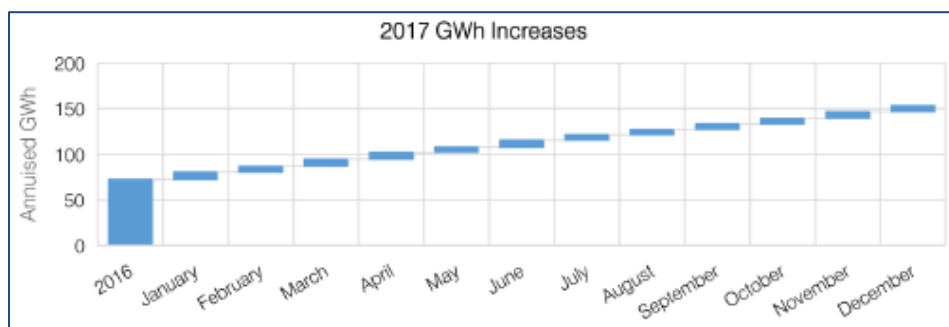


Locality Planning Energy (ASX: LPE)

Contracts growing, +ve operating cash flows

LPE's recent operational update (8 February 2018) indicate that in calendar year 2017, billing contracts under management (UM) increased by 80.7GWh at an average monthly volume increase of 6.7GWh (+6.5% MoM). See graph below.



LPE posted its first +ve (albeit modest at A\$23k) operating cash flow in the last reported quarter (December 2017). However, backing out unbudgeted business expenses and one-off metering adjustments, we calculate that operational cash flows for the quarter would have been a more substantial A\$200k. Importantly, management indicates that operating cash flows are expected to improve in coming quarters.

Forecast billing contracts under management

We assume billing contracts UM increasing at an average of 6.75GWh per month out to June 2019, in line with historical growth rates. Thereafter, we forecast that internally generated cash flows will be sufficiently high to support accelerated growth at 8.5GWh per month.

Predicated on our monthly growth profile, we forecast billing contracts UM increasing from 119GWh in June 2017, to 197GWh in June 2018, to 278GWh in June 2019 and 380GWh in June 2020. Our forecast of 380GWh by June 2020 is below LPE's original target of 450GWh. However, we note that in the February 2018 operational update, management indicated that progress had been made in securing (new) funding facilities. We suggest that posting a maiden positive operational profit in the December 2017 quarter would have significantly assisted the group in these endeavours. Successfully securing debt facilities would allow us to upwardly revise our forecast billing contract UM profile - particularly in 2018/2019. Note: at an estimated installation cost of A\$25k per meter system, and assuming average strata consumption of 0.5GWh, we calculate that each 10GWh in additional sales requires capex of A\$0.5m.

DCF/PER-derived target price: 3.6cps (4.1cps previously)

Our downwardly revised 75% DCF-weighted / 25% PER-weighted target price of 3.6cps (4.1cps previously) reflects a less aggressive billing contracts UM growth profile to June 2020 than previously forecast. However, as stated above, securing debt facilities could support a material acceleration in near-term growth rates. As a result, we believe that positive news on the group's funding initiatives has the potential to act as a significant share price catalyst.

At current share price levels, we believe that LPE offers upside for speculative investors as the group's operational cash flow increases, and the balance sheet strengthens. **We maintain a Speculative Buy (Higher Risk) recommendation.**

12 February 2018

Share Price: 2.3c

Target Price: 3.6c

Recommendation
Speculative Buy

Risk Assessment
Higher

Utilities – Electricity Retail

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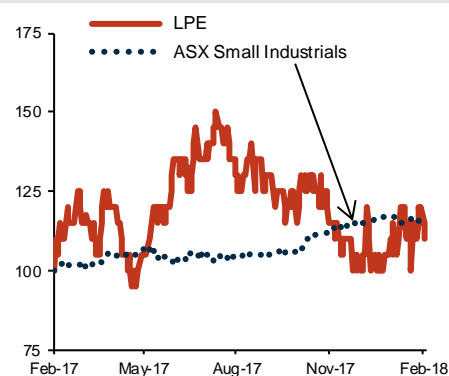
+61 (0)2 9024 9142

