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Locality Planning Energy (ASX: LPE)

A bright future for innovative retailing model

13 December 2016

- Since listing in early 2016, electricity retailer Locality Planning Energy (ASX: LPE) has grown sales to over 65GWh (end November 2016); we forecast 100GWh in sales by end June 2017.
- We believe the rapid take-up (ahead of management's timeline) reflects the demand for LPE's product offering – lower electricity bills to strata communities. LPE's parent meter replaces individual strata unit lot connections with one LPE connection. This reduces energy network access fees (charged by the distributor), and allows LPE to pass on significant cost savings to customers, while giving LPE attractive, above-industry average, trading margins of 18%.
- LPE is initially focusing on existing and new strata developments in Queensland (South East Queensland in particular), but is also looking at exploring expansion opportunities in NSW/ACT. Predicated on achieving an initial sales target of 450GWh by mid-2020 (equivalent to 10% of SEQ strata electricity demand), we calculate revenue growing strongly from A$1.8m in FY16A to A$89m in FY20E, with underlying NPAT increasing from negative A$2,2m to +A$11m over the same period.
- We believe that with LPE's compelling customer offering (genuine savings of up to 30% on electricity costs, and billing management) LPE should have little difficulty in garnering business from body corporates. The biggest constraint on growth will probably lie in securing funding to support up-front capex (primarily the metering system) in the early FY17/18E ramp-up stage. We view the A$2m loan facility provided in November 2016 by Chairman Andrew Pierce and Co-Founder Ben Chester as a strong endorsement of the group's potential. Our cash flow forecasts indicate that up to A$5m in additional funding will be required by the end of FY18E.

DCF/PER-derived target price: A$3.5cps

Our 50:50 weighted DCF/PER-derived target price of A$3.5c (per fully-diluted share) indicates some 75% upside potential. **We initiate coverage with 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)	(1.3)	2.1	4.5	11.1
EPS Reported (A$c)	(0.6)	(0.1)	0.1	0.2	0.5
EPS Normalised (A$c)	(0.2)	(0.1)	0.1	0.2	0.5
DPS (A$c)	-	-	-	-	-
PER (x)	na	na	22	10	4.2
Net debt / (cash) (A$m)	(2.4)	(1.3)	3.3	3.6	(2.4)
Capex (A$m)	(2.4)	(2.5)	(6.25)	(5.0)	(6.25)

Source: IRESS, Company Data, State One Stockbroking. Share price: $ 0.020 Dec 12, 2016

Share Price: A$2.0c

Target Price: A$3.5c

Recommendation
Speculative Buy

Risk Assessment
Higher

Utilities – Electricity Retail

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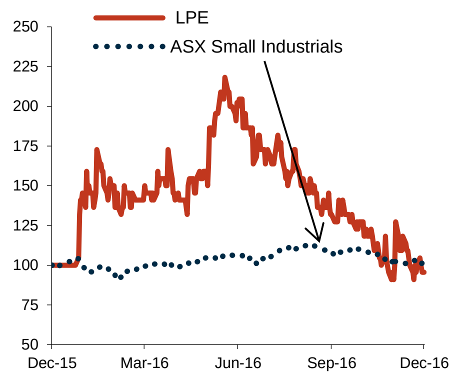
Locality Planning Energy

ASX Code	LPE
52 week range (A$cps)	A$2c-A$5c
Market Cap (ASm)	14
Shares Outstanding (m)	674
Av Daily Turnover (shares)	7.38million
ASX All Ordinaries	5,619
2017E BV per share (A$c)	A$0.3c
2017E EPS (A$c)	-A$0.1c
2017E Net Debt/(Cash) (A$m)	-1.3

Relative price performance



Source: Iress

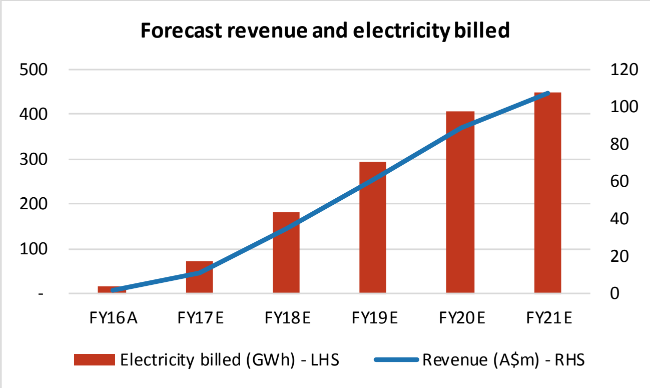
Financial Statements

Locality Planning Energy

Year ending June

Profit & Loss Statement (A$M)	FY16A	FY17E	FY18E	FY19E	FY20E
Revenue	1.8	11.2	34.5	61.0	88.6
COGS	(1.4)	(9.2)	(28.3)	(50.0)	(72.6)
Employee/Professional	(2.1)	(2.7)	(3.1)	(3.2)	(3.3)
Other	(0.4)	(0.3)	(0.3)	(0.3)	(0.3)
EBITDA	**(2.1)**	**(1.0)**	**2.8**	**7.5**	**12.4**
Depreciation & Amortisation	(0.1)	(0.3)	(0.5)	(0.8)	(1.0)
Operating profit	**(2.2)**	**(1.3)**	**2.3**	**6.7**	**11.4**
NOI	(6.4)	0.0	0.0	0.0	0.0
EBIT	**(8.7)**	**(1.3)**	**2.3**	**6.7**	**11.4**
Interest income	0.0	0.1	0.1	0.1	0.1
Interest expense	(0.1)	(0.1)	(0.3)	(0.4)	(0.3)
Tax expense	0.1	0.0	0.0	(1.9)	0.0
Reported NPAT	(8.6)	(1.3)	2.1	4.5	11.1
Normalised NPAT	**(2.2)**	**(1.3)**	**2.1**	**4.5**	**11.1**
EBITDA Margin (%)	-120%	-9%	8%	12%	14%
Operating profit margin (%)	-127%	-11%	7%	11%	13%
EPS Reported (A$c)	(0.6)	(0.1)	0.1	0.2	0.5
EPS Normalised (A$c)	(0.2)	(0.1)	0.1	0.2	0.5
EPS growth (%)	nm	nm	nm	114%	149%
DPS - Declared (A$c)	0.0	0.0	0.0	0.0	0.0
Avg. no. of fully-diluted shares (m)	846	1,698	2,182	2,325	2,325
YE no. of fuly-diluted shares (m)	1,357	2,038	2,325	2,325	2,325

