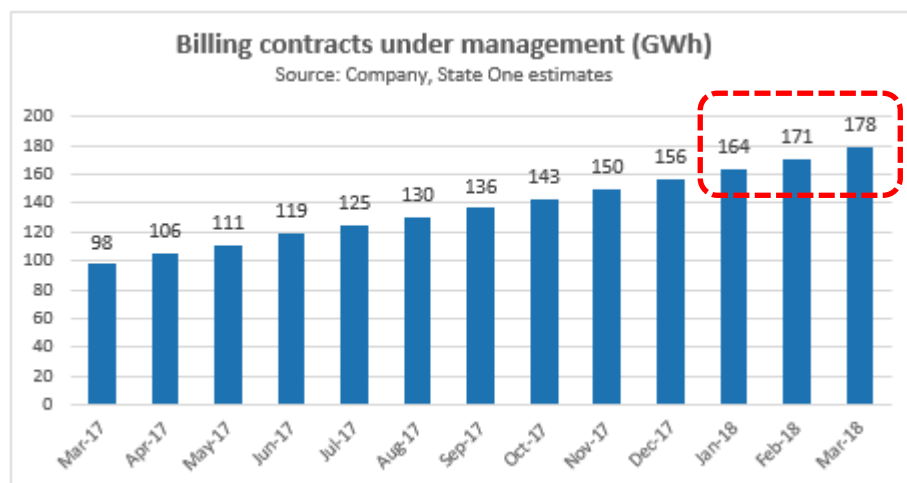


# Locality Planning Energy (ASX: LPE)

## New business opportunity identified

LPE's underlying business – retail electricity sales to strata communities in Queensland – is growing at an attractive clip, adding over 21 GWh (annualised) of new contracts in the March 2018 quarter to 178GWh. See graph below.



Importantly, LPE has identified – through in-depth industry consultation – an underserved and highly fragmented market for medium density communities that do not have the scale for a traditional embedded network (i.e., a parent meter). LPE estimates that servicing direct market customers (DMC) could triple the addressable market for LPE's in-house products. LPE anticipates a strong initial take up of the offering with approximately 6,000 direct customers in the first 6 months. Management is currently working on funding safeguards for the increased uptake of direct customers, and the impact on near-term cash flows. The company will announce further information regarding the DMC opportunity in due course.

### State One comments

As the quantum and timing of potential revenue and costs (including capex) associated with the DMC business is uncertain, we have not, as yet, factored DMC into our LPE financial model and earnings forecast/ share price valuation. However, we suggest that the initiative illustrates management's ability to identify new growth opportunities; we believe that DMC could make a material contribution to LPE achieving its five-year business plan of 450GWh in billing contracts by 2021.

### DCF/PER-derived target price: 3.6cps (unchanged)

A cash operating loss of A\$563k in the March 2018 quarter was disappointing – especially coming after a maiden cash operating profit of A\$23k in the prior December 2017 quarter. However, operating cash flow can be volatile with billing cycles lagging increased electricity purchases as contracts under management grow. However, we note that the A\$10m debt facility (@ 7.9% interest rate) secured with Lannock Capital 2 Pty Ltd in March 2018, will provide an important working capital buffer – as well as helping to fund the group's traditional embedded network and new DMC businesses.

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.**

23 May 2018

Share Price: 1.9c

Target Price: 3.6c

Recommendation  
**Speculative Buy**

Risk Assessment  
**Higher**

### Utilities – Electricity Retail

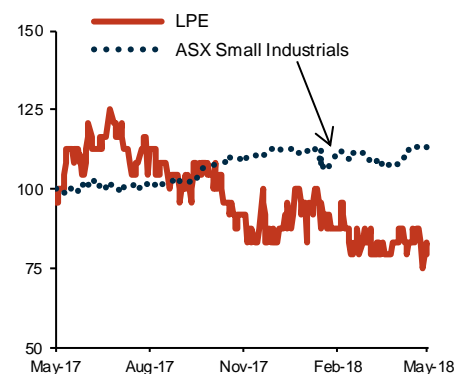
David Brennan, CFA  
 Senior Investment Analyst  
[dbrennan@stateone.com.au](mailto:dbrennan@stateone.com.au)  
 +61 (0)2 9024 9142

### Locality Planning Energy

ASX Code	LPE
52 week range (A\$cps)	1.8c-3.3c

Fully diluted no. of shares (m)	2,511
M'Cap diluted (A\$m)	48
2018E BV per share diluted (A\$c)	0.3c
2018E EPS diluted (A\$c)	0.0c
2018E Net Cash/(Debt) (A\$m)	-0.3