Locality Planning Energy

ASX Code	LPE
52 week range (A\$cps)	1.9c-3.3c

Fully diluted no. of shares (m)	2,511
M'Cap diluted (A\$m)	53
2018E BV per share diluted (A\$c)	0.3c
2018E EPS diluted (A\$c)	0.0c
2018E Net Cash/(Debt) (A\$m)	0.2

Relative price performance



Source: Iress

Financial Statements

Locality Planning Energy

Year ending June

Profit & Loss Statement (A\$m)	FY17A	FY18E	FY19E	FY20E	FY21E
Revenue	10.3	20.6	32.5	46.2	62.3
COGS	(8.5)	(15.9)	(24.4)	(34.6)	(46.7)
Employee/Professional	(3.0)	(3.1)	(3.1)	(3.2)	(3.2)
Other	(0.8)	(0.8)	(0.8)	(0.8)	(0.8)
EBITDA	(2.0)	0.9	4.2	7.5	11.5
Depreciation & Amortisation	(0.4)	(0.5)	(0.8)	(1.0)	(1.0)
Operating profit	(2.4)	0.4	3.4	6.5	10.5
NOI (incl. share based payments)	(13.4)	0.0	0.0	0.0	0.0
EBIT	(15.8)	0.4	3.4	6.5	10.5
Interest income	0.0	0.1	0.1	0.1	0.1
Interest expense	(0.1)	(0.2)	(0.3)	(0.3)	(0.3)
Tax expense	0.0	0.0	0.0	(1.9)	(3.1)
Reported NPAT	(15.9)	0.3	3.3	4.4	7.2
Normalised NPAT	(2.5)	0.3	3.3	4.4	7.2

EBITDA Margin (%)	-20%	4%	13%	16%	18%
Operating profit margin (%)	-23%	2%	11%	14%	17%
EPS Reported (A\$c)	(0.6)	0.01	0.1	0.2	0.3
EPS Normalised (A\$c)	(0.1)	0.01	0.1	0.2	0.3
EPS growth (%)	nm	nm	nm	36%	62%
DPS - Declared (A\$c)	0.0	0.0	0.0	0.0	0.1
Avg. no. of fully-diluted shares (m)	1,786	2,511	2,511	2,511	2,511
YE no. of fully-diluted shares (m)	2,511	2,511	2,511	2,511	2,511

Cash Flow Statement (A\$m)	FY17A	FY18E	FY19E	FY20E	FY21E
EBITDA	(2.0)	0.9	4.2	7.5	11.5
Investment in working capital	0.0	(0.2)	(0.3)	(0.3)	(0.4)
Tax expense	0.0	0.0	0.0	(1.9)	(3.1)
Operating Cash Flow	(2.0)	0.6	3.9	5.3	8.0
Capex	(3.4)	(3.0)	(4.0)	(5.0)	(5.0)
Other investments	0.0	0.0	0.0	0.0	0.0
Investing Cash Flow	(3.4)	(3.0)	(4.0)	(5.0)	(5.0)
Net interest received / (paid)	(0.1)	(0.1)	(0.2)	(0.2)	(0.2)
Debt draw down / (repayment)	1.0	0.8	0.0	0.0	0.0
Dividends paid	0.0	0.0	0.0	0.0	(2.4)
Equity raised / (repaid)	19.1	0.0	0.0	0.0	0.0
Financing Cash Flow	20.0	0.7	(0.2)	(0.2)	(2.6)
Non-operating & Other	(13.3)	0.0	0.0	0.0	0.0
Inc/(Dec) in Cash	1.3	(1.7)	(0.3)	0.1	0.4

