Energy price surge prompts big earnings upgrade at British Gas owner Centrica

Centrica, the owner of British Gas, has raised its earnings forecast for 2022 on the back of soaring energy prices.

Shares surged to levels not seen since May 2019 following the company's update.

Centrica credited its electricity generation and gas production activities for the upgrade — as opposed to profitability at its household supply arm.

The company said it now expected full year adjusted earnings per share (EPS) above 30p.

EPS — a measure of profitability calculated through the number of shares in circulation — had previously stood at the upper end of a 15.1p to 26p guided range following several upgrades.

Because Centrica had reported EPS of 4.1p for 2021, the new forecast meant earnings were now expected to rise at least sevenfold on an annual basis.

Shares, which gained 53% during 2022, spiked by almost 7%.

The company, and rivals, all suffered tens of billions in losses when the COVID pandemic struck — leaving raw <u>energy</u> prices at lows not seen in modern times.

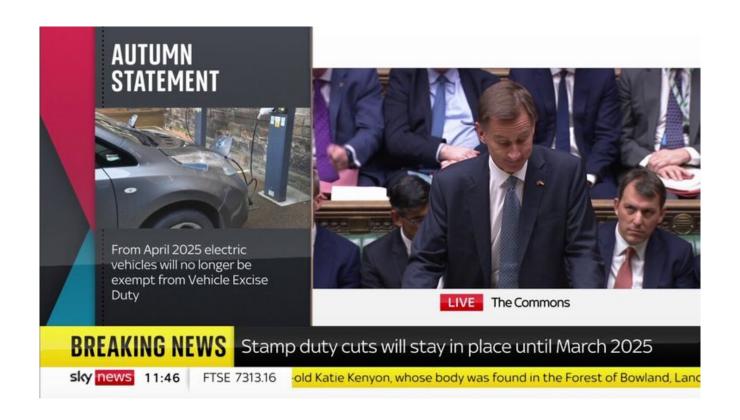
But as economies slowly got back in gear, and with demand outstripping supply, prices recovered.

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Wholesale gas costs later hit record levels and were kept high as supplies were squeezed amid Russia's war in Ukraine and the subsequent Western sanctions imposed on Moscow for its invasion.

The record profits enjoyed by big oil and the like placed a target on their back, with countries, including the UK, imposing windfall taxes to try and offset some of the pain being inflicted on households and businesses from record bills.

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Nov: 'I have no objection to windfall taxes'

Centrica is the subject of a 45% levy on electricity generators which began on 1 January.

It was announced by chancellor Jeremy Hunt in November as the government came under intense pressure from opposition parties and climate campaigners.

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The government estimates that its windfall taxes, including the energy profits levy, will raise £14bn in 2023.

Last week, Shell revealed it was expecting to take a £2bn hit from UK and EU windfall taxes combined.

Russ Mould, investment director at AJ Bell, said: "Higher energy prices are not bad news for everyone — with Centrica once again upgrading forecasts.

"How much credit the business itself can take for its revived fortunes is an open question but, for now, financial performance is undoubtedly strong."