



INCOME

RECOMMENDATION

APA

APA:ASX
November 2024

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INCOME RECOMMENDATION

APA Group APA:ASX

APA Group is Australia's leading energy infrastructure business, owning and operating a diverse portfolio of assets valued at approximately \$26 billion. The company's core business involves gas transmission pipelines, gas storage facilities, and electricity transmission networks.

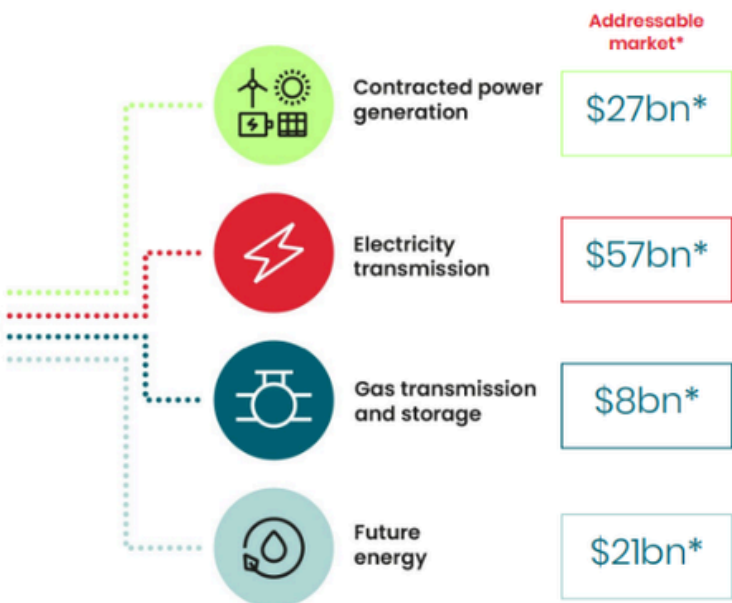
APA plays a crucial role in Australia's energy sector, delivering about half of the nation's natural gas usage through its extensive 15,000 km pipeline network. The company's operations span across multiple segments of the energy value chain, including contracted power generation, electricity transmission, gas transmission and storage, and the transportation of future fuels.

APA's infrastructure assets are strategically positioned to support Australia's energy transition, providing essential services for both traditional and renewable energy sources.

The company's gas infrastructure is particularly important in providing reliable baseload power as the country shifts towards a cleaner energy mix.

Additionally, APA is actively investing in renewable energy projects and exploring future fuels like hydrogen, positioning itself as a key player in the evolving low-carbon economy. In FY24, APA completed the acquisition and successful integration of its new Pilbara business, creating a significant new growth platform for the company in delivering lower emissions, contracted power generation and electricity transmission infrastructure for major customers in the resource sector

APA's strategy is focused on four asset classes



INVESTMENT CONSIDERATIONS

Leadership

APA Group is led by CEO and Managing Director Adam Watson, who brings extensive experience in infrastructure and finance to the role. Under Watson's leadership, the company has continued to focus on its strategic priorities and deliver solid financial and operational performance.

The management team has demonstrated a strong track record of strategic acquisitions and organic growth, positioning APA well for the ongoing energy transition. In FY24, the company successfully integrated new acquisitions, including the Pilbara Energy business and the Basslink electricity transmission interconnector, which are performing in line with their business cases.

The leadership team has also shown commitment to sustainability and diversity initiatives. They have implemented a refreshed Sustainability Roadmap for FY25 through FY27, focusing on priority areas and further embedding sustainability across the organization. Under their guidance, APA has made significant progress in improving safety performance, with a 35% decrease in Total Recordable Injury Frequency Rate compared to the previous year.

The leadership has also driven improvements in employee engagement and diversity, with increased representation of women across the total workforce (32.4%) and in senior leadership roles (39.2%)

Financial Performance

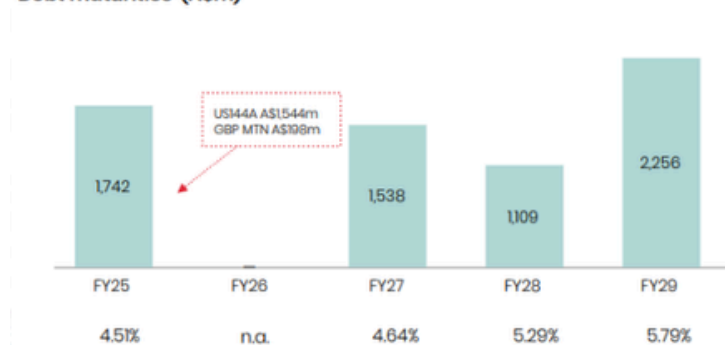
FY24 Capital management initiatives

- \$875m equity raise; \$675m institutional placement and \$200m Security Purchase Plan
- Issued €500m (\$828m) in hybrid subordinated capital securities
- Raised \$125bn syndicated term loan with 7 and 10-year tranches
- Refinanced \$544m of debt
 - October 2023: \$200m AUD MTN repaid
 - May 2024: Note Tender offer with buy back acceptances of \$344m
- Recommended distribution reinvestment plan

Key metrics

	FY24	FY23
Net debt	\$12.2bn	\$10.7bn
Liquidity: Cash & Undrawn facilities	\$2.3bn	\$2.1bn
Average duration of debt	5.3 years	5.7 years
Weighted average cost of debt	4.8%	4.4%
Maximum debt maturing in one year	18%	19%
FFO/Net Debt ²⁸	10.3%	11.0%
FFO/Interest ²⁸	3.2x	3.4x
Liquidity ratio	1.4x	1.6x
Credit ratings (S&P/Moody's)	BBB/Baa2	BBB/Baa2

Debt maturities (A\$m)



FFO / Net Debt of 10.3%, in excess of APA target of 9.5%

INVESTMENT CONSIDERATIONS

Valuation

APA Group's financial performance remains solid, with FY24 results showing strong growth. Total statutory revenue, excluding pass-through revenue, increased by 7.9% to \$2.59 billion.

