

# 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

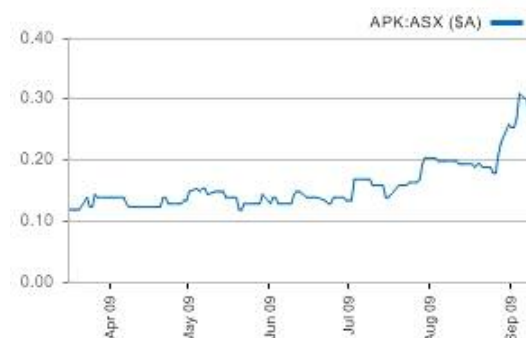
The research on this company has been commissioned and as such Aegis has received a fee for its initiation and ongoing research coverage.

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### 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 <sup>1</sup> Adj \$M	EPS <sup>1</sup> 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

<sup>1</sup> NPAT and EPS are adjusted by removing non-recurring items. All the above statistics are derived from normalised earnings.

# Australian Power and Gas Company

Valuation: \$0.44

Company risk <sup>1</sup>: ★★★★★

Share Price risk <sup>1</sup>: ★★★★★

Ethical rating <sup>2</sup>: ★★★★★

Year end Jun. All figures in A\$M

<b>Profit &amp; loss summary</b>					<b>Ratio analysis</b>				
	2008A	2009A	2010F	2011F		2008A	2009A	2010F	2011F
<b>Operating revenue</b>	<b>34.5</b>	<b>72.8</b>	<b>132.2</b>	<b>159.4</b>	Revenue growth (%)	>1000	111.0	81.7	20.6
Invest & other income	1.6	6.9	1.8	(0.6)	EBITDA growth (%)	n/a	n/a	n/a	67.4
<b>EBITDA</b>	<b>(6.9)</b>	<b>(1.8)</b>	<b>13.3</b>	<b>22.2</b>	EPS growth (%)	n/a	n/a	n/a	198.1
Depreciation/Amort	(5.3)	(7.0)	(5.2)	(3.1)	EBITDA/Sales margin (%)	(20.2)	(2.4)	10.0	13.9
<b>EBIT</b>	<b>(12.3)</b>	<b>(8.7)</b>	<b>8.1</b>	<b>19.1</b>	EBIT/Sales margin (%)	(35.6)	(12.0)	6.1	12.0
Net Interest	(3.3)	(4.8)	(2.2)	(1.4)	Tax rate (%)	30.8	30.7	30.0	30.0
<b>Pre-tax profit</b>	<b>(15.6)</b>	<b>(13.5)</b>	<b>5.9</b>	<b>17.7</b>	Net debt/equity (%)	30.0	69.0	55.8	17.2
Tax expense	4.8	4.2	(1.8)	(5.3)	Net debt/net debt + equity (%)	23.1	40.8	35.8	14.6
Minorities/Assoc./Prefs	0.0	0.0	0.0	0.0	Net interest cover (x)	(3.7)	(1.8)	3.7	13.2
<b>NPAT</b>	<b>(10.8)</b>	<b>(9.4)</b>	<b>4.1</b>	<b>12.4</b>	Payout ratio (%)	0.0	0.0	0.0	0.0
Non recurring items	0.0	(0.5)	0.0	0.0	Capex to deprec'n (%)	48.8	32.9	0.0	0.0
<b>Reported profit</b>	<b>(10.8)</b>	<b>(9.9)</b>	<b>4.1</b>	<b>12.4</b>	NTA per share (\$)	0.14	(0.08)	(0.03)	0.15
NPAT add Goodwill & Pref	0.0	0.0	0.0	0.0	ROA (%)	(16.9)	(11.5)	8.9	18.8
<b>Adjusted profit</b>	<b>(10.8)</b>	<b>(9.4)</b>	<b>4.1</b>	<b>12.4</b>	ROE (%)	(21.9)	(24.7)	12.6	30.3
<b>Cashflow summary</b>					<b>Multiple analysis</b>				
	2008A	2009A	2010F	2011F		2008A	2009A	2010F	2011F
<b>EBITDA</b>	<b>(6.9)</b>	<b>(1.8)</b>	<b>13.3</b>	<b>22.2</b>	Market cap (M)		35		
Working capital changes	7.1	4.2	(2.8)	(2.3)	Net debt (\$M)		19.6		
Interest and tax	(0.8)	(2.1)	(2.9)	(4.9)	Peripheral assets (\$M)		(0.0)		
Other operating items	(17.4)	(10.0)	(5.6)	(3.4)	<b>Enterprise value (\$M)</b>		<b>55.0</b>		
<b>Operating cashflow</b>	<b>(18.2)</b>	<b>(9.6)</b>	<b>2.0</b>	<b>11.6</b>	<b>EV/EBIT (x)</b>	<b>(4.5)</b>	<b>(6.3)</b>	<b>6.8</b>	<b>2.9</b>
Required capex	(0.0)	(0.0)	(0.1)	(0.2)	<b>EV/EBITDA (x)</b>	<b>(7.9)</b>	<b>(31.3)</b>	<b>4.1</b>	<b>2.5</b>
<b>Maintainable cashflow</b>	<b>(18.2)</b>	<b>(9.6)</b>	<b>1.9</b>	<b>11.5</b>	EV/EBITDA All Ind (x)	7.5	7.4	6.9	6.3
Dividends	0.0	0.0	0.0	0.0	EV/EBITDA rel All Ind (x)	(1.1)	(4.2)	0.6	0.4
Acq/Disp	0.1	0.0	0.0	0.0	<b>P/E (x)</b>	<b>(3.2)</b>	<b>(3.7)</b>	<b>8.8</b>	<b>2.9</b>
Other investing items	(0.9)	0.0	0.0	0.0	P/E rel All Ind (x)	(0.2)	(0.2)	0.6	0.2
<b>Free cashflow</b>	<b>(19.0)</b>	<b>(9.6)</b>	<b>1.9</b>	<b>11.5</b>	P/E rel All Ind ex banks (x)	(0.2)	(0.2)	0.6	0.2
Equity	3.5	0.0	0.0	0.0	P/E sector (x)	24.2	21.1	11.2	9.8
Debt inc/(red'n)	12.9	9.2	(1.9)	(11.5)	P/E rel sector (x)	(0.1)	(0.2)	0.8	0.3
<b>Balance sheet</b>					<b>Assumptions</b>				
	2008A	2009A	2010F	2011F		2008A	2009A	2010F	2011F
Cash & deposits	3.1	5.5	0.0	0.0	GDP growth (%)	3.58	0.50	0.00	1.40
Inventories	0.0	0.0	0.0	0.0	Interest Rates (%)	7.38	4.88	2.30	2.49
Trade debtors	14.3	21.0	38.6	48.4	Inflation (%)	3.40	3.65	2.50	2.50
Other curr assets	12.2	10.0	10.0	10.0					
<b>Total current assets</b>	<b>29.6</b>	<b>36.5</b>	<b>48.6</b>	<b>58.4</b>					
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					
<b>Total assets</b>	<b>75.4</b>	<b>85.3</b>	<b>98.0</b>	<b>108.1</b>					
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					
<b>Total current liab.</b>	<b>15.5</b>	<b>28.8</b>	<b>44.1</b>	<b>53.4</b>					
Borrowings	11.9	22.6	16.0	4.6					
Other non-curr liabilities	2.8	2.8	2.8	2.8					
<b>Total liabilities</b>	<b>30.1</b>	<b>54.2</b>	<b>62.9</b>	<b>60.8</b>					
Minorities/Convertibles	0.0	0.0	0.0	0.0					
<b>Shareholders equity</b>	<b>45.5</b>	<b>31.1</b>	<b>35.1</b>	<b>47.3</b>					

