ASX: APK	Bloomberg: APK AU	Reuters: APK.AX	**14 September 2009**

Australian Power and Gas Company

FY09 Result: It's all about hitting milestones, FY10 looking positive

Event

APK announced revenue of $72.75M - at the top end on the $72M - $73M range previously announced. This revenue has more than doubled from $34.5M reported in the previous financial year. An EBITDA loss of $2.47M was reported and was in line with guidance. APK also lifted its FY10 revenue guidance to $125M - $135M and FY10 EBITDA of $12M - $14M. We advised that we expected big things in FY10 and the updated FY10 guidance has delivered on this.

Implications

This is a strong result from the company and most importantly, it is delivering on its customer acquisition targets. APK still faces a number of hurdles, including debt reorganisation and rolling over reallocation agreements. Nonetheless we feel positive cash flow and positive earnings will attract debt and equity investors into the company. If APK hits its earnings guidance again, we feel the share price will continue to react favourably. Our valuation of APK increases from $0.35 to $0.44.

Investment Opinion

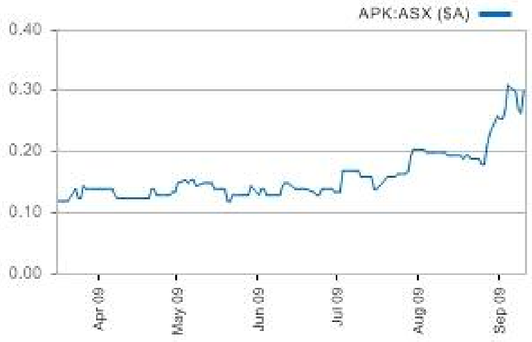
The research on this company has been commissioned and as such Aegis has received a fee for its initiation and ongoing research coverage.

No part of either the fee received by Aegis or the compensation paid to its analysts involved in preparing this report was, is or will be directly or indirectly, related to the valuation, earnings forecast or views expressed in this report.

Key Information

Share Price	**$0.31**
Valuation	**$0.44**

Price Performance



Market Statistics

Market Cap (M)	$35
Shares (M)	117.9
% of All Ords	0.00
% of Sector	0.20
12 Month Range	$0.12 - $0.31
Company Risk	★☆☆☆☆
Share Price Risk	★☆☆☆☆
Ethical rating	★☆☆☆☆

Performance against indices (%)

	3 Months	6 Months	12 Months
APK	>99	>99	50.0
Sector	(2.1)	8.4	(19.5)
Market	13.2	39.5	(7.3)

Key Assumptions

Beta:	2.2
Market risk premium (%):	6.0
Risk free rate (%):	6.3
WACC (%):	17.1
Forecast cashflow (years):	10
Residual value % of total valuation:	18.4
Nominal terminal growth rate (%):	3.0

Earnings Summary

Yr to Jun	NPAT Rep $M	NPAT[1] Adj $M	EPS[1] c	EPS chg %	PER x	PER rel All Ords x	PER rel Sector x	DPS c	Yield %	Franking %	ROE %
2008A	**(10.8)**	**(10.8)**	(9.8)	n/a	**(3.2)**	(0.2)	(0.1)	0.0	**0.0**	0	(21.9)
2009A	**(9.9)**	**(9.4)**	(8.3)	n/a	**(3.7)**	(0.2)	(0.2)	0.0	**0.0**	0	(24.7)
2010F	**4.1**	**4.1**	3.5	n/a	**8.8**	0.6	0.8	0.0	**0.0**	0	12.6
2011F	**12.4**	**12.4**	10.5	198.1	**2.9**	0.2	0.3	0.0	**0.0**	0	30.3

[1] NPAT and EPS are adjusted by removing non-recurring items. All the above statistics are derived from normalised earnings.

