

Investment Newsletter - September 2025



In this issue

- 1 Industry and Regulatory Updates
- 2 Regional Lines Companies Developments
- 3 Debt Issuance and Capital Market Activity
- 4 Interest rate outlook
- 5 Investment outlook

Robust results, Positive Outlook Ahead

August 2025 was defined by a busy reporting season across New Zealand's electricity sector, featuring strong financial results from major players, continued regulatory refinements to support competition and electrification, and strategic debt issuances to fund the renewable transition. Electricity demand rose 5.7% year-on-year, with 60% of the uplift driven by NZAS returning to full demand in late August for the first time in 14 months. The remaining 40% was attributable to colder-than-usual weather across the country.

Below, we summarise the key updates for distribution and transmission entities.

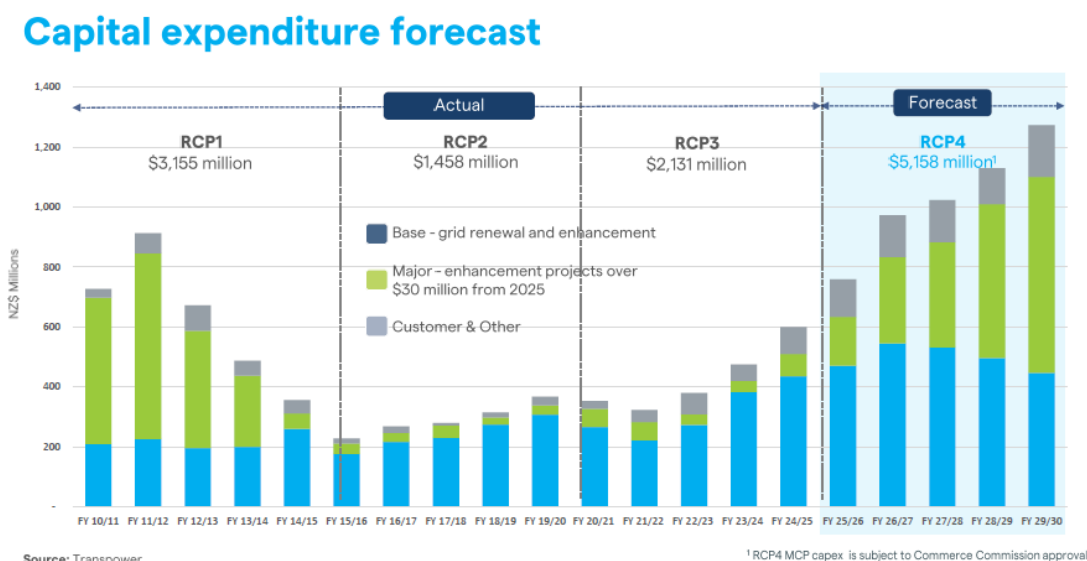
Reporting Season Wrap, solid results

Vector Limited reported strong FY25 results (ended June 30, 2025), with revenue from continuing operations up 9% to \$893.5 million and adjusted EBITDA rising 16% to \$401.1 million. Net profit after tax reached \$154.7 million, driven by investments in network reliability and resilience amid increasing electrification demands. Vector has provided guidance for Adjusted FY26 EBITDA (pre-capital contributions) of NZ\$470–490m, ahead of market expectations, primarily due to inflation-related wash-ups. Regulated price increases are the key driver of the projected ~20% EBITDA growth in FY26. As a key Auckland-based distributor, Vector's performance underscores the sector's stability.

Transpower New Zealand announced its FY25 results on August 29, with operating revenue increasing 6% to \$986 million and profit jumping 19% to \$107 million. The state-owned transmission operator exceeded dividend forecasts to the Crown, reflecting effective management during the transition to a new regulatory control period. These results affirm Transpower's critical role in the grid, aligning with our focus on transmission investments.

RCP4 will drive a significant increase in total capex to approximately NZ\$5 billion over the next five years, up from around NZ\$2 billion under RCP3. Partial debt funding of this capex could raise Transpower's debt by NZ\$1 billion between fiscal 2023 and 2026. The step-up in RCP4 capex reflects higher maintenance and asset replacement requirements due to an aging asset base, major electrification-driven projects, and new connection spending to support growth—including Waikato and Upper North Island upgrades, a substantial Cook Strait HVDC cable renewal (~NZ\$1.4 billion), and nationwide reliability improvements.

Figure 1. Transpower capital expenditure forecast



Source: Transpower

Regulatory and Central Government Policy Updates


On the government front, the Ministry of Business, Innovation and Employment (MBIE) released its "Energy in New Zealand 2025" report on August 21, highlighting a record high of 45.5% renewable energy in the primary supply and a 556 MW increase in renewable generation capacity. Central government policies emphasised accelerating renewable projects, with Energy Minister Simon Watts attending the APEC Energy Meeting to discuss regional collaboration. Additionally, a review commissioned by BusinessNZ recommended a new approach to electricity governance, potentially streamlining regulations to attract more investment into the sector. These policies underscore the government's commitment to doubling renewable generation, which bodes well for transmission upgrades to handle increased capacity.

