



Locality Planning Energy (ASX: LPE)

Growth on track as funding path progresses

15 February 2017

- **LPE announced today (15 February 2017) that it had raised ~A\$5.8m through the issue of ~289m shares at A\$0.02ps.**
- Proceeds will be used to convert properties currently under contract to under management, along with accelerating growth throughout SE Queensland and into regional NSW.
- Management indicates that the equity injection is also likely to assist the group in securing a bank debt facility (negotiations currently taking place) to further support the growth strategy.

State One comments

- We see February's equity injection, plus the increasing likelihood of successfully securing debt funding, as critical in meeting the group's objective of growing sales from the current 80GWh (as at end January 2017), to 450GWh by mid-2020. At an estimated capex of ~A\$2.5m for each 50GWh in additional sales, we calculate that LPE's growth path requires a capex spend of A\$18.5m over the next 3 to 4 years.
- With sales at 80GWh in January 2017 (+7.8GWh on December 2016), we suggest that our current sales forecast of 100GWh by June 2017 now looks somewhat conservative. Importantly, management states that at a sales level of 100GWh, LPE will transition to being operationally cash flow positive. Thus, by the middle of the year, we believe that LPE could be in a position to contribute to its capex/growth strategy from internally generated cash flows.
- The placement brought eight (8) institutional investors onto the company register. We believe this is a strong endorsement of management's ability, the business model, and the group's overall growth strategy.

DCF/PER-derived target price: A\$4.0cps (up from A\$3.6cps)

We believe that the risk to LPE's growth profile - securing funding to support up-front capex (primarily the metering system) - has been significantly reduced as a result of the successful (institutionally supported) capital raise. We have increased our DCF/PER-derived target price to A\$4.0c per fully-diluted share (previously A\$3.5cps) and **maintain a Speculative Buy (Higher Risk) recommendation.**

Key Financials

Year-end June	FY16A	FY17E	FY18E	FY19E	FY20E
Electricity billed (GWh)	15	74	182	295	408
Effective ARP (A\$/GWh)	78,125	151,625	189,606	206,984	217,308
Customer receipts (A\$m)	1.8	11.2	34.5	61.0	88.6
Retail usage (A\$m)	(0.6)	(3.7)	(11.3)	(20.0)	(29.1)
Network charges (A\$m)	(0.7)	(4.6)	(14.1)	(25.0)	(36.3)
Other (A\$m)	(0.2)	(0.9)	(2.8)	(5.0)	(7.3)
Total COGS (A\$m)	(1.4)	(9.2)	(28.3)	(50.0)	(72.6)
Trading margin (A\$m)	0.3	2.0	6.2	11.0	15.9
Normalised NPAT (A\$m)	(2.2)	(1.2)	2.3	4.6	7.9
EPS Reported (A\$c)	(0.6)	(0.1)	0.1	0.2	0.3
EPS Normalised (A\$c)	(0.2)	(0.1)	0.1	0.2	0.3
DPS (A\$c)	-	-	-	-	-
PER (x)	na	na	28	14	8.0
Net debt / (cash) (A\$m)	(2.4)	(6.9)	(2.4)	(2.3)	(5.0)
Capex (A\$m)	(2.4)	(2.5)	(6.25)	(5.0)	(6.25)

Source: IRESS, Company Data, State One Stockbroking. Share price: \$ 0.024 Feb 15, 2017

