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Origin Energy Finance Ltd

26 October 2022

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Issuer Outline

Origin Energy Finance Limited is the financing vehicle for Origin Energy Limited (Origin, Company). Founded in 1946, Origin is an integrated energy generator and retailer that engages in the sale of electricity, gas, broadband, and liquefied petroleum gas. Origin serves approximately 4.5 million customers across Australia, making it the largest retailer in the country.

The Company also owns and operates ten power stations across the coal and gas segments with generation capacity, including the Darling Downs Power Station, Roma Power Station, and Eraring Power Station (which is the largest in Australia). Origin also has a 27.5% stake in Australia Pacific LNG (APLNG), an integrated liquefied natural gas (LNG) export facility in Queensland, via a joint venture in conjunction with ConocoPhillips and Sinopec International.

Sector: Utilities
Sub-sector: Energy
Country: Australia
Ownership: Public

Key Financials (AUDm)

LTM (30 Jun)	2022
Revenue	14,567
EBITDA	2,114
Net Interest Expense	(129)
Total Assets	24,020
Cash	620
Total Debt	3,390
Adj. Net Debt / EBITDA	1.3x
EBITDA / Net Interest Exp.	16.4x

Source: Company Reports, S&P Capital IQ

Summary Bond Details

ISIN	Issue Amount	Ranking	Coupon	Coupon Frequency	First Call[1]	Maturity Date
AU3CB0267847	AUD 300m	Senior Unsecured	2.65%	Semi-Annual	11 Aug 2027[2]	11 Nov 2027

[1]*Excludes potential terms that would allow the issuer to redeem prior to the maturity date through a make-whole call.*
[2]*Subject to redemption premium using a discount rate equal to the relevant swap rate + 35bp.*

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Strengths

- Strong market position: Origin is the largest energy retailer across the four key markets in Australia (which makes up the National Electricity Market – New South Wales, Victoria, Queensland and South Australia). Its 4.5 million customers are approximately one-quarter of the total Australian market, and this market presence gives the Company additional benefits such as the ability to invest in operational and customer systems, diversification of earnings, and a demand underpinning new investments. Further, Origin's ample gas supply from long term contracts (a key differentiator from peers) and contracted gas transport and storage infrastructure provide the Company with the flexibility to direct gas to its highest value use.
- Cash flows from APLNG joint venture: Origin has a 27.5% ownership stake in APLNG, a LNG export project (after selling 10% during the year for about AUD1.96bn). Its part ownership has resulted in some substantial cash flows for the Company (in FY22, APLNG provided AUD2.1bn in the form of distributions), however, it is exposed to volatility (both gains and losses) from exposure to oil prices. Moody's commented that under sustained downside oil price scenarios, APLNG may require additional capital support from its sponsors. The need for such support would also be subject to APLNG's implementation of countermeasures. In this respect, Origin has taken productivity enhancements to reduce APLNG's operating costs. Recently, volatility has been driven by the Ukraine conflict as well as the transition away from coal, but these are the same conditions which have driven APLNG's profit to record highs.
- Gas production: Recent debate around domestic gas production (and potential reservation policy) has been seen as a cause for concern, however it is not necessarily a credit negative for APLNG (and therefore Origin). It's already the largest producer on the East Coast and has very significant reserves (more than sufficient to cover its long-term supply contract of LNG for exports, but also for domestic production). As such, any potential future domestic gas reservation policy would likely require lower new investment from APLNG compared to peers, noting such investment would likely result in upward price pressure which APLNG (and therefore Origin) would benefit from.
- Adequate liquidity: As at 30 June 2022, Origin had cash and equivalents of AUD620m in addition to undrawn bank facilities of AUD2.7bn, which is adequate to cover the Company's operating requirements over the next year. Origin's available liquidity is primarily set aside to repay debt maturities; the next significant maturity is AUD132m maturing in FY23. Rating agencies note their belief that refinancing risk is manageable because of Origin's solid operating fundamentals and the Company's track record of debt reductions and refinancing. The Company's planned closure of Eraring in mid-2025 should support its refinancing abilities as an increasing number of investors screen for ESG-related risk when making investment decisions.
- Conservative dividend policy: Origin has highlighted that it will target a dividend payout of 30%-50% of free cash flows. The cash flow measure should take care of fluctuations associated with distributions from APLNG owing to volatility in oil prices.

Risks

- Intense competition: Origin is subject to intense retail competition, particularly from tier two retailers. However, while customer churn is a common theme across the industry, Origin's customer churn remains well below the market rate.
- Planned closure of generation assets: Origin still owns a substantial generation fleet which historically has allowed the Company to benefit from elevated and volatile electricity prices. However, a number of generation stations will close over the short-to-medium term, including the Eraring station, meaning it will need to rely on third party generation to provide energy. Supply has become more volatile in recent months, and if maintained, could result in higher costs. Offsetting this is its owned and contracted renewables, proposed large scale batteries and intention to expand Origin Loop. The number of new power sources entering the market (including Snowy Hydro 2.0, and new renewable projects) will also help supply challenges. We also note that Origin's retail operations will provide an offset to the loss in generation. It has already undertaken a number of initiatives in anticipation of this change, expanding its service offering to include broadband and reducing operating and capital costs.

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- Regulatory uncertainty: Origin operates in an industry that is not only highly competitive, but also currently subject to high political sensitivity and uncertain energy policies. Mandatory implementation of the default market offer (DMO) and the Victorian Default Offer (VDO) for standing offer customers from 1 July 2019 is an example of the political scrutiny that the energy industry is currently facing. While rating agencies noted that this is not an immediate concern, the government has proposed some regulatory measures over the past 12-18 months, which if implemented, could have an impact on the players in the industry, including Origin.
- ESG risks: Increasing attention to ESG matters may adversely impact Origin's business and strategic objectives. In recent years, increasing attention has been given to corporate activities related to ESG matters in public discourse and the investment community. A number of advocacy groups have campaigned for governmental and private action to promote change at public companies related to ESG matters, including through the investment and voting practices of shareholder activists, investment advisers, and private fund managers. A failure to understand and respond to investor or public expectations and standards which are evolving, could cause Origin reputational harm and may adversely impact its business and strategic objectives. We note though that Origin's intention to accelerate the closure of Eraring as early as 2025 and targeting a 40% reduction in Scope 1, 2 and 3 emissions by 2030 are solid steps in reducing its exposure to carbon transition risk.

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