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%*



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	(1.9)	0.0
Operating Cash Flow	**(2.3)**	**(1.1)**	**1.8**	**5.1**	**12.4**
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)**	**(5.0)**	**(6.25)**
Net interest received / (paid)	(0.0)	(0.0)	(0.2)	(0.4)	(0.3)
Debt drawdown / (repayment)	(0.2)	2.0	3.0	0.0	(2.5)
Dividends paid	0.0	0.0	0.0	0.0	0.0
Equity raised / (repaid)	13.3	2.6	0.0	0.0	0.0
Financing Cash Flow	**13.1**	**4.6**	**2.8**	**(0.4)**	**(2.8)**
Non-operating & Other	(5.7)	0.0	0.0	0.0	0.0
Inc/(Dec) in Cash	**2.6**	**1.0**	**(1.6)**	**(0.2)**	**3.4**

Leverage	FY16A	FY17E	FY18E	FY19E	FY20E
Net Debt/Equity	cash	cash	43%	29%	cash
Gearing (ND/ND+E)	cash	cash	22%	17%	cash
Interest Cover (x)	-187.6	-53.9	11.7	18.5	42.0

Valuation Ratios (x)	FY16A	FY17E	FY18E	FY19E	FY20E
Normalised P/E	na	na	22.4	10.4	4.2
Price/OP Cash Flow	-20	-41	25.8	9.1	3.7
Book value per share (A$c)	0.3	0.3	0.3	0.5	1.0
EV/EBITDA	-7	-15	7	2.6	1.1
ROE (%)	-51%	-23%	27%	37%	48%

Balance Sheet (A$M)	FY16A	FY17E	FY18E	FY19E	FY20E
Cash & Equivalents	2.6	3.6	2.0	1.7	5.1
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**	**8.7**	**14.8**	**20.6**	**30.5**
Payables and other current Liabilities	0.8	0.8	1.8	3.1	4.5
Short Term Debt	0.1	2.1	5.1	5.1	2.6
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**	**3.1**	**7.1**	**8.4**	**7.3**
Total Equity	**4.3**	**5.6**	**7.7**	**12.2**	**23.3**
Net Debt (Cash)	(2.4)	(1.3)	3.3	3.6	(2.4)

Weighted Target Price					
Valuation method	Target (A$c)	Weighting (%)	Share price (A$c)		Capital gain (%)
			Target	Current	
DCF	5.3	50%	3.5	2.0	75%
EPS/PER	1.7	50%			

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 (%)	2.0%	5.3	5.1	5.0	4.8	4.6
	3.0%	5.6	5.5	**5.3**	5.1	5.0
	4.0%	6.0	5.9	5.7	5.5	5.3

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

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 that 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.

Valuation

DCF valuation

Our estimated DCF value for of A$123m (equivalent to A$5c per fully diluted share [2,325m]) is predicated on the following assumptions:

- Explicit cash flow forecasts over the five-year forecast period FY17E-FY21E),
- Long-term (ie post FY21E) revenue growth of 3%pa (2% price escalation, 1% electricity sales),
- Long-term EBITDA margin of 14.5% and,
- A discount rate of 10%

Fully-diluted no. of shares

	Million
Shares in issue (June 2016)	1,357
Options	106
Performance shares	862
Total	**2,325**

Source: Company, State One Stockbroking

Figure 1: DCF calculation

Value of Operations: DCF approach			
Year	Free Cash Flow	Discount Factor	PV of FCF
2017	(4)	0.909	(3)
2018	(4)	0.826	(4)
2019	0	0.751	0
2020	6	0.683	4
2021	15	0.621	10
2022	16	0.564	9
2023	16	0.513	8
2024	17	0.467	8
2025	17	0.424	7
2026	18	0.386	7
2027	19	0.350	6
2028	19	0.319	6
2029	20	0.290	6
2030	20	0.263	5
2031	21	0.239	5
Cont. Value	215	0.239	51
Operating Value			127
Continuing value % Operating value			40.7%
Mid -Year Adjustment Factor			0.963
Operating Value (Adjusted)			**122**

Value of Equity	
Operating Value	122
Excess Mkt Securities	4
Financial Investments	0
Excess Pension Assets	0
Enterprise Value	125
Debt	(2)
Capitalized Operating Leases	0
Retirement Related Liability	0
Preferred Stock	0
Minority Interest	0
Long-Term Operating Provisic	0
Restructuring Provision	0
Future Stock Options	0
Stock options	0
Equity Value	123
No. shares (thousands)	2,325
Value per Share (A$c)	**5.3**

Source: State One Stockbroking Forecasts
Note: Cash and debt as per FY17E forecasts

PE multiple valuation

Predicated on our forecast earnings profile, we calculate LPE's two-year rolling (fully-diluted) EPS at A$0.13c. At an assumed 2-year PE multiple of 12.75x, we calculate an EPS/PER multiple valuation for LPE of A$1.70cps (rounded). Note: because of forecast negative EPS in FY17E, a one-year earnings multiple valuation for LPE is not applicable.