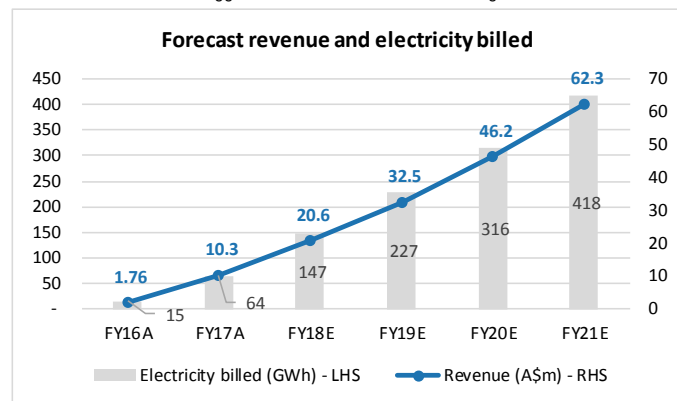
Balance Sheet (A\$m)	FY17A	FY18E	FY19E	FY20E	FY21E
Cash & Equivalents	4.0	2.3	2.0	2.1	2.6
Receivables	1.9	2.1	3.2	4.6	6.2
Inventories	0.0	0.0	0.0	0.0	0.0
Other Current Assets	0.1	0.1	0.1	0.1	0.1
PPE and Exploration & Development	0.5	3.0	6.3	10.3	14.3
Deferred tax asset	0.0	0.0	0.0	0.0	0.0
Other Non Current Assets	4.0	4.0	4.0	4.0	4.0
Total Assets	10.5	11.5	15.7	21.1	27.2
Payables and other current Liabilities	1.7	1.7	2.6	3.6	4.8
Short Term Debt	0.0	0.0	0.0	0.0	0.0
Long Term Debt	1.3	2.1	2.1	2.1	2.1
Other Non Current Liabilities	0.0	0.0	0.0	0.0	0.0
Total Liabilities	3.0	3.8	4.7	5.7	6.9
Total Equity	7.5	7.7	11.0	15.4	20.2
Net Cash/(Debt)	2.7	0.2	(0.1)	0.0	0.4

Substantial Shareholders	%	Date
Ben James Chester	17.38	
Damien Ian Glanville	17.38	Sep-17
Pettett Pty Ltd	17.36	

Source: Company, IRESS, State One Stockbroking forecasts

Operational assumptions	FY17A	FY18E	FY19E	FY20E	FY21E
Contracts under mgmt - begin year	32	119	197	278	380
Contracts under mgmt - end year	119	197	278	380	482
Av. contracts under mgmt (GWh)	75	158	237	329	431
Electricity sales (billed) (GWh)*	64	147	227	316	418
Annual % change	nm	128%	55%	39%	32%
Effective ARP (A\$/GWh)	159,776	140,000	143,000	146,000	149,000
Customer receipts (A\$m)	10.3	20.6	32.5	46.2	62.3
Electricity costs (A\$m)	(3.6)	(7.0)	(10.7)	(15.2)	(20.6)
Network charges (A\$m)	(4.0)	(7.5)	(11.5)	(16.3)	(22.0)
Other (A\$m)	(0.9)	(1.4)	(2.2)	(3.1)	(4.2)
Total COGS (A\$m)	(8.5)	(15.9)	(24.4)	(34.6)	(46.7)
Trading margin (A\$m)	1.8	4.7	8.1	11.5	15.6
COGS as % revenue (%)	83%	77%	75%	75%	75%
Trading margin (%)	17%	23%	25%	25%	25%

* We assume billed GWh are lagged relative to contracts under management



Leverage	FY17A	FY18E	FY19E	FY20E	FY21E
Net Debt/Equity	cash	cash	-1%	cash	cash
Gearing (ND/ND+E)	cash	cash	-1%	cash	cash
Interest Cover (x)	na	4.1	18.8	34.1	55.5

Valuation Ratios (x)	FY17A	FY18E	FY19E	FY20E	FY21E
Normalised P/E	na	217.1	17.8	13.0	8.0
Price/OP Cash Flow	-29	93	14.8	10.9	7.2
Book value per share (A\$c)	0.3	0.3	0.4	0.6	0.8
EV/EBITDA	-28	68	14	7.7	5.0
ROE (%)	-33%	3%	30%	29%	36%

Weighted Target Price

Valuation method	Target (A\$c)	Weighting (%)	Share price (A\$c)		Capital gain (%)
			Target	Current	
DCF	4.2	75%	3.6	2.3	56%
EPS/PER	1.6	25%			

