



MACQUARIE
ACN 002 574 923

Macquarie Private Wealth



APA Group

Business Description

APA Group (APA), comprising Australian Pipeline Trust and APT Investment Trust, owns Australia's largest 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 energy transmission and distribution business. There is a commitment to grow the business and to maximise value for the securityholders. Growth is achieved via a three pronged management philosophy - organic growth within the business; the development of brownfields and greenfields projects; and by outright acquisition. The APA business model is a low cost, transparent and competitive with no fee leakage. Financial strategy aims at increasing annual distributions by at least CPI and lengthening the debt maturity profile to better align with the long-term nature of assets. Of high priority is the development of an integrated gas transmission grid linking the populous eastern states of Australia and connecting multiple gas sources to multiple markets. The grid would improve flexibility, simplify transport, increase the range of services available to customers and greatly improve security of supply in the event of disruptions to gas sources. It would enable a seamless tariff to be charged for gas supplied throughout the eastern seaboard which would drive the expansion of a competitive gas market in Australia. It would foster an increase in competition between gas producers regardless of the location of their reserves. APA Group reported NPAT up 17.2% to \$78.77m for the year ended 30 June 2009. This was impacted by a number of significant items totaling \$21m post tax, with the largest item related to transaction and advisory costs associated with the creation of EII in December 2008. Revenues from ordinary activities were \$944.12m, up 7.1% from last year. Diluted EPS was 16.2 cents compared to 14.9 cents last year. Net operating cash flow was \$226.37m compared to \$186.42m last year. The final dividend declared was 16 cents, taking the full year dividend to 31.0 cents compared with 29.5 cents last year. Looking ahead, the Company reported its focus in the 2010 financial year is its continuing program to realise further business improvements, and develop profitable synergy and growth opportunities. APA expects to increase distributions by at least 5% for 2010.

Segment Performance

Results by Industry	Revenue (%)	Return on Sales (%)	Return on Assets (%)	Annual Shareholders' Return	
				1 year	23.0%
Gas Transportation & Distribution	68.7	7.8	48.5	3 year	8.0%
Asset Management	27.4	8.7	8.5	5 year	10.0%
Electricity Transmission	1.4	0.0	34.3	10 year	14.0%
Energy Investments	1.3	52.5	98.1	Dividend Reinvestment Plan	Yes
Complementary Assets	1.2	21.8	41.7	Shareholder Discounts	No
Total	100.0	90.8	231.1		
Results by Geography					
Australia	100.0	100.0	100.0		
Total	100.0				

06 September 2010

Recommendation

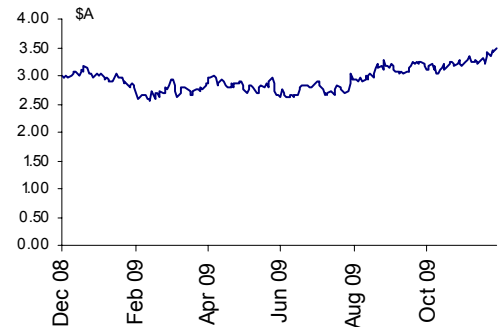
Recommendation: Neutral
Relative to: All Ind (ex Fins)

Investment Fundamentals

ASX code: APA
Stock price: \$3.91
Market cap: \$2,120m

Y/E	30/06/2010	2011e	2012e	2013e	2014e
Reported e	\$m	111.6	95.8	79.6	67.0
Adjusted e	\$m	111.6	95.8	79.6	67.0
EPS adjusted	¢	20.3	17.0	13.8	11.6
EPS growth	%	3.5	-16.3	-18.8	-16.2
PE	x	19.2	23.0	28.3	33.8
PE relative	x	1.6	2.1	2.8	3.5
DPS	¢	34.4	36.1	37.9	39.8
Yield	%	8.8	9.2	9.7	10.2
Franking	%	0.0	0.0	0.0	

Share Price



Source: ASX and Company accounts

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Disclosure: In accordance with Section 849 of the Corporations Law, Macquarie Equities Limited states that The Macquarie Group is acting as Financial Advisor to APA Group. The Macquarie Group acted as financial adviser to APA Group (APA.ASX) in relation to its corporate restructure as announced on 2 May 2008.

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