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ASX and Media Release

FY20 results announcement and FY21 earnings guidance

13 August 2020

AGL Energy Limited (AGL) today announced its results for the financial year ended 30 June 2020 ("FY20").

FY20 Result Highlights

- Statutory Profit after tax: $1,015 million, up 12 percent on FY19
- Underlying Profit after tax: $816 million, down 22 percent on FY19, within guidance range provided for FY20
- Net cash from operating activities: $2,156 million, up 35 percent on FY19
- Consistent growth in total services to customers to 3.95 million
- Resilient portfolio generation despite AGL Loy Yang Unit 2 outage, COVID-19 and ongoing maintenance
- $135m of recurring operating cost efficiencies since FY18 invested in growth and transformation
- Final FY20 dividend declared of 51 cents per share, taking total FY20 dividends declared to 98 cents per share, 80% franked
- Intention to pay special dividends during FY21 and FY22 and temporary removal of franking during this period
- Guidance for FY21 Underlying Profit after tax: between $560 million and $660 million

CEO Commentary

AGL Managing Director & CEO, Brett Redman, said: "Our FY20 result reflects the strength, stability and sustainability of AGL during a period of significant upheaval and uncertainty across our markets and in the communities we serve as a result of the COVID-19 pandemic, summer bushfires and drought. Amid these challenges, AGL's strategic priorities of Growth, Transformation and Social Licence continue to guide us.

"We have delivered continued strong dividends for shareholders, delivered efficiencies to enable us to continue investing in the evolution of our business and continued to build trust and engagement with our people, customers and communities.

"We are providing a broader range of essential services to a larger customer base, with total services to customers now numbering more than 3.95 million, up 78,000 energy customers and 168,000 broadband and phone services over FY20. More than 1 million of our energy services to customers are now on our simplified Essentials offering while digitisation continues to increase and deliver efficiencies following the major systems investments made between FY17 to FY19.

"Our diverse and flexible energy supply portfolio delivered resilient generation output despite the major unplanned outage at AGL Loy Yang Unit 2 in the first half of the year, supporting the consistent reliable supply of power to Australians. We are continuing to invest in the next generation of energy supply. During the year, AGL signed offtake agreements over two major battery developments, commenced operation of Australia's largest wind farm at Coopers Gap in Queensland and opened the first major gas-fired power station in the National Electricity Market since 2012 at Barker Inlet in South Australia.

“Operating cost controls continued to enable us to reinvest in the business. We have delivered $135 million of recurring operating cost efficiencies since FY18 from systems investment and other efficiency programs, which have been reinvested in the ongoing transformation of the business.

“Our strong cash flow and financial position continued to support capital management. In FY20, we undertook $620 million of on-market share buy-back activity while maintaining our policy of paying out 75 percent of Underlying Profit after tax as ordinary dividends. AGL's cash flow and financial position remain strong, enabling our announcement today of our intention to augment our dividend policy by paying special dividends in FY21 and FY22 while we temporarily remove franking from dividends while AGL recoups historic tax losses. We retain considerable headroom to fund large-scale investment opportunities as they arise, as well as further capital management initiatives.

“While FY20 saw challenging market conditions, we delivered a step change in many of our operating metrics. Our Net Promoter Score measuring customer advocacy was positive 2.3 in June, its highest to date, while employee engagement increased to 73 percent, its highest in five years. Against this stable backdrop, we have today set a number of targets for growth and transformation in our business including for customer numbers, products per customer and digital customer interactions, as well as for the ongoing transition of our energy supply portfolio to more flexible and decentralised capacity.

“These targets complement the carbon transition metrics we announced with our Climate Statement in June. As one of Australia’s largest retailers and carbon emitters, AGL understands its responsibility to help drive the energy transition, while maintaining reliable and affordable energy. As we progress the business of transition, this year we released our Climate Statement comprising five key commitments in addition to committing to net zero emissions by 2050. Consistent with these commitments, today we have also released Pathways to 2050, our enhanced Taskforce for Climate Related Financial Disclosure report.

“FY21 will be a year of considerable uncertainty as we navigate the COVID-19 pandemic and its economic impact. Market and operating headwinds to AGL’s margin from the maturing of lower cost gas supply contracts and sharp falls in wholesale prices for electricity and renewable energy certificates have accelerated as a result of the pandemic. In addition, depreciation expense will again be higher following the completion of recent capital investment programs and insurance, regulatory and compliance costs continue to rise. COVID-19 will lead to higher expected credit losses from customer hardship and potentially increased operating costs to ensure safe and reliable continued operation at AGL’s generation plant.

“Given the current operating environment of wholesale price volatility, rising operating costs and increased pressures on households and businesses, we were pleased to have maintained or lowered electricity prices for our customers this year. At the same time, we’re pursuing investment in the energy supply the market needs in order to deliver long-term sustainable price reductions.

“AGL’s strategic focus and financial strength create a solid foundation to withstand the current health and economic crisis. While earnings pressures are increasing, our cash flow remains strong and we are executing our strategy with discipline. We expect to continue growing the breadth and scale of our customer base as we pursue our multi-product retailer strategy. At the same time, we are transforming our energy supply portfolio as we invest in batteries and other energy storage technologies. We will fund further growth and transformation via the delivery and reinvestment of an additional $100 million of recurring operating cost efficiencies in FY21.”