Regional Lines Companies Developments

Major Capital Investment Programs

August saw ramp-up activities for **Contact's** expanded geothermal generation (Tauhara and Te Huka 3), completion of the Manawa Energy acquisition, and construction milestones for battery and solar assets, all of which are closely tied to regional lines company integration and future grid connections. These renewable investments play directly into network reinforcement priorities for regional EDBs, which are scaling up to handle more intermittent and distributed generation sources.

The Power Company Limited (TPCL) announced the "Hokonui Line," a new 110kV overhead transmission line to boost energy security, support industrial growth, and enable decarbonisation in eastern Southland.



The 12.5km line connects a new Transpower substation on Cuttance Road to a new Fonterra substation at Edendale and will deliver the capacity required for Fonterra's UHT plant and key site upgrades, supporting their transition away from coal.

Construction begins November 2025, with completion scheduled for August 2027. This project is a notable example of collaboration among infrastructure partners to facilitate regional growth and NZ's energy transition.

Debt Issuance and Capital Market Activity

More Green bond issuance

Debt markets remained active, with key players tapping green financing to support sustainability goals – a trend that supports our private credit strategy by highlighting robust demand for Sustainability-linked infrastructure funding.

Meridian Energy launched a NZ\$350 million Green Bond issue, maturing in 6.5 years. The coupon has been set at 4.55%, 1% over swap. S&P assigned a BBB+ rating (stable outlook) to the bonds in line with Meridian's issuer rating. Demand for this certified green debt underscores the sector's focus on sustainability and robust investor appetite for quality energy credit.

Mercury NZ received programmatic verification for its green bond framework in August, enabling further issuances up to NZ\$2.05 billion earmarked for sustainable assets. While no new issuance was completed in August, the company's integrated report highlighted ongoing green bond activities, including NZ\$200 million MCY020 bonds on issue as of June 30, 2025, supporting geothermal expansion. This activity signals continued appetite for green debt in the sector, potentially opening avenues for private credit extensions.

Official Cash Rate and Interest Rate Outlook

August marked a pivotal month for the Reserve Bank of New Zealand (RBNZ), with a 25 basis point (bp) reduction in the Official Cash Rate (OCR) to 3.00% on 20 August and clear signals of additional rate cuts ahead—the market (and the RBNZ) are forecasting a 2.50% OCR by late 2025. The latest Monetary Policy Statement (MPS) reflects the central bank's more dovish stance in the context of a stalling economy and gradual inflation moderation. Short-term swap rates quickly responded, falling 15–20bps, even as mortgage rates have yet to fully adjust downward. The transmission of lower funding costs may take time, as the OCR finds its new floor.

Economic Growth and Employment

The August 2025 MPS from the RBNZ signaled a clear shift to a more dovish monetary stance amid ongoing economic softness and inflation pressures easing within the target band.

Key Economic Forecasts from August MPS:

- **Inflation:** The RBNZ expects inflation to hover near 2.7% in the near term but gradually return to the 2.0% target midpoint by early 2026 as inflationary pressures ease and spare capacity in the economy persists.
- **GDP Growth:** Growth forecasts were revised down compared to earlier in 2025, anticipating a slow recovery with annual GDP growth near 0.5-0.7% in 2025 and around 1.0-1.2% in 2026. The RBNZ highlighted ongoing global trade headwinds and domestic demand softness.
- **Unemployment:** The labour market is expected to remain weak in the short term, with unemployment rising to 5.2% mid-2025 before slowly declining through 2026 as economic growth picks up.
- **Wage Growth:** Wage inflation is expected to moderate given labour market slack but remain sufficient to support gradual consumption growth without reigniting inflation.

Wholesale Swap Rates and Funding Conditions

NZD swap rates have fallen sharply since 20 August, reflecting expectations of further monetary easing. Narrower swap spreads over government bonds point to solid bank funding conditions and strong demand for fixed-rate exposure from borrowers.

Figure 2. Swap rates year to date



Source: RBNZ September 5, 2025

Investment Outlook

Transpower New Zealand remains a high-quality, low-risk investment at the core of New Zealand's electricity infrastructure sector, with S&P Global reaffirming its AA/Stable/A-1+ sovereign-aligned credit rating as of August 2025. This rating reflects Transpower's monopolistic position as the sole operator of the national transmission grid, 100% government ownership, and its critical role in supporting New Zealand's economy and energy security.