We believe our PE rating is conservative relative to the ratings attached to LPE's ASX-listed electricity/utility peer group.

Based on IRESS consensus earnings, we calculate that AGL Energy (ASX:AGL) is trading on a 2-year PER of 15.6x, Ausnet (ASX:AST) 19.7x, Spark Infrastructure (ASX:SKI) 27.1x, ERM Power (ASX:EPW) 15.6x, APA Group (ASX:APA) 32.3x, and Duet Group (ASX:DUE) 21.1x.

Target price, recommendation and risks

With LPE still in its ramp-up phase, we suggest that a 100%-weighted PER valuation underestimates the company's intrinsic value; conversely, we suggest that (in the absence of corporate activity) a 100%-weighted DCF valuation is too "long-dated".

Attaching equal weighting to both valuations, we obtain a target price for LPE of A$3.5c (rounded) per fully-diluted share.

At current share price levels, we calculate that MRP offers just under 60% upside potential. **We initiate coverage on LPE with a Speculative Buy (Higher risk) recommendation**.

Recommendation:

Speculative Buy (Higher risk)

Target Price: A$3.5c

Figure 2: Target price calculation

Valuation method	Target value (A$c)	Weighting (%)	Target price (A$c)	Current share price (A$c)	Capital gain / (loss)
DCF	5.3	50%	3.50	2.00	75%
EPS/PER	1.7	50%			

Source: IRESS, State One Stockbroking forecasts

Subsequent to listing in early January 2016, LPE's share price found a support-base at ~A$3c, and rose to a high of just under A$5c in late May 2016.

We suggest that an important driver behind the share price weakness seen since mid-year was growing market concern over the "dilutionary" impact of the number of shares in escrow (see ASX announcement, 9 June 2016).

We believe using fully-diluted shares when calculating forecast EPS and target price calculations, should mitigate against this concern.

Figure 3: Share price history (A$)

Source: IRESS

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. In FY17-18E, our cash flow forecasts indicate that LPE will require external funding (debt/equity) of ~A$8m.
- 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.

Figure 4: LPE's capital structure (June 2016)

Number	Class
627,507,518	Fully paid ordinary shares
729,628,093	Fully paid ordinary shares (escrowed)
854,400,776	Performance shares (escrowed)
600,000	Unlisted options exercisable at 25 cents on or before 23 Jan 2017
105,000,000	Unlisted options exercisable at 2.5 cents on or before 30 Jun 2017 (escrowed)
500,000	Unlisted options exercisable at 25 cents on or before 15 Apr 2018

Source: Company (9 June 2016 ASX announcement)

DCF sensitivity

Our base-case DCF valuation of A$5.3c per fully-diluted share assumes long-term (i.e., post FY21E) revenue growth of 3%pa, and an EBITDA margin of 14.5%. A revenue growth and margin sensitivity is tabled below.

Figure 5: DCF sensitivity (A$c)

DCF drivers		EBITDA margin (%)				
		15.5%	15.0%	14.5%	14.0%	13.5%
Revenue growth (%)	2.0%	5.3	5.1	5.0	4.8	4.6
	3.0%	5.6	5.5	**5.3**	5.1	5.0
	4.0%	6.0	5.9	5.7	5.5	5.3

Source: State One Stockbroking forecasts

Background

In July 2015, Western Australian gold explorer Stratum Metals (ASX: SXT) signed a HOA to acquire energy retailer Locality Planning Energy Pty Ltd; the acquisition was successfully completed in late 2015. Following a A$6m capital raising in December 2015, SXT relisted on the ASX as Locality Planning Energy (ASX: LPE). The effective consideration for LPE was A$7.5m (rounded) comprised of A$5.5m in LPE shares and A$2m in assumed debt.

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.

Targeting strata communities, initially in Queensland

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.

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

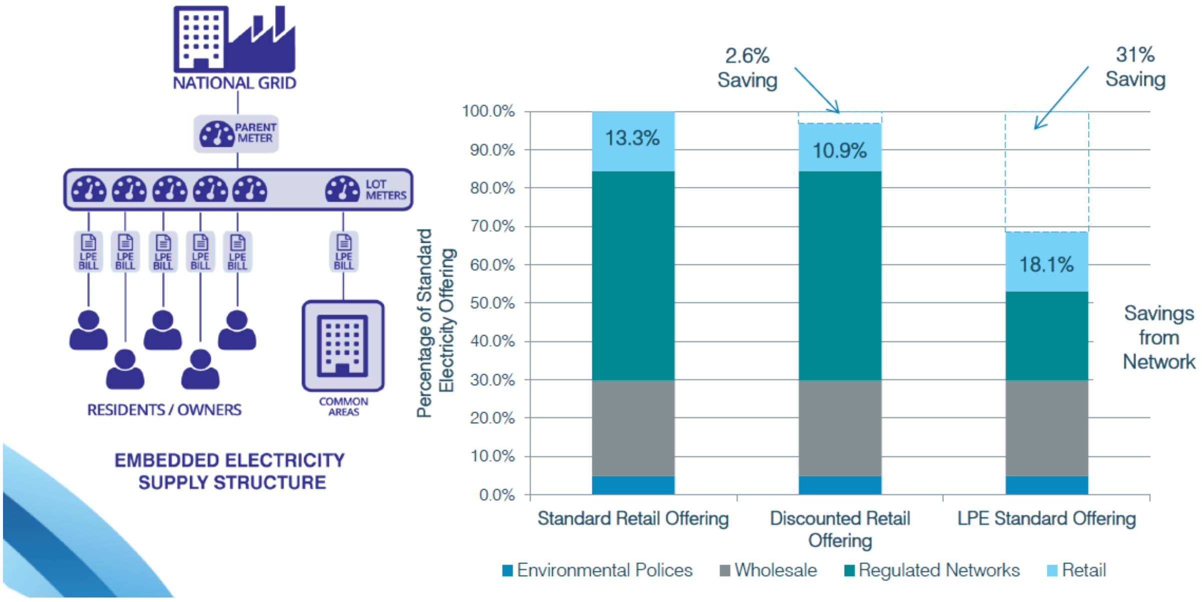
….provides genuine savings to customers, without impacting LPE's margins