FY20 Profit

AGL’s Statutory Profit after tax was $1,015 million, up 12 percent on FY19 as a result of a positive movement in the fair value of financial instruments, reflecting lower forward prices for electricity and the way AGL hedges its electricity generation position to manage pricing risk through forward contracts. This movement is non-cash but is required under Australian accounting standards. Statutory Profit after tax also includes negative Significant Items of $(17) million dollars as a result of Perth Energy acquisition costs, and the partial impairment of AGL’s equity stake in assets owned by Powering Australian Renewables Fund.

Underlying Profit after tax, which excludes movements in the fair value of financial instruments and Significant Items, was $816 million, down 22 percent, and in line with the guidance range of $780 million to $860 million provided in August 2019. The principal drivers of the decrease in profit were the Unit 2 outage at AGL Loy Yang, reduction in gas sales volumes, lower wholesale electricity and large-scale generation certificate prices, and increased depreciation and amortisation expense.

FY20 Dividend

AGL has declared a final dividend for FY20 of 51 cents per share, 80 percent franked. Total dividends declared for FY20 are 98 cents per share, consistent with AGL's dividend policy to target a payout ratio of 75 percent of Underlying Profit after tax. The FY20 final dividend will be payable on 25 September 2020 with a record date of 27 August 2020. Shares will trade ex-dividend on 26 August 2020. AGL's dividend reinvestment plan (DRP) will operate with respect to the FY20 final dividend.

Capital Management

AGL delivered net cash from operating activities of $2,156 million in FY20. This strong cash position has continued to support AGL's ability to return excess liquidity to shareholders via capital management initiatives. Over the course of FY20, AGL acquired $620 million of shares under the on-market share buy-back announced in August 2019. AGL anticipates completing this program within the 12-month trading window ending 22 August 2020.

AGL currently has more than $1 billion of cash and undrawn debt facilities available with no major debt refinancing due to be undertaken before November 2021. As a result of this strong liquidity, AGL is announcing today that it intends to undertake a Special Dividend Program over FY21 and FY22. Under the Special Dividend Program, AGL anticipates paying special dividends of up to 25 percent of Underlying Profit after tax, thereby augmenting AGL's dividend policy payout ratio of 75 percent to take the effective payout ratio to 100 percent of Underlying Profit after tax over this period. Both ordinary dividends and special dividends will remain subject to Board discretion, trading conditions and the ongoing funding and liquidity requirements of the business.

AGL is also announcing today that it expects to reduce franking on dividends to zero in FY21 and FY22 while it utilises historic tax losses. This temporary reduction in franking will enable AGL to return to generating franking credits from underlying earnings as early as the FY23 interim dividend. It is anticipated that the additional value provided by the Special Dividends Program will help offset the impact of the loss of franking for shareholders who value franking credits.

AGL retains strong funding and liquidity headroom to support reinvestment in the existing business, growth opportunities and ongoing capital management initiatives.

FY21 Guidance

AGL has today provided guidance for Underlying Profit after tax to be between $560 million and $660 million in FY21. This includes an expected $80 million to $100 million after tax benefit from insurance proceeds relating to the unplanned outage at AGL Loy Yang Unit 2 that impacted FY20.

This guidance range reflects the acceleration of the following operating and market headwinds as a result of COVID-19:

- Wholesale Gas gross margin is expected to be approximately $150 million lower than FY20 as legacy supply contracts mature, driving higher supply costs, and lower year-on-year market prices impact revenue.
- Wholesale Electricity gross margin (including Eco Markets) is expected to be approximately $150 million lower than FY20 as sharply declining prices for energy and large-scale generation certificates translate to lower customer revenue.

There will be further increases in depreciation expense as a result of recent investment in plant, systems and growth.

In addition, AGL anticipates the following additional COVID-19 cost challenges:

- Higher expected credit losses from increased customer hardship are currently forecast at $40 million, although AGL notes this estimate is heavily subject to the length and severity of the current economic slowdown.
- There is the potential for ongoing cost impacts at AGL's key electricity generation sites to maintain safe and uninterrupted access for employees and contractors to ensure reliable supply of energy.

AGL expects FY21 operating costs (excluding depreciation and amortisation) to be broadly flat on FY20. Approximately $100 million of recurring efficiencies are expected to offset investment in growth and transformation and increases in insurance, regulatory and compliance costs.

All guidance is subject to ongoing uncertainty in relation to the economic impacts of the COVID-19 pandemic as well as normal variability in trading conditions.

Presentation, Webcast and Conference Call

AGL's FY20 results and FY21 outlook presentation and discussion has been pre-recorded and is available for viewing on AGL's website. AGL will also hold a conference call to respond to questions.

The pre-recorded presentation will be replayed on the webcast at 10.45 am, Australian Eastern Standard Time today, followed immediately by a live question and answer session.

A copy of the presentation will be lodged with the ASX and made available on AGL's website.

All FY20 documents, pre-recorded presentation and webcast are accessible via agl.com.au/fy20results. Pre-registration is required to access the conference call and live question and answer session, registration is available via the aforementioned link.

A transcript and archive of the webcast will be available on AGL's website in due course.

Authorised for release by AGL's Board of Directors.

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