

Locality Planning Energy (ASX: LPE)

Retail energy market distrust could benefit LPE

18 June 2018

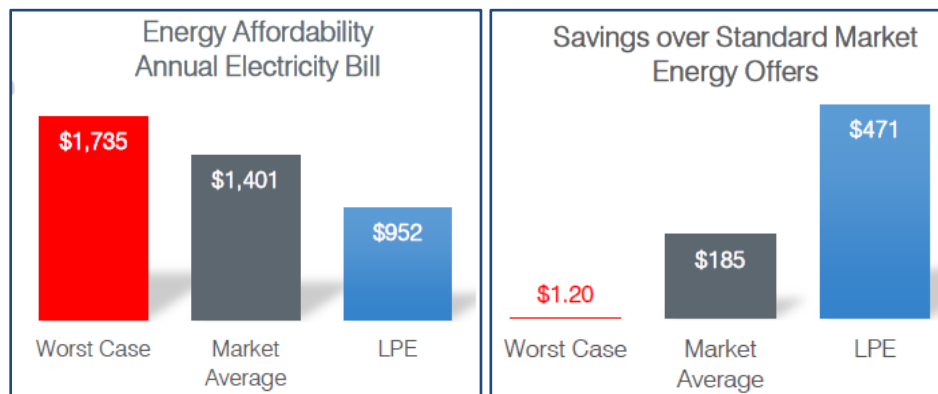
LPE's underlying business is retailing electricity to medium and high density residential / strata communities in Queensland. In response to customer demand, LPE has broadened its market from Embedded Networks to include Direct Market Customers in strata communities.

The Australian Energy Market Commission's recently released 2018 Retail Energy Competition Review indicates that consumer confidence in the energy market working in their long-term interest had collapsed from 25 per cent to 10 per cent in a year, and trust had slipped from 50pc to 39pc, with big power companies' efforts to improve the clarity and fairness of their retail offers being too little too late.

Of the nearly 6,000 offers available to consumers, at least 57 per cent include a conditional discount, and only 25 per cent have an unconditional discount. In addition, when conditions on discounts are not met, or a limited term of the discount expires, customers revert to standing offers. In this environment, comparative shopping on sites such as "Compare the Market", "finder.com.au", and "iSelect" becomes very difficult.

Australian Competition and Consumer Commission chairman Rod Sims is due to report on the retail energy market later this month; according to press reports he has the "enormous profits" of the big three – AGL (ASX:AGL), Origin Energy (ASX:ORG) and EnergyAustralia – in his sights.

In a recent (12 June 2018) [presentation](#), LPE indicated that its retail offering compares favourably to industry benchmarks. See graphs below. **We believe smaller, nimbler retailers like LPE could gain market share where cash-conscious consumers are increasingly looking for transparency, service, and above-all, cheaper bills from their electricity providers.**



DCF/PER-derived target price: 3.2cps (3.6cps previously)

Based on the most recent (12 June 2018) presentation, we have adopted a more conservative GWh under-management forecast profile; we now forecast 450GWh under-management by the end of FY21E (9% below our previous forecast). As a result, we have reduced our NPV/PER-derived target price to 3.2cps from 3.6cps previously. Nevertheless, at current share price levels, we believe that LPE offers significant upside potential for speculative investors as the group's operational cash flow increases, and the balance sheet strengthens. **We maintain a Speculative Buy (Higher Risk) recommendation.** Risks to our earnings profile and target price include, but are not limited to: contract profile/growth, funding, wholesale electricity prices and hedging, competition and new technology (solar), regulatory risk, and dependence on key personnel.

Share Price: 1.8c

Target Price: 3.2c

Recommendation
Speculative Buy

Risk Assessment
Higher

Utilities – Electricity Retail

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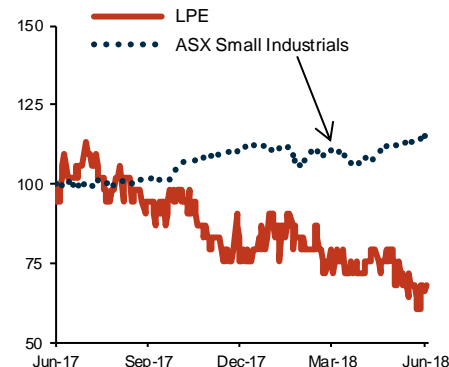
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Locality Planning Energy

ASX Code	LPE
52 week range (A\$cps)	1.6c-3.3c

Fully diluted no. of shares (m)	2,511
M'Cap diluted (A\$m)	45
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	32.9	45.8	59.2
COGS	(8.5)	(15.5)	(24.6)	(34.3)	(44.4)
Employee/Professional	(3.0)	(3.6)	(3.7)	(3.8)	(3.8)
Other	(0.8)	(1.1)	(1.2)	(1.2)	(1.2)
EBITDA	(2.0)	0.3	3.4	6.5	9.8
Depreciation & Amortisation	(0.4)	(0.8)	(0.8)	(1.0)	(1.0)
Operating profit	(2.4)	(0.5)	2.6	5.5	8.8
NOI (incl. share based payments)	(13.4)	0.0	0.0	0.0	0.0
EBIT	(15.8)	(0.5)	2.6	5.5	8.8
Interest income	0.0	0.1	0.1	0.1	0.2
Interest expense	(0.1)	(0.1)	(0.3)	(0.5)	(0.5)
Tax expense	0.0	0.0	0.0	(1.5)	(2.5)
Reported NPAT	(15.9)	(0.5)	2.4	3.6	5.9
Normalised NPAT	(2.5)	(0.5)	2.4	3.6	5.9

