

ERM Power

Offering solutions to corporate energy challenges

Initiation of coverage

Utilities

ERM Power is a leading electricity supplier and trader operating in Australia and the US. In addition to supply and gas-fired power generation in Australia, the company is focusing on two new sources of growth: US supply and energy solutions. These new areas of focus are the key drivers of our forecast 12% EBITDA CAGR in FY17-23. Energy solutions aims to reduce customers' costs and carbon footprint and improve their energy efficiency. We believe ERM Power's current share price implies not only zero value for the US and energy solutions but a significant decline in supply and generation margins. In our view the strong balance sheet leaves room for acquisitions and/or additional share buybacks beyond the one announced for FY18.

Year end	EBITDA (A\$m)	PBT* (A\$m)	EPS* (A\$)	DPS (A\$)	P/E (x)	Yield (%)
06/17	78	15	(0.11)	0.07	N/A	5.0
06/18e	89	15	0.04	0.07	40.8	3.9
06/19e	109	31	0.09	0.07	19.7	3.8
06/20e	130	49	0.15	0.07	12.7	3.8

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

Main areas of growth are US and energy solutions

The Australian supply and generation activities currently generate all the cash flow of the group but we believe US retail and energy solutions have the highest growth potential. For energy solutions this should be supported by structural trends such as decarbonisation, growth in renewable energy and customers' demand for higher energy efficiency. For the US business, the improvement in profitability should be driven by economies of scale and the optimisation of the trading portfolio. We estimate that these two businesses will turn a net loss of A\$22m in FY18e into a A\$10m positive contribution to group net income in FY23e.

Key sensitivity is to higher/lower supply margins

We believe the key risk ERM Power currently faces is volatility in supply margins. Historically, ERM Power's supply margins have shown little variation, ranging between A\$4.1 and A\$4.7 over the last five years. We estimate that for each +/- 10% change in the supply margin, group EBITDA changes by +/- 10%. We forecast 2018 EBITDA of A\$89m, based on an Australian supply margin in line with management targets (A\$4.7/MWh with upside potential). To illustrate earnings sensitivity to higher/lower margins, we calculate EBITDA of A\$76-105m and EPS of A\$0.006/0.089 if we apply medium-term guidance of A\$4.0/5.5 (upgraded twice over the last 12 months, driven by successful commercial and trading activity).

Valuation: Discounts no growth and margins decline

Even attributing no value to US and energy solutions, our DCF-based sum-of-the-parts valuation is A\$2.6/share, c 45% higher than the current share price. Including a valuation for US and energy solutions would increase valuation to A\$2.8/share, implying almost 60% upside potential.

29 March 2018

Price **A\$1.8**
Market cap **A\$463m**

Net cash (A\$m) at end June 2018e	47
Shares in issue (at 31 December 2017)	257.1m
Free float	75%
Code	EPWX
Primary exchange	ASX
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	5.4	29.2	48.0
Rel (local)	1.7	24.5	51.9

52-week high/low A\$1.61 A\$1.07

Business description

ERM Power is an energy retailer and trader founded in 1980 and listed in 2010. In Australia it operates an electricity supply business (second largest retailer to C&I customers) and two gas-fired generation plants. Key areas of growth are the US electricity retail market (entered in 2015) and energy solutions.

Next event

Dividend payment 6 April 2018

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**ERM Power is a research client
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Investment summary

Company description: Energy retailer and trader in Australia and the US

Founded in 1980 and listed on the ASX in 2010, ERM Power is a leading energy retailer and trader operating in Australia and the US. ERM's portfolio of activities in Australia includes an electricity supply business (the second largest retailer to commercial and industrial (C&I) customers) and two gas-fired power generation plants (with equity-owned capacity of 497MW, c 1% of the country's total installed capacity). In addition, ERM Power has been developing an energy solutions business. 'Energy solutions' provides value-added services to its C&I supply customers, including solutions to improve energy efficiency, reduce costs and improve customers' environmental footprint. Beyond Australia, ERM Power entered the US energy retail business in 2015 with the acquisition of Source Power & Gas. In the US, ERM Power aims to replicate its Australian business model, focusing on supply and energy solutions.

Valuation: Discounting no growth and margins decline

Based on our analysis, we believe the current market valuation for ERM Power implies that the market is not only attributing zero value to the highest growth divisions of the group (US retail and energy solutions) but is also assuming that margins in generation and supply will decrease significantly. Consistent delivery on growth potential from US and energy solutions, in addition to the generation of cash flow from supply and power generation, could lead to a re-rating, in our view. We derive a sum-of-the-parts valuation of A\$2.6/share (c 45% higher than current share price), even assuming no value for US and Energy solutions. Including a valuation for these two activities would increase value per share to A\$2.8/MWh, implying almost 60% potential upside.

Financials: Earnings growth and strong cash flow leave room for further balance sheet deployment

We see positive earnings momentum for ERM Power and forecast +14% y-o-y EBITDA in FY18e (this is consistent with "double digit growth" guidance by management). In FY17-23e, we forecast 12% EBITDA CAGR combined with solid cash flow generation (12% per year average FCF yield through to FY23e). As ERM Power is in a net cash position (non-recourse debt in power generation assets is more than offset by the cash in the holding), we see room for balance sheet redeployment, including acquisitions and/or a continuation beyond 2018 of the recently announced A\$20m share buyback programme.

Sensitivities: Supply margin is key risk

The key risk that ERM Power faces is volatility in supply margins: supply activities are low-margin but have the potential to generate significant cash flow and high returns on capital invested. However profits can be volatile and are dependent on several factors, including price volatility, competition, hedging strategy etc. However, ERM Power's supply margins have shown little variation averaging A\$4.4/MWh on an annual basis (ranging between A\$4.1 and A\$4.7 over the last five years). We forecast 2018 EBITDA of A\$89m, based on an Australian supply margin in line with management targets (A\$4.7/MWh with upside potential). To illustrate earnings sensitivity to higher/lower margins, we calculate EBITDA of A\$76-105m and EPS of A\$0.006/0.089 if we apply the medium-term guidance of A\$4.0/5.5 (upgraded twice over the last 12 months, driven by successful commercial and trading activity).

Providing solutions to corporate energy challenges

ERM Power is an energy retailer and trader operating in the US and Australia. ERM's strategy is focused on delivering consistent returns from its core Australian electricity supply and production activities, while at the same time expanding in new growth markets and areas: the US and energy solutions. While Australian supply and power production currently generate all the cash flow of the group, our forecasts indicate that most of the profit growth will come from US retail (a business which ERM Power entered in 2015) and energy solutions, the most innovative product offering of the group.

ERM Power: Energy retailer and trader with growth ambitions

Founded in 1980 and listed on ASX in 2010, ERM Power is a leading energy retailer and trader operating in Australia and the US. Its portfolio of activities in Australia includes an electricity supply business (the second largest retailer to commercial and industrial customers) and two gas-fired power generation plants (with equity-owned capacity of 497MW, equivalent to c 1% of the country's total installed capacity). In addition, ERM Power has been developing an energy solutions business which it strengthened with two acquisitions in 2016. With energy solutions, ERM Power provides value-added services to its C&I supply customers, including solutions to improve their energy efficiency, reduce costs and improve their environmental footprint. Beyond Australia, ERM Power entered the US energy retail business in 2015 with the acquisition of Source Power & Gas. In the US, ERM Power aims to replicate its Australian retail business model. Most of the EBITDA growth we expect for the group is driven by the US business (although this division drives significant growth in D&A and financial costs as well). We expect strong growth in energy solutions although we view our estimates for this business as conservative.