Share Price: A\$2.4c

Target Price: A\$4.0c

Recommendation
Speculative Buy

Risk Assessment
Higher

Utilities – Electricity Retail

David Brennan, CFA

Senior Investment Analyst

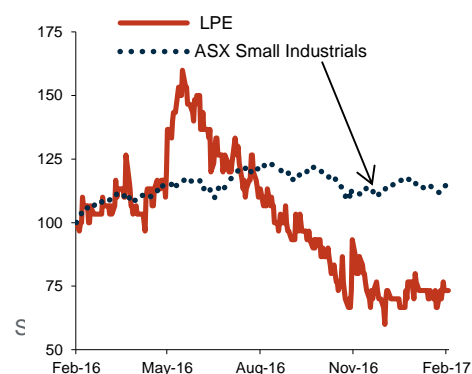
dbrennan@stateone.com.au

+61 (0)2 9024 9142

Locality Planning Energy

ASX Code	LPE
52 week range (A\$cps)	A\$2c-A\$5c
Quoted shares on issue (m)	867
M'Cap undiluted (A\$m)	19
Fully diluted no. of shares (m)	2,614
M'Cap diluted (A\$m)	52
2017E BV per share (A\$c)	A\$0.5c
2017E EPS (A\$c)	-A\$0.1c
2017E Net Debt/(Cash) (A\$m)	-6.9

Relative price performance



Financial Statements

Locality Planning Energy

Year ending June

Profit & Loss Statement (A\$m)	FY16A	FY17E	FY18E	FY19E	FY20E
Revenue	1.8	11.2	34.5	61.0	88.6
COGS	(1.4)	(9.2)	(28.3)	(50.0)	(72.6)
Employee/Professional	(2.1)	(2.7)	(3.1)	(3.2)	(3.3)
Other	(0.4)	(0.3)	(0.3)	(0.3)	(0.3)
EBITDA	(2.1)	(1.0)	2.8	7.5	12.4
Depreciation & Amortisation	(0.1)	(0.3)	(0.5)	(0.8)	(1.0)
Operating profit	(2.2)	(1.3)	2.3	6.7	11.4
NOI	(6.4)	(0.3)	0.0	0.0	0.0
EBIT	(8.7)	(1.5)	2.3	6.7	11.4
Interest income	0.0	0.1	0.2	0.2	0.2
Interest expense	(0.1)	(0.0)	(0.2)	(0.4)	(0.3)
Tax expense	0.1	0.0	0.0	(2.0)	(3.4)
Reported NPAT	(8.6)	(1.5)	2.3	4.6	7.9
Normalised NPAT	(2.2)	(1.2)	2.3	4.6	7.9
EBITDA Margin (%)	-120%	-9%	8%	12%	14%
Operating profit margin (%)	-127%	-11%	7%	11%	13%
EPS Reported (A\$c)	(0.6)	(0.1)	0.1	0.2	0.3
EPS Normalised (A\$c)	(0.2)	(0.1)	0.1	0.2	0.3
EPS growth (%)	nm	nm	nm	103%	71%
DPS - Declared (A\$c)	0.0	0.0	0.0	0.0	0.0
Avg. no. of fully-diluted shares (m)	846	1,842	2,471	2,614	2,614
YE no. of fully-diluted shares (m)	1,357	2,327	2,614	2,614	2,614

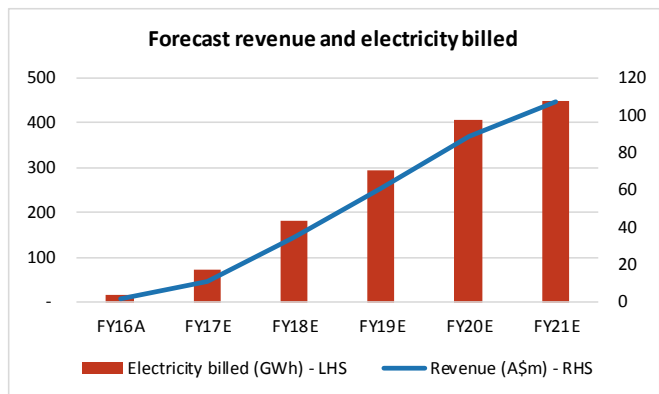
Cash Flow Statement (A\$m)	FY16A	FY17E	FY18E	FY19E	FY20E
EBITDA	(2.1)	(1.0)	2.8	7.5	12.4
Investment in working capital	(0.3)	(0.1)	(1.0)	(0.5)	0.1
Tax expense	0.1	0.0	0.0	(2.0)	(3.4)
Operating Cash Flow	(2.3)	(1.1)	1.8	5.1	9.1
Capex	(2.4)	(2.5)	(6.25)	(5.0)	(6.25)
Other investments	0.0	0.0	0.0	0.0	0.0
Investing Cash Flow	(2.4)	(2.5)	(6.25)	(5.00)	(6.25)
Net interest received / (paid)	(0.0)	0.1	(0.0)	(0.2)	(0.1)
Debt draw down / (repayment)	(0.2)	0.0	5.0	(1.0)	(1.0)
Dividends paid	0.0	0.0	0.0	0.0	0.0
Equity raised / (repaid)	13.3	8.4	0.0	0.0	0.0
Financing Cash Flow	13.1	8.5	5.0	(1.2)	(1.1)
Non-operating & Other	(5.7)	(0.3)	0.0	0.0	0.0
Inc/(Dec) in Cash	2.6	4.5	0.5	(1.1)	1.7

