

Good Energy Group

Responsibly sourced shareholder value

Good Energy's unique equity proposition is its combination of renewable generation capacity with a growing retail energy business. All energy sold to customers is sourced from renewable sources, with approximately 19% generated by its own solar and wind farms and the remainder procured via long-term contracts from third-party renewable generators. The stock is attractively valued in comparison to its forecast high level of growth.

FY16 earnings show delivery on the plan

Good Energy increased its EBITDA in FY16 by 39% from £7.3m to £10.1m. Operating highlights included increasing its electricity customer numbers by 5% to 71,486 and its gas customer base by 14% to 44,107. Furthermore, the company sold the 5MW Oaklands solar site for £5.8m, which will further improve the net debt position, already decreased to £52.2m from £54.0m in FY16.

Growth in premium customer base key

Good Energy continued its strong track record of growing EBITDA and customer numbers. On a standalone basis, the earnings story is attractive and reasonably priced. However, we believe there is long-term value in the customer base. Good Energy's customers pay a premium on their power bills due to the 100% renewable guarantee. 2017 will see the completion of the new customer information and billing system, providing a platform to launch further new product offerings. We note that, at group level, gross margins have been more than 30% for two years.

Consensus estimates: Realistic continued growth

As renewable generation and supply activities expand, Good Energy is expected to grow its consensus EBITDA, from £10.1m in FY16 to £10.7m in FY17 and £12.1m in FY18. Given 39% growth in FY16 and with gas and electricity customers continuing to grow, this growth trajectory seems realistic. Consensus suggests growth in adjusted FY17e EPS of 13.6%, increasing to 50% in FY18. Dividend growth is expected to be 3.0% in FY17 and 8.8% in FY18.

Valuation: PEG growth ratio attractive

The FY18e price earnings to growth (PEG) ratio of 0.33x is very low. The FY18e P/E of 16.2x is in line with the broader utility sector. The stock has the benefit of long-term power price subsidies on its renewable fleet plus a sticky customer base, which cares about sustainable energy procurement. Good Energy therefore has an attractive combination of downside earnings protection and future growth, against which the current valuation looks consistent.

Consensus estimates

Year end	Revenue (£m)	PBT (£m)	EPS (p)	DPS (p)	P/E (x)	Yield (%)
12/16	90.4	1.4	8.8	3.3	27.7	1.4
12/17e	120.7	2.1	10.0	3.4	24.4	1.4
12/18e	130.0	3.1	15.0	3.7	16.2	1.5

Source: Bloomberg data. Note: Priced at 28 April 2017.

Utilities

11 May 2017

Price 243.5p
Market cap £40m

Share price graph



Share details

Code	GOOD
Listing	AIM
Shares in issue	16.5m

Business description

Good Energy is an AIM-listed renewable electricity supplier and generator. It sources 100% of the power it sells from renewable sources. Approximately 19% of the power it sells is from its own generating fleet. It has also developed a Feed-in Tariff administration business.

Bull

- Unique combination of renewable generation and a growing retail customer base.
- A mixture of earnings growth and growing shareholder returns.
- A loyal, eco-conscious customer base more likely to be sticky than regular utility customers.

Bear

- Big Six energy suppliers an oligopoly, meaning high barriers to entry in energy retail.
- Good Energy stuck in a low market capitalisation 'trap'.
- Premium price product, therefore limited appeal.

Analysts

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