Exhibit 1: Australia supply and generation currently contributes most of ERM's EBITDA

Divisional EBITDA (A\$m)	FY16	FY17	FY18e	FY19e	FY20e	FY21e	FY22e	FY23e
Electricity retail Australia	55.4	53.4	66.3	68.2	70.1	69.6	69.1	68.6
Electricity retail US	-3.2	0.2	3	18	36	42	49	56
Power generation	35.4	41.7	39	39	40	40	40	40
Energy solutions	-1.3	-4.3	-4.3	-2	0	2	4	4
Corporate	-11.6	-12.6	-14.5	-15	-15.5	-16	-16	-16
Underlying total EBITDA	75	78	89	109	130	137	146	153

Source: ERM Power, Edison Investment Research

Strategy: Focus on core supply activities in Australia and the US and strong development of energy solutions

ERM Power's vision is to be the preferred energy supplier and solutions provider to business customers in Australia and the US. The company's strategy is focused on the expansion of its core retail supply business, by increasingly integrating the offer with technologically advanced energy solutions. The power generation activities are managed in an integrated way with the core energy supply business. ERM Power aims to replicate its successful Australian energy supply model in target markets in the US and management expects this to be a key area of growth. Over the next few years management expects stable contribution from power generation, profitable volume growth in Australian retail and stronger growth in US retail and energy solutions.

Competitive advantages and market positioning

We view ERM Power's business model as built on the following competitive advantages:

- **Leading expertise in a complex market:** while barriers to entry to the Australian supply business are low, we believe it is nevertheless a very complex market and would be difficult for large international utilities to replicate ERM Power's expertise and knowledge of the energy

market. ERM Power has almost 40 years' experience in Australian energy advisory services and retail activities, helping its clients navigate the complex and disparate Australian electricity markets (different markets in different regions, separate markets for LGCs etc). We believe this expertise is essential for the successful development of the energy solutions business.

- **Leading position in electricity supply to C&I customers:** ERM Power is the second largest electricity supplier to C&I customers in Australia. We believe cross-selling of most innovative energy solutions to supply customers provides significant growth opportunities.
- **Strong customer satisfaction:** ERM Power has ranked first for customer satisfaction in Australia for seven years in a row (Utility Market Intelligence survey carried out by NTF Group) and third (out of 40 retailers) in the US for three years in a row (Energy Research Consulting Group survey, December 2017).
- **Combination of generation and supply:** although the size of ERM Power's generation plants is small when compared to the size of the supply business, the integration of supply and power generation activities is a competitive advantage, in our view. The ownership of peaking gas plants provides flexibility to ERM Power's trading portfolio.
- **Ownership of gas plants in a predominantly coal market:** we see a strong competitive positioning for ERM Power's generation plants, as these are flexible and relatively low-carbon gas plants operating in a predominantly coal-fired market. We believe the growth in solar and wind capacity and the gradual closures of coal plants is likely to drive an increase in power price volatility and gas-fired production/margins.
- **Development of value-added energy solutions offer:** Leveraging on its energy market expertise, ERM Power's current focus on the most innovative energy solutions products differentiates its product offering from other players and increases the value-added content of its services.

Cash flow generation from supply, production but highest growth potential from energy solutions and US

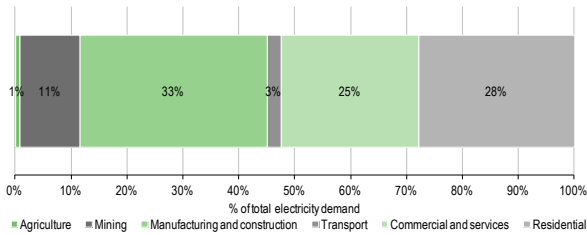
ERM Power's supply and power production activities generate all the profits and cash flow at present. However, we believe the highest growth potential for ERM Power is from its recently developed divisions, energy solutions and US retail. The growth in the US should be driven by volumes and margin expansion as ERM Power aims to replicate its Australian business model. The energy solutions business is expected to benefit from strong customer demand for products aimed at improving energy efficiency, cutting costs and improving carbon footprint. We estimate that energy solutions has the potential to convert a A\$3m negative contribution to net income in FY18E into a A\$3m positive contribution by FY23e, by assuming growth in revenue will continue and profit margins are benchmarked to competitors (and we view our estimate as conservative). Similarly, we see potential for the US business to convert a loss of A\$19m in FY18e into a profit of A\$7m in FY23e. This large profit opportunity comes with significant uncertainties, but as we see limited downside (in particular the US business is funded independently), risks are skewed to the upside, in our view.

Supply business: Track record of stability

ERM Power's core business is the supply of electricity to commercial and industrial customers in Australia. Supply activities are the final link in the electricity value chain, when electricity is commercialised to final customers. We estimate that in FY18, this activity will generate around two thirds of the group's EBITDA.

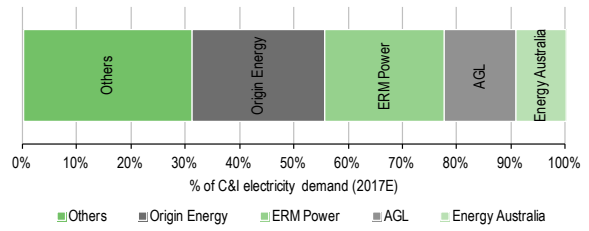
The C&I segment of the electricity retail market is very competitive. The four largest suppliers control almost 70% of the market. ERM Power is the second largest supplier with a market share of 22% behind Origin Energy with a market share of 24% (Exhibit 3).

Exhibit 2: Australia's electricity demand by industry



Source: Australian government

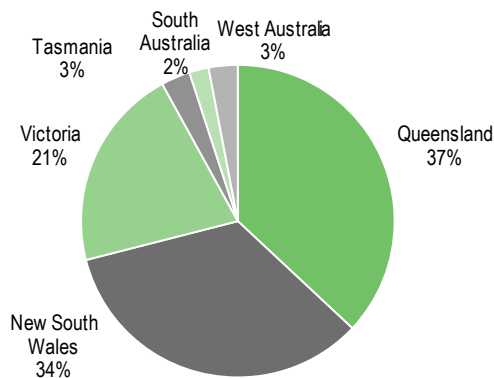
Exhibit 3: The C&I supply market is highly competitive



Source: Company data, Edison Investment Research.

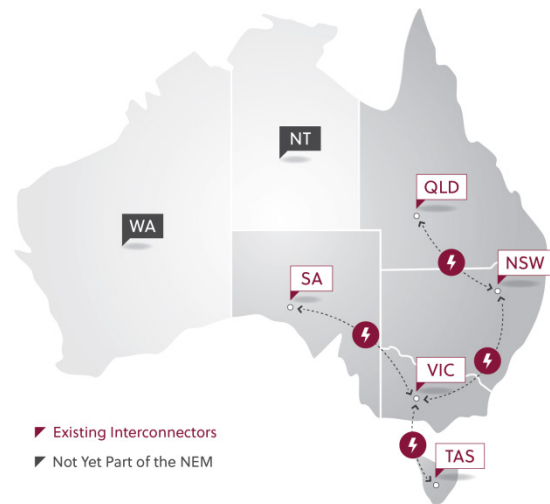
Australia is divided into various electricity markets. ERM Power's supply business is mainly concentrated on Queensland, Victoria and New South Wales. The largest and most important one is the National Electricity Market (NEM), which covers southern and eastern Australia and represents slightly less than 80% of Australia's power generation. The NEM includes five different regional markets (Queensland, Victoria, New South Wales, South Australia and Tasmania) which are all interconnected. The Western Australia market and the Northern Territory are not interconnected with the NEM.

Exhibit 4: ERM's supply split by geography (H118)



Source: ERM Power

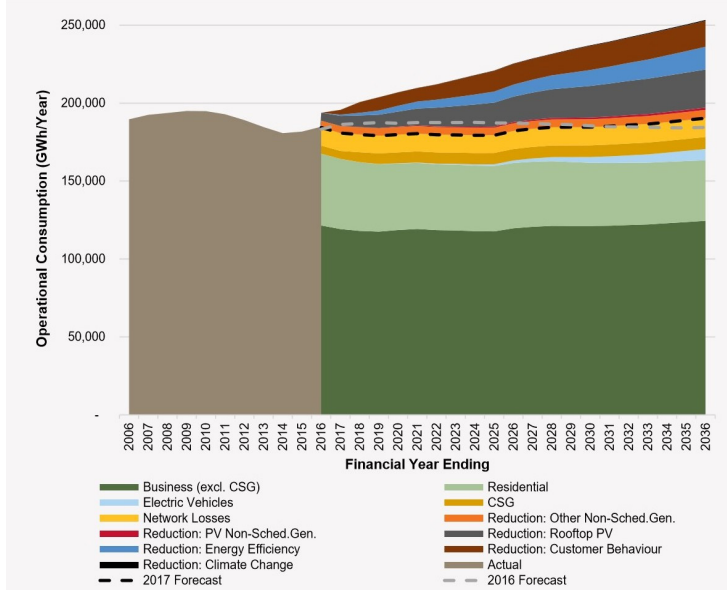
Exhibit 5: Australia's electricity market division



Source: ElectraNet

As ERM Power's market share in the C&I segment is already high and Australian electricity consumption is not expected to grow very significantly over the next few years, margins rather than volume growth will be the key driver of ERM Power's supply business profitability, in our view.