Balance Sheet (A\$m)	FY16A	FY17E	FY18E	FY19E	FY20E
Cash & Equivalents	2.6	7.2	7.7	6.6	8.3
Receivables	1.0	1.1	3.1	4.9	6.2
Inventories	0.0	0.0	0.0	0.0	0.0
Other Current Assets	0.0	0.0	0.0	0.0	0.0
PPE and Exploration & Development	0.4	2.7	8.4	12.7	17.9
Deferred tax asset	0.0	0.0	0.0	0.0	0.0
Other Non Current Assets	1.3	1.3	1.3	1.3	1.3
Total Assets	5.3	12.3	20.5	25.5	33.7
Payables and other current Liabilities	0.8	0.8	1.8	3.1	4.5
Short Term Debt	0.1	0.1	5.1	4.1	3.1
Long Term Debt	0.2	0.2	0.2	0.2	0.2
Other Non Current Liabilities	0.0	0.0	0.0	0.0	0.0
Total Liabilities	1.1	1.1	7.1	7.4	7.8
Total Equity	4.3	11.2	13.5	18.1	25.9
Net Debt (Cash)	(2.4)	(6.9)	(2.4)	(2.3)	(5.0)

Substantial Shareholders	%	Date
Ben James Chester	13.8	
Damien Ian Glanville	13.8	Sep-16
Pettett Pty Ltd	13.8	

Source: Company, IRESS, State One Stockbroking forecasts

Operational assumptions	FY16A	FY17E	FY18E	FY19E	FY20E
Electricity sales (billed) (GWh)	15	74	182	295	408
Annual % change	na	400%	147%	62%	38%
Effective ARP (A\$/GWh)	78,125	151,625	189,606	206,984	217,308
Customer receipts (A\$m)	1.8	11.2	34.5	61.0	88.6
Retail usage (A\$m)	(0.6)	(3.7)	(11.3)	(20.0)	(29.1)
Network charges (A\$m)	(0.7)	(4.6)	(14.1)	(25.0)	(36.3)
Other (A\$m)	(0.2)	(0.9)	(2.8)	(5.0)	(7.3)
Total COGS (A\$m)	(1.4)	(9.2)	(28.3)	(50.0)	(72.6)
Trading margin (A\$m)	0.3	2.0	6.2	11.0	15.9
COGS as % revenue (%)	81%	82%	82%	82%	82%
Trading margin (%)	19%	18%	18%	18%	18%



Leverage	FY16A	FY17E	FY18E	FY19E	FY20E
Net Debt/Equity	cash	cash	cash	cash	cash
Gearing (ND/ND+E)	cash	cash	cash	cash	cash
Interest Cover (x)	-187.6	na	320.9	44.6	109.8

Valuation Ratios (x)	FY16A	FY17E	FY18E	FY19E	FY20E
Normalised P/E	na	na	27.7	13.6	8.0
Price/OP Cash Flow	-27	-56	34.8	12.4	6.9
Book value per share (A\$c)	0.3	0.5	0.5	0.7	1.0
EV/EBITDA	-8	-12	6	2.2	1.1
ROE (%)	-51%	-11%	17%	25%	30%

