



MACQUARIE
ACN 002 574 923

Macquarie Private Wealth



APA Group

Business Description

APA Group (APA), comprising the Australian Pipeline Trust and APT Investment Trust, owns Australia's largest natural gas distribution and storage infrastructure network, constituting mainly gas transmission and distribution, mostly servicing power generation, industrial, and commercial customers.

Strategy Analysis

APA's strategy revolves around the development of Australia's leading gas transmission and distribution business. Growth is achieved through organic expansion within the business, development of greenfield projects and acquisitions. APA invests in assets providing stable revenues underpinned by long term contracts or regulation and which maximise use of its existing network. Of high priority is the enhancement of the east coast gas transmission grid which connects multiple gas sources to multiple markets. The grid improves flexibility, simplifies transport, increases the range of services available to customers and greatly improves security of supply in the event of disruptions to gas sources. An enhanced grid could allow seamless gas transport throughout the eastern seaboard and drive a competitive gas market with increased competition between gas producers regardless of the location of their reserves. Synergies from expanding the network provide good returns for investors. Management structure is low cost, transparent and competitive with no fee leakage to external parties. Financial strategy is to increase annual distributions by at least CPI and lengthening the debt maturity profile to better align with the long-term nature of assets. APA Group reported NPAT up 8.6% to \$108.94m for the year ended 30 June 2011. Revenues from ordinary activities were \$1.1bn, up 11.4% from last year. Basic and Diluted EPS was 19.7 cents compared to 19.4 cents last year. Net operating cash flow was \$290.03m compared to \$267.76m last year. The final dividend declared was 11.83 cents, taking the full year dividend to 34.4 cents compared with 32.75 cents last year.

27 January 2012

Recommendation

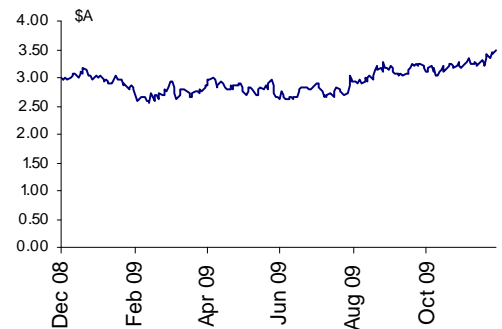
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Relative to: All Ind (ex Fins)

Investment Fundamentals

ASX code: APA
Stock price: \$4.88
Market cap: \$3,120m

	Y/E 30/06/2012	2012e	2013e	2014e	2015e
Reported e	\$m	111.5	142.6	191.8	216.5
Adjusted e	\$m	111.5	142.6	191.8	216.5
EPS adjusted	¢	18.0	21.9	29.0	32.2
EPS growth	%	-4.7	22.1	32.3	10.9
PE	x	27.2	22.2	16.8	15.2
PE relative	x	2.3	2.2	1.8	1.6
DPS	¢	35.1	35.8	35.8	38.8
Yield	%	7.2	7.3	7.3	8.0
Franking	%	0.0	33.7	58.1	55.1

Share Price



Source: ASX and Company accounts

Segment Performance

Results by Industry	Revenue (%)	Return on Sales (%)	Return on Assets (%)	Annual Shareholders' Return	
				1 year	28.0%
Energy Infrastructure	70.9	7199.8	41.3	3 year	28.0%
Asset management	25.7	14.5	12.2	5 year	12.0%
Energy investments	3.4	20.6	104.4	10 year	15.0%
Total	100.0	7234.9	157.9	Dividend Reinvestment Plan	Yes
Results by Geography				Shareholder Discounts	No
Australia	100.0	100.0	100.0		
Total	100.0				

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Disclosure: In accordance with Section 849 of the Corporations Law, Macquarie Equities Limited states that Macquarie and its affiliates collectively and beneficially own or control 1% or more of any class of APA Group's equity securities.

The Macquarie Group is acting as Financial Advisor to APA Group, as announced on 8 April 2010. Macquarie Group is acting as Financial Advisor to APA Group (APA) in a public off market takeover bid for Hastings Diversified Utilities Fund (HDF), as announced 14 December 2011. Macquarie Group will receive compensation for investment advisory services from APA Group. Macquarie Group is acting for Marubeni and RREEF in acquiring 80% of the Allgas distribution business from APA, as announced on 14th December 2011. Macquarie Group will receive compensation for investment advisory services from Marubeni and RREEF.

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