Exhibit 6: Australian electricity demand (NEM) is not expected to significantly increase



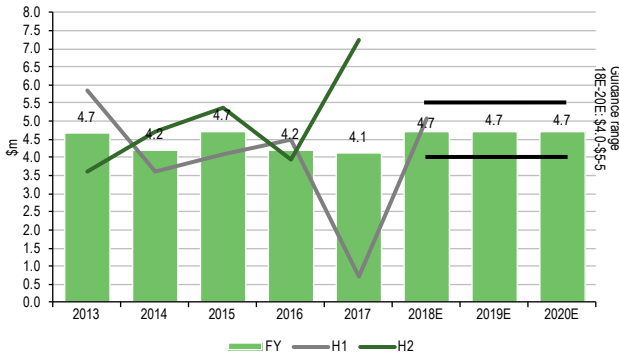
Source: Australian Energy Market Operator (June 2017)

In general, supply activities are low-margin activities that have the potential to generate significant cash flow and high returns on capital invested. However, the key risk is the potential volatility in unit margins, which can drive material and rapid changes in the profitability of the group as a result of changes in trading conditions. Most suppliers, including ERM Power, lock in margins in advance by forward selling electricity to customers (usually with two/three-year contracts) and by buying electricity on wholesale markets on a spot and forward basis or through long-term contracts (for example Vales Point contract). In addition, ERM Power engages in trading activity, leveraging its large portfolio of spot and forward contracts.

We believe the intensity of the competition, the scale and efficiency of the operations, the portfolio of trading positions, the customer satisfaction and the ability to provide additional integrated value-added services are all significant drivers of profitability. Historically, ERM Power's supply margins have varied little, averaging A\$4.4/MWh on an annual basis over the last five years (ranging between A\$4.11 and A\$4.72), hence ERM Power has built a track-record of stability for a business which is potentially very volatile. More recently, the profitability of ERM Power's supply business has been experiencing strong positive momentum which led the management to upgrade the medium-term profit guidance twice over the last 12-months. This improvement has been driven by a variety of factors: a normalisation in competitive intensity following a period of very strong pressure, successful portfolio optimisation, favourable offtake agreements (the Vales Point contract in particular) and commercial success with innovative products.

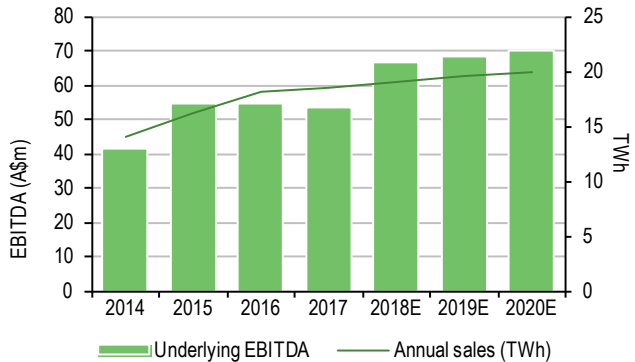
In our forecasts we have assumed ERM Power achieves a gross margin of A\$4.7/MWh in FY18-20 which is slightly higher the last five-year historical average of A\$4.4/MWh. Our FY18-20 assumptions are consistent with management's expectations of "A\$4.7/MWh with upside potential" in FY18 (upgraded at H118 results from A\$4.4/MWh) and a range between A\$4.0/MWh to A\$5.5/MWh in FY18-20. Overall, we expect the supply business to remain the strongest cash flow engine of the group. In the sensitivity section we provide a scenario analysis with a bull/bear case (higher/lower supply margins).

Exhibit 7: ERM Power's C&I supply gross margins have averaged A\$4.4/MWh over the last five years



Source: ERM Power, Edison Investment Research

Exhibit 8: We see only moderate volume and EBITDA growth beyond FY18E

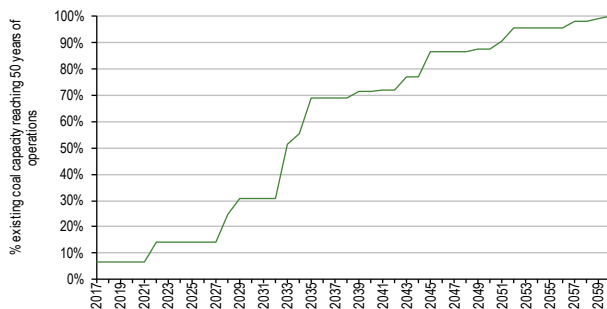


Source: ERM Power, Edison Investment Research.

Power generation: Flexible gas plants well positioned amid renewable growth and coal closures

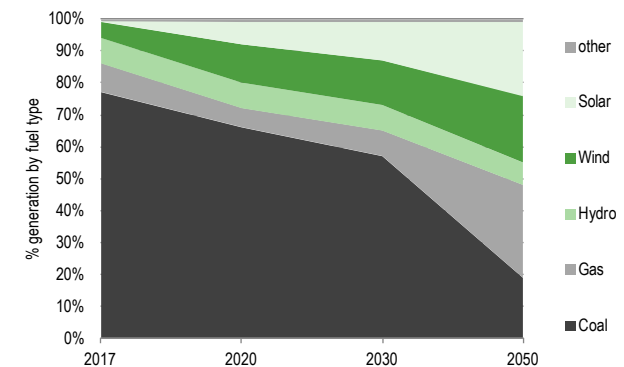
Although power generation is not the core business of ERM Power, its two gas-fired peaker power plants Neerabup (50% equity share) and Oakey (100%-owned) generate a significant portion of the profits for the group (c 40% of FY18e EBITDA). We believe that these two plants (open-cycle gas turbine plants – OCGT – with total installed capacity of 662MW o/w ERM Power has 497MW equity ownership) are valuable assets with strong competitive positioning. We view gas plants as benefitting from increasing volatility in prices as a result of growing renewable installed capacity (wind and solar are intermittent sources of generation) and from reducing production from polluting coal plants (regulation and aging plants are likely to result in significant closures). As shown in Exhibit 9, on our estimates, by FY35 c 70% of Australia's current coal-fired power plant capacity will have reached 50 years of age and will likely be closed. In our view, the level of investments needed to continue to generate, combined with evolving stricter environmental regulations, are unlikely to allow the operation of the plants beyond this limit.

Exhibit 9: Australia's coal fired plants are approaching the end of their operating life



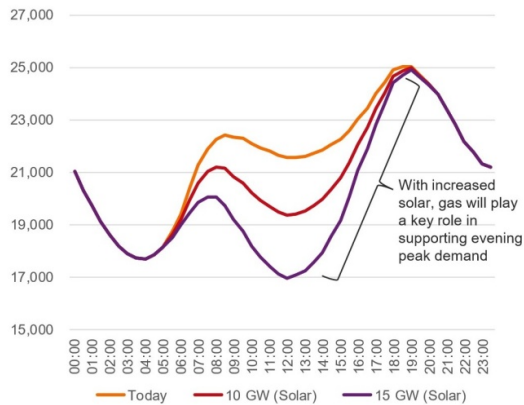
Source: Edison Investment Research analysis on data from Australia Energy Council

Exhibit 10: As renewable capacity grows and coal plants shut down, role of gas peakers becomes key



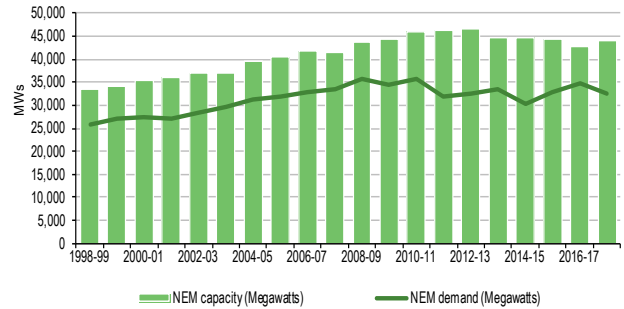
Source: Edison Investment Research based on data from Finkel report ('Business as usual' scenario)

Exhibit 11: Electricity demand profile during the day in various scenarios of solar growth



Source: Origin Energy (2017 Investor Day presentation). Note: As solar PV grows, gas will be used more to help cover ramp-up in demand in the evening.

