



MACQUARIE
ACN 002 574 923

Macquarie Private Wealth



Envestra

Business Description

Envestra Limited (ENV) is Australia's largest distributor of natural gas. Its main assets are regulated gas distribution networks in Victoria, South Australia and Queensland. ENV also owns small gas networks and pipelines in New South Wales and the Northern Territory. The company is internally managed but operation of the pipelines is outsourced to APA Group. Domestic and small industrial customers account for 90% of revenue. Users have relatively stable consumption patterns.

Strategy Analysis

Envestra's strategy is to expand its current networks and build and acquire new networks. In Queensland, there was a substantial increase in new customer connections resulting from the introduction of an energy policy by the Government which requires the installation of gas hot water heaters wherever natural gas is available. Government carbon reduction policies will likely push costs up but any impost on the company will ultimately be recovered from consumers through a combination of the regulatory Access Arrangements and the haulage agreements the company has with retailers and directly with large businesses. Current focus is on major repairs to the aging networks. Most funding comes from retained earnings and the DRP rather than debt so gearing will fall over time. Envestra reported NPAT up 21% to \$45m for the year ended 30 June 2011. On an underlying basis, profit after tax increased by \$11.3m to \$47.6m. Adjustments to the profit after tax to derive the underlying profit are land and asset sales, land management cost provisions and Country Energy acquisition costs. Revenues from ordinary activities were \$425m, up 11% from last year. Basic and Diluted EPS was 3.2 cents compared to 2.8 cents last year. Net operating cash flow was \$136.2m compared to \$117.1m last year. The final dividend declared was 2.75 cents, taking the full year dividend to 5.5 cents compared with 5.5 cents last year.

27 January 2012

Recommendation

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

Investment Fundamentals

ASX code: ENV
Stock price: \$0.76
Market cap: \$1,169m

	Y/E 30/06/2012	2012e	2013e	2014e	2015e
Reported e	\$m	58.0	68.9	98.2	117.5
Adjusted e	\$m	58.0	68.9	98.2	117.5
EPS adjusted	¢	3.8	4.2	5.7	6.4
EPS growth	%	17.9	11.2	35.4	12.6
PE	x	20.0	18.0	13.3	11.8
PE relative	x	1.4	1.7	1.4	1.4
DPS	¢	5.8	5.8	6.8	7.4
Yield	%	7.7	7.7	9.0	9.8
Franking	%	0.0	0.0	0.0	

Share Price



Source: ASX and Company accounts

Segment Performance

Results by Industry	Revenue (%)	Return on Sales (%)	Return on Assets (%)	Annual Shareholders' Return	
				1 year	3 year
Gas distribution networks	100.0	100.0	100.0	42.0%	50.0%
Total	100.0	100.0	100.0	3.0%	10.0%
Results by Geography				Dividend Reinvestment Plan	Yes
Australia	100.0	8.1	55.0	Shareholder Discounts	No
Total	100.0				

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