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%.

Figure 6: Business model



Source: Company

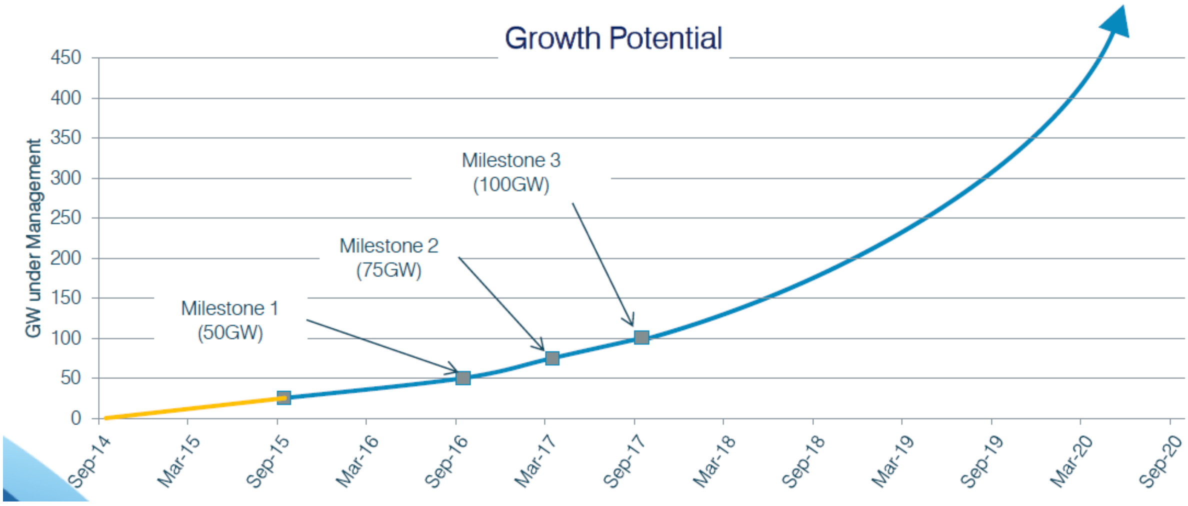
Forecast revenue profile

Targeting to grow electricity sales from 50GHh in Sept 2016 to 450GHh by 2020

In October 2016 LPE announced that it had signed ~52GWh of billing contracts as at 30 September 2016. On 7 December 2016, LPE announced it had billable sales of 58.6GHh as at 31 October and 64.6GWh at the end of November. 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.

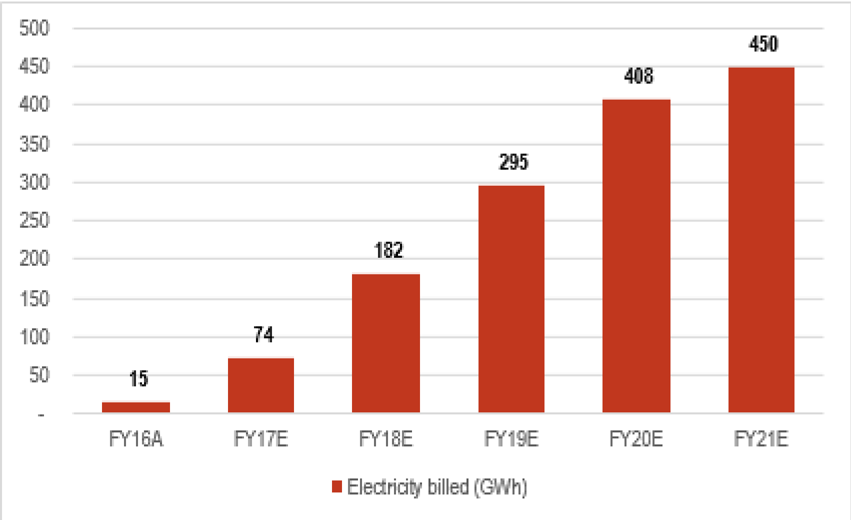
Figure 7: LPE management targeted electricity sales



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 8: Forecast electricity sales (FY17E-FY21E)