Exhibit 12: Plant closures have resulted in a net supply reduction in the NEM



Source: Australian Energy Regulator

Coal power plants closures and growth in the installed capacity of renewable generation are likely to profoundly change the electricity generation mix in Australia and continue to provide profit opportunities for lower-emissions flexible gas plants, which, together with batteries, are able to quickly respond to peaks in demand. Our forecasts assume moderate growth in spreads and load factors for Oakey power plant, which is the most exposed to market dynamics.

Exhibit 13 sets out the very different characteristics of the two plants. Oakey power plant is 100% merchant, hence it is fully exposed to fluctuations in market prices/spreads while the Neerabup's earnings profile is significantly more stable as a result of a 20-year power purchasing agreement (expiring in 2029) from which it generates almost all its current revenues. In terms of geographic location, Oakey participates in Australia's largest electricity markets (National Electricity Market in Eastern/South Australia) while the Neerabup plant operates in Western Australia.

Exhibit 13: Key characteristics of ERM's power generation assets

Plant	Location	Installed capacity (MW)	Production (GWh) - FY18e	EBITDA (A\$m) FY18e	Contractual arrangements
Oakey	Queensland (National Electricity Market)	332	131	15	100% merchant
Neerabup*	Western Australia	330 (o/w ERM has 50% equity ownership)	79	26	20-year PPA with the Western Australian government-owned retailer Synergy (from October 2009). Small profit from merchant activities.

Source: ERM Power, Edison Investment Research. Note: *At 50% ownership to ERM.

Energy solutions: New technologies, energy transition and environmental regulations drive new business opportunities

The energy market in Australia (and globally) is undergoing significant transformation as a result of the energy transition, the emergence of new technology and the customers' demand for higher energy efficiency and sustainable solutions. Sophisticated C&I customers, who represent the core business of ERM Power, increasingly require a comprehensive energy service in addition to the delivery of the physical commodity, with the objective of reducing costs and consumption and improving their environmental footprint.

All of these trends are supported by more stringent government regulations (eg energy efficiency, renewables growth and carbon reduction). The Australian government set out a target of improving

energy productivity by 40% in 2030 vs 2015 and identified several sectors where efficiencies can be achieved (Exhibits 14 and 15).

Exhibit 14: Australian government set a target of 40% improvement in energy productivity in FY30 vs FY15

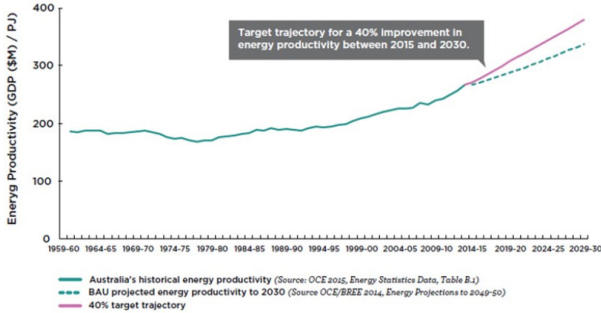
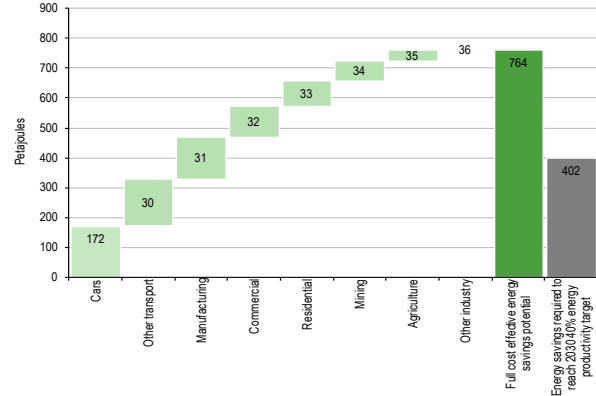


Exhibit 15: Energy savings can be achieved in a variety of sectors



Source: Australian government (National Energy Productivity Plan)

Furthermore, demand for energy efficiency solutions is likely to be supported by the expected increase in electricity costs for commercial and industrial customers (Exhibit 16). Finally, we expect corporates to target a reduction in carbon emissions to reduce costs and achieve sustainability targets (see renewable growth target in Exhibit 17). While a renewable target is currently set for 2020 (with limited growth thereafter), the likely introduction of the National Energy Guarantee legislation (which aims at improving security of supply and reducing emissions) should result in continuous growth beyond 2020. While the framework is currently under discussion, more details about the regulatory design should be available at the end of April 2018.

Exhibit 16: Rise in energy costs is resulting in higher bills for C&I customers

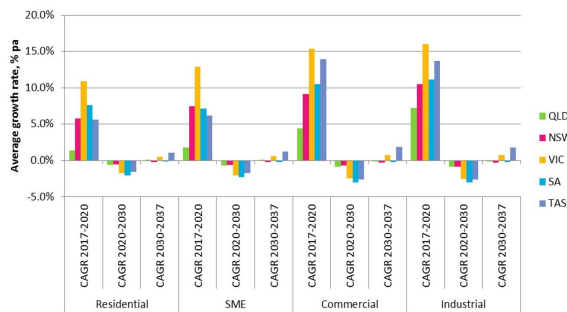
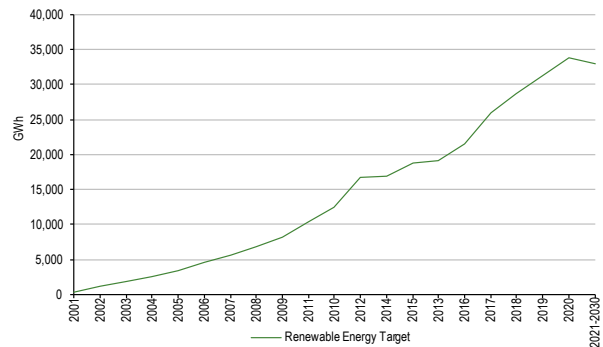


Exhibit 17: Strong renewable growth is underway, with target of 33,000GWh by 2020 (>23.5% of generation)



Source: Jacobs (neutral case), forecasts used to produce the 2017 Electricity Forecasting Insights paper prepared by Australian Energy market Operator (AEMO)

Source: Clean Energy Regulator

This disruption to the traditional energy sector provides both risks and opportunities for incumbents. Currently, the energy services industry is fragmented and dynamic because of new technology players looking to enter the markets. At the moment ERM Power faces significant competition: from local utility players such as Origin Energy and Energy Australia; from global players such as ENGIE, Vinci and Veolia; from renewable plant providers; and from energy brokers. In this highly competitive environment, we see two competitive advantages for ERM Power: 1) it already has a client base to whom it can cross-sell its energy solutions (although its offer is not limited to these clients); 2) it provides a full comprehensive service (from auditing of energy costs/consumption to installation of solar PV plants, LEDs etc), rather than just focusing on one category of products. More in detail, ERM's product offering includes advisory services, development of data analytics

and energy management software, energy audits, end-to-end project management (including LEDs and solar PV plant). We set out in Exhibit 18 the key products/services which ERM Power offers to meet the new energy customers' needs and the expected financial impact of the business growth.