Weighted Target Price					
Valuation method	Target (A\$c)	Weighting (%)	Share price (A\$c)		Capital gain (%)
			Target	Current	
DCF	4.6	75%	4.0	2.4	67%
EPS/PER	2.0	25%			

DCF Sensitivity to base-case post FY21E revenue growth and EBITDA margin

DCF drivers	EBITDA margin (%)					
		15.5%	15.0%	14.5%	14.0%	13.5%
	Revenue growth (%)		4.6	4.5	4.3	4.2
	2.0%	4.9	4.8	4.6	4.5	4.3
	4.0%	5.3	5.1	5.0	4.8	4.6

Company Profile: Locality Planning Energy (ASX:LPE) listed on the ASX in January 2016 after completing a A\$6m IPO. At present, LPE is an electricity retailer, specifically targeting strata communities in Queensland at this juncture, but with plans to expand throughout coastal SE Australia. In September 2016, LPE announced it had achieved electricity retail sales of 50GWh; the group's initial target is 450GWh by mid-2020. LPE's selling point to strata communities is its embedded infrastructure (parent meter) which can reduce network charges. The resultant cost savings can be passed onto individuals within the strata community. Other initiatives being pursued include electric vehicle charging stations, and the development of electric instant water heaters.

Risks

Risks to our earnings profile and target price include, but are not limited to:

- Contracting risk: LPE's ability to enter into new contracts is not certain, nor are the sales prices and volumes that may apply to those contracts.
- Near-term funding requirement: LPE's growth profile requires upfront capital expenditure to finance electricity and other infrastructure. We estimate that each 50GWh in additional sales requires ~A\$2.5m in capex. At this capex level, LPE will need to outlay some A\$18.5m in capex over the next 3 years. We assume that this will be split roughly equally between internal cash flows, new equity, and debt.
- Wholesale electricity prices: a spike in wholesale prices could increase COGS and squeeze trading margins relative to our 18% forecast. LPE's ability to hedge against wholesale electricity price volatility is a key business requirement.
- Increased competition from new and existing retail competitors.
- Regulatory risks: The Australian electricity market is subject to extensive regulation. Changes to the regulatory environment can impose additional capital and operational obligations on LPE.
- New technology: a move amongst strata developments to "off-grid" /internally generated power (i.e., solar and batteries) could impact on LPE's business model of retailing discounted grid electricity.
- Dependence upon key personnel.
- Shares in escrow/share overhang: subject to LPE re-complying with ASX Listing Rules, certain securities on issue (including Vendor Consideration Securities (and Performance shares), SXT Noteholder Securities, Armada Options and Initial Lender Securities) are classified as restricted securities and are held in escrow for up to 24 months from the date of Official Quotation (4 Jan 2016). The "lumpy" issue of significant number of shares coming out of escrow, and the resultant potential share overhang, could result in periodic share price weakness.

Business Model

LPE is one of 23 energy retailers authorised by the Australian Energy Regulator to supply and sell electricity to residential customers throughout the National Energy Market (NEM). The NEM is the wholesale electricity market for the electricity connected states and territories of southern Australia – Queensland, NSW, ACT, Victoria, South Australia, and Tasmania. Note: Western Australia and the NT are not connected to the WA and have separate electricity systems and regulatory arrangements.

LPE's business model is to supply and manage electricity sales solely to strata communities, and, at this point, focusing on strata communities in Queensland (although LPE has ambitions to expand into NSW and other markets along SE Australia). Using the group's embedded technology and knowledge of the electricity retail markets, LPE can pass on significant cost savings to strata body corporates and individual units within those strata communities, without prohibitive upfront costs.

Targeting strata
communities, initially
in Queensland

LPE offers a comprehensive service to strata communities:

- Significant savings over a private or individual power bill
- An appreciation of strata community operations
- Complaint procedures with the National Energy Rules and Law
- The requirement to provide an avenue for energy consumers to access the energy ombudsman and/or ACCC complaint resolution services
- Zero cost to implement an embedded network solution and,
- Administration of electricity accounts.