### 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	33.3	47.6	63.8
COGS	(8.5)	(15.6)	(25.0)	(35.7)	(47.8)
Employee/Professional	(3.0)	(3.6)	(3.7)	(3.8)	(3.8)
Other	(0.8)	(1.1)	(1.2)	(1.2)	(1.2)
<b>EBITDA</b>	<b>(2.0)</b>	<b>0.3</b>	<b>3.5</b>	<b>7.0</b>	<b>10.9</b>
Depreciation & Amortisation	(0.4)	(0.8)	(0.8)	(1.0)	(1.0)
<b>Operating profit</b>	<b>(2.4)</b>	<b>(0.4)</b>	<b>2.7</b>	<b>6.0</b>	<b>9.9</b>
NOI (incl. share based payments)	(13.4)	0.0	0.0	0.0	0.0
<b>EBIT</b>	<b>(15.8)</b>	<b>(0.4)</b>	<b>2.7</b>	<b>6.0</b>	<b>9.9</b>
Interest income	0.0	0.1	0.1	0.1	0.1
Interest expense	(0.1)	(0.1)	(0.3)	(0.4)	(0.5)
Tax expense	0.0	0.0	0.0	(1.7)	(2.8)
<b>Reported NPAT</b>	<b>(15.9)</b>	<b>(0.5)</b>	<b>2.5</b>	<b>3.9</b>	<b>6.6</b>
<b>Normalised NPAT</b>	<b>(2.5)</b>	<b>(0.5)</b>	<b>2.5</b>	<b>3.9</b>	<b>6.6</b>
EBITDA Margin (%)	-20%	2%	10%	15%	17%
Operating profit margin (%)	-23%	-2%	8%	12%	16%
EPS Reported (A\$)	(0.6)	(0.02)	0.1	0.16	0.3
<b>EPS Normalised (A\$)</b>	<b>(0.1)</b>	<b>(0.02)</b>	<b>0.1</b>	<b>0.16</b>	<b>0.3</b>
EPS growth (%)	nm	nm	nm	56%	68%
DPS - Declared (A\$)	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)	0.3	3.5	7.0	10.9
Investment in working capital	0.0	(0.2)	(0.3)	(0.4)	(0.4)
Tax expense	0.0	0.0	0.0	(1.7)	(2.8)
<b>Operating Cash Flow</b>	<b>(2.0)</b>	<b>0.1</b>	<b>3.2</b>	<b>4.9</b>	<b>7.7</b>
Capex	(3.4)	(3.0)	(5.0)	(6.0)	(6.0)
Other investments	0.0	0.0	0.0	0.0	0.0
<b>Investing Cash Flow</b>	<b>(3.4)</b>	<b>(3.0)</b>	<b>(5.0)</b>	<b>(6.0)</b>	<b>(6.0)</b>
Net interest received / (paid)	(0.1)	(0.0)	(0.2)	(0.3)	(0.4)
Debt draw down / (repayment)	1.0	1.0	2.0	1.4	1.0
Dividends paid	0.0	0.0	0.0	0.0	(2.2)
Equity raised / (repaid)	19.1	0.0	0.0	0.0	0.0
<b>Financing Cash Flow</b>	<b>20.0</b>	<b>1.0</b>	<b>1.8</b>	<b>1.1</b>	<b>(1.6)</b>
Non-operating & Other	(13.3)	0.0	0.0	0.0	0.0
<b>Inc/(Dec) in Cash</b>	<b>1.3</b>	<b>(1.9)</b>	<b>(0.0)</b>	<b>(0.0)</b>	<b>0.0</b>