Exhibit 18: ERM's energy solutions to new customer needs and expected growth

New customer needs	ERM energy solutions	Expected growth and financial impact
<ul style="list-style-type: none"> • Better manage energy costs in the context of rising energy prices • Need for higher transparency over consumption and costs • Increase control and management of energy consumption • Reduction of carbon footprint to achieve sustainability targets • Improve energy efficiency • Security of supply 	<ul style="list-style-type: none"> • Energy audits to identify potential savings and efficiencies • Lighting solutions (LEDs) to reduce consumption • Data analytics and energy management software to improve control over consumption • Demand response: customer compensation for reduction of electricity consumption / generation of on-site energy at times of peak demand/prices • Solar PV installations: site assessment, turnkey plant solutions and financing. • Network tariff optimisation 	<ul style="list-style-type: none"> • FY18 revenues doubling vs FY17 (+143% y-o-y at H118 and +139% y-o-y in FY17) • FY18e EBITDA loss guidance of -\$4.0/-4.5m (vs -\$4.3m in FY17) • Positive FY20e NPAT

Source: ERM Power, Edison investment Research

From a financial point of view, the activity of this division has so far been a drag on profit and cash flow and management expects this to continue in 2018. The negative EBITDA contribution has a significant effect on the bottom line: company guidance of FY18e EBITDA of -\$4.0-4.5m implies a negative effect on net income (on a post-tax basis) equivalent to 28% of our FY18e forecast. In addition, we estimate a negative cash flow for the division of -\$7.3m, equivalent to 27% of FY18e free cash flow and 2% of ERM's market cap. Beyond FY18, we have conservatively assumed EBITDA breakeven in FY20 and a long-term EBIT margin of 5%, based on benchmarking with competitors. The company targets positive contribution to group net income from 2020. The business is currently generating a loss as it is at an early stage of development and sub-scale, but over time significant profit growth is likely to be driven by economies of scale as revenue continues to expand. The analysis of competitors' margins in energy services activities shows a significant profit opportunity for ERM Power in this business:

- In its 'customers' solutions' business, ENGIE guides for EBIT margin of 12-16% for engineering activities and 3-6% EBIT margin for installation and services
- Vinci Energies achieved a 5.7% EBIT margin in both FY16 and FY17
- We estimate a 5-7% EBIT margin for EDF Dalkia and Veolia's Energy services activities in the latest reported financial year (FY16)

As a sensitivity, by applying a 3-7% EBIT margin to our revenue forecast for FY22 (A\$79m), we estimate that the division could contribute 4-10% (7% in our base case of 5% EBIT margin) to ERM Power's net income, on a post-tax basis (vs negative contribution of -28% in FY18e). The reversal of the loss into a medium-term profit is a key driver of the earnings growth we forecast for ERM Power, although clearly this is subject to significant risks and uncertainties.

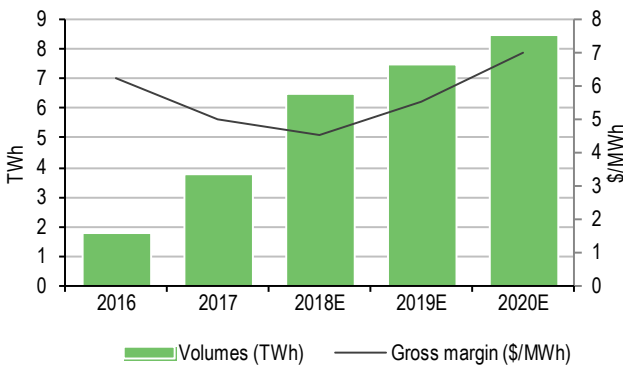
US supply: Uncertain but risks skewed to the upside

ERM Power entered the US market in 2015 with the acquisition of Source Power & Gas aiming to replicate its Australian business model, focusing on electricity supply activities to C&I customers and challenging well-established players such as Direct Energy (Centrica) and ENGIE. Results have been mixed in our view, with significant growth in volumes sales (+260% in FY18E vs FY16) and strong customer satisfaction (third out of 40 brokers according to Energy Research Consulting

Group survey, December 2017), but with profit margins below expectations and the business not yet breaking even.

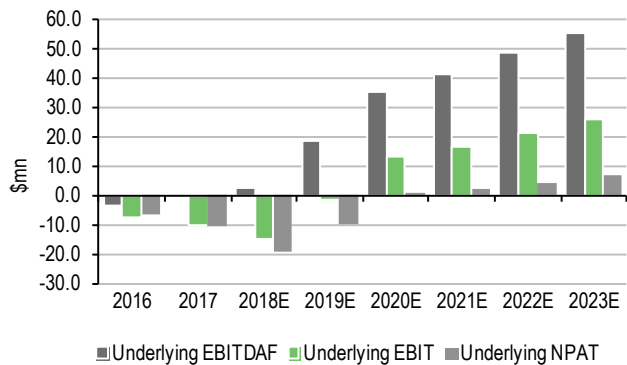
We expect volume growth to continue in the US and see potential for margins expansion, as ERM Power optimises its trading portfolio, improves its processes (including better pricing and risk management which have so far been responsible for lower margins than initially expected) and achieves higher economies of scale (which should reduce opex/unit by >40%). On our estimates, this should drive the reversal of the FY17-18 loss into a positive contribution to group net income from FY20e. The US market, like the Australian one, is very competitive and this results in continuous pressure on margins. However, in our view the competitive advantages of ERM Power in the US are its strong client ranking and the fact that ERM Power is dedicated to supply activities only as opposed to most competitors which are integrated energy players. This strong business focus can result in better customer service and product offering. In addition, the ability to offer energy solutions to US clients as well in the future should strongly support the value proposition of ERM Power and result in additional business growth, in our view.

Exhibit 19: We expect volumes to increase by 70% in FY18e and then modest growth thereafter; gross margins to expand after FY18e...



Source: ERM Power, Edison Investment Research

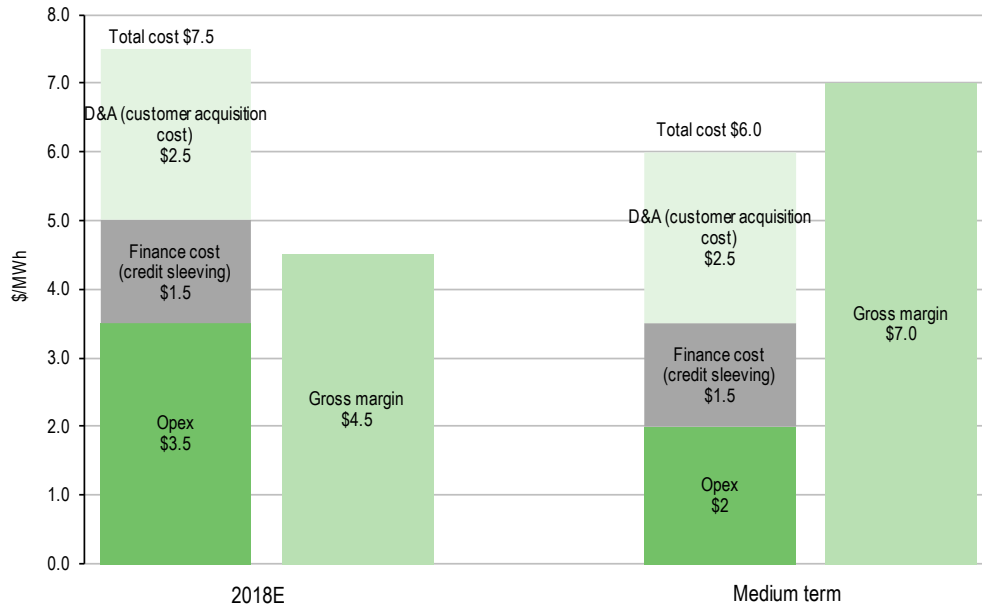
Exhibit 20: ...leading to a reversal of the FY17e/18e EBIT loss into a profit in FY20e and thereafter



Source: ERM Power, Edison Investment Research

We have assumed that volumes increase by 70% in FY18e vs FY17e, in line with management guidance and consistent with H1 results. Beyond FY18e we have assumed around 1TWh/year growth, well below the historical growth rates to take into account possible risks following H118 indication that volume growth in FY18 has been slower than previously expected. In terms of margin we have assumed a gross margin of A\$4.5/MWh in FY18e (10% lower than FY17 and in line with management guidance) and growth thereafter to A\$7/MWh in FY20E (guidance is A\$6.5/7.5/MWh medium term). The growth in margins reflect the company indication that in the PJM region (eastern US), where over 50% of the new business has been written, the margin is low at the front-end and higher at the back-end of the contract due to backwardation. Overall, while we forecast very strong growth, our estimates imply only 2% EBIT margin in FY20e (vs competitor Direct Energy's 3% EBIT margin in North America business in 2016). We show in Exhibit 21 the economics of the business: FY18e gross margin in the US does not cover costs and based on our estimates should result in a A\$14m negative impact on net income. Medium-term recovery in margins and volume growth have the potential to deliver a A\$10.5m positive contribution to net income (assuming 15TWh volumes) – we conservatively assume A\$7m, based on lower volume growth.