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Australian Power and Gas Company

Valuation: $0.44 | Company risk [1]: ★☆☆☆☆ | Share Price risk [1]: ★☆☆☆☆ | Ethical rating [2]: ★☆☆☆☆

Year end Jun. All figures in A$M

Profit & loss summary	2008A	2009A	2010F	2011F
Operating revenue	**34.5**	**72.8**	**132.2**	**159.4**
Invest & other income	1.6	6.9	1.8	(0.6)
EBITDA	**(6.9)**	**(1.8)**	**13.3**	**22.2**
Depreciation/Amort	(5.3)	(7.0)	(5.2)	(3.1)
EBIT	**(12.3)**	**(8.7)**	**8.1**	**19.1**
Net Interest	(3.3)	(4.8)	(2.2)	(1.4)
Pre-tax profit	**(15.6)**	**(13.5)**	**5.9**	**17.7**
Tax expense	4.8	4.2	(1.8)	(5.3)
Minorities/Assoc./Prefs	0.0	0.0	0.0	0.0
NPAT	**(10.8)**	**(9.4)**	**4.1**	**12.4**
Non recurring items	0.0	(0.5)	0.0	0.0
Reported profit	**(10.8)**	**(9.9)**	**4.1**	**12.4**
NPAT add Goodwill & Pref	0.0	0.0	0.0	0.0
Adjusted profit	**(10.8)**	**(9.4)**	**4.1**	**12.4**

Ratio analysis	2008A	2009A	2010F	2011F
Revenue growth (%)	>1000	111.0	81.7	20.6
EBITDA growth (%)	n/a	n/a	n/a	67.4
EPS growth (%)	n/a	n/a	n/a	198.1
EBITDA/Sales margin (%)	(20.2)	(2.4)	10.0	13.9
EBIT/Sales margin (%)	(35.6)	(12.0)	6.1	12.0
Tax rate (%)	30.8	30.7	30.0	30.0
Net debt/equity (%)	30.0	69.0	55.8	17.2
Net debt/net debt + equity (%)	23.1	40.8	35.8	14.6
Net interest cover (x)	(3.7)	(1.8)	3.7	13.2
Payout ratio (%)	0.0	0.0	0.0	0.0
Capex to deprec'n (%)	48.8	32.9	0.0	0.0
NTA per share ($)	0.14	(0.08)	(0.03)	0.15
ROA (%)	(16.9)	(11.5)	8.9	18.8
ROE (%)	(21.9)	(24.7)	12.6	30.3

Cashflow summary	2008A	2009A	2010F	2011F
EBITDA	**(6.9)**	**(1.8)**	**13.3**	**22.2**
Working capital changes	7.1	4.2	(2.8)	(2.3)
Interest and tax	(0.8)	(2.1)	(2.9)	(4.9)
Other operating items	(17.4)	(10.0)	(5.6)	(3.4)
Operating cashflow	**(18.2)**	**(9.6)**	**2.0**	**11.6**
Required capex	(0.0)	(0.0)	(0.1)	(0.2)
Maintainable cashflow	**(18.2)**	**(9.6)**	**1.9**	**11.5**
Dividends	0.0	0.0	0.0	0.0
Acq/Disp	0.1	0.0	0.0	0.0
Other investing items	(0.9)	0.0	0.0	0.0
Free cashflow	**(19.0)**	**(9.6)**	**1.9**	**11.5**
Equity	3.5	0.0	0.0	0.0
Debt inc/(red'n)	12.9	9.2	(1.9)	(11.5)

Multiple analysis	2008A	2009A	2010F	2011F
Market cap (M)		35		
Net debt ($M)		19.6		
Peripheral assets ($M)		(0.0)		
Enterprise value ($M)		**55.0**		
EV/EBIT (x)	**(4.5)**	**(6.3)**	**6.8**	**2.9**
EV/EBITDA (x)	**(7.9)**	**(31.3)**	**4.1**	**2.5**
EV/EBITDA All Ind (x)	7.5	7.4	6.9	6.3
EV/EBITDA rel All Ind (x)	(1.1)	(4.2)	0.6	0.4
P/E (x)	**(3.2)**	**(3.7)**	**8.8**	**2.9**
P/E rel All Ind (x)	(0.2)	(0.2)	0.6	0.2
P/E rel All Ind ex banks (x)	(0.2)	(0.2)	0.6	0.2
P/E sector (x)	24.2	21.1	11.2	9.8
P/E rel sector (x)	(0.1)	(0.2)	0.8	0.3