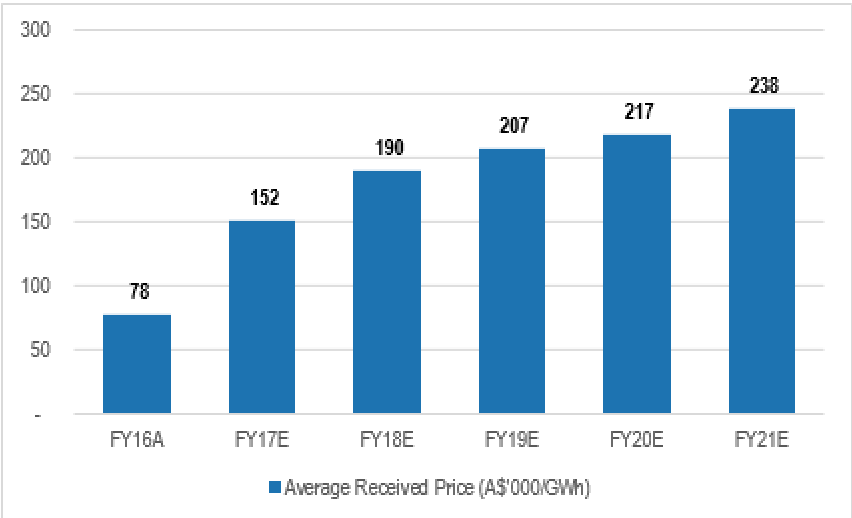


Source: State One Stockbroking Forecasts
Note: FY16A sales are State One estimated sales

Electricity sales: FY17-21E CAGR of 57%

Adjusting for an assumed 3-month lag between new and billable electricity sales, employing management's guided current average invoice price of A$220,000/GWh (equivalent to A$0.20/KWh), and assuming price escalation of 2%pa, we forecast LPE's effective average realised price (ARP) increasing from A$78k/GWh in FY17E to A$238k in FY21E.

Figure 9: Forecast effective ARP (FY17E-FY21E)



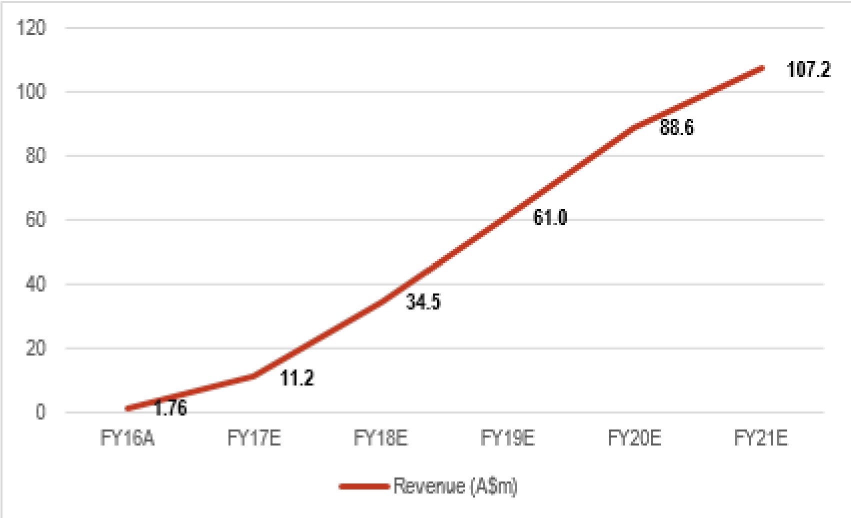
Source: State One Stockbroking Forecasts
Note: FY16A ARP is estimated by State One Stockbroking

Underlying retail price:

A$220,000 GWh

Multiplying our forecast GWh electricity sales and effective ARP's, we calculate FY17E annual revenues of A$11m (FY16A: A$1.8m), increasing to A$107m in FY21E. Our forecast revenue profile implies a five-year CAGR of 76%.

Figure 10: Forecast revenue profile (FY17E-FY21E) (A$m)



Source: Company, State One Stockbroking Forecasts

Strong revenue growth profile on the back of increased electricity sales and higher effective ARP

Forecast operating profits

Assuming a constant trading margin of 18% (in-line with management's target), we calculate trading profits of A$1.3m in FY17E (FY16A: A$0.3m) increasing to A$19.3m in FY21E. After employee, professional, and other costs, we forecast LPE posting FY17E EBITDA of –A$1.0m increasing to A$15.6m in FY21m, with operating profits increasing over this period from –A$1.3m to A$14.6m.

Figure 11: Forecast costs and operating profit profile (FY17E-FY21E) (A$m)