Exhibit 21: Economics for the US business in FY18E and medium term



Source: ERM Power, Edison Investment Research

Our forecasts also include a A\$3.8m negative one-off effect in FY18e (termination fee for credit sleeve agreement) and a significant increase in D&A over the next years (reflecting the increase in number of customers – ERM Power pays A\$2.6/MWh broker commissions for customer acquisitions – this is accounted as capex and completely expensed in the P&L as D&A). We have also assumed the US corporate tax rate reduces to 21% from 2018.

We see growth potential for ERM Power in the US, although this comes with significant uncertainties. However, were our forecasts not to prove correct, we note that downside risks for ERM Power are limited as the US division is independently financed (it has a credit sleeve agreement with Uniper according to which it pays A\$1.5/MWh in exchange for working capital and collateral). In addition, the business is already contributing negatively to group's profits (FY18e PBT for this business is -A\$19m vs total group PBT, including US, of +A\$10m on our forecasts). Overall risks for this business are skewed to the upside, in our view.

Management team focusing on product innovation

The appointment of ERM Power's current top management is relatively recent, with the team taking over in 2015. The team has substantial experience in energy, telco, IT and industrial sectors and, since the team's appointment, ERM Power has been accelerating the development of the energy solutions business, a strategy which we believe improves the competitive positioning of the group. As well as developing new advanced energy services products for its customers (energy solutions), management has focused on improving the profitability of the core supply business.

Jon Stretch, managing director and CEO: joined ERM Power in 2015. Mr Stretch has significant international experience as chief executive of IT, telco and industrial corporates. Before joining ERM Power, he was EVP EMEA of Landys+Gyr, a leading provider of smart metering and energy management solutions. Prior to Landys+Gyr, he was CEO of AAPT, an Australian-based telecommunications company. Mr Stretch started his career at IBM and AT&T.

James Spence, CFO: joined ERM power in 2015 and has long experience in energy retail. Between 2012 and 2015 he served as CFO of the retail and power generation company Energy

Australia. Prior to that, he covered several senior financial management positions for Centrica in the UK and North America, including CFO of Direct Energy, Centrica's North America business.

Tony Bellas, non-executive chairman: was appointed in 2011, bringing to ERM Power his long experience in the energy sector, both in managerial and policy roles. Before joining ERM Power, Mr Bellas served as CEO of Seymour Group (one of Queensland's largest private investment and development companies), CEO of Ergon Energy (energy distribution and retailing) and CEO of CS Energy (power generation). Mr Bellas also held public service roles including the appointment as chair of the Independent Review Panel by the Queensland government to review the government-owned electricity network businesses in 2012.

Valuation: Discounts no growth and low margins

Based on our analysis, we believe the current market valuation for ERM Power implies that the market not only is attributing zero value to the highest growth divisions of the group (US retail and energy solutions) but is also not ascribing any value to the company for being able to sustain current margins in generation and supply. Consistent delivery on growth potential from US and Energy Solutions and generation of cash flow from supply and power generation could therefore lead to a re-rating, in our view.

Sum-of-the-parts valuation is A\$2.6/share

We value ERM Power using a sum-of-the-parts approach, which we believe allows us to capture the different risk profile and asset life of the various activities. We value the various divisions mostly with DCF valuations and we back-test this approach by comparing the implied valuation multiples with comparable companies for each activity. We see our valuation as conservative as we currently do not include any value in our SOTP for energy solutions and the US business.

Our sum-of-the-parts is A\$2.6/share and implies c 45% potential upside to the current share price. Our methodology and key valuation assumptions are the following:

- We value Australian, US retail activities and power generation assets with a DCF methodology. We assume the same WACC for each division although these have been calculated separately to take into account the different risk profile and leverage (eg high leverage for power generation results). We have used a 5% equity risk premium and have assumed an increase of the risk free rate to reflect a normalisation in interest rates (we have used c 5% for Australia vs the current 10-year government bond yields of c 3%).
- For Australian retail activities, the DCF is based on six years of explicit forecasts and a terminal value (based on 1% perpetual growth rate). The valuation of Australian supply business includes the present value of the profit from trading of large-scale green certificates, which the company expects to book in 2019-20 (skewed towards 2020) and which it estimates at A\$35-45m after tax. Excluding the value of this trading profit, our DCF value for the business implies 5.8x 2018E EV/EBITDA (vs. 6.3x). Our DCF also includes an assumption of c A\$5m per year negative cash flow from interest costs unrelated to debt on B/S (mostly fees related to Liberty International Underwriters Singapore Surety guarantee facility).
- For generation assets, we extend our forecasts for the entire expected duration of the assets (we assume an asset life of 40 years) and assume no terminal value.
- In our base case we have assumed no value for energy solutions and the US business as we expect these activities to generate near-term negative cash flow and P&L losses. In addition, the growth is subject to significant execution risks. We explain below that delivery on the growth potential for these two businesses could therefore represent the largest re-rating potential for the stock.

- As explained later in this section, adding a valuation for Energy Solutions and US activities, would increase the value to A\$2.8/share, implying almost 60% potential upside.

Exhibit 22: Our sum-of-the-parts valuation is A\$2.6/share			
A\$m	FY18e EBITDA (A\$m)	EV (A\$m)	Comment
Electricity retail AUS	66	418	DCF, 11% WACC, 1% growth rate
Electricity retail US	3	0	Assumed no value due to current negative earnings/cash flow and high uncertainty
Generation	39	253	DCF, 11% WACC and assuming 40-year asset life (no terminal value)
Energy solutions	-4	0	Assumed no value due to negative earnings/cash flow and limited invested capital
Corporate	-15	-94	In line with average group multiple
Total group	89	576	Enterprise value FY18e
Net (debt) / cash		47	FY18e net cash
Provisions		-10	FY18e (provisions ex-US)
Associates		7	FY18e
Minority interests		0	FY18e
Equity value		619	
NOSH (YE FY18E)		234	
Valuation/share (A\$)		2.6	

Source: Edison investment Research

Our sum-of-the-parts valuation is mostly based on DCF valuations for each business. For businesses like ERM Power we would usually sense check against EV/EBITDA multiples. However, EV/EBITDA valuation methodology has specific drawbacks for the company. The problem of focusing on EV/EBITDA is mostly the result of the financing structure of ERM Power. In the US, the company finances itself with a credit sleeving agreement whose costs are booked in group financial expenses (hence below EBITDA) while no debt is included in ERM Power's group net debt. Similarly, in Australia, ERM Power incurs in financial costs related to collateral (we assumed A\$5m per year on our estimates, mostly related to Liberty International Underwriters Singapore Surety guarantee facility) and again the corresponding liability is not included in group net debt. Hence ERM Power's EV/EBITDA ratios tend to be understated and as a result we prefer to use a DCF valuation rather than a multiple-based approach for our analysis.

As a back-test to our SOTP valuation, we note the following:

- **Supply activities:** listed international supply players such as Centrica (UK) and other smaller US players trade on average between 4.5x and 7.8x FY18e EV/EBITDA.
- **Power generation:** our valuation for ERM Power's two gas-fired power plants implies A\$0.5m/MW, which is slightly lower than our estimate of the replacement cost of the assets of A\$0.7m/MW (a lower valuation is justified by the fact that ERM Power's assets are on average c 15 years old).
- **Energy solutions and US:** We do not currently attribute any value to US and energy solutions in our base case as explained above. However, we believe delivery on the growth potential represents a significant value creation opportunity for ERM Power. For example, the global utility player ENGIE completed 33 acquisitions of energy services companies at an average multiple of 9x (pre-synergies) over the last five years. Applying this multiple to FY22e EBITDA for energy solutions and discounting back to the end of FY18 would generate a valuation for this business of A\$24m, equivalent to 6% of ERM Power's current market cap. Similarly, a DCF valuation for the US business indicates a value of A\$40m (based on 12% WACC, 1% perpetual growth rate and capex=D&A in terminal year), equivalent to c 10% of the current market cap. Including a value for both Energy solutions and US activities would increase value per share to A\$2.8, implying almost 60% potential upside.