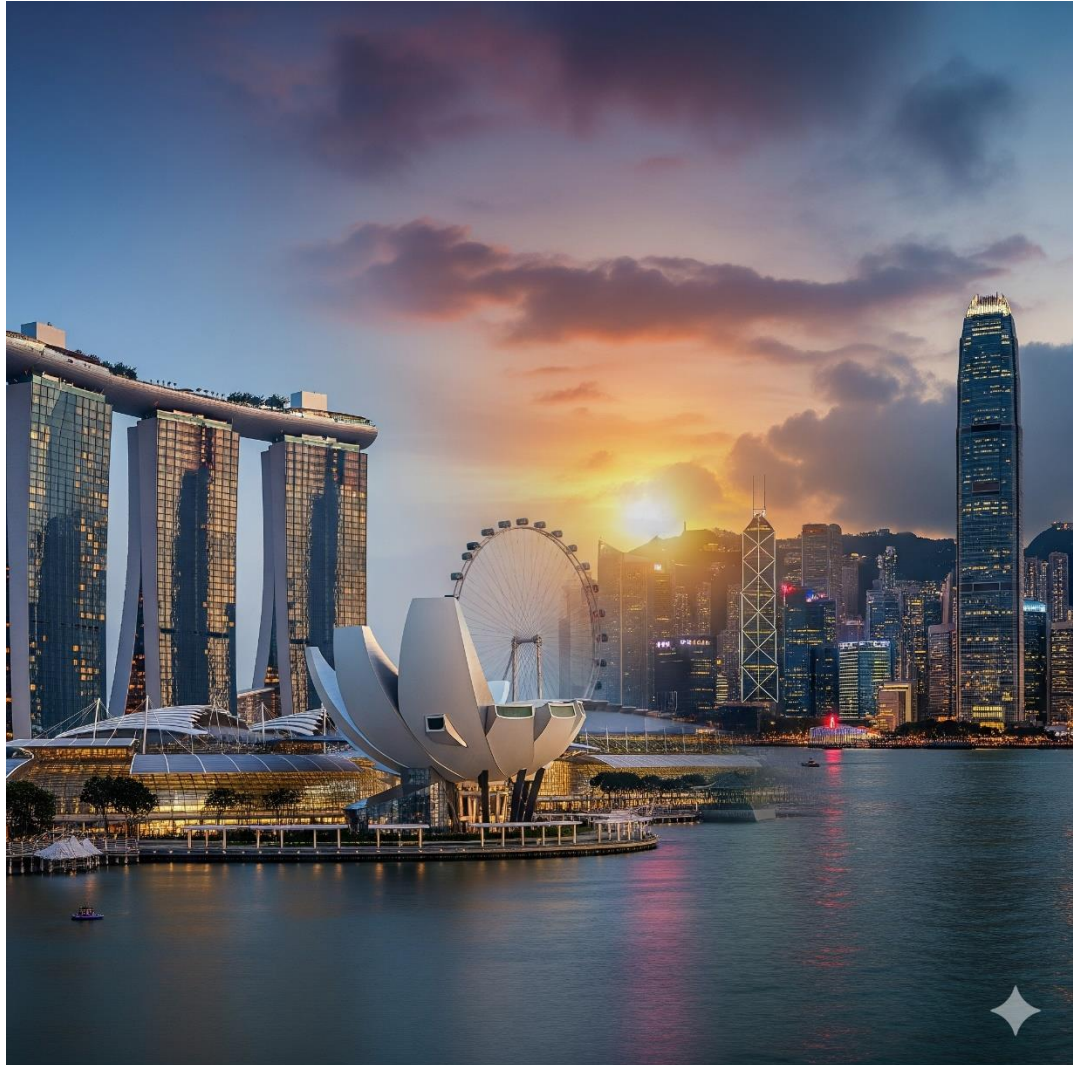
Key Strengths

- **Strong Government Support:** S&P views the likelihood of extraordinary Crown (government) support as "very high" due to Transpower's essential infrastructure status and full government ownership, ensuring stability even during financial stress.
- **Regulated, Predictable Cashflows:** Transpower's allowable revenues are set for each transparent five-year regulatory control period (currently RCP4, running to March 2030), with recovery of Commission-approved operating and capital expenditure, timely returns on commissioned assets, and systematic indexation to inflation.
- **Low Risk Profile:** The company benefits from an excellent business risk rating thanks to its regulated monopoly structure, high entry barriers, and stable regulatory environment, seen as comparable to mature markets like the UK and Australia.
- **Liquidity and Financial Flexibility:** Transpower maintains strong liquidity through consistent operating cashflow, sufficient cash balances, committed bank facilities, and flexible dividend policy to protect credit metrics during periods of high investment.

We continue to see NZ transmission and regulated EDBs as prime opportunities for private credit and institutional investors, offering long-term, defensive, low-risk exposure to essential infrastructure.

Upcoming Asia roadshow

The Fidelity Capital team will be attending the InvestNZ AIP roadshow in Asia. We will be in Singapore on 23 September and in Hong Kong from 24–26 September. If you would like to meet with us in person, please don't hesitate to reach out.



Contact us

Website

www.fc-energy.nz

TALK

+64-226265198

WhatsApp



Email:

Eric.wei@fidelitycp.nz Director Head of Global Markets

michael.vukcevic@fidelitycp.nz Director Capital market

marco.eugster@fidelitycp.nz Director Head of Infrastructure Investment

