

Vector reports steady half year performance (18/02/09)

Vector Limited has produced a steady interim result for the six months to 31 December 2008 and is well positioned to cope with future economic uncertainty.

Group Chief Executive Officer Simon Mackenzie said the results are in line with the company's expectations and the board has recommended an interim dividend of 6.5 cents per share, payable on 14 April 2009, which is at the same level for the comparable period.

Mr Mackenzie said Vector is well positioned for the future and financially strong enough to take advantage of opportunities that arise, however he stressed that the company would not be complacent given the current economic environment.

"The continued uncertain business environment in New Zealand means we are all navigating uncharted waters. Despite this the board and management remain cautiously confident that the company's end of year financial results will be above analyst's current expectations.

"Beyond that, we can only speculate how the economic conditions will impact the business, however the board believes that actions taken over the last 18 months have strengthened the company's position in the first six months of the current financial year and will continue to do so."

Mr Mackenzie said net profit after tax (NPAT) from continuing operations was \$90.8 million, compared to \$77.4 million in the prior year. This is an increase of \$13.4 million. The continuing operations result excludes the results from the Wellington network in both periods and excludes the gain on sale. The company settled the \$785 million sale of its Wellington network in July 2008 and as a result realised a gain on the sale of \$202.9 million

This gain combined with the result from continuing operations and the 23 days of operation of the Wellington business in the current period, resulted in an NPAT from total operations of \$296.4 million as compared to the \$90.7 million reported last year.

Earnings before interest, income tax, depreciation and amortisation (EBITDA) have increased from \$281.5 million to \$313.2 million and revenue from continuing operations was down from \$611.2 million to \$609.5 million.

He said the company's balance sheet has been considerably strengthened by the repayment of \$560 million of debt, with a further repayment of \$200 million of fixed interest rate bonds scheduled for 4 March 2009. At the same time, the company has renegotiated banking facilities totalling \$275 million during the period. In addition, it recently announced a senior banking facility for a further \$50 million.

Mr Mackenzie said the company has seen a number of trends occurring as a result of the current economic conditions.

Overall electricity consumption on the Auckland networks has declined 1%, with residential consumption down 0.23%, consumption by large commercial and industrial customers was down by 2.35% while consumption by small industrial customers increased by 0.35%.

The rate of growth on new electricity connections has reduced 21% and new gas connections by 18% compared to the same period last year.

Throughput on the Auckland gas distribution network was down 3%, with a 4% reduction on large industrial customers' consumption. The non-Auckland distribution network throughput was in line with the same period last year.

"Gas transmission throughput declined 15.3% following reduced demand from thermal electricity generators in the last quarter of 2008 as a result of the increase in hydro lake levels.

"In our LPG business, bulk and on-sellers sales volumes were down 27.3% with sales volumes to residential customers down 12.2%, resulting in overall sales volumes decreasing by 18.3% against the previous comparative period. This decrease also results in a reduction of costs," Mr Mackenzie said.

However, OnGas continues to connect new residential customers to LPG, growing total customer numbers by 11% over the same period last year.

Mr Mackenzie said Vector will continue to strongly focus on its core business – driving costs out of its operations through greater efficiency, reviewing capital expenditure and focusing on delivering better outcomes for its customers.

He said a significant part of the company's business, electricity and gas distribution are subject to regulation by the Commerce Commission and continue to be a key area of focus for the organisation.

"The Commerce Commission has commenced work on resetting the second term of electricity price regulation which remains a significant area of focus for Vector. The current volatility in global capital markets and economic conditions will present significant challenges for the Commission when it determines how it will set price paths.

"Entering the price setting process, Vector continues to experience cost pressures such as tight capital markets which are keeping the cost of available funding high. Capital and operating costs continue to rise due to factors such as the weakening New Zealand dollar and infrastructure service costs."

Mr Mackenzie said in addition to regulatory challenges, another key focus for the company is the reliability and security of the transmission and generation segments of the electricity industry.

"The vulnerability of the electricity transmission network was exposed recently, when Transpower faults on the national grid resulted in Vector being instructed by Transpower to cut electricity supply to some customers.

"Vector supports the Government's recent announcement on transmission investment and clearing roadblocks to enable Transpower to proceed with critical investment in its transmission network.

"Additionally investment in electricity generation is needed, so we can be confident of a secure and reliable supply of energy into our networks and to our customers.

"Another key focus over the next period will be the Government's broadband initiative. We have already had discussions with the Government outlining how Vector can deliver a cost effective, quality fibre broadband service in a short timeframe. We believe the Government must stay on track with its bold vision to deliver a first world, high speed broadband service to New Zealanders."

He said Vector is well placed to deliver this infrastructure and coordinate with other network investors nationally if the arrangements meet the company's investment criteria.