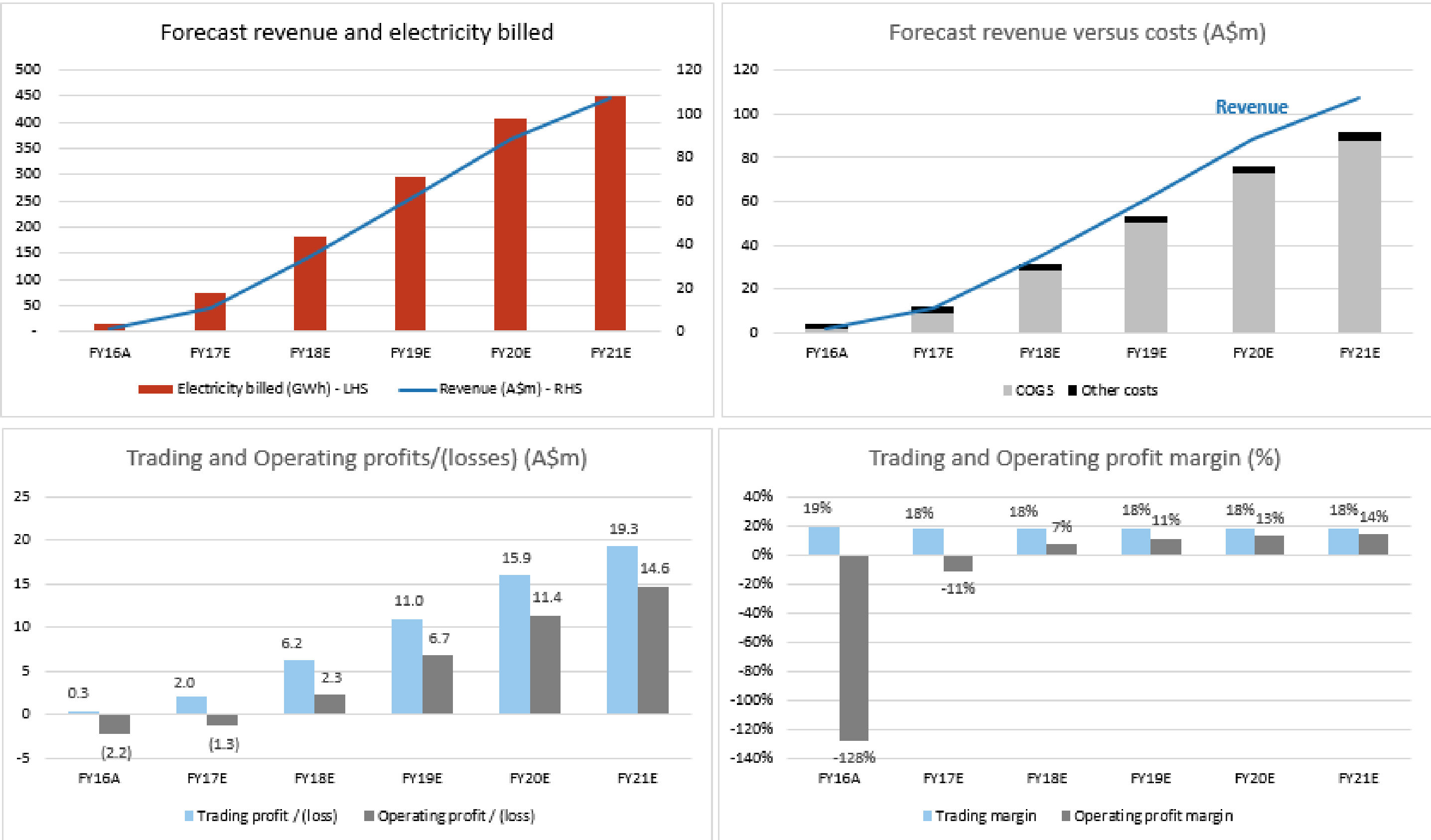
(A$m)	FY16A	FY17E	FY18E	FY19E	FY20E	FY21E
Customer receipts	**1.8**	**11.2**	**34.5**	**61.0**	**88.6**	**107.2**
Wholesale electricity costs	(0.6)	(3.7)	(11.3)	(20.0)	(29.1)	(35.1)
Network charges	(0.7)	(4.6)	(14.1)	(25.0)	(36.3)	(43.9)
Other	(0.2)	(0.9)	(2.8)	(5.0)	(7.3)	(8.8)
Total COGS	(1.4)	(9.2)	(28.3)	(50.0)	(72.6)	(87.9)
Gain/(loss) from trading	**0.3**	**2.0**	**6.2**	**11.0**	**15.9**	**19.3**
Employee costs	(1.4)	(2.1)	(2.5)	(2.6)	(2.6)	(2.7)
Professional costs	(0.7)	(0.6)	(0.6)	(0.6)	(0.6)	(0.7)
Other expenses	(0.4)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)
EBITDA	(2.1)	(1.0)	2.8	7.5	12.4	15.6
Depreciation	(0.1)	(0.3)	(0.5)	(0.8)	(1.0)	(1.0)
Operating profit / (loss)	**(2.2)**	**(1.3)**	**2.3**	**6.7**	**11.4**	**14.6**
COGS as % revenue	81.2%	82.0%	82.0%	82.0%	82.0%	82.0%
Trading margin	***18.8%***	***18.0%***	***18.0%***	***18.0%***	***18.0%***	***18.0%***
EBITDA margin	-120.3%	-9.0%	8.0%	12.3%	14.0%	14.6%
Operating profit margin	-127.6%	-11.2%	6.6%	11.0%	12.8%	13.7%

Source: Company, State One Stockbroking Forecasts

Key COGS assumptions:

- Wholesale electricity costs at a constant 40% of total COGS,
- Network charges at a constant 50% of total COGS,
- Other costs (Metering, Environmental scheme [LREC/SREC], Market Operator Charges, Billing software charges) at a constant 10% of COGS.

Figure 12: Operational forecast summary (FY17E-FY21E)



Source: Company, State One Stockbroking forecasts

Capex and Funding

We estimate that A$2.5m of electricity and utility infrastructure (including metering equipment and systems) is needed for every 50GWh of additional electricity sales. As a result, we forecast that a total capex spend of some A$20m over the period FY17E-FY20E will be needed to support our forecast increase in electricity sales from current levels of 50GWh to 450GWh by mid-2020. While this capex will be recovered over the life of the contracts, we calculate that the upfront costs will require LPE to augment internally generated cash flows with external funding in FY17E and FY18E. In November 2016, Chairman Andrew Pierce and Co-Founder Ben Chester provided A$2m in debt funding (replacing, at better terms, A$2m secured from investor Armada Capital). We assume an additional A$2.6m cash inflow in FY17E from the sale of 150m options (priced at A$2.5c), expiring end-June 2017. However, our cash flow forecasts indicate that LPE will need to source an additional A$3m in external funding in FY18E in order to fund FY18E capex requirements. For modelling purposes we assume this is 100% debt, although we suspect that it is more likely to be sourced from a mixture of new equity & debt.