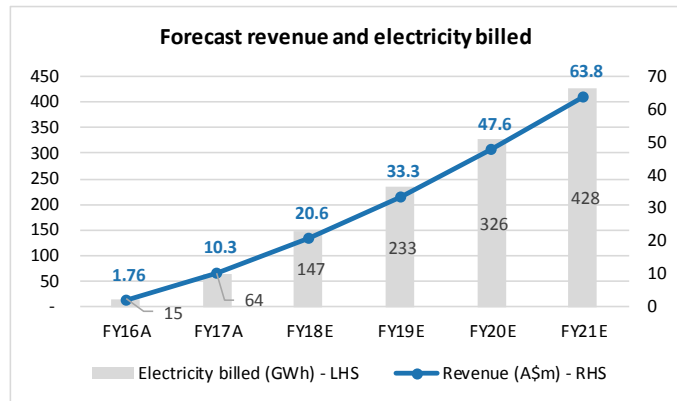
Balance Sheet (A\$m)	FY17A	FY18E	FY19E	FY20E	FY21E
Cash & Equivalents	4.0	2.0	2.0	2.0	2.0
Receivables	1.9	2.1	3.3	4.8	6.4
Inventories	0.0	0.0	0.0	0.0	0.0
Other Current Assets	0.1	0.1	0.1	0.1	0.1
PPE and Exploration & Development	0.5	2.8	7.0	12.0	17.0
Deferred tax asset	0.0	0.0	0.0	0.0	0.0
Other Non Current Assets	4.0	4.0	4.0	4.0	4.0
<b>Total Assets</b>	<b>10.5</b>	<b>11.0</b>	<b>16.5</b>	<b>22.9</b>	<b>29.5</b>
Payables and other current Liabilities	1.7	1.7	2.7	3.7	4.9
Short Term Debt	0.0	0.0	0.0	0.0	0.0
Long Term Debt	1.3	2.3	4.3	5.7	6.7
Other Non Current Liabilities	0.0	0.0	0.0	0.0	0.0
<b>Total Liabilities</b>	<b>3.0</b>	<b>4.0</b>	<b>7.0</b>	<b>9.4</b>	<b>11.6</b>
<b>Total Equity</b>	<b>7.5</b>	<b>7.0</b>	<b>9.5</b>	<b>13.4</b>	<b>17.9</b>
Net Cash/(Debt)	2.7	(0.3)	(2.3)	(3.7)	(4.7)

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	200	288	390
Contracts under mgmt - end year	119	200	288	390	492
Av. contracts under mgmt (GWh)	75	159	244	339	441
Electricity sales (billed) (GWh)*	64	147	233	326	428
Annual % change	nm	129%	58%	40%	31%
Effective ARP (A\$/GWh)	159,776	140,000	143,000	146,000	149,000
Customer receipts (A\$m)	10.3	20.6	33.3	47.6	63.8
Electricity costs (A\$m)	(3.6)	(7.3)	(11.0)	(15.7)	(21.0)
Netw ork charges (A\$m)	(4.0)	(6.8)	(11.7)	(16.8)	(22.5)
Other (A\$m)	(0.9)	(1.5)	(2.2)	(3.2)	(4.3)
Total COGS (A\$m)	(8.5)	(15.6)	(25.0)	(35.7)	(47.8)
Trading margin (A\$m)	1.8	5.1	8.3	11.9	15.9
COGS as % revenue (%)	83%	75%	75%	75%	75%
Trading margin (%)	17%	25%	25%	25%	25%

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



Leverage	FY17A	FY18E	FY19E	FY20E	FY21E
Net Debt/Equity	cash	-4%	-24%	-28%	-26%
Gearing (ND/ND+E)	cash	-2%	-14%	-16%	-16%
Interest Cover (x)	na	-17.8	13.4	17.5	22.6

Valuation Ratios (x)	FY17A	FY18E	FY19E	FY20E	FY21E
Normalised P/E	na	na	18.9	12.1	7.2
Price/OP Cash Flow	-24	532	15.1	9.7	6.2
Book value per share (A\$)	0.3	0.3	0.4	0.5	0.7
EV/EBITDA	-22	150	14	7.4	4.8
ROE (%)	-33%	-7%	27%	29%	37%

### Weighted Target Price

Valuation method	Target (A\$)	Weighting (%)	Share price (A\$)		Capital gain (%)
			Target	Current	
DCF	4.1	80%	3.6	1.9	90%
EPS/PER	1.5	20%			

PE multiple Valuation	EPS (A\$)*	PER (x)	Target value (A\$)
	0.15	10.0	1.5

\* 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 ~178GWh (estimated) to a targeted 450GWh by 2021 will require some A\$14m in capex over the next three years. Depending on operating cash flows, LPE may need to augment existing debt arrangements 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.