LPE generates revenue through the sale of electricity and services to the end customer. LPE's initial price offer is a fixed kilowatt hour (kWh) charge and a day rate secured via a long term agreement (5-10 year) with each strata community.

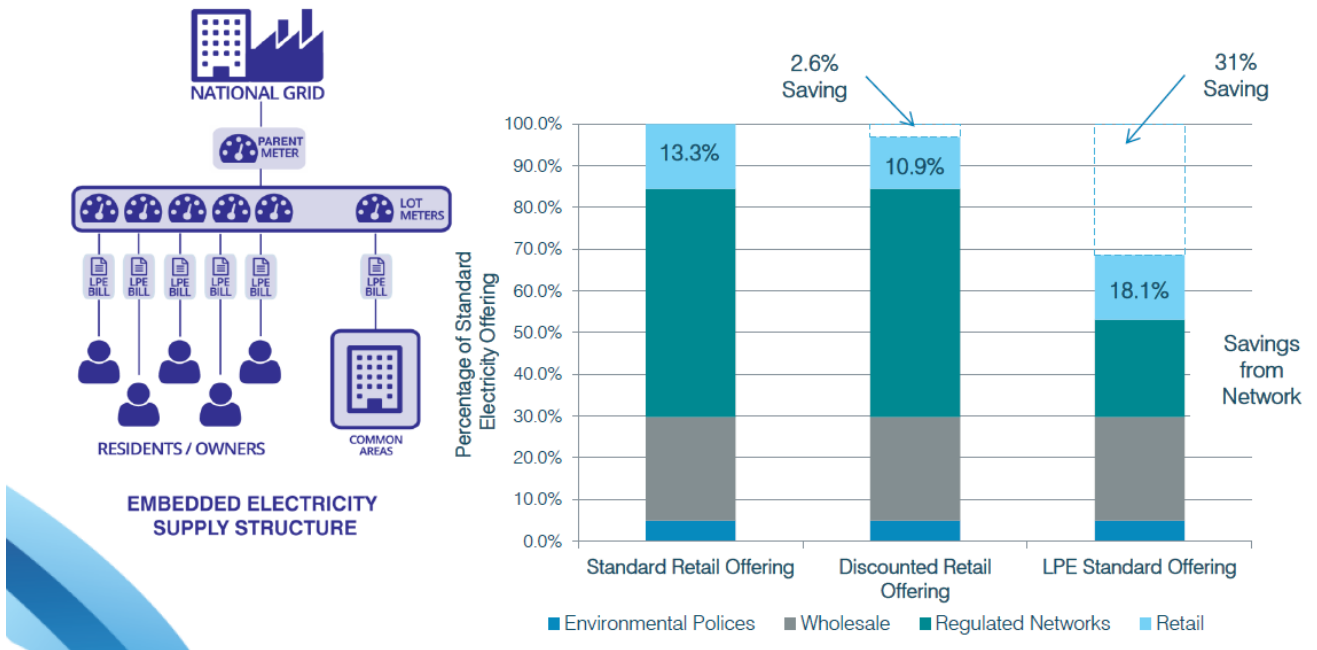
LPE's value proposition to (the Body Corporates of) strata communities is a ~30% saving in individual unit electricity bills. LPE is able to offer this by installing an in-house developed meterage system which can reduce regulated network expenses by over 60%.

The upfront cost of the meterage system (State One estimate: A\$25,000 per strata community) is paid back over the life of the service agreement. The supply structure works most effectively on strata communities with at least 30 individual units (>40 ideal). Importantly, the supply structure enables LPE to enjoy above-average retail margins of ~18% versus the typical retail margin of 11%-13%.

