ Capital..Jason Lindsay

The analyst(s) involved in the preparation of this report have not visited the material operations of the subject company (CEN.NZ) within the past 12 months

Credit Suisse Disclosure Appendix

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Outperform (O) : The stock's total return is expected to outperform the relevant benchmark*over the next 12 months.

Neutral (N) : The stock's total return is expected to be in line with the relevant benchmark* over the next 12 months.

Underperform (U) : The stock's total return is expected to underperform the relevant benchmark* over the next 12 months.

**Relevant benchmark by region: As of 10th December 2012, Japanese ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. As of 2nd October 2012, U.S. and Canadian as well as European ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. For Latin American and non-Japan Asia stocks, ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark; Australia, New Zealand are, and prior to 2nd October 2012 U.S. and Canadian ratings were based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe. For Australian and New Zealand stocks, 12-month rolling yield is incorporated in the absolute total return calculation and a 15% and a 7.5% threshold replace the 10-15% level in the Outperform and Underperform stock rating definitions, respectively. The 15% and 7.5% thresholds replace the +10-15% and -10-15% levels in the Neutral stock rating definition, respectively. Prior to 10th December 2012, Japanese ratings were based on a stock's total return relative to the average total return of the relevant country or regional benchmark.*

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Underperform/Sell*	15%	(40% banking clients)
Restricted	3%	

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