Underlying earnings before interest, tax, depreciation and amortization (EBITDA) grew by 9.7% to \$1.89 billion, while reported EBITDA increased by 3.0% to \$1.73 billion. The company has reaffirmed its FY25 Underlying EBITDA guidance at between \$1.96 billion and \$2.02 billion, with distribution guidance of 57 cents per security.

APA currently trades at a forward P/E of 18.5x, which appears attractive given its stable cash flows and growth prospects.

The company has delivered 20 consecutive years of distribution growth, with FY24 distribution of 56 cents per security, representing a 1.8% increase from the previous year.

The current yield of 7.5% is compelling, especially in the current low-interest-rate environment. APA's valuation is further supported by its strong market position, extensive infrastructure network, and significant growth opportunities in its chosen asset classes.

With an estimated addressable market of over \$90 billion across contracted power generation, electricity transmission, and gas transmission, APA has substantial potential for long-term value creation

Sociological Factors

APA Group plays a vital role in Australia's energy transition, which has significant sociological implications. The company's infrastructure is crucial for providing reliable and affordable energy to Australian households and businesses, supporting economic growth and social well-being. As Australia moves towards a cleaner energy future, APA's gas infrastructure serves as a critical bridge, enabling the integration of more renewable energy sources while maintaining energy security. This transition has broader societal benefits, including reduced carbon emissions and improved air quality. APA's investments in renewable energy projects and exploration of future fuels like hydrogen also contribute to job creation in emerging green industries. The company's commitment to sustainability extends beyond environmental concerns. APA has made progress in its Reconciliation Action Plan commitments, demonstrating a commitment to engaging with and supporting Indigenous communities. The company's focus on diversity and inclusion, as evidenced by increased representation of women in its workforce and leadership roles, contributes to broader societal goals of gender equality in the workplace. Additionally, APA's investment in early career programs, including graduate, internship, and apprenticeship schemes with strong female representation, helps to build a diverse pipeline of talent for the energy sector

RISKS

Risks

Investing in APA Group carries several risks that potential investors should carefully consider:

Regulatory risk - Regulatory risk is a significant factor, as changes in energy policy or regulatory frameworks could impact APA's operations and profitability. However, the recent draft decision by the Australian Energy Regulator to maintain the current light regulation regime for the South West Queensland Pipeline is favorable. Interest rate sensitivity is another key risk. As a capital-intensive business with significant debt, rising interest rates could increase APA's borrowing costs and potentially impact its ability to fund growth projects or maintain its current distribution levels. However, APA has successfully refinanced all near-term debt maturities, with no debt maturing until March 2027, which provides some near-term protection against interest rate fluctuations.

Transition risks - Transition risks associated with the long-term shift away from fossil fuels could impact demand for gas infrastructure. While natural gas is currently seen as a crucial transition fuel, future technological advancements or policy changes could accelerate the move towards renewable energy, potentially affecting the long-term value of APA's gas assets.

Operational risks - Operational risks are also present, including potential disruptions to APA's infrastructure due to natural disasters, technical failures, or cyber-attacks. The company's expansion into new areas, such as the Pilbara region, also carries execution risks related to project delivery and integration

WHY HOLD THE COMPANY?

Investors should consider owning shares in APA Group for several compelling reasons:

Firstly, APA's strong market position and extensive infrastructure network provide a wide economic moat and stable cash flows. The company's critical role in Australia's energy sector, delivering about half of the nation's natural gas usage, ensures ongoing demand for its services.

Secondly, APA offers significant growth potential, with a \$3 billion growth pipeline including expansion in the Pilbara region and East Coast Grid. The company's strategic focus on contracted power generation, electricity transmission, gas transmission and storage, and future fuels positions it well to capitalize on the estimated \$90 billion addressable market across these sectors.

Thirdly, APA is well-positioned to benefit from Australia's energy transition. Its gas infrastructure is crucial for providing reliable baseload power as the country shifts towards renewables, while its investments in renewable energy projects and exploration of future fuels like hydrogen align with long-term energy trends.

Fourthly, APA offers an attractive yield with a consistent track record of distribution growth. The company has delivered 20 consecutive years of distribution growth, with FY25 guidance of 57 cents per security, providing a reliable income stream for investors.

Fifthly, many of APA's contracts are inflation-linked, providing a natural hedge against rising prices. Lastly, APA's focus on sustainability and its role in the energy transition aligns with growing investor preferences for responsible investments. The company's transparency in climate-related disclosures and commitment to supporting Australia's transition to net-zero emissions make it an attractive option for ESG-conscious investors.

APA's operational footprint is across a range of energy infrastructure assets



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Our Commitment

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