EPS (A\$)* PER (x) Target value (A\$)

PE multiple Valuation 0.16 10.0 1.6

* Based on 2-year rolling EPS. Note: Forward PER is in-line with rating attached to of ASX Utilities

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, but with plans to expand throughout coastal SE Australia. By February 2018, had achieved billing contracts under management of 152GWh (annualised), with volumes increasing by over 6GWh per month. The group's initial target is 450GWh by mid-2020. LPE's selling point to strata communities is cost savings via its embedded infrastructure (parent meter) which can reduce network charges. 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. To grow from current levels of ~162GWh (estimated) to a targeted 450GWh in June 2020 will require some A\$14.5m in capex over the next 2½ years. We calculate that LPE will need to secure external funding (debt/equity) to fund this rate of growth.
- Wholesale electricity prices: a spike in wholesale prices could increase COGS and squeeze trading margins relative to our 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.

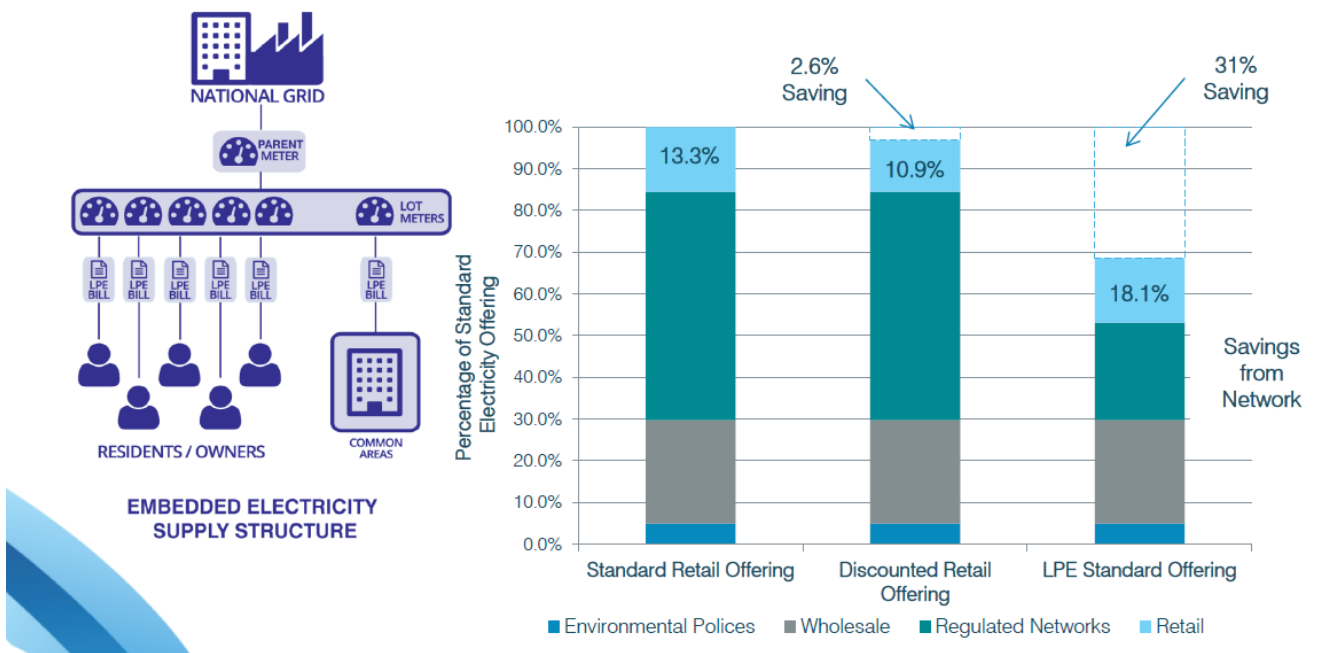
LPE's value proposition to (the Body Corporates of) strata communities is a ~30% saving in individual unit electricity bills. LPE is able to offer this by installing an in-house developed meterage system which can reduce regulated network expenses by over 60%.

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

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