In Exhibit 23 we show that ERM Power's valuation multiples are at a large discount to Australian small caps. In addition, ERM Power's EV/EBITDA is at a discount to international supply companies although on P/E multiples (adjusted for losses in the US and in energy solutions) it is more in line with peers.

Exhibit 23: ERM Power's valuation multiples are at a large discount to Australian small caps														
Calendarised	Country	Ccy	Market cap	---EV/EBITDA---			---P/E---			----Dividend yield----			2017-19 EBITDA CAGR	2017-19 EPS CAGR
				2017E	2018E	2019E	2017E	2018E	2019E	2017E	2018E	2019E		
Centrica	UK	GBP	7,580	5.1x	4.8x	4.9x	10.7x	9.9x	10.3x	8.9%	8.8%	8.4%	2%	2%
Spark Energy	US	USD	398	6.7x	6.2x	5.8x	15.8x	19.7x	12.0x	6.3%	6.3%	6.3%	7%	15%
Just Energy Group	Canada	CAD	833	5.9x	7.3x	6.0x	1.7x	3.8x	8.6x	8.8%	8.8%	8.8%	-1%	-56%
Average selected international supply companies				5.9x	6.1x	5.6x	9.4x	11.2x	10.3x	8.0%	8.0%	7.9%	2%	-13%
ASX Small Cap Index	Australia			15.0x	11.8x	10.5x	23.2x	19.2x	16.9x	3.5%	3.8%	4.1%	NA	NA
ERM Power*	Australia	AUD	463	5.1x	4.3x	3.3x	NM	40.8x	19.7x	5.0%	3.9%	3.8%	18%	NA
ERM Power (ex US and energy solutions)	Australia	AUD	463	4.8x	4.3x	3.8x	NM	13.2x	12.9x	5.0%	3.9%	3.8%	4%	NA

Source: Bloomberg, Edison Investment Research. Note: *EV for ERM Power includes restricted cash. Priced at 16 March 2018.

In Exhibit 24 we show a sensitivity to higher/lower WACC (+3%/-3% vs the c 11% average WACC we have used in our base case) and to higher/lower terminal growth rate (0%/2% vs the 1% we have used). The combination of the two sensitivities provides a valuation range of A\$2.1- A\$3.4/share.

Exhibit 24: Sum-of-the-parts valuation sensitivity to higher/lower WACC and higher/lower terminal growth rates				
	-----Additional WACC-----	-----Terminal growth rate-----		
		0%	1%	2%
	-3%	3.4	3.4	3.4
	-2%	3.1	3.1	3.1
	-1%	2.9	2.9	2.9
	0%	2.6	2.6	2.6
	1%	2.5	2.5	2.5
	2%	2.3	2.3	2.3
	3%	2.2	2.2	2.2

Source: Edison Investment Research

Overall, we believe the current market valuation for ERM Power implies that the market not only is attributing zero value to the divisions with the highest growth potential of the group (US retail and energy solutions), but is neither giving any credit to the company for being able to sustain current margins in generation and supply. Hence, consistent delivery on growth potential from the US and energy solutions and generation of cash flow from supply and power generation could lead to a re-rating, in our view.

Sensitivities and risks

As a supply and generation company, ERM Power's margins can be more volatile than other utility companies, especially highly capital-intensive ones such as regulated network operators. We believe that the key risk that ERM Power faces is from volatility in supply margins: the supply business is an asset-light activity whose profits can be very volatile depending on several factors, including price volatility, weather etc. Historically, ERM Power's supply margins have shown little variation, averaging A\$4.4/MWh on an annual basis (ranging between A\$4.11 and A\$4.72 over the last five years). ERM Power's guidance for 2018 is A\$4.7/MWh "with upside potential" and in the

period 2018-20 management expects this margin to range between A\$4.0/MWh to A\$5.5/MWh (upgraded twice over the last 12 months from A\$2.5-4.0/MWh).

The margin achieved in the Australian supply business is the key driver of ERM Power's profitability, in our view. We estimate that for each +/-10% change in the supply margin, the impact on EBITDA would be +10%/-10% (based on 2018e EBITDA). Our published forecast for 2018 EBITDA is A\$89m, based on a gross margin of A\$4.7/MWh, in line with management's target. To illustrate the profit sensitivity to higher/lower margins we calculate the potential impact on estimates expressed in terms of 2018 figures. In Exhibit 25 below we provide the profit and valuation sensitivity to various scenarios of profitability for the supply business:

- In the base case (consistent with our published forecasts) we assume that margins are slightly higher than the average for the last five years (A\$4.7/MWh).
- In our bear case scenario we assume the margin reduces to c A\$4.0/MWh.
- The bull case assumes that the margin grows to A\$5.5/MWh.

Based on the medium-term guidance range provided by management (A\$4-5.5/MWh over the period 2018-20), we calculate EBITDA of A\$76-105m and EPS of A\$0.006/A\$0.089 (based on 2018e figures).

Exhibit 25: Profit and SOTP valuation sensitivity to higher/lower supply margins						
FY18e	EBITDA (A\$m)	EV/EBITDA (x)	EPS (A\$)	P/E (x)	SOTP valuation, (A\$/share)	upside (%)
Bear case	76	5.0	0.006	326	2.2	23%
Base case	89	4.2	0.044	41	2.6	47%
Bull case	105	3.6	0.089	20	3.1	75%

Source: Edison Investment Research

Financials: 12% EBITDA CAGR, 12% average FCF yield

EBITDA growth: We forecast 14% EBITDA growth y-o-y in FY18e (management guidance is "double digit EBITDA growth") and 12% FY17-23e EBITDA CAGR (vs 9% FY11-17 EBITDA CAGR).

Financial expenses and D&A: We forecast significant growth in financial expenses and D&A mainly as a result of the growth in the US business. In the US, ERM Power has a 'credit sleeve' agreement (provision of working capital and collateral) which links financial expenses to growth in volumes (A\$1.5/MWh). In addition, ERM Power pays broker commissions of A\$2.5/MWh for customer acquisition, which is treated as capex and fully expensed as D&A in the P&L.

Cash flow: We forecast average free cash flow yield (post all capex) of 12%/year through FY23E.

Dividend: We forecast 9% DPS CAGR through FY23e based on a long-term payout ratio of 60-70%, which we believe is an appropriate level and consistent with international utilities.

Balance sheet: The group is significantly cash positive (A\$316m at 31 December 2017, of which A\$165m is restricted cash mostly due to trading activity, including broker margin accounts), while there is non-recourse debt in the Australian generation business (A\$187m at 31 December 2017). As the group has a very solid and conservative financial structure, we believe it might consider using the financial flexibility for additional shareholders' remuneration (eg a continuation beyond FY18 of the recently announced A\$20m share buyback programme) and/or acquisitions in the future (ERM Power announced A\$40m budget for growth projects), especially if our forecasts of an increase in profits and cash flow generation prove correct. We do not expect ERM to acquire power generation assets, as these activities are not considered by management to be the core business of the company and we expect ERM to focus on its core supply business and energy services activities both in Australia and the US.

H118 results: Results showed a significant increase in all profit metrics with underlying EBITDA of A\$51.1m vs A\$11.1m in H117. This was mainly explained by the fact that FY17 results were strongly skewed towards the second half of the year as a result of trading activity. Most importantly, the company upgraded its medium-term outlook for the Australian supply business (to A\$4.0-5.5/MWh from A\$3.5-5.0/MWh), due to a combination of successful commercial and trading activity. In addition, ERM Power announced a A\$20m share buyback and a A\$40m budget for growth projects, which in our view shows the increasing ability to redeploy the balance sheet both for growth and for additional shareholder returns. On the negative side, the US business experienced lower volumes and margins than expected which led to guidance being adjusted down for the business for FY18 (6.5TWh volumes vs earlier expectation of 7.5TWh and A\$4.5/MWh gross margin from A\$5.00/MWh previously).

