



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. This customer base is serviced by a substantial integrated generation portfolio with diversity across geography, fuel type and generation mix. In addition AGK has substantial long term gas supply contracts, a growing portfolio of upstream coal seam gas reserves and utilises the derivative markets. AGK also owns and operates the largest renewable generation portfolio with a focus on hydro and wind power.

Strategy Analysis

AGK is rebuilding and redefining itself after a management upheaval. 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 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 of \$1.6bn for the year ended 30 June 2009. The result was due in large part to one-off gains from the sale of non-core assets including AGL's PNG oil and gas assets, and investments in Queensland Gas Company and Elgas. These asset sales, and others completed in FY08, together with a successful refinancing of \$800m of long-term debt, have put AGL's balance sheet in a strong position. Revenue from ordinary activities were \$6bn, up 6.1% from last year. Diluted EPS was 357.6 cents compared to 52.6 cents last year. Net operating cash flow was \$235.4m compared to \$354.7m last year. The final dividend declared was 28 cents fully franked, taking the full year dividend to 54 cents compared with 53 cents last year.

Segment Performance				Annual Shareholders' Return	
Results by Industry	Revenue (%)	Return on Sales (%)	Return on Assets (%)	1 year	17.0%
Retail Energy	72.6	5.7	4.0	3 year	2.0%
Merchant Energy	13.2	2.9	11.8	5 year	0.0%
Upstream Gas	11.7	67.9	94.3	10 year	0.0%
Energy Investments	2.4	1235.0	116.8	Dividend Reinvestment Plan	No
Total	99.9	1311.5	226.9	Shareholder Discounts	No
Results by Geography					
Australia	87.0	0.0	0.0		
Papua New Guinea	13.0	0.0	0.0		
Total	100.0				

08 September 2010

Recommendation

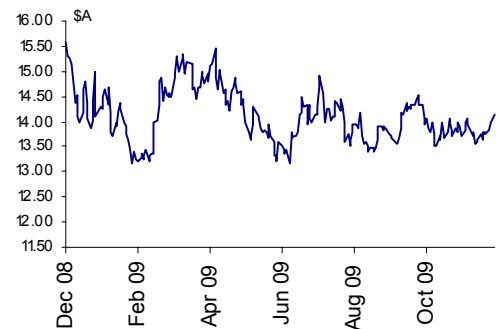
Recommendation: Outperform
Relative to: All Ind (ex Fins)

Investment Fundamentals

ASX code: AGK
Stock price: \$15.41
Market cap: \$6,936m

Y/E	30/06/2010	2011e	2012e	2013e	2014e
Reported e	\$m	452.8	432.2	443.4	456.2
Adjusted e	\$m	452.8	432.2	443.4	456.2
EPS adjusted	¢	99.7	93.4	94.2	95.3
EPS growth	%	4.2	-6.3	0.8	1.1
PE	x	15.5	16.5	16.4	16.2
PE relative	x	1.3	1.5	1.6	1.7
DPS	¢	59.5	55.8	56.3	56.9
Yield	%	3.9	3.6	3.7	3.7
Franking	%	50.4	100.0	100.0	100.0

Share Price



Source: ASX and Company accounts

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If you have any queries regarding this Research information or with any aspect of your Legalsuper account please call Legalsuper on 1800 060 312 (freecall) or email mail@legalsuper.com.au

Disclosure: In accordance with Section 849 of the Corporations Law, Macquarie Equities Limited states that The Macquarie Group acted as adviser to AGL Energy Limited in relation to its sale of Hallett 4 Wind Farm as announced 1 October 2009. The Macquarie Group acted as adviser to AGL Energy Limited in relation to its sale of Hallett 2 Wind Farm as announced on 29 August 2008. Within the last 12 months, Macquarie Group has received compensation for investment advisory services from AGL Energy Limited.

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