Balance sheet	2008A	2009A	2010F	2011F
Cash & deposits	3.1	5.5	0.0	0.0
Inventories	0.0	0.0	0.0	0.0
Trade debtors	14.3	21.0	38.6	48.4
Other curr assets	12.2	10.0	10.0	10.0
Total current assets	**29.6**	**36.5**	**48.6**	**58.4**
Prop., plant & equip.	0.1	0.4	0.4	0.4
Non-curr intangibles	36.3	36.6	37.2	37.5
Non-curr investments	3.8	0.0	0.0	0.0
Other non-curr assets	5.6	11.9	11.9	11.9
Total assets	**75.4**	**85.3**	**98.0**	**108.1**
Trade creditors	10.1	23.8	38.6	46.1
Curr borrowings	4.9	4.4	3.5	3.5
Other curr liabilities	0.5	0.6	1.9	3.8
Total current liab.	**15.5**	**28.8**	**44.1**	**53.4**
Borrowings	11.9	22.6	16.0	4.6
Other non-curr liabilities	2.8	2.8	2.8	2.8
Total liabilities	**30.1**	**54.2**	**62.9**	**60.8**
Minorities/Convertibles	0.0	0.0	0.0	0.0
Shareholders equity	**45.5**	**31.1**	**35.1**	**47.3**

Assumptions	2008A	2009A	2010F	2011F
GDP growth (%)	3.58	0.50	0.00	1.40
Interest Rates (%)	7.38	4.88	2.30	2.49
Inflation (%)	3.40	3.65	2.50	2.50

Notes: 1. The risk ratings are on a 12 month perspective, where five stars denotes low risk and one star denotes high risk. Company risk takes into account expected financial, strategic and execution risks associated with the company. Share price risk is a measure of the expected volatility of the price and other trading factors.
2. The Ethical rating rates a company on an ethical investment basis where five stars denote very good and one star a poor rating. The score is based on four key factors: areas of operating, environmental, corporate governance and social factors. For more information see www.aegis.com.au.

TABLE 1: FY09 RESULT SUMMARY

For the 12 months ended**:		pcp Jun-08	Aegis Jun-09	Actual Jun-09	Change pcp	Change Aegis
Sales revenue	:$M	**34.5**	**70.9**	**72.8**	+111%	+3%
EBITDA	:$M	**-6.9**	**-2.1**	**-1.8**	-75%	-18%
Depreciation & amort	:$M	-5.3	-4.8	-7.0	+31%	+46%
EBIT	:$M	**-12.3**	**-6.9**	**-8.7**	-29%	+26%
Net Int Expense	:$M	-3.3	-3.5	-4.8	+45%	+38%
Profit Before Tax	:$M	**-15.6**	**-10.4**	**-13.5**	-13%	+30%
Tax on Recurring	:$M	4.8	3.0	4.2	-14%	+37%
Profit After Tax	:$M	**-10.8**	**-7.4**	**-9.4**	-13%	+28%
Minorities/Associates	:$M	0.0	0.0	0.0		
Preference Dividends	:$M	0.0	0.0	0.0		
NPAT	:$M	**-10.8**	**-7.4**	**-9.4**	-13%	+28%
Non Recurring (net of Tax)	:$M	0.0	-1.3	-0.5		-62%
Reported Profit	:$m	**-10.8**	**-8.7**	**-9.9**	-8%	+14%
** All numbers are adj. for non-recurring items except Reported Profit						
PER SHARE DATA		**Jun-08**	**Jun-09**	**Jun-09**		
Average weighted Capital, fully diluted	:M	110	111	113	+2%	+2%
E.P.S. on Adj profit	:cents	-9.8	-6.6	-8.3	-15%	+25%
D.P.S.	:cents	0.0	0.0	0.0		
Franking	:%	0	0	0		
Payout Ratio		0%	0%	0%	+0%	+0%
RATIOS		**Jun-08**	**Jun-09**	**Jun-09**		
EBITDA Margin	:%	-20.2	-3.0	-2.4	+17.7%	+0.6%
EBIT Margin	:%	-35.6	-9.8	-12.0	+23.6%	-2.2%
Effective Tax rate	:%	30.8	29.2	30.7	-0.1%	+1.4%