EBITDA Margin (%)	-20%	2%	10%	14%	16%
Operating profit margin (%)	-23%	-2%	8%	12%	15%
EPS Reported (A\$c)	(0.6)	(0.02)	0.1	0.14	0.2
EPS Normalised (A\$c)	(0.1)	(0.02)	0.1	0.14	0.2
EPS growth (%)	nm	nm	nm	51%	63%
DPS - Declared (A\$c)	0.0	0.0	0.0	0.0	0.0
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	3.4	6.5	9.8
Investment in working capital	0.0	(0.2)	(0.3)	(0.3)	(0.3)
Tax expense	0.0	0.0	0.0	(1.5)	(2.5)
Operating Cash Flow	(2.0)	0.1	3.1	4.6	6.9
Capex	(3.4)	(3.0)	(4.0)	(4.0)	(4.0)
Other investments	0.0	0.0	0.0	0.0	0.0
Investing Cash Flow	(3.4)	(3.0)	(4.0)	(4.0)	(4.0)
Net interest received / (paid)	(0.1)	(0.0)	(0.2)	(0.4)	(0.4)
Debt draw down / (repayment)	1.0	1.0	2.7	1.5	0.0
Dividends paid	0.0	0.0	0.0	0.0	0.0
Equity raised / (repaid)	19.1	0.0	0.0	0.0	0.0
Financing Cash Flow	20.0	1.0	2.5	1.1	(0.4)
Non-operating & Other	(13.3)	0.0	0.0	0.0	0.0
Inc/(Dec) in Cash	1.3	(1.9)	1.5	1.8	2.5

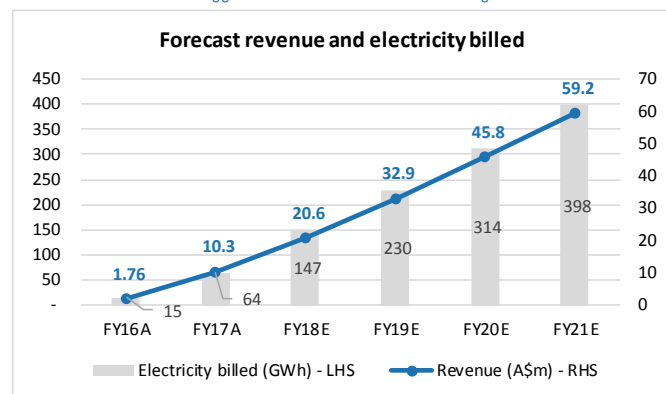
Balance Sheet (A\$m)	FY17A	FY18E	FY19E	FY20E	FY21E
Cash & Equivalents	4.0	2.0	3.6	5.3	7.9
Receivables	1.9	2.1	3.3	4.6	5.9
Inventories	0.0	0.0	0.0	0.0	0.0
Other Current Assets	0.1	0.1	0.1	0.1	0.1
PPE and Exploration & Development	0.5	2.8	6.0	9.0	12.0
Deferred tax asset	0.0	0.0	0.0	0.0	0.0
Other Non Current Assets	4.0	4.0	4.0	4.0	4.0
Total Assets	10.5	11.0	17.0	23.0	29.9
Payables and other current Liabilities	1.7	1.7	2.6	3.6	4.6
Short Term Debt	0.0	0.0	0.0	0.0	0.0
Long Term Debt	1.3	2.3	5.0	6.5	6.5
Other Non Current Liabilities	0.0	0.0	0.0	0.0	0.0
Total Liabilities	3.0	4.0	7.6	10.1	11.1
Total Equity	7.5	7.0	9.4	13.0	18.8
Net Cash/(Debt)	2.7	(0.3)	(1.4)	(1.2)	1.4

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	198	282	366
Contracts under mgmt - end year	119	198	282	366	450
Av. contracts under mgmt (GWh)	75	158	240	324	408
Electricity sales (billed) (GWh)*	64	147	230	314	398
Annual % change	nm	128%	56%	37%	27%
Effective ARP (A\$/GWh)	159,776	139,984	143,000	146,000	149,000
Customer receipts (A\$m)	10.3	20.6	32.9	45.8	59.2
Electricity costs (A\$m)	(3.6)	(7.3)	(10.8)	(15.1)	(19.5)
Network charges (A\$m)	(4.0)	(6.8)	(11.6)	(16.1)	(20.9)
Other (A\$m)	(0.9)	(1.5)	(2.2)	(3.1)	(4.0)
Total COGS (A\$m)	(8.5)	(15.5)	(24.6)	(34.3)	(44.4)
Trading margin (A\$m)	1.8	5.1	8.2	11.4	14.8
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%	-15%	-9%	cash
Gearing (ND/ND+E)	cash	-2%	-9%	-5%	cash
Interest Cover (x)	na	-18.3	11.3	15.5	24.3

Valuation Ratios (x)	FY17A	FY18E	FY19E	FY20E	FY21E
Normalised P/E	na	na	19.0	12.6	7.7
Price/OP Cash Flow	-23	564	14.8	9.8	6.5
Book value per share (A\$c)	0.3	0.3	0.4	0.5	0.7
EV/EBITDA	-21	147	14	7.1	4.5
ROE (%)	-33%	-7%	25%	28%	31%

Weighted Target Price

Valuation method	Target (A\$c)	Weighting (%)	Share price (A\$c)		Capital gain (%)
			Target	Current	
NPV	3.7	80%	3.2	1.8	79%
EPS/PER - Embedded Networks	1.4	20%			

	EPS (A\$)*	PER (x)	Target value (A\$)
PE multiple Valuation	0.14	10.0	1.4

* 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\$m6m 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 (we assume by end FY21E). 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.

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