ERM Power also announced it expects to deliver approximately A\$35-\$45m NPAT in FY19/20 (weighted to FY20) from its large-scale green certificates (LGC) strategy (our forecasts include a profit of A\$40m after-tax). Under the LGC scheme ERM Power decided to pay the shortfall charge of A\$65 per certificate in FY17 and take up the three-year optionality period available to potentially acquire certificates through either the market or contracts with new renewable generators. ERM Power has now communicated that it expects to achieve a significant profit from this strategy. Although we do not expect further profits from its LGC strategy, in our view this profit is a good example of the ability by ERM Power to extract value from trading activities, leveraging on its deep market knowledge, established commercial presence and large trading portfolio.

Our divisional forecasts are shown in the table below.

Exhibit 26: Divisional revenues, EBITDA and EBIT							
Year end June (A\$m)	FY17	FY18e	FY19e	FY20e	FY21e	FY22e	FY23e
Divisional revenues							
Electricity retail AUS	1,328	1,364	1,400	1,436	1,436	1,436	1,436
Electricity retail US	337	576	664	753	842	930	1,019
Power generation	131.9	122.7	124.6	126.6	128.5	130.5	132.5
Energy solutions	12.2	24.4	36.6	54.9	65.9	79.1	87.0
Corporate	1,318	1,318	1,318	1,318	1,318	1,318	1,318
Underlying revenues	3,127	3,406	3,544	3,689	3,790	3,894	3,992
Divisional EBITDA							
Electricity retail AUS	53.4	66.3	68.2	70.1	69.6	69.1	68.6
Electricity retail US	0.2	3	18	36	42	49	56
Power generation	41.7	39	39	40	40	40	40
Energy solutions	-4.3	-4.3	-2	0	2	4	4
Corporate	-12.6	-14.5	-15	-15.5	-16	-16	-16
Underlying total EBITDA	78	89	109	130	137	146	153
Divisional EBIT							
Electricity retail AUS	46	59	62	63	63	62	62
Electricity retail US	-10	-15	-2	13	17	21	26
Power generation	28	25	25	26	26	26	26
Energy solutions	-4	-4	-2	0	2	4	4
Corporate	-18	-19	-19	-20	-19	-19	-19
EBIT	41	46	64	82	88	94	99

Source: ERM Power, Edison Investment Research

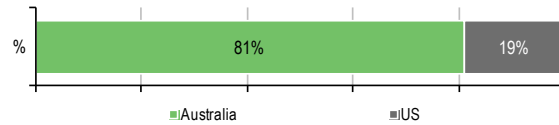
Exhibit 27: Financial summary

Accounts: IFRS, Yr end: June, AUD: Millions	FY16	FY17	FY18e	FY19e	FY20e
Income statement					
Total revenues	2,691	3,127	3,406	3,544	3,689
Cost of sales	(2,620)	(3,049)	(3,317)	(3,436)	(3,559)
Gross profit	71	78	89	109	130
SG&A (expenses)	0	0	0	0	0
R&D costs	0	0	0	0	0
Other income/(expense)	0	0	0	0	0
Exceptionals and adjustments	(5)	0	0	0	0
Depreciation and amortisation	(25)	(38)	(44)	(45)	(48)
Reported EBIT	40	41	46	64	82
Finance income/(expense)	(23)	(26)	(31)	(32)	(33)
Other income/(expense)	0	(0)	0	0	0
Exceptionals and adjustments	39	37	0	0	0
Reported PBT	57	52	15	31	49
Income tax expense (includes exceptionals)	(22)	(52)	(5)	1	15
Reported net income	36	(1)	11	32	64
Basic average number of shares, m	242	244	240	234	234
Basic EPS	0.15	(0.00)	0.04	0.14	0.27
Adjusted EBITDA					
Adjusted EBITDA	71	78	89	109	130
Adjusted EBIT	46	41	46	64	82
Adjusted PBT	23	15	15	31	49
Adjusted EPS (A\$/share)	0.08	(0.11)	0.04	0.09	0.15
Adjusted diluted EPS (A\$/share)	0.08	(0.10)	0.04	0.09	0.14
DPS (A\$/share)	0.12	0.07	0.07	0.07	0.07
Balance sheet					
Property, plant and equipment	391	391	379	363	349
Goodwill	0	0	0	0	0
Intangible assets	79	89	89	89	89
Other non-current assets	59	116	116	116	116
Total non-current assets	529	597	585	569	554
Cash and equivalents	192	245	236	268	330
Inventories	22	42	46	48	50
Trade and other receivables	331	361	393	409	426
Other current assets	164	331	331	331	331
Total current assets	709	979	1,006	1,056	1,137
Non-current loans and borrowings	184	181	181	181	181
Other non-current liabilities	161	287	287	287	287
Total non-current liabilities	345	467	467	467	467
Trade and other payables	367	464	505	523	542
Current loans and borrowings	37	8	8	8	8
Other current liabilities	18	70	70	70	70
Total current liabilities	422	543	584	602	621
Equity attributable to company	471	566	540	555	603
Non-controlling interest	0	0	0	0	0
Cashflow statement					
EBIT	40	41	46	64	82
Depreciation and amortisation	16	53	44	45	48
Share based payments	0	0	0	0	0
Other adjustments	60	69	0	0	0
Movements in working capital	0	0	5	0	0
Interest paid / received	3	3	4	3	4
Income taxes paid	(0)	(14)	(5)	(9)	(15)
Cash from operations (CFO)	120	152	93	103	119
Capex	(26)	(40)	(31)	(29)	(33)
Acquisitions & disposals net	12	26	0	0	0
Other investing activities	(9)	(6)	0	0	0
Cash used in investing activities (CFIA)	(24)	(20)	(31)	(29)	(33)
Net proceeds from issue of shares	0	0	(20)	0	0
Movements in debt	(22)	(24)	0	0	0
Dividends paid	(28)	(23)	(17)	(16)	(16)
Other financing activities	(27)	(33)	(34)	(26)	(7)
Cash from financing activities (CFF)	(76)	(79)	(71)	(42)	(24)
Currency translation differences and other	0	0	0	0	0
Increase/(decrease) in cash and equivalents	20	53	(9)	32	62
Currency translation differences and other	0	(1)	0	0	0
Cash and equivalents at end of period	192	245	236	268	330
Net (debt) cash	(29)	56	47	79	141
Movement in net (debt) cash over period	(29)	85	(9)	32	62

Source: ERM Power, Edison Investment Research

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Revenue by geography (2018e)

Management team
Managing director and CEO: Jon Stretch

Jon Stretch joined ERM power in 2015. Mr Stretch has significant international experience as chief executive of IT, telco and industrial corporates. Before joining ERM Power, he was EVP EMEA of Landys+Gyr, leading provider of smart metering and energy management solutions. Prior to Landys+Gyr, he was CEO of AAPT, an Australian based telecommunications company. Mr Stretch started his career at IBM and AT&T.

CFO: James Spence

James Spence joined ERM power in 2015 as CFO and has long experience in energy retail. Between 2012 and 2015 he served as CFO of the retail and power generation company Energy Australia. Prior to that, he covered several senior financial management positions for Centrica in the UK and North America, including CFO of Direct Energy, Centrica's North America business.

Non-executive chairman: Tony Bellas

Tony Bellas was appointed non-executive chairman in 2011, bringing to ERM Power his long experience in the energy sector, both in managerial and policy roles. Before joining ERM Power, Mr Bellas served as CEO of Seymour Group (one of Queensland's largest private investment and development companies), CEO of Ergon Energy (energy distribution and retailing) and CEO of CS Energy (power generation). Mr Bellas also held public service roles including the appointment as chair of the Independent Review Panel by the Queensland government to review the government-owned electricity network in 2012.

Principal shareholders

	(%)
St Baker Trevor	24.7%
Perpetual Ltd	5.6%
Smartequity EIS PTY Ltd	4.9%
Ilwella PTY Ltd	4.4%
Gaffwick PTY Ltd	2.5%
Vanguard Group	1.6%
St Baker Philip Matthew	1.3%

Companies named in this report

Veolia (VIE), Vinci (DG), EDF (EDF), ENGIE (ENGI), Origin Energy (ORG), AGL (AGL), Uniper (UN01), Centrica (CNA), Just Energy Group (JE), Spark Energy (SPKE).

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