Capex requirement:

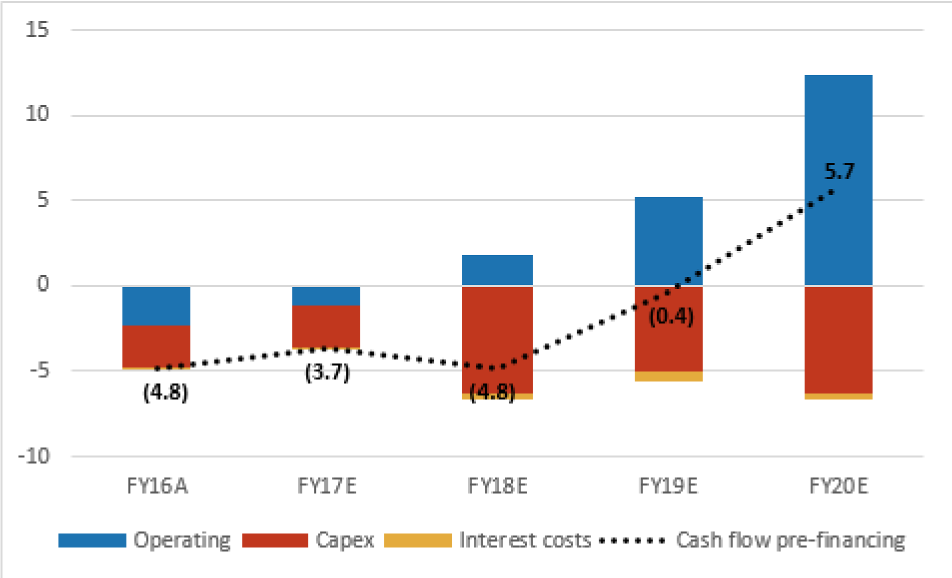
A$2.5m for every additional 50GWh in sales

Cash flows

Cash flow negative (before financing) up to FY19E

As a consequence of the capex requirement over the next four years, we forecast that LPE will be cash-flow negative before financing up to FY19E (albeit marginally so in FY19E).

Figure 13: Forecast cash flows (FY17E-FY21E) (A$m)



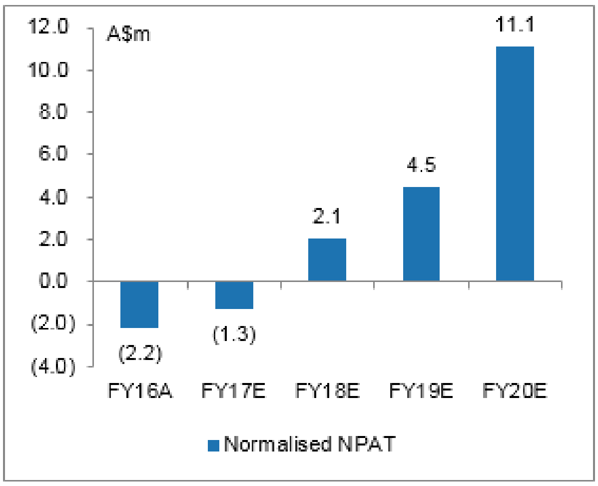
Source: State One Stockbroking forecasts

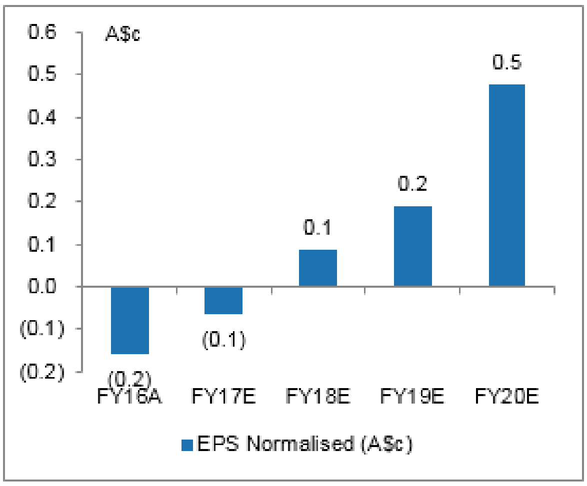
NPAT and EPS profile

Strong growth in NPAT on the back of increasing electricity sales

We forecast a net loss after tax of –A$1.3m in the current financial year (FY17E). However, as our forecast retail electricity sales grow over our forecast period, we forecast NPAT increasing to A$2.1m in FY18E, rising to A$4.5m in FY19E and A$11.1m in FY20E. Mirroring this NPAT profile, we forecast EPS growing from –A$0.1c in FY17E, to A$0.1c in FY18E, A$0.2c in FY19E, and A$0.5c in FY20E.

Figure 14: Forecast NPAT (A$m) and EPS (A$c)