**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](http://www.aegis.com.au).

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TABLE 1: FY09 RESULT SUMMARY

For the 12 months ended**:		pcp	Aegis	Actual	Change	
		Jun-08	Jun-09		Jun-09	pcp
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						
<b>PER SHARE DATA</b>		<b>Jun-08</b>	<b>Jun-09</b>	<b>Jun-09</b>		
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%
<b>RATIOS</b>		<b>Jun-08</b>	<b>Jun-09</b>	<b>Jun-09</b>		
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

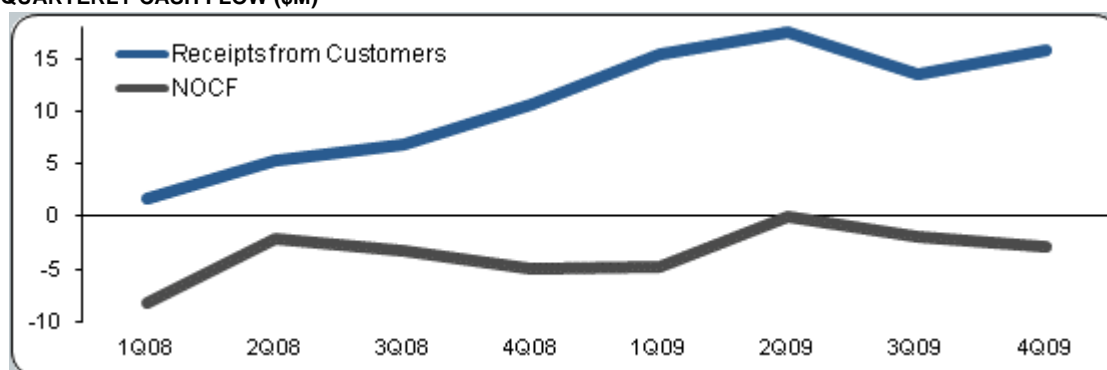
- **FY09 revenue** was \$72.8M and averaged ~\$944 per billable customer account. This was driven by a further 40,000 customers acquired, bringing total customers at 30 June 2009 to greater than 120,000. Billable customer accounts at 30 June 2009 totaled 100,100, which was slightly above the company's 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.

# Australian Power and Gas Company

## 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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