LPE installs a parent meter replacing individual strata unit lot connections with one

....provides genuine savings to customers, without impacting LPE's margins

Figure 1: Business model



Source: Company

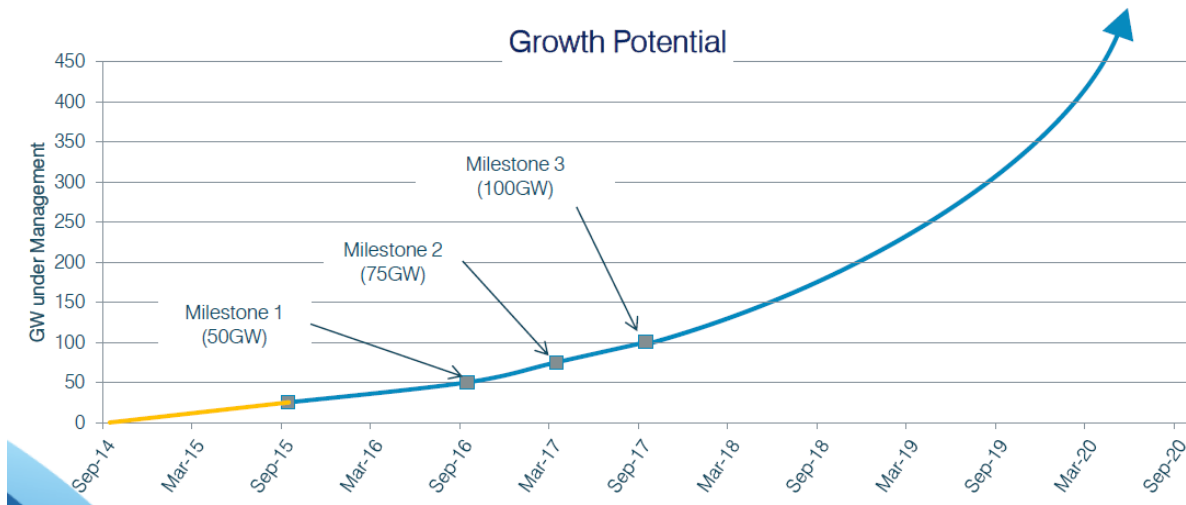
Forecast revenue profile

Billable sales have increased from 58.6GWh in October 2016 to 64.6GWh in November 2016, to 71.59GWh in December 2016 and to 79.4GWh in January 2017. Note: billable sales are as at the end of each month. This ramp-up (from an effective standing start) reflects well, we suggest, on management’s ability and the business model as a whole.

We forecast electricity sales increasing to 100 GWh by the end of FY17E (i.e., end-June 2017); we forecast electricity sales of 450GWh per annum by 4Q FY20E, in line with management’s medium-term target growth profile.

Electricity sales:
FY17-21E CAGR of
57%

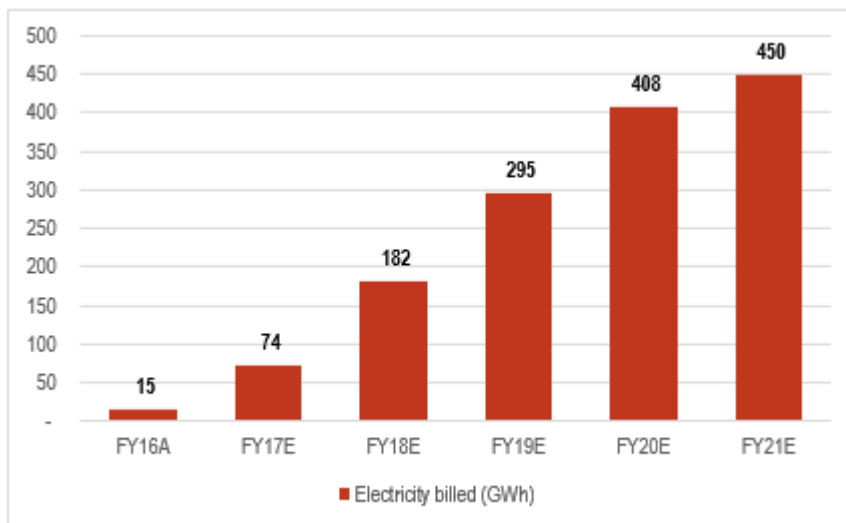
Figure 2: LPE management targeted electricity sales



Source: Company (October 2015 Presentation)

For FY17E, we forecast (billable) electricity sales of 74GWh in (reflecting our assumption of ~50GWh at the end of the beginning of the financial year, and ~100GWh at the end of the financial year). Our forecast of 450GWh sales in FY21E represents a five-year (FY17-21E) CAGR of 57%.