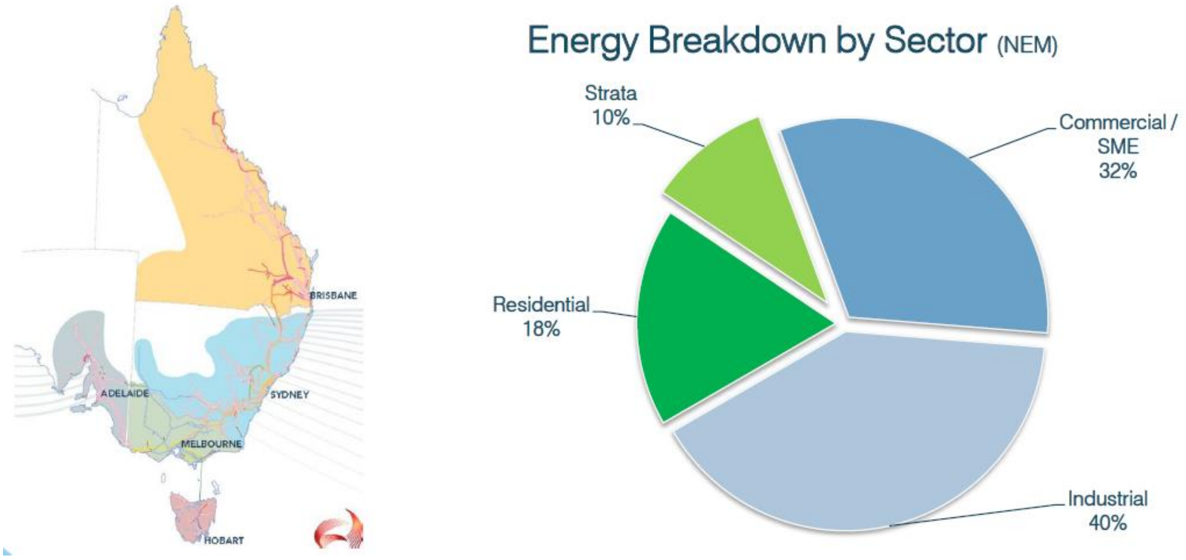
Source: Company, State One Stockbroking forecasts

Market

LPE's strategy is to target electricity sales solely to strata communities, both existing and new developments, and specifically in Queensland, by offering significant cost savings to strata communities on the (retail) electricity price. LPE has also identified opportunities to expand into NSW.

Some 200,000GWh are traded annually on the NEM, with strata electricity consumption accounting for 10% (20,000GWh) of demand.

Figure 15: NEM regional network



Source: Company (original source: AEMO)

450GWh target sales = 10% of South East Queensland strata market

In Queensland, some 15,500 strata communities consume some ~7,750GWh per annum (i.e., average strata consumption of 0.5GWh pa), while in NSW (and ACT), some 17,167 strata communities consume ~8,583GWh pa (average 0.5GWh pa).

South East Queensland (SEQ) - Brisbane and hinterland - has some 9,000 strata communities consuming 4,700GWh pa. It is this market that LPE is specifically targeting. LPE's initial target of 450GWh of electricity sales by mid-2020 (equivalent to ~900 strata communities) implies that the group is targeting to have just under 10% of the SEQ strata electricity market under management within four years.

In addition to direct sales on the ground, LPE's marketing initiatives include:

- Becoming an active associate member of Strata Community Australia (SCA), the peak strata community lobby group,
- Active membership in other target sector industry associations i.e., Urban Development Institute of Australia (UDIA), Australian Resident Accommodation Managers' Association (ARAMA),
- Brand recognition campaigns, including trade and industry speaking events,
- Strategic Partnerships. LPE has formed a JV with Brisbane-based Tritium, which has developed a commercial electric vehicle (EV) fast-charge capability charging station. LPE believes the station represents an important addition to LPE's service offering to strata communities.

Directors

Andrew Pierce, Non-Executive Chairman and Director

Mr Pierce is an accomplished and highly regarded accountant and director, having served on the boards of Variety The Children's Charity (NSW), Guide Dogs NSW/ACT, Royal Guide Dogs Australia and Centre For Eye Health Limited. He is highly skilled in the areas of financial reporting, company regulatory and governance areas. During the past three years, Mr Pierce has not served as a director of any ASX listed companies.

Mr Pierce is a Fellow of Chartered Accountants Australia and New Zealand, having been in private practice as a partner or principal since 1972.Mr Pierce is a member of the Audit and Risk Management Committee.In accordance with the ASX Corporate Governance Council's definition of independence and the materiality thresholds set, the Directors consider Mr Pierce to be independent.

Damien Glanville, Managing Director and CEO

Mr Glanville has thirteen years' experience in senior management, logistics and Executive Director roles, the last six specifically focused in the renewable energy on-site generation and solar PV industry.

Damien's most recent achievement is the commercialisation of the Valdora 16.5MW solar farm located on the Sunshine Coast, Queensland. He successfully negotiated with the Sunshine Coast Regional Council (SCRC) to provide a clean energy solution aimed to save ratepayers in excess of $10m over the coming decades. He took the project from conception through to a commercial business case for the SCRC, where it was unanimously voted on and passed through councils ordinary meetings on four separate occasions. The commercial business plan (Exclusive IP) along with the rights to the project were successfully sold to SCRC for $2.6m. The Sunshine Coast Solar farm project is the first solar farm project in Australia that is not reliant on government subsidies to make it financially viable and is an industry leading concept within the renewable energy industry. Construction is due to begin in 2016. Damien is a co-founder and architect of designing the electricity retail model that successfully enabled LPE to obtain their Australian Energy Regulator Authorisation, and is also listed as the Chief Executive Officer for the Management components of the Australian Energy Regulators authorisation to retail electricity.

Ben Chester, Co-founder and Chief Operating Officer

Ben has seven years' experience in large scale development and deployment of energy assets, along with energy to market strategy. He spent four years with an ASX listed company specialising in renewable projects, as the principal design and projects engineer for several commercial and utility scale deployments. Ben has contributed to several Australian, State and Federal Government advisory panels and with the Thailand Government on generation, deployment strategies and network integration.Ben is a co-founder and architect of designing the electricity retail model that successfully enabled LPE to obtain their Australian Energy Regulator Authorisation, and is listed as the Chief Operating Officer for the functional and compliance components of the Australian Energy Regulators authorisation to retail electricity.

Charles Furness, CFO & Company Secretary

More than 25 years' experience in senior management positions within ASX, AIM, and Nasdaq-listed companies. Previously CFO at Kolar Gold and Progen Pharmaceuticals, Company Secretary at Leaf Resources and Moreton Resources.

Source: Company

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