



MACQUARIE
ACN 002 574 923

Macquarie Private Wealth

Snapshot

AGL Energy

Business Description

AGL Energy Limited (AGK) controls Australia's largest natural gas and electricity and dual fuel customer base supplying over 3.2 million customer accounts. In addition AGK has substantial long term gas supply contracts, a growing portfolio of upstream coal seam gas reserves and utilises the derivative markets.

Strategy Analysis

AGK is rebuilding and redefining itself after a management upheaval in 2006. The focus is on developing and driving an integrated strategy balancing risk between upstream supply and retail markets which provides access to multiple profit pools. Upstream supply is focused on gas production involving equity gas, contract gas, transmission and haulage contracts and gas storage. Electricity generation comes from thermal/coal fired power stations and renewable involving wind, hydro, geothermal, landfill and biomass. In the diverse and significant retail markets AGK has market leadership supported by significant economies of scale, a robust and efficient customer service platform, long standing sales and marketing capability, wide experience in effectively managing its regulatory environment and sound risk management. Key strategic initiatives include: Retail - the maintenance of an industry leading retail cost model and continued investment in the brand and competitive capability. Upstream - growth in renewables; growth in generation; and gas portfolio management and investment. Organisational capability includes re-shaping the asset base; the restructure of the balance sheet; and building a high performance culture throughout the group. Project Phoenix is designed to lift overall customer service and improve cash collection. AGL Energy reported NPAT up 56.9% to \$558.7m for the year ended 30 June 2011. This result included costs of \$27.3m after tax treated as significant items and a gain of \$154.9m after tax from the changes in the fair value of financial instruments. Excluding these items, the underlying profit was \$431.1m, up 0.5% on the pcp. Revenues from ordinary activities were \$7.07bn, up 7% from last year. Basic and Diluted EPS was 122.3 cents compared to 79.2 cents last year. Net operating cash flow was \$569.3m compared to \$390.0m last year. The final dividend declared was 31 cents, taking the full year dividend to 60 cents compared with 59 cents last year.

27 January 2012

Recommendation

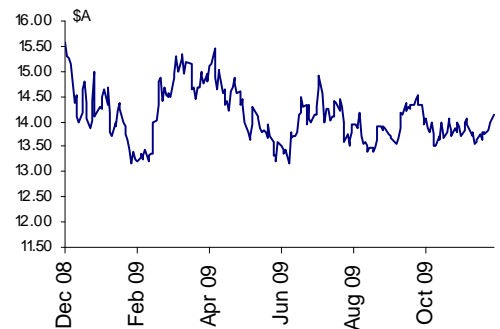
Recommendation: Outperform
Relative to: All Ind (ex Fins)

Investment Fundamentals

ASX code: AGK
Stock price: \$14.48
Market cap: \$6,727m

	Y/E 30/06/2012	2012e	2013e	2014e	2015e
Reported e	\$m	497.0	541.2	614.6	693.7
Adjusted e	\$m	497.0	541.2	614.6	693.7
EPS adjusted	¢	107.0	114.8	128.3	142.5
EPS growth	%	9.9	7.3	11.8	11.0
PE	x	13.5	12.6	11.3	10.2
PE relative	x	1.1	1.2	1.2	1.1
DPS	¢	62.4	66.0	72.0	78.0
Yield	%	4.3	4.6	5.0	5.4
Franking	%	100.0	100.0	100.0	100.0

Share Price



Source: ASX and Company accounts

Segment Performance

Results by Industry	Revenue (%)	Return on Sales (%)	Return on Assets (%)	Annual Shareholders' Return	
				1 year	10 year
Retail Energy	85.6	10.5	6.2	1.0%	
Merchant Energy	13.7	11.2	39.1	3.0%	
Upstream Gas	0.7	1.1	27.6	0.0%	
Energy Investments	0.0	11.5	0.0		
Total	100.0	34.3	72.9		
Results by Geography					
Australia	100.0	100.0	100.0		
Total	100.0				

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