Figure 3: Forecast electricity sales (FY17E-FY21E)



Targeting to grow
electricity sales from
50GWh in Sept 2016
to 450GWh by mid-
2020

Source: State One Stockbroking forecasts. Note: FY16A sales are State One estimated sales

General Advice Warning

The contents of this document have been prepared without taking account of your objectives, financial situation or needs. You should, before taking any action to acquire or deal in, or follow a recommendation (if any) in respect of any of the financial products or information mentioned in this document, consult your own investment advisor to consider whether that is appropriate having regard to your own objectives, financial situation and needs.

Whilst State One Stockbroking Ltd believes information contained in this document is based on information which is believed to be reliable, its accuracy and completeness are not guaranteed and no warranty of accuracy or reliability is given or implied and no responsibility for any loss or damage arising in any way for any representation, act or omission is accepted by State One Stockbroking Ltd or any officer, agent or employee of State One Stockbroking Ltd. If applicable, you should obtain the Product Disclosure Statement relating to the relevant financial product mentioned in this document (which contains full details of the terms and conditions of the financial product) and consider it before making any decision about whether to acquire the financial product.

Disclosure

The directors and associated persons of State One Stockbroking Ltd may have an interest in the financial products discussed in this document and they may earn brokerage, commissions, fees and advantages, pecuniary or otherwise, in connection with the making of a recommendation or dealing by a client in such financial products.

This report was prepared solely by State One Stockbroking Limited. ASX did not prepare any part of the report and has not contributed in any way to its content. The role of ASX in relation to the preparation of the research reports is limited to funding their preparation by State One Stockbroking Limited, in accordance with the ASX Equity Research Scheme. ASX does not provide financial product advice. The views expressed in this research report may not necessarily reflect the views of ASX. To the maximum extent permitted by law, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by ASX as to the adequacy, accuracy, completeness or reasonableness of the research reports.

The Research Analyst who prepared this report hereby certifies that the views expressed in this research document accurately reflect the analyst's personal views about the company and its financial products. The research analyst has not been and will not be receiving direct or indirect compensation for expressing the specific recommendations or views in this report. This research at all times remains the property of State One Stockbroking Ltd. And as such cannot be reprinted, distributed, copied, posted on the internet, in part or whole, without written prior approval from the Executive Director of State One Stockbroking Ltd.

Alan Hill
Executive Chairman
Phone: +61 8 9288 3388
ahill@stateone.com.au

Peter Curtis
Head of Institutional Sales
Phone: +61 2 9024 9106
pcurtis@stateone.com.au

Graeme Johnson
Equities & Derivatives Advisor
Phone: +61 8 9288 3316
gjohnson@stateone.com.au

David Brennan
Senior Investment Analyst
Phone: +61 2 9024 9142
dbrennan@stateone.com.au

Morris Levitzke
Equities Advisor
Phone: +61 8 9288 3315
mlevitzke@stateone.com.au

Tammie Wong
Equities Advisor
Phone: +61 2 9024 9133
twong@stateone.com.au

Mark Sullivan
Institutional Dealer
Phone: +61 2 9024 9134
msullivan@stateone.com.au

Yitz Barber
Equities Advisor
Phone: +61 2 9024 9107
ybarber@stateone.com.au

David Zhang
Equities Advisor
Phone: +61 2 9024 9130
dzhang@stateone.com.au

Alexander Bax
Equities Advisor
Phone +61 8 9288 3340
abax@stateone.com.au

Ric Heydon
Equities & Derivatives Advisor
Phone: +61 8 9288 3307
rheydon@stateone.com.au

Thomas Tan
Equities Advisor
Phone: +61 2 9024 9131
ttan@stateone.com.au