

TRANSALTA RENEWABLES INC. (RNW.TO)



BUY. HOLD. AND PROSPER.®

(as at May 31, 2020)

Business Description:

TransAlta Renewables Inc. ("RNW") is one of the largest generators of wind power in Canada and is among the largest publicly traded renewable power generation companies in Canada. Its asset platform is diversified in terms of geography, generation and counterparties. As of February 28, 2020, it consists of interests in 23 wind facilities, 13 hydroelectric facilities, seven natural gas generation facilities, one solar facility and one natural gas pipeline, representing an ownership interest of approximately 2,527 megawatts (MW) of owned capacity. Its operations span three countries: Canada, the United States and Australia. In Canada, its assets are located in the provinces of British Columbia, Alberta, Ontario, Québec and New Brunswick. In the United States, its assets are located in the states of Wyoming, Massachusetts, Minnesota, New Hampshire and Pennsylvania. This includes economic interests in the 144 MW Wyoming wind farm, the 50 MW Lakeswind wind farm, the 21 MW Mass Solar facility, the 90 MW Big Level wind farm and the 29 MW Antrim wind farm. Its Australia operations are located in the State of Western Australia and are comprised of economic interests in six operating gas generation facilities with an installed capacity of 450 MW and a 270 km gas pipeline. Together, the company's assets have a weighted average years of operation by capacity of 14.7 years, including the assets in which they hold an economic interest.

Investment Thesis:

- **RNW's growth is focused in two primary areas:**
 - On-site Generation: RNW plans to expand its fleet of on-site generation projects in Canada, the U.S. and Australia. RNW has an extensive history of on-site generation extending back to the early 1990s. The team's experience makes them a strong partner as an on-site generation owner/operator. Currently, RNW has a pipeline under evaluation for 900 MW in on-site and cogeneration projects.
 - Renewables: RNW is focusing its renewables growth efforts on the U.S. corporate market. The company has added five wind and solar farms in the U.S. over the past five years, and it expects demand for new wind in the U.S. to grow approximately 10 gigawatts (GW) per year in the near term and approximately 5 GW per year onwards. Currently, RNW has a pipeline under evaluation of 2,000 MW in new renewables projects.
- **Diversified by Asset Base and Geography:** RNW has 44 facilities across multiple regions spanning various technologies.
- **Highly Concentrated Portfolio:** RNW operates its power producing assets under power purchasing agreements that currently have a weighted average contract life of roughly 11 years remaining.
- **Strong Balance Sheet and Access to Competitive Capital:** RNW targets 2.2x Net Debt/EBITDA and has access to a large low-cost syndicated credit facility for additional liquidity. A strong balance sheet allows RNW to reward shareholders with a monthly dividend far superior to its peers.

- Proven Track Record of Growth and Value Creation:

RNW has undertaken over \$3.0 billion of acquisitions since 2013, and achieved over 90% total shareholder return since its IPO in 2013.

- **Strong Sponsorship from TransAlta Corp:** RNW leverages their sponsorship from TransAlta Corporation (TransAlta) which provides significant operating expertise, experience in constructing and developing new projects, and a proven team with a track record of growing businesses cash flows.

Industry Drivers/Trends:

Government Policy and Regulation:

- When the Paris Agreement was reached in December 2015, almost all of the countries in the world committed to limit global warming to well below two degrees Celsius relative to pre-industrial levels and have submitted 'intended nationally determined contributions' describing how they will either contain or reduce emissions over the next decade. Global investment in renewable power now far exceeds investment in fossil fuel plants; battery costs are falling and electric vehicle sales are rising.
- A recent report from the Intergovernmental Panel on Climate Change (IPCC) states that at our current trajectory, the world is headed toward three degrees Celsius of global warming by 2100, which would have dire consequences for human welfare. The IPCC report highlights that limiting global warming to 1.5 degrees is still achievable, but to meet that target, CO2 emissions would have to reach net zero by about 2055.
- We believe this poises an attractive growth opportunity for renewable power assets, and RNW is at the cutting edge of the future of global power generation.

Major Competitors:

- Brookfield Renewable Partners L.P., Emera Inc, Northland Power Inc., Algonquin Power and Utilities Corp., Alterra Power Corporation

Barriers to Entry:

- **High Capital Intensity:** New entrants would need to raise large sums of capital to develop the portfolio of power assets that RNW has established.
- **Management Experience Required:** RNW has the backing of TransAlta which bring significant operating experience to the business. Without management experience, new entrants would struggle to adequately compete for long term power purchase agreements.
- **Regulation:** The industry is highly regulated and it would be costly for new entrants to obtain the necessary regulatory approvals.

Officers & Directors:

John Kousinioris, President; **Brent Ward**, Chief Financial Officer; **Aron Willis**, Senior VP Growth; **Kathryne Higgins**, Managing Director and Corporate Controller

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Financial Summary:

Income Statement (CAD millions, years ended December 31st)

| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---------------------------|------|------|-------|------|------|------|
| Revenue | 233 | 236 | 259 | 459 | 462 | 446 |
| COGS | 13 | 13 | 23 | 97 | 98 | 83 |
| Gross Profit | 220 | 223 | 236 | 362 | 364 | 363 |
| Net Profit | 49 | 195 | (2) | 9 | 236 | 179 |
| Earnings per Share | 0.42 | 1.18 | -0.01 | 0.04 | 0.92 | 0.68 |

Balance Sheet

| | | | | | | |
|-----------------------|-------|-------|-------|-------|-------|-------|
| Total assets | 1,964 | 3,336 | 3,835 | 3,628 | 3,747 | 3,702 |
| Long-term debt | 464 | 649 | 972 | 793 | 883 | 887 |
| Total equity | 1,003 | 1,989 | 2,032 | 2,161 | 2,355 | 2,268 |

Statement of Cash Flow

| | | | | | | |
|-----------------------------|-------|-------|-------|-------|-------|-------|
| Cash from operations | 143 | 189 | 282 | 290 | 385 | 331 |
| Cash from investing | (7) | (410) | (241) | (65) | (137) | (126) |
| Cash from financing | (131) | 199 | (28) | (220) | (195) | (215) |
| Dividends paid | (88) | (130) | (194) | (212) | (230) | (221) |

Key Ratios and Figures (%)

| | | | | | | |
|-------------------------|-------|-------|-------|-------|-------|-------|
| Gross profit margin | 94.4% | 94.5% | 91.1% | 78.9% | 78.8% | 81.4% |
| Return on assets | 2.5% | 5.8% | -0.1% | 0.2% | 6.3% | 4.8% |
| Long-term debt / equity | 46.3% | 32.6% | 47.8% | 36.7% | 37.5% | 39.1% |

Source: MorningStar



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