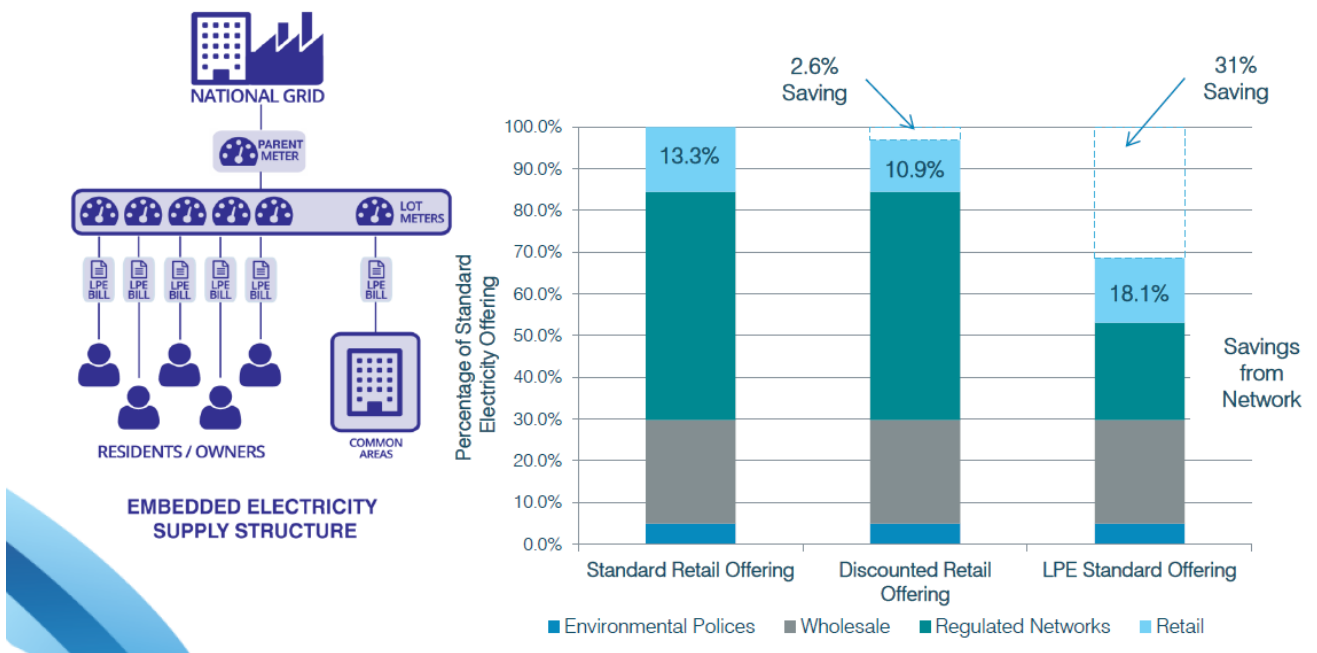
LPE's value proposition to (the Body Corporates of) strata communities is a ~30% saving in individual unit electricity bills. LPE is able to offer this by installing an in-house developed meterage system which can reduce regulated network expenses by over 60%.

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

---

### 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 an Executive Director of State One Stockbroking Ltd.

Alan Hill  
Executive Chairman  
Phone: +61 8 9288 3388  
[ahill@stateone.com.au](mailto:ahill@stateone.com.au)

Ric Heydon  
Equities & Derivatives Advisor  
Phone: +61 8 9288 3307  
[rheydon@stateone.com.au](mailto:rheydon@stateone.com.au)

Mark Sullivan  
Institutional Dealer  
Phone: +61 2 9024 9134  
[msullivan@stateone.com.au](mailto:msullivan@stateone.com.au)

Thomas Tan  
Equities Advisor  
Phone: +61 2 9024 9131  
[ttan@stateone.com.au](mailto:ttan@stateone.com.au)

Morris Levitzke  
Equities Advisor  
Phone: +61 8 9288 3315  
[mlevitzke@stateone.com.au](mailto:mlevitzke@stateone.com.au)

Graeme Johnson  
Equities & Derivatives Advisor  
Phone: +61 8 9288 3316  
[gjohnson@stateone.com.au](mailto:gjohnson@stateone.com.au)

Yitz Barber  
Equities Advisor  
Phone: +61 2 9024 9107  
[ybarber@stateone.com.au](mailto:ybarber@stateone.com.au)

Tammie Wong  
Equities Advisor  
Phone: +61 2 9024 9133  
[twong@stateone.com.au](mailto:twong@stateone.com.au)

Dawn Chia  
Business Development Manager  
Phone: +61 8 9288 3336  
[Dawn.Chia@stateone.com.au](mailto:Dawn.Chia@stateone.com.au)

David Zhang  
Equities Advisor  
Phone: +61 2 9024 9130  
[dzhang@stateone.com.au](mailto:dzhang@stateone.com.au)

David Brennan  
Senior Investment Analyst  
Phone: +61 2 9024 9142  
[dbrennan@stateone.com.au](mailto:dbrennan@stateone.com.au)