Source: APK / Aegis Equities

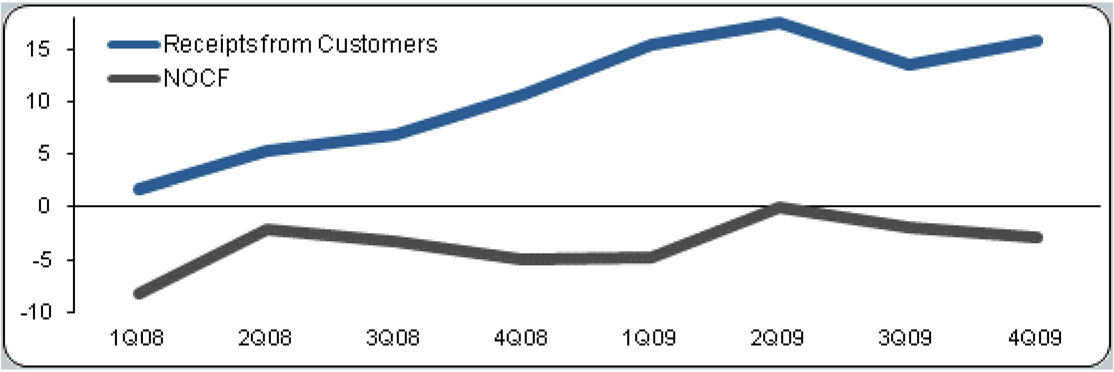
Result Highlights

- **FY09 revenue** was $72.8M and averaged ~$944 per billable customer account. This was driven by a further 40,000 customers acquired, bringing total customers at 30 June 2009 to greater than 120,000. Billable customer accounts at 30 June 2009 totaled 100,100, which was slightly above the company's initial target of >100,000 customers and is an important milestone.
- **Cost of sales** was $58.2M and resulted in a gross margin of 20.0%, which was up on the FY08 margin of 14.5%, driven by increases in retail prices and the benefits from the long term wholesale price arrangements put in place during prior years.
- **Operating expenses** before interest, tax, depreciation and amortisation for the year totaled $17.2M and represented 23% of revenue, against 36% in the prior period. The main categories of expenses were:
    - Employee expense of $4.75M (FY08: $4.63M), driven by nine additional full time employees (FY08: 24).
    - Operational expenses of $8.76M (FY08: $4.80M) relate to the costs of servicing customers and reflected the growth of the customer base;
    - Administration expenses of $1.3M (FY08: $1.75M);
    - Bad debts allowance $1.10M (FY08: $0.65M), which is in line with industry rates;
    - Sales and marketing expenses of $0.36M (FY08: $0.59M);
    - An unrealised exchange loss of $0.847M (FY08: nil), arising from the conversion at balance date of a US denominated loan.
- **EBITDA** was a loss of $2.5M and reflects the continuing development phase of APK. Positively, this was in line with the company's forecast and implies the second half broke even.
- **Finance costs** of $4.8M were up on the pcp due to higher interest rates and a greater utilisation of debt facilities in the growth of the group's business. This was materially above our forecasts, but reflects the way we treat the company's convertible notes.
- **A net loss after tax** of $9.9M was recorded, which is an improvement on the pcp's result of a loss of $10.8M.
- **Outlook** - APK lifted its FY10 revenue guidance to $125M - $135M and FY10 EBITDA of $12M - $14M.

Cashflow

- Cash and cash equivalents at 30 June 2009 were $5.5M (FY08: $5.9M). The cash balance includes amounts held as security for guarantees issued to suppliers of $2.8M (FY08: $2.8M).
- Operating cash flow was negative $9.7M, which was broadly in line with our expectations. This was funded by a combination of net change in cash on hand of $369K, convertible note issue of $1.2M and draw downs on debt facilities of $9.5M, less repayments of $1.5M.
- The cash shortfall for the year was expected; however, importantly, 2Q09 cashflow was positive. If customer acquisition tracks in line with our forecasts, APK should again generate positive operating cashflow in 2Q10 and *ceteris paribus*, we forecast APK to generate positive FY10 operating cashflow - this will be the company's next major milestone, in our view.

FIGURE 1: QUARTERLY CASH FLOW ($M)



Source: APK / Aegis Equities

Summary and Outlook

- This is a strong result from the company and most importantly, it is delivering on its customer acquisition targets. APK still faces a number of hurdles, including debt reorganisation and rolling over reallocation agreements. Nonetheless we feel positive cash flow and positive earnings will attract debt and equity investors into the company.
- If APK hits its earnings guidance again, we feel the share price will continue to react favourably.
- Our valuation of APK increases from $0.35 to $0.44.

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